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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 19, 2006

Ronald A. Stack
Chairman
Nassau County Interim Finance Authority
170 Old Country Road, Suite 205
Mineola, NY 11501

Re: Internal Controls Over Selected Financial
Management Practices -
Report 2006-S-72

Dear Mr. Stack:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 3663 of the Public Authorities Law, we have audited Nassau County Interim Finance Authority's internal controls over selected financial management practices for the period January 1, 2005 to June 30, 2006.

A. Background

The Nassau County Interim Finance Authority (NIFA) is a corporate government agency and instrumentality of the State of New York. NIFA is a public benefit corporation created by the Nassau County Interim Finance Authority Act, Chapter 84 of the Laws of 2000, as supplemented by the Chapter 179 of the Laws of 2000. NIFA is empowered to issue bonds and notes for various purposes, including the restructuring of a portion of Nassau County's (County) outstanding debt. NIFA is also empowered to review the County's financial plans and to make recommendations to improve the County's finances. NIFA is governed by a Board of Directors (Board). Two of the seven positions were vacant as of October 31, 2006.

B. Audit Scope, Objective and Methodology

We conducted our audit in accordance with generally accepted government auditing standards. The objective of our performance audit was to determine whether NIFA's financial management practices resulted in appropriate administrative expenditures. Our audit covered the period January 1, 2005 to June 30, 2006. To accomplish our objective, we interviewed NIFA staff, and reviewed and analyzed NIFA records and reports pertaining to payroll, purchases and contracts. We also tested the internal controls that have been established for these functions.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

We determined that NIFA's controls over financial management practices for personal services and other than personal services expenditures were adequate and resulted in appropriate expenditures. NIFA has established policies and procedures that provide an appropriate level of internal control and that the NIFA is, in general, complying with these policies and procedures. We identified several areas where NIFA could further strengthen its internal controls or improve compliance with its existing policies and procedures.

1. Documentation of Awarding Contracts

NIFA's Procurement Guidelines (Guidelines) describes the procedures that should be followed when contracts are awarded by NIFA. The Guidelines state that when appropriate, written selection criteria should be prepared for each contract, which should include price as an important factor to be considered in the selection process. Analysis of the proposals and/or bids submitted and the award of the contract should be documented in reasonable detail.

We reviewed NIFA's contracts during 2005 and the documentation provided to justify the selection of those firms. We concluded that, in general, NIFA adhered to the guidelines with one exception. During the review of the documentation supporting the award of two contracts, one for an annual audit and the other for underwriting services, we found that the selection of a CPA firm and underwriters were based only on criteria such as experience, qualifications and expertise. There was no indication that price was included in the criteria for the selection of the contracts. NIFA officials told us that due to the nature of NIFA's operation and services offered by the firms, selection based solely on price was not in the best interest of NIFA. We agree that selection based only upon price would not be in the best interest of NIFA. However, the selection process and the related documentation should establish the weight of the various factors (such as price) that each will receive in the evaluation of the proposals.

2. Expiration of Pre-qualified Bond Counsel Lists

Upon its inception, the NIFA issued a Request for Proposal (RFP) to solicit interest from firms that would like to provide bond counsel services. After evaluating the RFPs and with the approval of the Board, NIFA established a list of pre-qualified counsels. This list consisted of two tiers. The Senior Tier firms were eligible for bond counsel positions on the Authority's large financing or major initiatives. The Junior Tier firms were eligible to serve on smaller financing initiatives as bound counsel, underwriter's counsel or other engagements. The list of pre-certified

counsels was intended to be valid for up to three years with the Chairman empowered to grant a one-year extension.

We reviewed the NIFA Board's minutes and found there was no indication that the Chairman extended the use of the pre-qualified list for bond counsel for the additional year or for any period after that. NIFA used a counsel from the original 2000 list for their 2005 bond issuances. In addition, the NIFA did not issue a new RFP after the four year period to establish a new pre-qualified list of bond counsels. During the audit, NIFA officials pointed out that for the two bonds issued in 2005, the Board approved the use of the counsel.

NIFA informed us that that continuity for their bond counsel was necessary. It was in the best interest of NIFA to use the experienced firms due to a learning curve associated with NIFA's issuance of bonds and operations. However, there is no documentation that other competent firms had the opportunity to serve as counsel.

3. Purchasing

A good system of internal controls should include evidence to support that the goods and services were received prior to a payment being authorized. We examined all of NIFA's purchases that were made using purchase orders as well as documentation to support a sample of smaller cash disbursements to determine if evidence was available to show the items were received prior to payment being authorized. The transactions were from the period of January 1, 2005 to June 30, 2006.

