



Town of Hempstead Animal Shelter Taxpayer Equity and Management Oversight

Report of Examination

Period Covered:

January 1, 2010 — September 30, 2011

2012M-124



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	6
Comments of Local Officials and Corrective Action	6
TAXPAYER EQUITY	7
Accounting for Operations and Taxpayer Equity	7
Costs Allocated to Shelter	9
Recommendations	10
MANAGEMENT OVERSIGHT	12
Cost of Operations	12
Procurement of Health Services	15
Overtime	17
Cash Receipts	19
Recommendations	20
APPENDIX A Incorporated Villages Within the Town of Hempstead	22
APPENDIX B Response From Local Officials	23
APPENDIX C OSC Comments on the Town's Response	36
APPENDIX D Audit Methodology and Standards	40
APPENDIX E How to Obtain Additional Copies of the Report	42
APPENDIX F Local Regional Office Listing	43

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and town board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Hempstead Animal Shelter, entitled Taxpayer Equity and Management Oversight. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Hempstead (Town) Animal Shelter (Shelter) provides services to the nearly 760,000 Town residents that live within the approximately 142 square miles of the Town, including 22 incorporated villages with a combined population of more than 240,000.¹ The Shelter's Director is the executive head and chief administrative officer. The Director is appointed by an elected seven-member Town Board (Board), who also appoints Assistant Directors. The Shelter's adopted budget for 2011 totaled \$7.85 million, and the adopted budget² for 2012 totaled \$8.8 million.

Scope and Objective

The objective of our audit was to examine the Shelter's financial management and operations for the period of January 1, 2010 to September 30, 2011. We expanded our scope to the 2007 fiscal year to better assess patterns and trends. Our audit addressed the following related questions:

- Did Town officials ensure that town-wide general fund administrative charges were properly allocated to the Shelter and that the Shelter's financial activities were budgeted, accounted for, and reported in the appropriate fund?
- Did Town officials provide appropriate oversight over the Shelter's operation to ensure that the Shelter was operating in a cost efficient manner?

Audit Results

Unless otherwise provided by law, the costs of operating the Shelter must be funded by and accounted for in the town-wide general fund. The Town improperly accounted for and reported the Shelter's financial activities in the town-outside-village fund, resulting in town-outside-village taxpayers being overcharged approximately \$12.7 million over the last five years. We also found that the town-wide general fund inappropriately charged the Shelter \$3.5 million in 2010 and \$2.6 million in 2011 for administrative cost charge-backs. Further, the Town used inadequate allocation factors to calculate the total town-wide general fund administrative costs of \$53 million in 2010 and \$52.5 million in 2011. The administrative costs charged to departments did not reflect the actual services received.

We found the Shelter's cost of operations was significantly more than costs in animal shelters located in the Towns of Islip and Brookhaven, which are Long Island towns similar in size. The Shelter's total

¹ Populations are as of the 2010 United States Census. See Appendix A for a list of all villages and their populations.

² Unallocated fringe benefits were not included in the Shelter's departmental budget. The cost of operating the Shelter has been adjusted to include unallocated fringe benefits.

cost per animal of \$1,907 in 2010 was \$1,699 and \$1,178 more than the Islip and Brookhaven animal shelters, respectively. The main contributors of the Shelter's higher costs were its higher number of employees, salaries, and costs of health care for the animals.

Shelter officials selected multiple vendors to provide the same health services without documenting any differentiation between vendors or restrictions on when which vendors would be used. Out of 32 payments totaling \$93,789, we found exceptions with 24 payments totaling \$66,513 relating to missing documentation, lack of itemized invoices, and payments for services that were not in the contract. Multiple people were responsible for pre-authorizing and approving overtime, and documentation of overtime was inadequate. We also found that incompatible cash receipt duties were not segregated, and we found variances when reconciling receipt forms to the recording software. Because of these weaknesses, the risk is increased that errors or irregularities could occur and not be detected or corrected.

Comments of Local Officials

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix B, have been considered in preparing this report. Except as specified in Appendix B, Town officials generally agreed with our recommendations and indicated they planned to take corrective action.

Introduction

Background

The Town of Hempstead (Town) Animal Shelter (Shelter) provides services to the nearly 760,000 residents that live within the approximately 142 square miles of the Town, including 22 incorporated villages with a combined population of more than 240,000.³ The Shelter was created for the licensing and identification of dogs; the control and protection of the dog population and other animals; and the protection of persons, property and animals from dog attack and damage. During our audit period, the Shelter processed approximately 7,000 animals.

The Town Board (Board) is a seven-member legislative body responsible for financial oversight. The Supervisor is a member of the Board and acts as the Town's Chief Executive Officer. The Board reviews and approves annual budgets and financial reports, Town policies, contracts, and the hiring of Town personnel. The Board appoints the Shelter's Director and Assistant Directors, who are responsible for managing the Shelter's day-to-day operations, including supervising Shelter employees and enforcing Town Code.

During the audit period, the Shelter employed 62 employees, of which 32 were full-time and 30 were part-time. The Shelter's 2010 expenditures⁴ totaled \$7.8 million, which were financed mainly by property taxes and departmental fees. The 2011 adopted budget totaled \$7.85 million, and the adopted budget for 2012 totaled \$8.8 million.

Objective

The objective of our audit was to examine the Shelter's financial management and operations. Our audit addressed the following related questions:

- Did Town officials ensure that town-wide general fund administrative charges were properly allocated to the Shelter and that the Shelter's financial activities were budgeted, accounted for, and reported in the appropriate fund?
- Did Town officials provide appropriate oversight over the Shelter's operation to ensure that the Shelter was operating in a cost efficient manner?

³ Populations are as of the 2010 United States Census. See Appendix A for a list of all villages and their populations.

⁴ Unallocated fringe benefits were not included in the Shelter's departmental budget. The cost of operating the Shelter has been adjusted to include unallocated fringe benefits.

**Scope and
Methodology**

We examined the Shelter’s financial operations for the period January 1, 2010 to September 30, 2011. We expanded our scope period to include the years of 2007 through 2009 to better assess patterns and trends.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix D of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix B, have been considered in preparing this report. Appendix C includes our comments on the issues raised in the Town’s response.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Clerk’s office.

Taxpayer Equity

Towns provide diverse services to their residents and account for those services in various operating funds. The operating funds receive tax revenue from different tax bases. Therefore, Town officials must accurately budget and record revenues and expenditures in the proper funds to maintain equity among taxpayers and comply with statutory requirements. Generally, Town departments or funds that provide direct services to other departments or funds can be reimbursed for those costs. It is important to maintain financial records that demonstrate that charges for such services reflect accurate and necessary costs.

Unless otherwise provided by law, the costs of operating the Shelter must be funded by and accounted for in the town-wide general fund. The Town improperly accounted for and reported the Shelter's financial activities in the town-outside-village fund, resulting in town-outside-village taxpayers being overcharged approximately \$12.7 million over the last five years. We also found that the town-wide general fund inappropriately charged the Shelter \$3.5 million in 2010 and \$2.6 million in 2011 for administrative cost charge-backs. Further, the Town used inadequate allocation factors to calculate the total town-wide general fund administrative costs of \$53 million in 2010 and \$52.5 million in 2011. The administrative costs charged to departments did not reflect the actual services received.

Accounting for Operations and Taxpayer Equity

The town-wide general fund is the Town's principal operating fund, which includes the cost of all operations not required by statute to be recorded in other funds. The town-wide general fund has a property tax base that encompasses the entire Town, including the villages. The town-outside-village fund has a property tax base that encompasses only the portion of the Town that lies outside of the incorporated boundaries of the villages. Agriculture and Markets Law (AML) requires towns and villages in Nassau County to issue dog licenses, appoint one or more dog control officers, establish and maintain a pound or shelter, or contract for such services. AML does not exempt village taxpayers from paying town taxes to support the Town's dog control program. Therefore, the Shelter's operations must be funded by property taxes levied on the entire Town, and its activities must be accounted for in the town-wide general fund.

We reviewed the adopted budgets and accounting records for fiscal years 2007 through 2011 and found that the Town improperly budgeted and accounted for the Shelter's transactions and activities in the town-outside-village fund. Therefore, 25 to 30 percent of

Town residents were not charged taxes for operating the Shelter, and the remaining Town residents had to pay the entire cost of Shelter operations.

Table 1 shows the impact of improperly levying taxes only on town-outside-village taxpayers for funding the Shelter’s operating budgets. Because the Shelter’s operation was not accounted for in the general fund, as required, town-outside-village taxpayers were over-taxed by a total of \$12.7 million from 2007 through 2011.

