

**Nassau County Comptroller's
Audit Advisory Committee
2006 Annual Report**

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Executive Summary:

The Nassau County Comptroller's Audit Advisory Committee was established by Comptroller Howard S. Weitzman in 2003 to provide outside advice and oversight for the county's financial and auditing operations. Of the committee's seven members, two are government officials and five are county residents experienced in financial matters.

In 2006 the sub-committee on Financial Controls reviewed county financial control processes and the corrective measures that the county was taking to improve those processes. The sub-committee on the Nassau Health Care Corporation reviewed the performance of the Nassau University Medical Center (NUMC).

The full committee reviewed county departmental internal controls and documentation of county procedures and processes. The committee regularly reviewed and monitored the status of the Comptroller's Office's annual audit plan. Audit reports issued by the Comptroller's Office were provided to the committee members for review and discussion. The committee also met with current and new key members of the administration, including Thomas Stokes, Deputy County Executive for Management, Budget and Finance, and County Treasurer Steven D. Conkling. In October of 2006 the committee met with Deputy County Executive Helena E. Williams and Tricia Ferrell, Director of Compliance, to discuss the status of the administration's internal control initiatives.

The committee also continued to review and monitor key county developments and issues, including:

- sales tax compliance;
- status of tax certiorari claims;
- the county's annual budget;
- status of the annual audit conducted by Deloitte & Touche, LLC.

Additional areas of interest for the committee in 2006 included special districts, with Comptroller Weitzman keeping the committee updated on the status of the audits the Comptroller's Office had conducted on a number of sanitary and water districts. County employee and retiree health care costs are also an area of concern for the committee members, and they have begun to perform a county health care costs analysis. Committee members intend to meet with county officials regarding this issue and will prepare a report of their findings and recommendations.

In October of 2006 Lee E. Launer, who recently retired as a partner in the firm of Price Waterhouse Coopers joined the committee, filling a vacancy as one of the five community/business/financial leaders who are independent of the county and local governments. Due to changes in job position or responsibilities, Manuel Mosquera and Martha Herrera Wong, the Comptroller's and County Executive's designees, left the committee in 2006 and were succeeded by Deputy Comptroller for Audit and Special Projects Aline Khatchadourian and Deputy Director of Management Initiatives Ana Sousa.

Background and Purpose:

The Nassau County Comptroller's Audit Advisory Committee (Committee) was established to assist in the monitoring of Nassau County's finances, its financial statements and the review of those financial statements by the county's outside auditors. In addition, the committee advises the Comptroller concerning audits performed by his office.

The committee assists in monitoring the independent audit of the county's financial statements, from the selection of the independent auditor to providing advice on the resolution of audit findings. The committee examines the appropriateness of the outside audit's scope, the preparation of the annual financial statements, the audit results and the assessment of the adequacy of internal controls by both the administration and the auditors. In addition, the committee reviews and comments on the Comptroller's internal audit plan, audits prepared pursuant to that plan, agency responses, and county control directives and procedures. Additionally, when appropriate, the committee will periodically conduct special projects.

Committee Composition:

The Committee is composed of seven members:

- County Executive or designee
- County Comptroller or designee
- Five experienced county community/business/financial leaders selected by the Comptroller who are independent of the county and local governments. One of the five non-county members is chosen to serve as committee chairperson.

Committee members are:

H. Richard Grafer: A retired Partner and Managing Director of Arthur Andersen, LLP, is sole owner and Managing Member of Pathway Investments, LLC, a venture capital firm investing in companies with a social mission.

Aline Khatchadourian: Nassau County's Deputy Comptroller for Audit and Special Projects (serving as designee of the County Comptroller). Joined Committee July 13, 2006.

Ralph S. Polimeni: Vice Provost at Hofstra University, where he also holds the Chaykin Endowed Chair in Accounting. Mr. Polimeni is currently the Chairperson of the Committee.

Terence E. Smolev: Partner in charge of tax, trusts and estates with the law firm of Forchelli, Curto, Schwartz, Mineo, Carlino & Cohn, LLP. Mr. Smolev is currently the Vice Chairperson of the Committee.

Robert Andrew Wild: Chairman and Managing Partner of Garfunkel, Wild & Travis, P.C., a law firm specializing in healthcare.