We found that there was no evidence to support the items were received prior to payment being authorized. Further, we also noted that the individual who prepares the purchase order also receives the purchased items directly. Ideally, someone other than the individual ordering the goods or services should verify that the goods or services were received prior to payment.

Recommendations

- 1. Fully document the contract award process, including price consideration, for all contracts subject to the requirements contained in NIFA's Procurement Guidelines, and maintain this documentation.*
- 2. Issue a new RFP for bond counsel and establish a current list of pre-qualified bond counsels.*
- 3. Assign an individual independent of the procurement process to verify the receipt of purchases prior to payment.*

We provided draft copies of this report to Authority officials for their review and comments. We considered their comments in the development of this report. A complete copy of the Authority's response is included as Appendix A. Authority officials agree with our recommendations and indicated the actions planned to implement them.

Within 90 days after release of this report, as required by Section 170 of the Executive Law, the Chairman of the Nassau County Interim Finance Agency shall report to the Governor, the State Comptroller and the leaders of the Legislature and fiscal committees advising what steps were taken to implement the recommendations contained herein, and where the recommendations were not implemented, the reasons why.

Major contributors to this report include Kenneth I. Shulman, Sheila Emminger, Stephen Lynch, Erica Zawrotniak, Tania Atria, and Orin Ninvalle.

We wish to thank the management and staff of the Nassau County Interim Finance Authority for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Steven E. Sossei
Audit Director

cc: Richard Luke, NIFA
Lisa Ng, Division of the Budget



Nassau County Interim Finance Authority

December 1, 2006

Mr. Steven E. Sossei
Audit Director
Office of the State Comptroller
Division of State Services
110 State Street, 11th Floor
Albany, New York 12236

Dear Mr. Sossei:

Thank you for your letter of November 14, 2006 in which you provided us with a copy of your draft audit report. The purpose of this letter is to provide a formal written response to the issues that you identified during your audit.

In a July 24, 2006 e-mail, the Office of the State Comptroller engagement supervisor indicated "The objective of our audit will be to answer the following question: Does NIFA have adequate controls over its financial management practices over basic financial transactions? We will examine basic financial transactions and practices at NIFA, including some of the following: travel / entertainment costs; the use of credit cards; the use of cell phones; the procurement of goods and services (including contracting and bond issuance services); revenues and accounts receivable; equipment inventories; and executive compensation packages. If other issues arise during the course of our review, we may need to expand the audit."

In light of the extensive scope of your proposed audit, NIFA is pleased to see that your comments are limited to three minor procedural recommendations. In fact, NIFA manages approximately \$900 million of sales tax receipts, and has outstanding debt of \$2.038 billion. We are pleased that the report does not contain any recommendations regarding our stewardship of these funds. The following are our responses to these recommendations:

Recommendation 1 – Fully document the contract award process, including price consideration, for all contracts subject to the requirements contained in NIFA's Procurement Guidelines and maintain this documentation.

Response 1 - In the future we will make it clear that price is a consideration when evaluating any and all proposals. However, it is important to point out that because of the specialized nature of professional services they are not a commodity that should be selected only on price. In fact, as audits of your Office have pointed out, Long Island school districts received substandard work when price was the over-riding consideration. In each instance the NIFA Board made the final decision in the best interest of Nassau County taxpayers.

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Recommendation 2 – Issue a new RFP for bond counsel and establish a current list of pre-qualified bond counsels.

Response 2 – NIFA has completed its borrowing program. Should NIFA undertake any future borrowings, NIFA will consider the need to issue a new RFP for bond counsel, ensuring that a wide range of competent firms are provided the opportunity to respond.

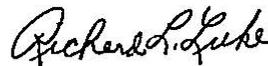
Recommendation 3 – Assign an individual independent of the procurement process to verify the receipt of purchases prior to payment.

Response 3 – NIFA has an operating budget of approximately \$1.1 million, and spends about \$8,000 for the purchase of office supplies and similar materials. NIFA has implemented changes to our operating procedures to ensure that all purchases are verified by someone other than the purchase order preparer.

* * * * *

NIFA is committed to maintaining a strong and effective internal control system over all transactions. As such we appreciate your work and guidance. NIFA has already taken steps to modify our procedures and implement revised procedures.

Sincerely yours,



Richard L. Luke
Executive Director

cc: NIFA Directors