Fiscal Year	2007	2008	2009	2010	2011	Totals
Property Taxes Paid by Town-Outside-Village Taxpayers to Fund the Shelter's Operation ^a	\$5,127,384	\$6,814,068	\$7,423,023	\$8,295,379	\$7,760,069	\$35,419,923
Town-Outside-Village Taxpayers' Recalculated Share of Property Taxes for the Shelter's Operation	\$3,299,472	\$4,399,141	\$4,785,005	\$5,327,496	\$4,886,338	\$22,697,452
Amount of Property Taxes Overcharged to Town-Outside-Village Taxpayers	\$1,827,912	\$2,414,927	\$2,638,018	\$2,967,883	\$2,873,731	\$12,722,471

^aIncludes unallocated employee benefits, as calculated by the Town.

While Table 1 shows the impact of the tax inequity and overcharge to town-outside-village taxpayers over the past five years, this inequity has existed for nearly 20 years. As a result of this improper budgeting, accounting, and reporting practice for the Shelter’s operation, town-outside-village taxpayers have been subsidizing all taxpayers residing within the incorporated villages for multiple millions of dollars over the past 20 years.

At the exit conference, Town officials provided us with additional information regarding certain revenues and expenditures that were shared by the town-outside-village fund as a whole and were undistributed to individual departmental budgets. The undistributed expenditures mainly included employee benefits (i.e., health insurance premiums). The undistributed revenues included franchise tax and State aid per capita. While we agree that undistributed employee fringe benefits is a legitimate cost of operating the Shelter, the undistributed revenues are legitimate town-outside-village fund revenues and cannot be used to finance a general fund operation, such as the Shelter. Therefore, we adjusted the tax levy to reflect only the additional cost of the unallocated fringe benefits, as calculated by the Town. We did not include the effect of the unallocated revenues because town-outside-village State aid per capita and franchise taxes cannot be allocated to a general fund activity that must be funded by general fund taxpayers.

Costs Allocated to Shelter

To equitably allocate general fund administrative overhead costs,⁵ the Town must use an overhead allocation method that shows a direct relationship between the services rendered to the benefiting departments and the costs allocated to them. Departments outside of the town-wide general fund should only be charged for actual costs incurred, after the services have been provided. If estimates are used for the purpose of balancing a legally-adopted budget, these estimates should use equitable allocation factors based on the cost of direct services provided to the departments, and these estimates should later be reconciled with actual costs incurred. Furthermore, costs incurred by elected officials, such as the Town Supervisor and Town Clerk who serve the public at large, are generally town-wide general fund charges and cannot be allocated to funds or departments with different tax bases.

In 2010, the town-wide general fund budget of \$136 million included revenues from charging other funds for allocated administrative costs totaling \$53 million; in 2011 the \$141 million budget included revenues of \$52.5 million from this cost allocation process.⁶ The Shelter's portion of the administrative charge was \$3.5 million in 2010 and \$2.6 million in 2011. As previously stated, Town officials should have accounted for the Shelter's operations in the town-wide general fund. Therefore, these administrative charges to the Shelter were inappropriate.

We reviewed the Town's methods for calculating administrative cost allocations and found that Town officials used ratios and percentages that did not reflect the actual services provided. For example, Town officials determined the Shelter's portion of administrative costs by multiplying the Shelter's full time equivalent (FTE) ratio⁷ by the actual town-wide general fund expenditures for the last completed fiscal year for nine of 14 departments⁸ that were charged to the Shelter. The cost allocation for the remaining five departments was based on a percentage of actual costs from the last completed fiscal year, as determined by each department head; however, none of these departments documented how those percentages were calculated,

⁵ Overhead costs consist of the costs of central services or support functions shared across Town departments.

⁶ This figure will match the actual figure as Town officials do not adjust for actual services provided.

⁷ FTE is a unit that indicates the workload of an employed person in a way that makes workloads comparable across various contexts. FTE is often used to measure a worker's involvement in a project. An FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker is only half-time.

⁸ As our scope was the Animal Shelter, the 14 departments/cost centers are charges to the Animal Shelter. Other departments may have more or less charges from departments/cost centers.

nor did they provide an accounting to the Town Comptroller to show how those administrative costs related to the actual cost of services provided.

Furthermore, the Town's allocation calculation includes the Town Supervisor's and Town Clerk's salaries (\$150,000 and \$106,500, respectively). The Clerk's and Supervisor's salaries should have been excluded from all departments' administrative costs. Administrative charges also included debt service for the town-wide general fund (\$5 million in 2010 and \$5.2 million in 2011), regardless of the fund that issued the debt. The general fund debt service was allocated based on FTE, instead of allocating just the portion of debt for which the Shelter/department was responsible. The Shelter's outstanding principal and interest totaled \$5,290 in 2010 and \$5,416 in 2011; however, the Town allocated \$75,200 in 2010 and \$81,400 in 2011 of town-wide general fund debt service to the Shelter as a component of the administrative charge. The administrative charges to departments also included other costs such as inter-fund transfers to the capital fund, contractual costs, and employee benefits. Town officials could not provide us with documentation to show that these costs were based on a direct relationship to the department charged. In addition, Town officials do not reconcile and adjust the allocated charges to actual costs incurred for the current year.

While using the percentage of full-time town-wide general fund employees that work in each department may be appropriate to allocate payroll and personnel costs, it is not appropriate to allocate the cost of other services such as accounting, purchasing, accounts payable, legal, budgeting, and debt service requirements. An appropriate and equitable method for allocating these costs would be to use a weighted ratio of the number of transactions, disbursements, or number of checks/abstracts processed for a particular department or fund by the total cost associated with that particular function.

Without using appropriate allocation factors that take into account the direct relationship between the services provided to the benefiting department or fund and the true cost of such services, the Town may either be over-charging or under-charging for such services. It also created a taxpayer inequity when different tax bases were involved. Furthermore, Town officials should have accounted for the Shelter's operations in the town-wide general fund; therefore, these administrative charges to the Shelter were inappropriate.

Recommendations

1. The Board should take action to ensure that the Shelter's revenues and expenditures are budgeted, accounted for, and reported in the town-wide general fund, as statutorily required.

2. The Board should determine the extent to which property taxes have been overcharged to town-outside-village taxpayers and develop a reasonable plan to resolve the taxpayer inequity.
3. The Town Comptroller should discontinue and re-evaluate the current method for allocating general fund administrative overhead charges to other departments and funds. Town officials should develop an allocation plan based on the direct relationships between the various services provided by the general fund and the actual services received by the benefiting department or fund. If estimates are used when preparing the annual budget, such estimates must be reconciled to the actual cost of services provided.

Management Oversight

A system of internal controls ensures that Town assets are properly safeguarded, and that its financial operations are effective, efficient, and in compliance with policies, procedures, and local regulations. The Board is responsible for establishing a sound system of controls, and providing sufficient fiscal oversight. The Shelter Director and other Shelter officials are responsible for ensuring that controls are adhered to and the fiscal objectives are accomplished.

The Shelter's cost of operations was significantly more than costs in animal shelters in Long Island towns similar in size. The Shelter's total cost per animal was \$1,699 and \$1,178 more than the Towns of Islip and Brookhaven animal shelters, respectively. The main contributors of the Shelter's higher costs were its higher number of employees, salaries, and costs of health care for the animals. We also found weaknesses in the internal controls and oversight of the Shelter's financial operations. Shelter officials selected multiple vendors to provide the same health services without documenting any differentiation between vendors or restrictions on when which vendors would be used. Out of 32 payments totaling \$93,789, we found exceptions with 24 payments totaling \$66,513 relating to missing documentation, the lack of itemized invoices, and payments for services that were not in the contract. Multiple people were responsible for pre-authorizing and approving overtime, and documentation of overtime was inadequate. We also found that incompatible cash receipt duties were not segregated, and we found variances when reconciling receipt forms to the recording software. Because of these weaknesses, the risk is increased that errors or irregularities could occur and not be detected or corrected.

Cost of Operations

We found that Town officials did not perform an analysis to determine if the Shelter's operations were cost efficient. In 2010, the Shelter (referred to as "Hempstead" in this section) processed 3,498 animals and had total expenditures of approximately \$6.7 million.⁹ The three largest expenditures were the administrative charge (see previous section titled Taxpayer Equity) totaling \$3.5 million, salaries totaling \$2.7 million, and animal health services totaling \$147,930.

We compared Hempstead's 2010 costs of operations with those of two other animal shelters located in the Towns of Islip and Brookhaven on Long Island. These shelters are located in similarly

⁹ The cost comparison does not include employee fringe benefits, as this is an unallocated cost and not directly attributed to specific cost centers in adopted budgets.

sized towns, have a similar size of operations, and processed a comparable number of animals. We found that Hempstead’s costs of operations were greater than these comparable shelters in every category reviewed, as illustrated in Table 2.