Lee E. Launer: Retired partner of PriceWaterhouseCoopers (Joined Committee October 5, 2006)

Ana Sousa: Deputy Director of Management Initiatives, Nassau County Office of Management and Budget (serving as designee of the County Executive.) Joined Committee October 5, 2006.

In addition, the County Comptroller and a partner of Deloitte & Touche, the County's current outside audit firm, attend every Committee meeting.

Service on the committee is pro-bono. County officials serving on the committee do not receive compensation in addition to their regular salaries. Outside members of the Committee serve staggered terms so as to ensure continuity and stability.

The Year in Review:

In its third full year, the committee continued its examination of county internal control policies and procedures, and monitored the administration's ongoing efforts to develop uniform departmental procedures and to identify and correct internal control weaknesses. The committee continued to review the county's progress in addressing other matters of concern, such as the county's financial position and budget, the status of tax certiorari payments, and the financial condition of the Nassau Health Care Corporation. The committee took an active role in reviewing and commenting on the Comptroller's annual audit plan, reviewed the audit reports issued by the Comptroller's Office, and received regular updates on the status of major audits in progress. State sales taxes continued to be an area for research and review of procedures, and the committee developed a report titled Matters to Consider in the Collection of Sales Taxes from Service Trade Vendors and Cash-Oriented Retailers in Nassau County to address this area.

The Sub-committee on Financial Controls

The sub-committee focused primarily on two subjects during the year---the countywide Internal Control Review Program and sales tax compliance. In this connection, the sub-committee held two meetings but also communicated regularly between meetings and with the county Office of Compliance.

With respect to the Internal Control Review Program, the sub-committee expressed concern during the year that the focus of the Office of Compliance on this program was being diluted somewhat by other priorities established for it by the County Executive. In a meeting with the full Nassau County Audit Advisory Committee, Deputy County Executive Helena Williams assured the committee that this was not the case and provided a number of examples to prove her point. In particular, she summarized a number of activities undertaken by the Office of Compliance to improve internal controls in specific high-risk areas, including countywide procurement policies and procedures, travel policies, cash controls at the Departments of Parks, Recreation and Museum Services and Traffic and Parking Violations Bureau and Assessment Review Commission procedures. (Note: Sub-committee members read the training material used for the countywide procurement training and found it to be quite user-friendly).

Ms. Williams acknowledged that the primary approach of utilizing internal control committees within each department had changed somewhat during the year. Although departmental internal control committees are still deemed to be very important to improving internal controls, the Office of Compliance recognized during the year that it could not place too much reliance on such committees. Instead, it decided to use a "train the trainer" approach in which it would provide training to the members of the departmental committees on critical issues as well as developing overall policies and guidelines for them to implement in their own departments. The Office of Compliance will also engage the outside internal control contractor, RFM McGladrey, to assist and support such departmental committee members in the development and implementation of specific policies and procedures in their own departments as well as to perform internal control "gap analysis" where such help is warranted.

Sub-committee members believe this approach is workable. However, they are also concerned that momentum at the departmental level could be lost if regular communication with such departmental committee members does not take place and/or if needed assistance in identifying weaknesses, developing appropriate control procedures and documenting such procedures is not provided. Ms. Williams assured sub-committee and full committee members that such support will be provided.

The sub-committee also discussed with the Office of Compliance its continuing concern that review and approval procedures related to claims were not always being completed with an appropriate level of diligence at the departmental level. This concern resulted from some information the sub-committee obtained in the prior year from the Comptroller's Vendor Claims section ("CVC") concerning the types of "exceptions" it detects in the final processing of such claims before payment. Ms. Williams responded to this concern by suggesting that the Office of the Comptroller and the Office of Compliance needed to cooperate in this area. The Office of Compliance could develop appropriate training while the Office of the Comptroller could include detailed tests of this area during its departmental audits to identify specific problem areas and/or departments in need of improvement. The sub-committee agreed with this approach and recommended to the Deputy Comptroller of Audit that this subject be included in its 2007 audit plan.

It was also noted during these discussions that the County Deputy Director of Management Initiatives has been given the responsibility to assure that appropriate Corrective Action Plans are developed by the departments as a result of audit recommendations and that such plans are implemented effectively and on a timely basis. The sub-committee had expressed concern in the prior year that this was not happening and was pleased to see that the County Executive had acted upon its concern.

