

**TOWN OF RIVERHEAD**

**SINGLE AUDIT REPORTS**

Year Ended December 31, 2007

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**TOWN OF RIVERHEAD**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ended December 31, 2007

| <u>Federal Agency/Pass-through Grantor/<br/>Program Title</u>   | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass<br/>Through<br/>Identifying<br/>Number</u> | <u>Federal<br/>Expenditures</u> |
|---|------------------------------------|--|---------------------------------|
| U.S. Department of Housing and Urban Development:<br>Pass-through Program from:<br>Suffolk County, New York |                                    |  |                                 |
|   |                                    | B05-UC-36-0102                                     |                                 |
|   |                                    | B06-UC-36-0102                                     |                                 |
| Community Development Block Grant Program   | 14.218                             | B07-UC-36-0103                                     | <u>\$ 144,459</u>               |
| U.S. Department of Justice:<br>Direct Program:  |                                    |  |                                 |
| Public Safety Partnership and<br>Community Policing Grants  | 16.710                             |  | 2,888                           |
| Pass-through Program From:<br>New York State  |                                    |  |                                 |
| Edward Byrne Memorial Formula Grant Program   | 16.579                             | T902830  | <u>5,629</u>                    |
| Total U.S. Department of Justice  |                                    |  | <u>8,517</u>                    |
| U.S. Department of Transportation:<br>Pass-through Program From:<br>New York State                          |                                    |  |                                 |
| Highway Planning and Construction   | 20.205                             | D030054  | 437,130                         |
| State and Community Highway Grant   | 20.600                             | PT-5255081   | 10,805                          |
| Safety Incentive Grants for Use of Seatbelts  | 20.604                             | PT-5355052   | <u>9,004</u>                    |
| Total U.S. Department of Transportation   |                                    |  | <u>456,939</u>                  |
| U.S. Department of Health and Human Services:<br>Pass-through Program From:<br>Suffolk County, New York     |                                    |  |                                 |
| Special Programs for the Aging- Title III, Part B-  |                                    |  |                                 |
|   |                                    | SCS07000009963                                     |                                 |
| Grants for Supportive Services and Senior Centers   | 93.044                             | SCS06000009383                                     | 25,493                          |
| Nutrition Services Assistance Programs  | 93.053                             | SCS00000001865                                     | <u>25,435</u>                   |
| Total U.S. Department of Health and Human Services  |                                    |  | <u>50,928</u>                   |
| U.S. Department of Homeland Security:<br>Pass-through Program From:<br>New York State                       |                                    |  |                                 |
| Disaster Grants- Public Assistance  | 97.036                             | 1692 DRNY  | 10,519                          |
| Buffer Zone Protection Plan Grant   | 97.078                             | C154356  | <u>49,984</u>                   |
| Total U.S. Department of Homeland Security  |                                    |  | <u>60,503</u>                   |
| Total Expenditures of Federal Awards  |                                    |  | <u><u>\$ 721,346</u></u>        |

See accompanying note to the schedule of expenditures of federal awards.

**TOWN OF RIVERHEAD**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended December 31, 2007

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Riverhead and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Supervisor and Town Board  
Town of Riverhead  
Riverhead, New York

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Riverhead, New York as of and for the year ended December 31, 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We did not audit the financial statements of the Town of Riverhead Industrial Development Agency, the discretely presented component unit, as described in our report on the Town of Riverhead, New York's basic financial statements. These financial statements were audited by another auditor whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for the Town of Riverhead Industrial Development Agency, is based solely on the report of the other auditor.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Riverhead, New York's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Riverhead, New York's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Riverhead, New York's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

PERSONAL SERVICE. TRUSTED ADVICE.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Riverhead, New York's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Riverhead, New York's financial statements that is more than inconsequential will not be prevented or detected by the Town of Riverhead, New York's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs 2007-01 through 2007-17 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Riverhead, New York's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we considered 2007-01, 2007-03, 2007-05 through 2007-09, 2007-11 and 2007-14 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Riverhead, New York's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We also noted certain other matters that we reported to management of the Town of Riverhead, New York in a separated letter dated December 30, 2009.