	Hempstead	Islip	Brookhaven
Total animals processed	3,498	4,342	2,292
Total costs ^b	\$6,669,091	\$901,988	\$1,668,762
Cost per animal	\$1,907	\$208	\$728
Total salaries	\$2,698,339	\$820,076	\$1,504,013
Salaries per animal	\$771	\$189	\$656
Total health service costs ^c	\$147,930	\$32,228	\$88,845
Health cost per animal	\$42	\$7	\$39

^a) The cost comparison does not include employee fringe benefits, as this is an unallocated cost and not directly attributed to specific cost centers in adopted budgets.
^b) Hempstead’s expenditures include administrative chargebacks of \$3.5 million. Islip and Brookhaven do not allocate any chargeback costs to their shelters’ operations.
^c) Costs incurred by the Town from hiring outside professionals such as veterinarians and animal behaviorists.

Total Costs – Hempstead’s total costs for 2010 were more than seven times the costs of Islip’s animal shelter, despite processing 19 percent less animals; and four times more than Brookhaven’s total costs, even though Hempstead only processed 53 percent more animals. As a result, Hempstead’s total cost per animal was \$1,699 and \$1,178 more than the total costs of the Islip and Brookhaven animal shelters. The other towns did not have an administrative charge because animal control operations were accounted for in the general fund. If the Town did not allocate an administrative charge to Hempstead, its total costs in 2010 would have been \$3.2 million instead of \$6.7 million. This would have resulted in a cost per animal of \$908, which is still much more than the other two towns’ costs.

Salaries and Wages – Hempstead’s total salaries per animal were more than the two other comparable animal shelters. This is due to both Hempstead having more employees than the other two towns, and paying a much higher average salary. Table 3 illustrates that Hempstead employed 12 more full-time employees than Islip and 10 more full-time employees than Brookhaven. Hempstead has two full-time employees in its Humane Education Department, four full-time Kennel Supervisors, and two Assistant Directors. However, Islip employed an Animal Shelter Supervisor and no Humane Education Department employees, while Brookhaven had one Supervisor, an Assistant Supervisor, and one full-time Humane Education Specialist.

Table 3: Comparison of Full-Time Positions			
	Hempstead	Islip	Brookhaven
Full-Time Positions	32	20	22
Total Full-Time Salaries	\$2,535,900	\$811,573	\$1,278,382
Average Salary Per Full-Time Employee	\$79,247	\$40,579	\$58,108
Average Humane Education Specialist Salary	\$101,224	N/A	\$65,159
Assistant Director	\$120,483	N/A	\$96,258
Shelter Director	\$90,000	\$52,200	\$88,868
Average Kennel Worker Salary	\$57,287	\$31,230	\$40,519

In addition to Hempstead employing more people than Islip and Brookhaven, salaries are considerably higher. For example, Hempstead’s average full-time salary was \$79,247, which was nearly twice the amount of the average full-time salary in Islip. In addition, Hempstead’s average salary was over \$21,000 more than the average full-time salary in Brookhaven.

Hempstead’s two Humane Education Department employees were ungraded positions not subject to normal civil service test requirements. Hempstead paid \$202,448 in 2010 to these employees (\$106,056 to the first and \$96,392 to the second). Town officials told us that these employees are involved in adoption coordination, adoption counseling, and attending various functions sponsored by external organizations to help promote adoption. However, the Humane Education Department did not maintain any additional records, such as calendars of events, for us to determine the necessity for employing two full-time Humane Education Specialists. Further, Hempstead’s average Humane Education Specialist salary was over \$36,000 more than Brookhaven’s.

We also found that Hempstead’s Assistant Director was paid over \$24,000 more than Brookhaven’s Assistant Director. Hempstead’s Shelter Director’s salary, while comparable to Brookhaven’s, was over \$37,000 more than Islip’s. We also found that Hempstead paid its kennel workers, on average, over \$26,000 more than Islip and almost \$17,000 more than Brookhaven.

Health Service Costs – Even though Hempstead’s health care costs were significantly higher than the other two towns in prior years, there were significant public complaints about the services provided to Hempstead’s animals. Therefore, in 2011, the Town increased the appropriation for health services, by 370 percent, to \$547,826, to procure additional services from veterinarians and animal behaviorists. As a result, the health care cost per animal increased

from \$42 to \$112 in 2011, exponentially higher than the two other towns in 2011.

Procurement of Health Services

The Hempstead Animal Shelter (Shelter) must provide essential medical care for animals including, but not limited to, medical emergency, veterinary, spay and neuter services. When procuring services to be provided that are not subject to competitive bidding requirements, the Town has a responsibility to obtain services at a fair and reasonable price. A request for proposals (RFP) process allows the Town to solicit offers from multiple vendors for a good or service, and to choose the vendor that best matches the criteria set forth in the proposal. After the vendor has been selected and goods or services are provided, the Town should ensure that payments made match the rates and services in the proposal; this process should include obtaining from the vendor signed claims and itemized invoices. As required by law, the Town Comptroller must audit all claims against the Town before they are paid.¹⁰

The Town requested proposals from consultants to perform medical emergency, veterinary, spay and neuter services. After receiving proposals for these services, the Town did not select one vendor to provide each specific service. Instead, the Town selected multiple vendors for providing the same services. For example, the Town selected all four vendors that submitted proposals for off-site medical emergency and veterinary services, four out of 11 vendors that submitted proposals for spay and neuter services, and two out of three vendors that submitted proposals for on-site veterinary services. The Town paid these vendors \$379,700 during our audit period. The Town Comptroller informed us that the Town hired multiple vendors due to the concerns raised by the public regarding the health and well-being of animals. Therefore, the Town wanted to ensure that all animals had the necessary essential services at all times, which resulted in the Town selecting multiple vendors. We examined the proposals¹¹ to determine if there were any distinctions between when the different vendors would be used or if any special services were to be provided. We found no distinctions between the proposals.

Further, we found that the Town used a vendor providing animal behavior services without first issuing an RFP. This vendor received \$26,750 during our audit period. The Board approved the daily rate to be paid for these services in a resolution. Without soliciting competition for these services, the Board cannot be assured that it obtained the most economical rate possible.

¹⁰ Town Law has some exclusions such as public utilities, postage, freight, and express charges.

¹¹ The Deputy Town Comptroller stated that the proposals become the contracts/agreements after they are approved by the Town Board.

During our audit period, the Town made 237 payments, totaling \$472,621, to 35 vendors providing health services to animals. We examined 37 payments (approximately 16 percent) made to eight of these vendors totaling \$93,789.¹² We judgmentally selected eight of these payments totaling \$5,965 from the health account that had a description which listed “Tails of Hope.”¹³ We found exceptions with three out of the eight Tails of Hope payments totaling \$962. Two of these payments totaling \$800 for medical care services did not have any supporting documentation. One other claim totaling \$162 had an invoice from a hospital; however, the check was not made out to the hospital. In addition, none of these three claims was signed by the vendor. Further, while the remaining five claims appeared to be signed by a representative of the vendor, the signatures were actually signed by an individual volunteering at the Shelter. For example, a claim supposedly submitted by the president of a particular rescue group would be signed as “Susan Smith by Jane Doe.” Because the vendor did not actually attest on these claims that the services were provided, the Town has limited assurance that the claims were legitimate.

We tested the remaining 29 payments totaling \$87,825 to ensure that invoices were itemized, mathematically accurate, and matched the services and rates listed in the contract. We found exceptions with 21 payments totaling \$65,550, as detailed below.

- Nine payments totaling \$45,369 did not have invoices that showed what services were provided by the two on-site veterinarians and one animal behaviorist. The sheet supporting the claim vouchers for the two on-site veterinarians listed the daily “time in” and “time out” only. The animal behavior consultant only listed the days worked, but did not provide details such as what animals were evaluated.
- The supporting documentation for two payments totaling \$11,801 to a local animal hospital did not have clear services listed to determine the extent of the services provided and whether they matched the services agreed to in the proposal.
- Invoices for veterinary care services and animal behavior services supporting three payments totaling \$11,417 charged rates totaling \$6,171 that were greater than or not found on the contract.

¹² See Appendix D, Audit Methodology and Standards, for details on our sample selection.

¹³ “Tails of Hope” is a program where the public can donate funds and the Town may use those funds for the well-being of the animals.

- Invoices supporting seven payments totaling \$23,702 for various veterinary surgery and treatment care services had charges of \$2,209 in which the services listed did not match the contracts.

All claims were stamped with the Town Comptroller's name and title signifying that the claims were audited. Because of the exceptions found, we question the thoroughness of the Comptroller's audit.

We also found that the Shelter paid \$10,376 for medicines and other supplies that were not listed in the veterinarian's contract. The veterinarian had the medicines and supplies sent to his address, and then dispensed the medicine/supplies to the Shelter. The Shelter reimbursed the veterinarian based on the invoices from the vendor providing the medicines and supplies. An office clerk told us that the Shelter could not purchase the medicine and supplies on its own because a licensed veterinarian was required to perform this function under New York State Health Law. However, paying for supplies without an agreed-upon contract price increases the risk that the Shelter could pay more than necessary for these supplies.