Ms. Williams thanked the sub-committee and committee members for their input and the broader view they are able to provide. She also stated that she looked forward to working with the Office of the Comptroller, particularly in identifying weaknesses in internal control that both offices could jointly address. The committee strongly recommended that such cooperation take place. The sub-committee also stated that it would follow-up again next year with the Office of Compliance for a further update on the Internal Control Review Program.

The Sub-Committee on the Nassau Health Care Corporation

In January of 2006 the sub-committee met with Nassau Health Care Corporation (NHCC) officials to discuss the financial position of the corporation and its projected loss for 2005. During the course of the year Comptroller Weitzman provided the full committee with updates on the financial status of the NHCC at each committee meeting. Highlights included:

1. In April Comptroller Weitzman advised the committee that changes in the NHCC's financial operations must occur if it is to remain solvent. The 2006 loss at the Nassau University Medical Center (NUMC) was estimated at \$20 to \$25 million.
2. In 2006, the county refinanced its share of the historic settlement with tobacco companies, resulting in up to \$98 million of monies which could be used, with the consent of the Legislature, to provide subsidies to the NHCC.

3. The NHCC was required to submit a 3-5 year strategic plan to the county legislature, to ensure its long term fiscal viability, before county financial assistance would be provided.
4. The New York State Department of Health has approved a \$6 million initiative for nursing home reimbursement for the NHCC.

The Comptroller's Office regularly monitored the financial condition of the NHCC, issuing a number of cash reports in 2006, which were forwarded to committee members for review. Comptroller Weitzman advised the committee that because of Medicaid restructuring by the federal government, the NHCC had "breathing room" to develop a realistic operating plan. In July the NHCC had received a much needed cash flow of \$35 million in reimbursement funds from the state and federal government. At the close of 2006 the committee planned to schedule a meeting with NHCC officials to review the status of its strategic plan.

Nassau County Treasurer

The committee continued to monitor the Nassau County Treasurer's Office's progress in developing written policies and procedures, providing training to staff, and modernizing its recordkeeping. County Treasurer Steven D. Conkling attended the committee's October 2006 meeting to provide an update. Mr. Conkling provided the committee with details on the areas he has focused on at the Treasurer's Office since his appointment:

1. Establishing a better relationship with the Comptroller's Office, including providing financial information more quickly and accurately.
2. Participating in the county-wide initiative of documenting policies and procedures.
3. Working to improve overall efficiency, by reducing reliance on manual ledgers for receipts and disbursements.
4. Establishing e-banking.
5. Staff morale and training. The Treasurer's Office's employees have participated in EXCEL and Nassau Integrated Financial System (NIFS) training.

Other areas of concern the Treasurer is addressing include the Treasurer's Office's reliance on Public Financial Management (PFM), an outside advisor, for debt management. The Treasurer's goal is to fully transition this work to department employees by the end of the year. The Treasurer indicated that the department's goal is to convert to electronic funds transfer for all checks, instead of issuing manual checks. The 2007 budget has a 50% electronic funds transfer goal for vendors. The Treasurer's Office is also working on banking initiatives, such as electronic bank reconciliations, while ensuring that adequate internal controls are maintained.

Special Districts

There are more than 200 special tax districts in Nassau County that collect \$473 million per year in property taxes. Beginning in 2005, the Comptroller's Office performed audits of a number of sanitary and water districts in Nassau County. Instances of waste, inefficiencies, and lack of oversight were noted in several of these audits. In June of 2006 a groundbreaking conference to discuss the county's special districts was organized by Comptroller Weitzman and a bi-partisan group of officials. The purpose of the conference was to discuss ways to improve the efficiency and accountability of the special districts, with an eye toward saving taxpayer dollars.

On December 13, 2006 Comptroller Weitzman issued a report of cost savings ideas for special districts in Nassau County. Special districts can reduce their health insurance costs by participating in the New York State Health Insurance Program (NYSHIP). While Nassau County and the towns self-insure for many liability risks, special districts often purchase commercial insurance, which can be costly and result in commissions to brokers. Special districts should explore setting up a self-insurance program in conjunction with the towns and the county, or as an alternative, participating in the New York Municipal Insurance Reciprocal, which could offer lower rates and eliminate the need to pay commissions or fees. The report included recommendations for legislative changes, and noted the need for more transparency in reporting, and for the education of special district commissioners.