The Town of Riverhead, New York's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Town of Riverhead, New York's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town Board, management, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than specified parties.

Albert Vignino, Zamboni & Company P.C.

Hauppauge, New York  
December 30, 2009



REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Supervisor and Town Board  
Town of Riverhead  
Riverhead, New York

Compliance

We have audited the compliance of the Town of Riverhead, New York with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. The Town of Riverhead, New York's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Riverhead, New York's management. Our responsibility is to express an opinion on the Town of Riverhead, New York's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Riverhead, New York's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Riverhead, New York's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

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### Internal Controls Over Compliance

The management of the Town of Riverhead, New York is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Riverhead, New York's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Riverhead, New York's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Riverhead, New York as of and for the year ended December 31, 2007, and have issued our report thereon dated December 30, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise of the Town of Riverhead, New York's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Town Board, management, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than specified parties.

*Albert Vignier, CPA : Copy P.C.*

Hauppauge, New York  
December 30, 2009

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Town of Riverhead, New York.
2. There are seventeen significant deficiencies relating to the audit of the financial statements reported in the "REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS". Nine of the deficiencies are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the Town of Riverhead, New York which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There are no significant deficiencies relating to the audit of the major federal award program reported in the "REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133".
5. The auditors' report on compliance for the major federal awards program for the Town of Riverhead, New York expresses an unqualified opinion on the major federal program.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program includes:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
| 20.205             | Highway Planning and Construction Program |

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Riverhead, New York was not determined to be a low-risk auditee.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

**2007-01 BANK RECONCILIATIONS, RECONCILING ITEMS AND OTHER CASH ITEMS –  
Material Weakness**

Criteria

Bank reconciliations should be prepared monthly; the general ledger balance should be reconciled to the bank balances; and all old outstanding checks should be investigated.

Condition

During our audit of cash we noted the following:

- 1) Bank reconciliations prepared by outside departments (i.e. Receiver of Taxes, Town Clerk, Justice Court, and Recreation Department) are not always properly reconciled and the cash book balances are not always properly recorded on the Town's books and records:
  - a. The Receiver of Taxes office does not maintain cash balances on a general ledger system and is not reconciling the monthly bank reconciliations to the manual records (currently maintained on an excel spreadsheet). The current reconciliation is a listing of daily cash receipts that agrees to the bank balance, without taking reconciling items into account.
  - b. The Town Clerk's bank reconciliations are not being prepared for all accounts.
  - c. The Justice Court's bank reconciliations do not accurately reflect outstanding checks or deposits in transit for the Justice Court cash accounts, with the exception of the bail account.
  - d. The Town's Accounting Department does not receive or routinely review the outside department's monthly bank reconciliations.
  - e. Based on the Town's verbal procedures, the Town's outside cash collecting departments are required to transfer all cash and checks on hand to the Accounting Department or Town Supervisor at year end, to ensure proper accounting and reporting of cash. This procedure was not followed for the 2007 year end, which led to a \$35,000,000 adjustment to the Town's books.
- 2) The Town does not have proper cutoff procedures related to cash balances. We noted that several cash receipts were received well after the 2007 year end; however, they were incorrectly back dated as deposits in transit at year end, when in fact, the Town did not have access to this cash until the next period (2008) and should have been recorded as an accounts receivable at year end.
- 3) Bank reconciliations were not being properly prepared and reconciled for several cash accounts in the Accounting Department, including the THCP money market and various Town clearing accounts.
- 4) Interest earned on Town Clerk's cash account was not remitted back to the General Fund on a timely basis.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-01 BANK RECONCILIATIONS, RECONCILING ITEMS AND OTHER CASH ITEMS –  
Material Weakness (continued)**

Effect

There is a potential for cash to be misstated in a particular reporting period.