This risk increases when vendors do not provide itemized invoices detailing the services provided. Further, by not verifying the bills with contracts, services not agreed to may be provided, and the Town could pay for unnecessary services.

Overtime

Overtime represents an additional cost of wages, sometimes resulting from inadequate staffing levels, increased requirements from staff, and scheduling conflicts. It is important for the Board and Town officials to develop formal policies and procedures to ensure that overtime is planned, pre-approved, necessary, and verified by the immediate supervisor before it is paid. Overtime slips document overtime worked and include, among other things, the reason for the overtime, the dates when overtime is worked, and the employee's name and signature. Management can verify these slips against other time records to ensure that hours of overtime charged agree with hours actually worked.

The Shelter did not have formal procedures on how to manage, document, approve, and verify overtime worked. The last Board resolution dealing with the Board's overtime policy is more than 55 years old, from 1956. It lists certain general procedures related to payment of overtime, but it is not comprehensive and does not provide guidance on how to manage overtime. For example, it did not require that overtime be pre-approved and justified in writing by the immediate supervisor. The Board policy only requires a certification by the department head (in this case, the Shelter Director) indicating

the name and title of the employee performing the overtime work and the dates and hours in which such work was performed.

The Shelter Director does not pre-authorize overtime in writing. Instead, overtime is authorized verbally, and in many instances, authorized by someone other than the Shelter Director. Specifically, we found that kennel supervisors approved overtime for other kennel supervisors, kennel attendants, and a community services representative. We also found that supervisors approved overtime after the employee filled out the overtime slips and had worked the overtime. Further, instead of the immediate supervisor, an office clerk verified overtime slips; the clerk did not have a list of approved signatures for authorizing overtime online for verification purposes.

During our audit period, the Shelter paid for 8,860 overtime hours worked totaling \$359,408. We tested 581.5 overtime hours, totaling \$23,703.¹⁴ None of the overtime was adequately justified; the justification written on overtime slips was limited to a description of an activity or work function such as “worked kennel,” “worked Saturday,” or “office work.” In addition, 87 of the 103 overtime slips representing 311 overtime hours totaling \$12,015 were not approved by the Shelter Director. We also found that the overtime slips for 176 overtime hours totaling \$6,182 were missing; and the documented reasons for working 15 overtime hours, totaling \$933, on 10 slips stated only “working through lunch,” “e-mails,” or “meetings.” Federal and State labor laws require a lunch period if an employee works more than six hours. The practice of paying for overtime for working through lunch, handling e-mails, and attending meetings should be scrutinized to determine if they are truly necessary.

The Shelter has a hand scanner that records the in and out times of each employee. The hand scanner software can produce reports showing the employee, the work schedule, and the times the employee entered and left the Shelter. Shelter officials did not reconcile this report against the overtime slips. We reviewed 163 transactions¹⁵ and found 57 variances when comparing the hours listed on the overtime slips with the hours recorded in the hand scanner report. On 28 transactions, the time out on the hand scanner was at least 10 minutes, and as much as 261 minutes, earlier than the time on the overtime slip. On 24 transactions, there was no time in or out listed at all on the scanner report, and four transactions showed the in time on the scanner report was later than the overtime start time by as much as 59 minutes.

¹⁴ See Appendix D, Audit Methodology and Standards, for details on our sample selection.

¹⁵ See Appendix D, Audit Methodology and Standards, for details on our sample selection.

As the reasons were not clear on many of the slips, Shelter officials have no assurance that overtime was truly necessary. Having multiple personnel approving overtime renders controls ineffective and can result in inappropriate payments and inefficiency. If the work records are not scrutinized, overtime may be paid, but not worked as documented.

Cash Receipts

One key component in implementing effective internal controls over cash receipts is the practice of segregating incompatible duties. Duties are incompatible when a person can collect, record, and review the same transactions. When it is neither practical nor cost-effective to segregate the basic responsibilities discussed above, compensating controls should be implemented. Compensating controls are supervisory or other oversight procedures designed to reduce the risk of errors or fraud not being detected. These controls, such as restricting access rights to only those necessary for job duties, also must be implemented over the computerized software. Such controls help to ensure accuracy, completeness, and validity of information produced by reports and records.

The Shelter collects cash and checks for donations, redemptions, adoptions, surrenders, vaccinations, licenses, microchips, pick-ups, and from villages within the Town for dog control services. There are no formal documented procedures over cash receipt handling and collections. The same clerks¹⁶ were responsible for collecting fees, filling out the receipt form, recording the cash in the register, recording the transactions in the software, preparing the deposit slip, and reconciling source documents at the end of each day to the daily activity report. The receipt forms were accessible to multiple people, and we found gaps in the forms during our two-month testing period.

The software used to record the cash receipt activity and transaction details did not restrict the access rights of each clerk. We reviewed all 31 user accounts and found that 20 users had excess access rights that were not based on their job functions, which could allow them to add, delete, and modify a transaction. Three user accounts were generic user accounts not assigned to a specific user. These generic user accounts included the Shelter's two cash registers, whose identifications could not be traced to any one individual recording a transaction. Four user accounts were still active, even though the employees associated with those accounts no longer worked at the Shelter.

We also examined cash receipts totaling \$22,769. We found the following deficiencies totaling \$9,580:

¹⁶ One full-time clerk was predominantly responsible for collecting certain fees.

- There were no receipt forms to support transactions listed on the daily activity report totaling \$4,656. The daily activity report recorded services such as adoptions, redemptions, and surrenders. The clerk informed us that sometimes receipt forms are not used in sequential order because operations will disrupt the sequence. In addition, certain transactions, such as adoptions, are not recorded immediately because they may span a prolonged period. According to the clerk, receipt numbers are not recorded in a centralized log or database; therefore, finding the receipt forms once they are out of order can be cumbersome.
- Fifty-nine receipts totaling \$2,406 were not recorded on the register tape although they were recorded in the daily activity report.
- Amounts listed on 40 source documents, such as receipt forms or register tapes, totaling \$1,742, did not match the daily activity reports.
- We found six occasions, totaling \$400, where Shelter staff inappropriately recorded free adoptions even though there was no such promotion at the time.
- We found 17 voided receipts totaling \$376 that were not approved in writing by a supervisor and did not include an explanation for the void.

Supervisory staff did not periodically review the office copy of issued receipt forms, and did not investigate and document in writing any variances in information, gaps or missing receipt forms. For each cash drawer, Shelter staff reconciled the daily cash collection records or cash register tapes to the amount of cash on hand at the end of the day, but did not complete and document a supervisory review.

Although we found only minor discrepancies in our testing of cash receipts,¹⁷ because there are no formal procedures, the risk increases that clerks may not be correctly handling cash receipts.

Recommendations

4. Town officials should evaluate the Shelter's operations and present to the Board a plan to improve the Shelter's cost efficiency.
5. Town officials should review its contracts with its animal health care providers and consider contract stipulations to differentiate services and times to provide services between the vendors.

¹⁷ We found three instances where the deposit slip was shorter than the daily activity report for a total of \$118.

6. The Town Comptroller should ensure that all claims for professional services are itemized, and that services performed are clearly defined and match the contract services and rates.
7. The Board should review the questionable payments identified in this report and take appropriate action.
8. Town officials should adopt a formal overtime policy with detailed procedures to ensure that overtime is pre-authorized by the Director. The policy should include guidelines for what reasons overtime will be worked, and how the overtime will be verified.
9. Town officials should implement internal controls to ensure duties over cash receipts are properly segregated, and that cash is collected and reconcilable against all source documentation. Town officials should ensure that access to cash drawers and forms are better restricted.
10. Town officials should implement internal controls over software to limit employees' access to only those functions necessary to perform their duties.

APPENDIX A

INCORPORATED VILLAGES WITHIN THE TOWN OF HEMPSTEAD

Table 4: Incorporated Villages Within the Town of Hempstead	
Village Name	Population as of 2010 United States Census
Atlantic Beach	1,891
Bellerose	1,193
Cedarhurst	6,592
East Rockaway	9,818
Floral Park (partially in Town of North Hempstead)	15,863 ^a
Freeport	42,860
Garden City	22,371
Hempstead	53,891
Hewlett Bay Park	404
Hewlett Harbor	1,263
Hewlett Neck	445
Island Park	4,655
Lawrence	6,483
Lynbrook	19,427
Malverne	8,514
Mineola (almost all in Town of North Hempstead)	18,799 ^a
New Hyde Park (partially in Town of North Hempstead)	9,712 ^a
Rockville Centre	24,023
South Floral Park	1,764
Stewart Manor	1,896
Valley Stream	37,511
Woodsburgh	778
Total Village Populations	245,779
^{a)} This number is excluded from the total because the village is located partially within the Town of North Hempstead.	