Tax Certiorari Claims

In April Comptroller Weitzman reported that the county's backlog of property tax refunds, which had been more than \$400 million a few years ago, had been reduced to \$131 million as of year-end 2005. Comptroller Weitzman noted that Newsday acknowledged in an editorial that the county had made a major achievement in its administration of tax certiorari claims. Causes of the improvement included accelerated payments, transitional tax assessments on commercial property, and more accurate real property assessments. Mr. Weitzman cited this as the "biggest story" in the county's year end financial results for 2005. Deputy County Executive Stokes noted that Moody's had upgraded the county's ranking from "stable outlook" to "positive outlook" based on their recognition of the county's success in reducing tax certiorari claims.

Accounting Issues

- Deputy County Comptroller Randolph Ghisone advised the committee that the Nassau Integrated Financial System (NIFS), the county's accounting system, may be replaced. He noted that the number of governmental users of the system is declining, and that the company which supports the system has encountered financial problems. The Comptroller's Office is monitoring the situation closely.
- The county is preparing for the implementation of Governmental Accounting Standards Board Statement No. 45 (GASB 45), Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. The statement is effective for the county for periods beginning after December 15, 2006.

County's Financial Position

In April of 2006 Comptroller Weitzman reported that there were no surprises for the 2005 year-end close. The county ended its 2005 fiscal year with a surplus of \$78.5 million, its fourth annual budget surplus since 2002. A hiring freeze and a purchasing freeze were in effect for the county.

On October 13, 2006 Comptroller Weitzman testified before the County Legislature regarding the county's proposed 2007 budget. He advised the committee members that although balanced, the budget included revenues and cost savings that might not be realized, and therefore carried

significant risks. The proposed budget represented a change in the administration's philosophy, in that they had budgeted conservatively in prior years, which resulted in the build up of a surplus. In contrast, the 2007 proposed budget is an aggressive budget, with \$40 to \$60 million of revenue and expenditure "risk" items noted in the \$2.5 billion budget. Sales tax revenues comprise approximately 40% of total county revenue, and the administration has projected a 3.4% revenue increase for 2007. Since it is impossible to know or control the amount sales tax receipts will actually be, sound budget practice dictates conservative forecasts, making this an area of risk for the budget.

Internal Audit

The committee monitored the progress of the Comptroller's Office 2006 audit plan throughout the year. Updates on the status of a number of audits in progress, including the Cradle of Aviation Museum and the Nassau County Clerk's Office, were provided to the committee regularly. Final audit reports and letters were distributed to all committee members for review. The status of various Corrective Action Plans (CAP's) issued by the Comptroller's Office were reviewed during the year. Ana Sousa, who joined the committee in October 2006 as the County Executive's designee, oversees CAP compliance for the county's administration, which will assist the committee's monitoring efforts going forward.

Comptroller Weitzman advised the committee that the Comptroller's Office intends to implement an audit management system (paperless audit program) in the near future.

In December of 2006 they reviewed the draft audit plan for 2007, which was presented by Deputy Comptroller for Audit and Special Projects Aline Khatchadourian. The 2007 audit plan includes for the first time a three year roll-out for review on a county-wide basis of time and leave practices and processes for receiving and payment, including review and approval of claim vouchers. In addition, the 2007 audit plan will include audits of non-profit agencies that have multiple contracts with the county. Comptroller Weitzman advised the committee members in December that the Comptroller's Office was considering requiring representation letters from outside agencies. He also noted that the Comptroller's Office could consider requiring that non-profit agencies have an audit committee, or an independent oversight function, although this could be difficult for smaller agencies to implement. Two of the committee members have agreed to act as liaisons between the Comptroller's Office and the affected outside agencies as these initiatives get underway.

External Audit and Management Letter

Several members of the Comptroller's Field Audit staff assist Deloitte & Touche LLP with the annual single audit. The committee members discussed the single audit process with Robert Rooney, the Deloitte Director who regularly attends committee meetings. Through the course of the year, Mr. Rooney provided the committee with updates on the status of the county's annual audit and on the issuance of the county's Comprehensive Annual Financial Report (CAFR). In July of 2006 Mr. Rooney provided the committee with an update on the year end audit. Deloitte audited the financial statements of the county for the year ended December 31, 2005 and issued

its report dated June 27, 2006. There were no material weaknesses or misstatements per the audit.