Recommendation

Bank reconciliations must include all reconciling items and be prepared on a monthly basis for all cash accounts maintained by the Town, including those held in the outside departments. In addition, all bank reconciliations should agree to the general ledger as of month-end and year-end and all necessary entries must be posted to the Town's books. To aid in the preparation of bank reconciliations and to reflect an accurate cash balance on the Town's books, all checks outstanding more than six months old should be investigated and disposed of in accordance with NYS Comptroller guidance. The Town should review their procedures relating to cash cutoff to ensure the cash balance at year end is proper. We also recommend the Town appoint a member of management to review, date and approve all monthly bank reconciliations. All interest earned should be remitted back to the Town's General Fund in the proper reporting period.

Management's Response

The accounting department is now reviewing Tax Receiver bank reconciliations to ensure proper recording of all cash. Cutoff procedures were established and implemented during 2008 and all Town cash accounts handled by the Accounting Department are now routinely reconciled. Due to staffing limitations, individual department bank accounts continue to be reconciled within the respective department with no management review or overview by the Accounting Department. All interest amounts due to General Fund by the Town Clerk have since been transferred and, going forward, will be remitted at least yearly.

**2007-02 COLLATERAL AND INVESTMENT POLICY– Significant Deficiency**

Criteria

General Municipal Law § 39 requires the adoption, by resolution, of a comprehensive investment policy which details the local government's policy and instructions to management and staff regarding the investing, monitoring, and reporting of funds of the local government. General Municipal Law § 39 also provides that the policy be reviewed and readopted annually.

Condition

During our audit, we noted that:

- 1) The Town's investment policy has not been updated since 2002.
- 2) The existing investment policy's authorized bank list is outdated and contains banks no longer in existence. However, we noted in the Board minutes that the Board sets the approved banks and depositories to be utilized by the Town annually.
- 3) The Town is not properly monitoring the collateralized balances. For example, there are a number of interest bearing accounts that are misclassified as time deposit accounts and the wire transfer account is not being included in the Town's monitoring of collateral.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-02 COLLATERAL AND INVESTMENT POLICY– Significant Deficiency (continued)**

Effect

There is a potential for bank balances to be under collateralized and/or assets lost in the case of a bank failure.

Recommendation

The Town should review, amend as necessary and annually readopt the investment policy.

The Town should review its collateral procedures to include all cash transactions, including wire transfers, and should review the classifications of all bank accounts. Monthly collateral reports should be prepared and closely monitored by the Accounting Department to ensure all accounts are being correctly collateralized according to the Town's investment policy and General Municipal Law.

Given the current economic environment, the Town should consider requesting "Consolidated Reports on Condition", as authorized in Town's investment policy Section XI, Authorized Financial Institutions and Dealers, to ensure credit worthiness.

Management's Response

The Town will update its investment policy in 2009 and the policy will be reviewed and adopted yearly to ensure only institutions are listed. While the Town's cash deposits were adequately collateralized at year end, due to staffing constraints, collateral is not currently monitored on a regular basis.

**2007-03 WATER FUND ACCOUNTS RECEIVABLE AND WATER BILLINGS– Material Weakness**

Criteria

The Water Fund, a proprietary fund, is accounted for utilizing the full accrual method, which requires that all revenues be recognized in the period earned, regardless of cash flow.

Good internal control structure is necessary to ensure that all account balances have sufficient supporting documentation, have been reviewed by management and that transactions have been reported in the proper period.

Condition

When auditing the Water Fund's receivables, we noted the following:

- 1) The Town did not properly account for the unbilled water revenues for the years ended December 31, 2007 and 2006. This resulted in a prior period adjustment as well as a current year audit adjustment.
- 2) Due to a lack of proper cutoff procedures, 2006 revenues were incorrectly reported in the 2007 year, which resulted in a prior period adjustment.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-03 WATER FUND ACCOUNTS RECEIVABLE AND WATER BILLINGS— Material Weakness**  
(continued)

- 3) The Town does not have an integrated billing system, which requires bills to be entered manually into the billing system, located in the Accounting Department. There is no evidence that anyone from the Town's management is reviewing the bills before they are mailed.
- 4) The water bills are generated and mailed by the Water Department and the Receiver of Taxes collects the receipts. The Accounting Department adjusts the accounts receivable balance annually. No one is responsible for reconciling the cash receipts collected to the general ledger. The Receiver of Taxes Office is not reconciling or reviewing daily batch closings ("cash receipts for the day"). There are no formal approvals required when the Receiver of Taxes Office closes batches.
- 5) The water accounts receivable listing is not in an "aged format" and therefore the Town's management cannot properly review and monitor the outstanding receivables. The Accounting Department is not ensuring that property is being liened properly or timely.
- 6) Credit memos are approved by the Water Department's management and recorded by two clerks in the office. There is no review after the memo is issued and posted.
- 7) The Water Department's management was unable to provide explanation on the changes in the number of billings between 2006 and 2007.