APPENDIX B

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following pages.

COUNCIL MEMBERS
ANTHONY J. SANTINO
ANGIE M. CULLIN
DOROTHY L. GOOSBY
GARY HUDES
JAMES DARCY
EDWARD AMBROSINO

MARK BONILLA
TOWN CLERK

DONALD X CLAVIN, JR.
RECEIVER OF TAXES

KEVIN R. CONROY, CPA
TOWN COMPTROLLER

TOWN OF HEMPSTEAD
OFFICE OF THE COMPTROLLER

350 FRONT STREET
HEMPSTEAD, N.Y. 11550-4037
(516) 812-3359 Fax: (516) 292-7335



KATE MURRAY
SUPERVISOR

August 23, 2012

BY HAND

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533

Re: Response to Draft Audit Report 2012M-124
Town of Hempstead Animal Shelter Taxpayer Equity
and Management Oversight Report of Examination

Dear Mr. McCracken:

We have reviewed the draft report of examination of the Town of Hempstead Animal Shelter for the period January 1, 2010 – September 30, 2011. Please accept this letter as our official response to that report.

TAXPAYER EQUITY

FINDING:

The Town improperly accounted for and reported the Animal Shelter's financial activities in the town-outside-village fund, resulting in the town-outside village taxpayers being overcharged approximately \$12.7 million over the last five years.

RESPONSE:

The Town has been accounting for and reporting the Animal Shelter's financial activities in the town-outside-village fund since 1995. Every annual report of the Town's financial condition submitted to the New York State Comptroller (OSC) pursuant to Article 3, Section 30 of the General Municipal Law, beginning with the Fiscal Year Ending 12/31/1995 up to and including the Fiscal Year Ending 12/31/2011, has included the Animal Shelter's financial activities in the town-outside-village fund without any comment or noted exception from OSC.

See
Note 1
Page 36

The OSC's analysis concluding that the town-outside village taxpayers were overcharged approximately \$12.7 million over the last five years failed to allocate any portion of undistributed revenues in the town-outside-village fund to the operation of the Animal Shelter. Allocating a proportionate share of the

undistributed revenues in the town-outside-village fund to the operation of the Animal Shelter results in a total difference over the last five years of \$4.3 million between what the tax levy for the town-outside-village fund was with the Animal Shelter in the town-outside-village fund as compared to the Animal Shelter being in the General Fund (town-wide support fund).

See
Note 2
Page 36

In short, Table 1: "Taxpayers' Equity Recalculation – Impact on Town-Outside-Village Tax Levy" (Chart) does not consider apportioned undistributed Part-Town Fund revenue. Accordingly, OSC's analysis is overstated by \$8.4 million (\$12.7 - \$4.3).

However, the Animal Shelter will be accounted for and reported in the General Fund (town-wide support fund) in the Town's next budget.

FINDING:

The town-wide General Fund inappropriately charged the Animal Shelter \$3.5 million in 2010 and \$2.6 million in 2011 for administrative cost charge-backs, used inadequate allocation factors to calculate the total town-wide General Fund administrative costs of \$53 million in 2012 and \$52.5 million in 2011, and administrative costs charged to departments did not reflect the actual services received.

RESPONSE:

The Town provides necessary operational services to its residents, and accounts for said services in various operating funds that receive tax revenue from accounting specific tax bases. In order to ensure taxpayer equity among the various tax bases, departments or funds that provide direct services to other departments or funds are reimbursed for those costs. To accomplish this, the Town, in conjunction with regulatory guidance and cost-accounting authoritative reference materials, has developed an administrative charge-back formula that utilizes each department's actual expenditures and Town personnel costs (Full Time Equivalents or FTE) for the last audited fiscal year, together with an annual survey completed by each department allocating the percentage of time and materials it expended on behalf of other departments during that period.

See
Note 3
Page 36

Since the predominance of direct services are a function of labor, the most relevant and cost effective means to account for these costs is a meaningful representation of town personnel's time devoted to other departmental functions. Accordingly, the Town applies the FTE methodology as a means to capture and charge-back said costs.

See
Note 4
Page 37

Without identifying a specific methodology or the cost to implement and maintain it, OSC is advocating a more objective methodology for departmental charge-backs, "... that shows a direct relationship between the services rendered to the benefiting departments and the costs allocated to them." A system to track costs of actual services rendered would be burdensome and cost-prohibitive. Furthermore, the net difference between the administrative charge-back calculated by tracking costs of actual services rendered and the administrative charge-back calculated by utilizing the methodology currently employed by the Town is projected to be immaterial.

See
Note 5
Page 37

In order to ensure taxpayer equity among the various operating funds and tax bases, the Town has retained the services of an independent professional consulting firm with expertise in cost allocation plans to review the Town's cost allocation methodology.

FINDING:

As a result of the Town accounting for and reporting the Animal Shelter's financial activities in the town-outside-village fund, 25 – 30 percent of Town residents (residents of incorporated villages) were not charged taxes for operating the Shelter, and the remaining Town residents had to pay the entire cost of Shelter operations.

RESPONSE:

The incorporated villages within the Town of Hempstead paid for animal control services via contractual agreements with the Town. Hence, the residents of the incorporated villages within the Town shared the cost of operating the Animal Shelter via the property taxes paid to their respective villages. Accordingly, both the town-outside-village taxpayers and residents of incorporated villages shared the cost to support the operations of the Animal Shelter from which they both benefited.

See
Note 6
Page 38

FINDING:

To equitably allocate General Fund administrative overhead costs the Town must use an overhead allocation method that shows a direct relationship between the services rendered to the benefiting departments and the costs allocated to them. . . . Furthermore, costs incurred by elected officials, such as the Town Supervisor and the Town Clerk, who serve the public at large, are generally town-wide General Fund charges and cannot be allocated to funds or departments with different tax bases.

RESPONSE:

The Town, in conjunction with regulatory guidance and cost-accounting authoritative reference materials, has developed an administrative charge-back formula that utilizes each department's actual expenditures and Town personnel costs (Full Time Equivalents or FTE) for the last audited fiscal year, together with an annual survey completed by each department allocating the percentage of time and materials it expended on behalf of other departments during that period.

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See
Note 5
Page 37

In order to ensure taxpayer equity among the various operating funds and tax bases the Town has

retained the services of an independent professional consulting firm with expertise in cost allocation plans to review the Town's cost allocation methodology.

The Town Supervisor's and Town Clerk's salaries will not be included in the computation of the town-wide General Fund (town-wide support fund) administrative charge-backs to other departments and funds in the Town's next budget.

FINDING:

The Town's methods for calculating administrative cost allocations used ratios and percentages that did not reflect the actual services rendered.

RESPONSE:

Annually, as an integral part of the budget process, the General Fund (town-wide support fund) inter-departmental charge-back has been based on actual audited costs conducted by an independent certified accounting firm in accordance with Generally Accepted Accounting Principals. It is worth noting that in a recent audit of our administrative cost allocation by the Nassau County Comptroller, he recommended, and the Town implemented, the use of costs from the most recent audited fiscal year for the calculation of the charge-back. The apportionment of said actual costs are based on each department's internal accounting of time devoted by personnel to other departmental functions.

See
Note 7
Page 38

The Town has secured the services of an independent professional consulting firm with expertise in cost of services studies. We await the results of the study and are committed to the implementation of any charge-back allocation methodology that most appropriately apportions costs.

FINDING:

Administrative charges included debt service for the town-wide General Fund (\$5 million in 2010 and \$5.2 million in 2011), regardless of the fund that issued the debt. The General Fund debt service was allocated based on FTE, instead of allocating just the portion of debt for which the Shelter/department was responsible.

RESPONSE:

For clarification, the debt is issued for departments that are part of the General Fund (town-wide support fund) only and not for any other fund. Debt issued for departments such as Information & Technology, General Services, and the various other support departments, would require extensive analysis to determine specific inter-department debt service and thereby be cost prohibitive. Using FTE is a less cost-burdensome mechanism to distribute the debt service effectively. As part of the cost allocation study to be conducted by the independent professional consulting firm, this practice will be reviewed to determine if a more appropriate, cost effective mechanism can be utilized.

See
Note 8
Page 38

OSC has limited the allocation of debt service to capital that is exclusively deemed as Animal Shelter infrastructure (animal patrol vehicles and related equipment). OSC asserts in their finding that debt service allocation other than exclusive animal shelter capital has been inappropriate due to the lack of a

direct relationship between the allocation factor and the benefiting department. Additionally, "It also created a taxpayer inequity when different tax bases were involved."