In December the committee discussed the annual audit for 2006 with Inna Reznick, Manager, Deloitte & Touche, LLP. Ms. Reznick advised the members that Deloitte had performed control testing, including the county's payroll and budget, and would be performing detailed testing in January of 2007. The committee will continue to invite a representative of Deloitte to each meeting in order to monitor the status of the annual audit.

County Administration, Personnel and Health Benefits

The committee requested regular updates on personnel changes within the county's administration. When Deputy County Executive Arthur Gianelli, a frequent guest at committee meetings, transferred to the Nassau Health Care Corporation, the committee welcomed Thomas Stokes, who succeeded Mr. Gianelli as Deputy County Executive for Management, Budget and Finance. The committee met with Mr. Stokes in April of 2006. Mr. Stokes detailed his role in the county's Health and Human Services (HHS) vertical's establishment of the county's "No Wrong Door" policy and the development of an integrated case management system. He described the recent relocation of the county's HHS related departments to a single building, and explained how the new linkages and connectivity between the departments led to better treatment of their clients. The changes reduced inefficiencies, by eliminating duplicate purchasing, accounting, and information technology staff and services. Mr. Stokes reported that he was currently working on discharge planning, linking HHS with the Correctional Center and Probation Department.

The county's contract with the Police Benevolent Association (PBA) expires at the end of 2006. Talks with the Civil Service Employees Association (CSEA) for a contract extension have begun (their contract expires at the end of 2007). The Police Commissioner is working to limit overtime at the Police Department, and both the Police Department and the Correctional Center are working on operational changes and increased civilianization.

Comptroller Weitzman advised the committee in July 2006 that the county is considering a new Human Resources system to more efficiently address time capturing.

Lee Launer has volunteered to work with the committee on a county health care costs analysis. The \$225 million annual cost of health benefits for county employees and retirees comprises 8% of the county's over-all budget. The committee members intend to meet with county officials and prepare a report of their findings and recommendations.

State Sales Taxes

The Financial Controls sub-committee continued to research sales tax compliance, which was initially reviewed in 2005. The sub-committee and full committee held a joint conference call with the New York State Nassau County Sales Tax Audit group in which the group discussed the procedures it uses to audit non-compliance, particularly in cash-oriented retail and service industries. Committee members concluded that the procedures used seemed adequate to identify

non-filers and non-compliers. However, it appears that the group is not staffed to its authorized capacity and even at its authorized capacity it may not be achieving a desirable level of coverage. Consequently, at the audit group's request, the sub-committee developed a list of ideas whose implementation might solve this problem. The committee requested that Comptroller Weitzman provide this document or a summary thereof to the appropriate authorities within the state government for the purpose of getting the authorized manpower assigned to the Nassau County Sales Tax Audit group and/or increasing the manpower authorized.

Conclusion:

The committee is advised of major financial issues facing the county, and the administration continues to provide the committee with access to county employees and financial information. During the following year, the committee intends to follow-up on issues already reviewed, as well as monitoring new matters that may occur. In particular, the committee notes the importance of implementing strong internal controls throughout the county, especially at the departmental level, and committee members will continue to provide oversight and advice as the county's initiative to improve internal controls proceeds.

EXHIBIT I

Mission Statement Nassau County Comptroller's Audit Advisory Committee

The Nassau County Comptroller's Audit Advisory Committee was established to answer the call to assist in the monitoring of Nassau County's financial integrity. Its mission is to assist in the monitoring of the independent audit of the county's financial statements from the selection of the independent auditor to the resolution of audit findings. Specifically, the committee will assist in monitoring the following: selection of the outside, independent auditors; the appropriateness of the scope of the outside audit; the preparation of the annual financial statements; the results of the audit; and the assessment of the adequacy of internal controls by both the administration and the auditors. The committee will have a similar responsibility to assist in monitoring the establishment of the internal audit plan and reviewing the results thereof. Periodically, it will participate in special projects; review special district audits filed annually with the Comptroller; and review audits of county agencies prepared by the Comptroller, agency responses to those reports, and county control directives and procedures. This committee will review the process that exists for providing that the county's financial statements and audits are in compliance with the pronouncements of the Government Auditing Standards Board (GASB). It is committed to upholding continued excellence in Nassau County Government.