



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

January 11, 2007

Mr. Leroy W. Roberts, Chairman
And Members of the Board of Commissioners of the
Town of Hempstead Sanitary District Number Two
2090/2080 Grand Avenue
Baldwin, NY 11510

Re: Retirement Reporting
Report 2006-S-12

Dear Mr. Roberts and Members of the Board of Commissioners:

One of the Office of the State Comptroller's primary objectives is to identify areas where local governments and sanitary districts can improve operations and provide guidance and services that will assist local officials in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage local government and sanitary district officials to reduce costs, improve service delivery, and to account for and protect their entity's assets.

In accordance with these goals, we conducted audits of five Nassau County sanitary districts to determine whether sanitary district officials have established appropriate internal controls over the reporting of retirement service credits to the New York State and Local Employees' Retirement System (NYSLERS). We included the Town of Hempstead Sanitary District Number Two (District) in our audits. Within the scope of this audit, we reviewed the District's efforts to ensure proper accounting for, and reporting of, employee salaries and service credits in accordance with criteria set forth by the NYSLERS. The audit period was January 1, 2003 through November 30, 2005.

This report contains our findings and recommendations specific to the District. We discussed the findings and recommendations with District officials and considered their comments in preparing this report. The District's response is attached to this report in Appendix A.

Summary of Findings

Our audit found that, overall, the District is consistently applying the appropriate policies and procedures that govern retirement plan participation for all eligible employees. We also found that, in general, the District is reporting employee retirement service credits in accordance with NYSLERS guidelines. Our audit identified some improvements the District should implement to

further strengthen its internal controls over retirement reporting.

Background and Methodology

The District is located in Nassau County and was established by the Town of Hempstead pursuant to chapter 516 of the Laws of 1928. Its general and legal authority to operate is described in the Nassau County Civil Divisions Act (L 1939, ch 273). The District is governed by five Commissioners, each of whom is elected for a five-year term and is eligible to become a member of the NYSLERS. For 2005, the District had an average of about 120 employees, with a total payroll of \$4.8 million.

To accomplish our audit objectives, we reviewed the District's processes for recording and reporting employee data to the NYSLERS. We met with District officials and compared their reported practices with requirements included in the Employer Guide published by the NYSLERS. Our audit included tests of the monthly reports the District filed with the NYSLERS, as well as the supporting documents that evidenced the District's method of accounting for employee time in terms of retirement service credits. We also verified that all employees were either enrolled as a NYSLERS member or had appropriately opted not to join as authorized because of their individual employment circumstances. Furthermore, our audit examined the circumstances surrounding District employees for whom two or more employers were reporting retirement data to the NYSLERS. To obtain reasonable assurance that these employees were not inappropriately receiving salary and service credit from multiple employers, we tested their respective work schedules.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and conduct our audit to assess adequately those District operations within our audit scope. Further, those standards require that we understand the District's internal controls and its compliance with those laws, rules, and regulations that are relevant to its operations included in our scope. An audit includes examining, on a test basis, evidence that supports the transactions recorded in the accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our findings, conclusions, and recommendations contained in this report.

Audit Results

According to the NYSLERS guidelines, employers are required to collect data on the salaries paid and days worked for all members of the retirement system during each month and report them to the NYSLERS. To test the District's compliance with reporting requirements, we judgmentally selected a total of 12 months (four months in each of the calendar years audited) that represented peak and non-peak garbage collection times throughout the 35-month audit period. For each of the years, we randomly selected ten employees for a total of 30 to be reviewed from a total population of 240 employees. We compared the days reported on the monthly retirement reports the District had filed for each of these employees to the days they had reportedly worked, as indicated on their time cards and District attendance sheets.

Our test revealed one instance where District officials incorrectly reported an employee's retirement credits. We identified one employee who had been paid and credited with retirement

service after calling in sick one work day. The employee had insufficient leave balances to cover the absence and should have received neither salary nor corresponding retirement service credit for that day. During our separate review of District employees with multiple employers, we noted a second employee who also had been paid and credited with retirement service after calling in sick one work day. This employee also had insufficient leave balances to cover the absence.

The District does not utilize an electronic accounting system for recording employee attendance; rather it relies on handwritten records. In addition, the District employee responsible for tracking accruals and employee attendance is not the same individual who reports service credits and payroll data to the NYSLERS. As a result, the reporting errors we identified were not detected by the District. We found that the District had overpaid these two employees a total of \$454 in salary and had reported 1.25 days of unearned retirement service credit for each employee.

Before our audit was completed, District officials were able to provide us with evidence that the appropriate adjustment was being made with the NYSLERS and that the overpayments were being recovered from the employees.

NYSLERS identified nine District employees for whom one or more other employers were reporting retirement data. Our review of their work schedules for the multiple employers did not disclose any duplicate credits.

Recommendations

1. *Recover the overpaid salary from the two employees.*
2. *File an adjustment report with NYSLERS for the two noted employees.*
3. *Implement additional controls that will minimize the risk of future reporting errors.*

The Board of Commissioners of Sanitary District Number Two (Board) has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days.

Major contributors to this report were John Buyce, Myron Goldmeer, Kevin Kissane, and Chris Morris.

We wish to thank the management and staff of Sanitary District Number Two for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Frank J. Houston
Audit Director

SANITARY DISTRICT NUMBER TWO

TOWN OF HEMPSTEAD

BALDWIN SOUTH HEMPSTEAD ROOSEVELT

COMMISSIONERS

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February 17, 2006

Mr. Frank Houston
Audit Director
Office of the State Comptroller
123 William Street – 21 floor
New York, N.Y. 10038-3804
Re: Report 2006-S-12

Dear Mr. Houston,

Enclosed you will find the response from Sanitary District No2. to the Audit findings in Report 2008-S-12. We appreciate the opportunity to respond and would like to acknowledge the professional manner in which Mr. Goldmeier and his staff conducted said audit.

Very truly yours,

Robert A. Noble
Secretary to the Board
Sanitary District No. 2

Response of Sanitary District No. 2

In response to the findings and recommendations made by the New York State Comptroller's Office, the District offers the following explanation and advises of corrective actions already taken.

First, the district acknowledges that they did mistakenly file two incorrect reports with the New York State Local Employee Retirement Systems (NYSLERS). We do believe that these errors would have been identified and corrected when we under went our own internal audit, which has not yet occurred.

Immediately after this error was brought to our attention the District notified the two employees that they had been incorrectly paid and made full recovery of the overpayments. In conjunction with this action, the District filed a RS2050, Adjustment Report with NYSLERS correcting the reporting error, a copy of which was given to the audit team.

With regard to implementing additional controls, the District has installed a new computer program designed to prevent such an occurrence, and has revised it's protocol, and is working with Automated Data Processing (ADP), the District payroll vendor, to develop a further fool proof system to prevent any re-occurrence of this type.

The District would like to acknowledge the professionalism and cooperation extended to our staff by the audit team.

February 17, 2006
Baldwin, New York