The Town allocates all debt service to all departments/funds based on its beneficial interest in Town Capital. To suggest that an allocation factor lacking an objective direct relationship (as per OSC) was inappropriate and thereby constituted an inequity between the tax bases, violates the accounting matching principle. Additionally, indirect debt service would be borne exclusively by the General Fund (town-wide support fund) and, thereby, inappropriately not apportioned to the other benefiting departments.

See
Note 9
Page 38

FINDING:

The administrative charges to departments also included other costs such as inter-fund transfers to the capital fund, contractual costs, and employee benefits. Town officials could not provide us with documentation to show that these costs were based on a direct relationship to the department charged. In addition, Town officials do not reconcile and adjust the allocated charges to actual costs incurred for the current year.

RESPONSE:

The documentation presented for examination included; the actual expenses for the year under examination, the actual number of employees for the year under examination, and the completed surveys submitted by the respective departments for the year under examination.

Since the administrative charge is using data from a previous period, the General Fund (town-wide support fund) is actually charging the respective funds on a delayed or lag basis. There is no need to perform a reconciliation since the expenses and cost drivers are actual costs and not budgeted projected costs.

See
Note 10
Page 38

A copy of the most recent survey and calculations used to determine the General Fund (town-wide support fund) administrative charge-backs to each department was provided timely to OSC.

RECOMMENDATION No. 1:

The Board Should take action to ensure that the Shelter's revenues and expenditures are budgeted, accounted for, and reported in the town-wide General Fund, as statutorily required.

RESPONSE:

The Animal Shelter will be accounted for and reported in the General Fund (town-wide support fund) in the Town's next budget.

RECOMMENDATION No. 2:

The Board should determine the extent to which property taxes have been overcharged to town-outside-

village taxpayers and develop a reasonable plan to resolve the taxpayer inequity.

RESPONSE:

The Animal Shelter will be accounted for and reported in the General Fund (town-wide support fund) in the Town's next budget. In addition, in order to ensure taxpayer equity among the various operating funds and tax bases the Town has retained the services of an independent professional consulting firm with expertise in cost allocation plans to review the Town's cost allocation methodology. We await the results of the study and are committed to the implementation of any charge-back allocation methodology that most appropriately apportions costs.

RECOMMENDATION No. 3:

The Town Comptroller should reevaluate the current method of allocating General Fund administrative overhead to other departments and funds. Town officials should develop an allocation plan based on the direct relationships between the various services provided by the General Fund and the actual services received by the benefiting department or fund. If estimates are used when preparing the annual budget, such estimates must be reconciled to the actual cost of services provided.

RESPONSE:

In order to ensure taxpayer equity among the various operating funds and tax bases the Town has retained the services of an independent professional consulting firm with expertise in cost allocation plans to review the Town's cost allocation methodology. We await the results of the study and are committed to the implementation of any charge-back allocation methodology that most appropriately apportions costs.

MANAGEMENT OVERSIGHT

FINDING:

The Shelter's cost of operations was significantly more than Long Island towns' animal shelters costs similar in size. The Shelter's total cost per animal was \$1,916 and \$1,396 more than the Towns of Islip and Brookhaven animal shelters respectively.

RESPONSE:

An intellectually honest analysis of costs of operations among municipal shelters should compare the same set of factors. To consider direct and indirect costs for Hempstead Town's shelter operation and compare them to only direct costs for other municipal shelters is misleading and disingenuous. Specifically, the budget amount utilized by OSC to calculate the cost per animal for care at Hempstead Town's shelter included an administrative chargeback to the shelter from other town departments, which expend effort on behalf of the animal care facility (e.g. the cost of general service department carpenters to perform repairs/construction at the shelter). Conversely, the costs utilized by the OSC for the other two shelters in its report did not include or account for indirect costs.

See
Note 11
Page 39

Additionally, the number of animals processed during 2010 at the Hempstead Town Shelter was 3,498, not 3,140 as stated in the OSC audit report. This factor materially impacts the calculated cost per animal for care. In fact, an equitable cost per animal analysis utilizing only the shelter's direct animal care costs, treating Hempstead and the other two shelter's included in the OSC audit in an "apples to apples" manner, results in a cost per animal amount of \$914 at the Town of Hempstead Shelter.

See
 Note 12
 Page 39

Furthermore, the OSC audit does not distinguish between levels of service, average length of stay, numbers of calls for service, among other factors. Part and parcel of the lack of audit detail on this topic is evidenced in the OSC attributing a health care cost per animal of \$2 for the Town of Islip Animal Shelter. In fact, a \$2 per animal health care cost is not a credible amount on face value. One need only consider the fact that state regulations require all shelters to provide a rabies vaccination for all animals over 4 months of age that are discharged from their facilities. Couple this fact with the cost of the rabies vaccine and a syringe, which total almost \$2 per animal, and the Islip figure must be discounted. Otherwise, one must conclude that Islip performs no other medical treatment (e.g. kennel cough medication, conjunctivitis ointment, inoculations for influenza, heart worm treatment, flea control measures, etc.) According to Islip Town's website, its animal shelter provides 5-in-1 vaccinations, and spay and neuter services for all animals that are adopted. Clearly, the \$2 amount cited in the OSC audit has not captured all medical care costs for Islip's shelter.

See
 Note 13
 Page 39

Hempstead Town's medical costs are reflective of an unparalleled level of animal care. Our shelter provides a 5-in-1 shot (Distemper, Coronavirus, Adenovirus type 2, Parainfluenza, and Parvovirus) for all dogs at the shelter. Every animal adopted out of the pet care facility receives a microchip, and is spayed or neutered. Heartworm testing and treatment and flea control protocols complement respiratory care, treatment for conjunctivitis and panleukopenia, as well as a host of other pro-active health care policies and procedures. In fact, we triage and stabilize all injured animals, hospitalizing injured strays while looking to reunite them with owners.

Contrasting America's largest township with a town that has only 43% of Hempstead's population (Islip's population is 336,000), does a disservice to the audit, especially when the number of calls for service was not factored into the investigation. Hempstead Town has a population greater than four states and the cities of Boston, Denver and Miami (Hempstead Town's population is 760,000). Notwithstanding this fact, the table below contrasts animal care costs at Hempstead Town's Shelter with those of the Town of Brookhaven on an "apples to apples" basis (both shelter's costs represented without indirect costs):

See
 Note 14
 Page 39

	COST OF OPERATIONS *	
	Hempstead	Brookhaven
Total animals processed	3,498	2,292
Total direct costs	\$3,200,000	\$1,668,762
Cost per animal	<u>\$914</u>	<u>\$728</u>
* Costs are net of charge backs or other indirect costs for both townships.		

See
 Note 11
 Page 39

In short, Brookhaven's cost per animal is 80% of Hempstead Town's amount. That being said, Brookhaven Township's population is only 64% of the Town of Hempstead number.

As a municipality with a substantial population, Town of Hempstead Animal Control officers are required to respond to a tremendous number of requests for service. Indeed, our officers respond to 6,000 requests every year, including 500 night emergency calls. Another significant factor that is present in a large municipality is the cost of running a comprehensive Trap-Neuter-Return (TNR) program. Unlike other municipalities, our town actually responds to feral cat colonies, traps animals, returns them to the shelter for spaying/neutering, provides after care and inoculations, as well as flea treatments, before releasing cats back to their habitats.

Furthermore, during the audit period the staff at the Town of Hempstead Animal Shelter included several high-ranking employees who had attained the highest salary levels for their respective positions due to length of service. Most of those senior employees have since retired and been replaced with lower paid employees, thereby lowering the overall cost of operations at the Animal Shelter.

If the OSC audit compared shelter budgets based on the same factors (net cost based analysis for all shelters reviewed), and utilized the correct number of Hempstead Town animals processed for 2010, the findings would have been materially different. Additionally, the cost of service analysis lacks significance when critical factors such as levels of service, average length of stay, and number of calls for service are not considered. Furthermore, relying on cost amounts for other shelters that do not appear credible under the most cursory scrutiny (\$2 per animal medical cost for Islip Shelter), mitigates the value of the finding in cost of service area. Moreover, an "apples to apples" comparison between Hempstead Town and Brookhaven evidences that America's largest township has a positive cost variance over Brookhaven of only 20%. Given the fact that Brookhaven's population is only 64% of Hempstead Town's number, and considering the higher level of service (e.g. comprehensive TNR program) as well as the high number of service calls Hempstead receives, the cost of care at Hempstead Town's shelter compared to Brookhaven is reasonable.

See
Note 12
Page 39

See
Note 13
Page 39

See
Note 14
Page 39

FINDING:

The Town requested proposals from consultants to perform medical emergency, veterinary, and spay and neuter services. After receiving proposals, instead of selecting one qualified vendor, the Town selected multiple vendors for providing the same services.

RESPONSE:

The Animal Shelter must provide essential medical care for animals including, but not limited to, medical emergency, veterinary, and spay and neuter services. As the Shelter is a 24-hour-a-day, 365-day-a-year operation, and does not have a veterinarian on staff, the Town provides these services by contracting with licensed veterinarians. In order to ensure the availability of these services at all times the Town selected multiple qualified licensed veterinarians.

See
Note 15
Page 39

FINDING:

The Town used a vendor to provide animal behavior services without first issuing a request for proposals.

RESPONSE:

Due to a significant increase in demand for services related to the health and well-being of animals housed at the shelter, the Town retained the services of a professional animal behaviorist to evaluate and enhance some of the animals' suitability for adoption. The Town Board wished to move expeditiously and exercised its discretion under state law to procure professional services without soliciting competitive bids or requests for proposals.

FINDING:

Instances of claims submitted by vendors providing health services to animals where supporting documentation was either missing or insufficient to determine the services provided, the claims were not signed by the vendor, or services provided were not part of the contract.

RESPONSE:

In the instances where services provided were not part of the contract, the veterinarian made a professional judgment that the service was medically necessary even though it was not specifically memorialized in the request for proposals. In future contracts the Town will include language to provide for additional services not specifically enumerated in such contracts.

The Town Comptroller has assigned a member of his staff to the Animal Shelter to audit all claims for payment for goods and services rendered to the Shelter before they are submitted to the Town Comptroller. Upon being received in the Town Comptroller's office for processing, the voucher package, including the claim, is audited for accuracy, supporting documentation, and pre-approved appropriate authorization.

FINDING:

The Shelter did not have formal procedures on how to manage, document, approve, and verify overtime worked. The last Board resolution on overtime policy is from 1956 and does not provide sufficient guidance on how to manage and approve overtime.

RESPONSE:

Town officials will review procedures for management of overtime at the Animal Shelter and make recommendations to the Town Board.

FINDING:

There were no formal documented procedures over cash receipt handling and collections and a lack of proper segregation of incompatible duties.

RESPONSE:

The Town has enhanced internal controls and segregated all incompatible duties at the Animal Shelter. In addition, the Town is hiring an accountant with over 35 years of experience, including management of accounting and treasury functions, and lecturing in managerial accounting at the MBA level, to review, revise, and ensure the adequacy of internal controls at the Animal Shelter.

FINDING:

The software used to record the cash receipt activity and transaction details did not restrict the access rights of each clerk. Users had excess access rights that were not based on their job functions.

RESPONSE:

The Town's Department of Information & Technology has completed a thorough review of software user accounts and access rights at the Animal Shelter and has restricted each user's rights based on the individual's job function.

RECOMMENDATION No. 4:

Town officials should evaluate the Shelter's operations and present to the Board a plan to improve the Shelter's cost efficiency.

RESPONSE:

Town officials initiated a review of the Animal Shelter's operations in October 2010. Many procedural changes and staff reassignments have already been implemented in an effort to improve operations at the Shelter. The process is ongoing and Town officials will continue to evaluate the Shelter's operations with a principal focus on cost efficiencies while at the same time maintaining a high level of services.

RECOMMENDATION No. 5:

Town officials should review its contracts with its animal health care providers and consider contract stipulations to differentiate services and times to provide services between the vendors.

RESPONSE:

As the Shelter is a 24-hour-a-day, 365-day-a-year operation, and does not have a veterinarian on staff, the Town provides essential medical care for animals by contracting with licensed veterinarians. In order to ensure the availability of these services at all times the Town has contracts with multiple licensed veterinarians. Town officials will review the Shelter's utilization of medical care providers and make contractual adjustments as warranted.

RECOMMENDATION No. 6:

The Town Comptroller should ensure that all claims for professional services are itemized, services performed are clearly defined, and match contract services and rates.

RESPONSE:

The Town Comptroller has assigned a member of his staff to the Animal Shelter to audit all claims for payment for goods and services rendered to the Shelter before they are submitted to the Town Comptroller. Upon being received in the Town Comptroller's office for processing, the voucher package, including the claim, is audited for accuracy, supporting documentation, and pre-approved appropriate authorization.

RECOMMENDATION No. 7:

The Board should review the questionable payments identified in this report and take appropriate action.

RESPONSE:

All excepted payments noted in OSC's report have been acted upon to better memorialize and justify said services rendered in accordance with contractual intent.

RECOMMENDATION No. 8:

Town officials should adopt a formal overtime policy with detailed procedures to ensure that overtime is preauthorized by the Director. The policy should include guidelines for what reasons overtime will be worked, and how the overtime will be verified.

RESPONSE:

Due to the nature of the Animal Shelter's operations, including night and weekend emergency calls, preauthorization of overtime by the Director is not always practicable. Nevertheless, Town officials will review procedures for management of overtime at the Animal Shelter and, where warranted, make recommendations to the Town Board.

RECOMMENDATION No. 9:

Town officials should implement internal controls to ensure duties over cash receipts are properly segregated, and that cash is collected and reconcilable against all source documentation. Town officials should ensure that access to cash drawers and forms are better restricted.

RESPONSE:

The Town has enhanced internal controls and segregated all incompatible duties at the Animal Shelter. In addition, the Town is hiring an accountant with over 35 years of experience, including management of

accounting and treasury functions, and lecturing in managerial accounting at the MBA level, to review, revise, and ensure the adequacy of internal controls at the Animal Shelter.

RECOMMENDATION No. 10:

Town officials should implement internal controls over software to limit employees' access to only those functions necessary to perform their duties.

RESPONSE:

The Town's Department of Information & Technology has completed a thorough review of software user accounts and access rights at the Animal Shelter and has restricted each user's rights based on the individual's job function.

In closing, we believe that the responses to your findings and recommendations contained in this letter provide sufficient detail regarding the corrective actions that have already been taken, and will be taken, to allow this letter to also serve as our corrective action plan.

Respectfully,

Kevin R. Conroy, CPA
Town Comptroller

cc: Supervisor Kate Murray
Councilman Anthony J. Santino
Councilwoman Angie M. Cullen
Councilwoman Dorothy L. Goosby
Councilman Gary Hudes
Councilman James Darcy
Councilman Edward A. Ambrosino
Town Clerk Mark A. Bonilla
Receiver of Taxes Donald X. Clavin, Jr.
Town Attorney Joseph J. Ra

APPENDIX C

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

The Office of the State Comptroller (OSC) receives thousands of financial statements from various local governments and special governmental units annually for the purpose of compiling and reporting the self-reported financial data to the public and the State Legislature. It is incumbent on the Town to submit financial statements that are accurate and that comply with applicable statutory requirements.

Note 2

Undistributed revenues received by the Town include franchise tax and State aid per capita. These undistributed revenues are legitimate town-outside-village fund revenues. To use legitimate town-outside-village fund revenues to offset the cost of a general fund operation would further exacerbate the taxpayer inequity reported because the tax benefit is shifted from town-outside-village fund residents to town-wide residents.

Note 3

The Town Comptroller's response indicates that "regulatory guidance and cost-accounting authoritative reference materials" were used to develop the administrative charge-back methodology. Since no such material was provided to us during the audit or at the exit conference, we requested that it be made available to us for our review. The Town submitted excerpts of reference material from the following sources:

1. OMB Circular A-87 – Unreferenced excerpts explaining OMB Circular A-87 and its application (Pages 13, 23, 24, and two presentation slides).
2. Fiscal Reference Manual – Volume 4, Chapter 1, New York City Cost Allocation Plan (Pages 1-1 through 1-6).
3. Fiscal Reference Manual – Volume 4, Chapter 4, New York City Cost Allocation Plan (Pages 4-16 through 4-17).
4. OMB Circular A-11 – Part 1, General Information – Executive Office of the President Office of Management and Budget, August 2012 (Pages xxi – xxii, Section 85 pages 1 -7).
5. Limited Financial Review of the Town of Hempstead Department of Water and the East Meadow Water District, Office of the Comptroller, Nassau County.

In developing our own audit plan and audit testing, we reviewed guidance developed by the Office of Management Budget (OMB). OMB Circular A-87 and its implementation guide is the authoritative guidance for allocating direct and indirect costs for services rendered to other funds, departments,

programs, or activities. During our audit, we informed Town officials that we used guidance set forth under OMB Circular A-87 for evaluating the Town's cost allocation plan.

The excerpts from the Fiscal Reference Manual developed by New York City shows that their cost allocation plan incorporates the "concepts, principles, and procedures to implement and operate a sound cost allocation system." It further states that, "This cost allocation system must be in accordance with federal requirements defined in federal Circular A-87 and state requirements defined in Department Regulations 18 NYCRR, Part 602."

OMB Circular A-11 is general guidance for preparing the federal budget and is not relevant to the cost allocation methods promulgated by OMB Circular A-87.

The Limited Financial Review of the Town of Hempstead Department of Water and the East Meadow Water District, issued by the Nassau County Comptroller on October 17, 2007, expresses no opinion on the Town's cost allocation method. However, Town officials asserted on separate cover that, "Discussions regarding Cost Allocation of estimates vs. actual were verbal and were not memorialized in the report."

The cost allocation methods employed by the Town do not reflect the leading practices promulgated by OMB Circular A-87. Nevertheless, the material submitted by the Town for our review confirms that Circular A-87 is the authoritative guidance for developing cost allocation plans, which are the cost allocation principles and guidance employed during our audit.

Note 4

We agree that the "predominance of direct services are a function of labor" and that using the number of full time employees (FTE) as a cost driver may be appropriate in allocating the cost of departmental functions such as personnel and civil service. However, there are other cost drivers that influence how direct costs should be allocated to other funds and departments. For example, a more appropriate cost driver for legal and information technology (IT) services would be the number of direct service hours devoted to a particular fund or department, while the cost driver for the accounts payable function would be the number of vouchers processed or the number of checks issued for a particular fund or department, and the number of payroll checks issued would be the cost driver for payroll services rendered to other funds or departments. Using cost drivers objectively, based on the average cost of units processed, best matches the cost of services provided to the value of benefits received by a fund or department. Applying the FTE method for allocating costs, regardless of the quantity of service provided to individual funds or departments, creates cost inequities. When using this method, funds or departments with a higher FTE count will bear a greater burden than those with lower FTEs irrespective of whether any services were provided or whether the fund or department with lower FTEs received more direct services than the one with higher FTEs.

Note 5

Elected and appointed officials have a fiduciary responsibility to develop cost allocation methods that are equitable, using leading practices and reasonable cost allocation methods such as those promulgated by OMB Circular A-87 as explained under Note 3 and Note 4. While we commend Town officials for being mindful of being cost efficient when providing services to the departments and

funds they service, and to taxpayers, cost efficiency alone is not a reasonable substitute for taxpayer equity. Town management has the talent and tools to develop an equitable cost allocation method that is based on reasonable cost drivers, by modifying existing financial databases to allow the allocation of shareable costs based on frequency of related transactions. Without an appropriate comparative analysis, the Town's assertion that the "net difference" between the FTE method and the leading methods promulgated by OMB Circular A-87 is "projected to be immaterial" is speculative.

Note 6

There is no provision in law that allows the Town to contractually charge villages for Shelter activities other than by property taxes.

Note 7

The purpose of an independent audit is to render an opinion on whether the financial statements present fairly, in all material respects, the financial position of governmental activities of the Town as a whole in accordance with generally accepted accounting principles. It is not, however, a validation that the administrative cost allocation method used by the Town is a generally accepted method or a confirmation that the current method equitably calculates and allocates the cost of services provided to other funds. The Nassau County Comptroller conducted a Limited Financial Review of the Town of Hempstead Department of Water and the East Meadow Water District, issued on October 17, 2007. This report expresses no opinion on the Town's cost allocation method (See Note 3).

Note 8

The Town's assertion that any method of allocating debt service costs, other than FTE, would be "cost-burdensome" or "cost prohibitive" is without merit. Each bond prospectus contains detailed lists of the aggregated debt and the individual purposes for which bonds were issued. Local Finance Law requires the Town to use bond proceeds for the object or purpose for which the bonds were issued. Therefore, allocating debt service to departments using the FTE method regardless of whether the departments benefited from the debt is not equitable because the allocated costs may not match the benefit received.

Note 9

The matching principle is a fundamental concept under Generally Accepted Accounting Principles (GAAP). In governmental funds, expenditures incurred are matched against revenues earned and recognized in the same accounting period based on a cause-and-effect relationship. Therefore, the Town's assertion that using a method more equitable than FTE to allocate debt service costs would violate the matching principle is inaccurate.

Note 10

Regardless of whether the Town uses prior year actual data or current year adopted budget data, the FTE cost allocation method does not equitably capture the cost of services provided to other departments or funds. In addition, using prior year data without an adjustment to reflect the cost

of current services violates the matching principal because current expenditures are not charged or matched against current revenues.

Note 11

Since Brookhaven and Islip correctly accounted for their animal shelters in the general fund, they did not allocate indirect costs to their animal shelters. As stated in our report, when administrative chargebacks are excluded, Hempstead's total cost per animal is reduced from \$1,907 to \$908. However, this is still significantly higher than the cost per animal at Brookhaven and Islip.

Note 12

During our field work, Town officials provided us with a computer generated report documenting the processing of 3,140 animals for the 2010 fiscal year, which we used in our calculation of cost per animal. We asked the Town Comptroller to provide us with supporting documentation for the 3,498 animals processed during 2010 as indicated in their response. The revised report included a previously omitted category related to animals turned over for adoption, representing a total of 232 cats and 126 dogs. We have revised our report to reflect the number of animals processed, as provided in the Town's response, as the basis for comparing costs per animal between towns.

Note 13

Our initial draft report inadvertently excluded the cost of medical supplies from the health care costs for Brookhaven and Islip. We have revised the report accordingly. The revised health care cost per animal for Islip is \$7 instead of \$2, which is still significantly less than Hempstead's \$42 health care cost per animal.

Note 14

Population is best used to benchmark higher level indicators such as debt or tax per capita rather than benchmarking a service oriented department where the main objective is the protection of animals. Therefore, the number of animals processed by the Shelter is the only common denominator that can be used for comparative purposes. While Brookhaven and Islip may have human populations significantly smaller than that of Hempstead, the shelters in those towns still processed a comparable number of animals. It is also essential that other common characteristics are evaluated when selecting and comparing shelters' operations such as: common laws and regulations, geographic and climatic considerations, and other regional and economic factors that impact the shelters' operations.

Note 15

The Town does not recognize that using all vendors that responded to the bid, as opposed to the lowest cost vendor, results in higher costs to the Town. At a minimum, the Town should always contact multiple possible vendors in the order of their bid costs.

APPENDIX D

AUDIT METHODOLOGY AND STANDARDS

During the initial assessment, we interviewed appropriate Town officials and Shelter staff, performed limited tests of transactions, and requested pertinent documents, such as policies and procedures. We reviewed Board minutes, financial records, and reports. In addition, we reviewed the internal controls over financial operations and information technology.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and decided on the reported objective and scope by selecting for audit those areas most at risk. We determined that the areas of taxpayer equity and financial operations had the most risk. The steps that we took to accomplish our audit objective included the following:

- We interviewed management and staff involved with the Shelter's financial operations to gain a better understanding over accounting, budgeting, and internal controls over the financial operations.
- We evaluated the Town's allocation of administrative costs to the Animal Shelter using such guidance as the Office of Management and Budget (OMB) Circular A-87: Cost Principles for State, Local, and Indian Tribal Governments¹⁸ and its corresponding Implementation Guide to identify leading practices for allocating overhead across multiple funds and departments. We also used as guidance a performance audit conducted by the State of Washington that used OMB Circular A-87 to examine whether local governments allocated overhead costs in accordance with leading practices.¹⁹
- We reviewed the documented administrative charges book to help further understand and re-perform certain steps in the process.
- We examined adopted budgets, budget-to-actual reports, and financial statements to understand and assess how the Shelter accounted for its operations.
- We examined user access to the software and evaluated various controls designed to ensure data integrity, including user access lists.
- We judgmentally selected every other employee out of 15 employees who had earned the most overtime hours during our audit period for our sample selection. We used every seventh month in our 21-month audit period for our sample test months. We traced from the payroll registers, to the bi-weekly work calendars, to the overtime slips, and to the hand scanner time in and time out reports.

¹⁸ Office of Management and Budget, *Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments* (2004). http://www.whitehouse.gov/omb/circulars_a087_2004

¹⁹ Washington State Auditor, *State Auditor's Office Performance Audit: Local Government Allocating Overhead Costs*, Report No. 1006136 (2011). <http://www.sao.wa.gov/auditreports/auditreports/ar1006136.pdf>

- We judgmentally chose the highest and lowest months of recorded revenue during our audit period for our test sample. Once selected, we traced from the cash register tapes, to the receipt forms, to the software activity reports, and to the deposit slips.
- We examined the supporting claims, invoices, and canceled checks for all eight payments in the cash disbursements journal containing the description “Tails of Hope.”
- We reviewed written proposals, contracts, invoices, claim vouchers, canceled checks, and other cash disbursement supporting documentation for professional services vendors providing animal health services during our audit period. Our sample was judgmentally selected and included the highest paid vendors during both years in our audit period, and two vendors that we noticed had a large increase in 2011. We then selected our payment sample based on every other payment made to the selected vendor.
- We reviewed animal acquisition and animal disposition reports for our comparison of operational activity of other towns.
- We surveyed other towns located on Long Island regarding the operating costs and revenues of their animal shelters.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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