Effect

There is an opportunity for human error, fraudulent behavior and under collection of revenues.

Recommendation

The Town should review the current procedures relating to the water billings and collections to ensure that receipts are reported in the proper periods. In addition, the Town should begin generating aging reports for water accounts receivables on a monthly basis. The general ledger accounts (i.e. water accounts receivable and water revenues) should be updated, at the minimum, on a monthly basis. A reconciliation of the accounts receivable ledger detail to the general ledger should be performed each month and any reconciling items should be investigated and cleared promptly. A member of management should review the reconciliation and initial to ensure propriety.

The Town should review the current procedures and computer system utilized to generate water bills to determine if there is a more efficient or automated process to avoid opportunities for human error or fraud.

The Town should generate a summary of credit memos recorded every month, which can be reviewed and approved by management.

The Town should also investigate utilizing a lockbox for collections.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-03 WATER FUND ACCOUNTS RECEIVABLE AND WATER BILLINGS– Material Weakness**  
(continued)

Management's Response

In future year's the Town will adjust the cutoffs for water billings to ensure all amounts are recorded in the proper period. Due to staffing constraints, management review of billings prior to mailing and reconciliation of receipts to postings is not feasible. While the current accounting software does not allow for an aging report; a module will be considered if the Town upgrades the system. The Town will consider instituting a policy whereby the Town Board is informed of all credit memos issued.

**2007-04 ECONOMIC DEVELOPMENT LOANS RECEIVABLE AND RELATED PROGRAM INCOME– Significant Deficiency**

Criteria

Program income, as discussed in OMB Circular A-133, is gross income received that is directly generated by a federally funded project during the grant period. Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds.

Program income may be used in one of three methods: deducted from outlays, added to the project budget, or used to meet matching requirements. Unless specified in the Federal awarding agency regulations or the terms and conditions of the award, program income shall be deducted from program outlays.

Condition

We noted the following during our audit:

- 1) The economic development loan receivable was recorded inconsistently as some of the loans were recorded in the Capital Projects Fund and some of the loans are recorded in the Community Development Agency Fund.
- 2) As these loans were generated from Federal grants, all repayments from the economic development loans should have been considered "program income" and segregated from the Town's cash to be used in a method prescribed by the Federal Regulations.

Effect

Failure to segregate and track this income provides a potential for monies to be used for purposes that were not in accordance with OMB Circular A-133 guidelines.

Recommendation

We recommend the Town review the requirements related to Federal grants which generate program income. In particular, the Town should determine if they are required to report the program income to Suffolk County on a monthly basis. In addition, we recommend the Town segregate the program income cash account to allow for easier tracking of these funds. All economic loans should be reported consistently going forward.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-04 ECONOMIC DEVELOPMENT LOANS RECEIVABLE AND RELATED PROGRAM INCOME – Significant Deficiency (continued)**

Management's Response

The Town will analyze the remaining grants to ensure proper recording of the related loans and reporting and usage of related program revenue amounts.

**2007-05 INTERFUND RECEIVABLES AND PAYABLES– Material Weakness**

Criteria

General Municipal Law provides the criteria under which interfund cash advances can be made and must be repaid. Prepayment must be made as soon as moneys are available, but no later than the close of the year in which the advance was made. Repayment of advances between funds supported by different tax bases must include an amount reasonably equivalent to the amount that would have been earned on the investment of the moneys advances.

Interfund receivables and payables are used to record amounts that represent short-term timing differences that are reduced when funds become available.

Condition

During our audit we noted the following:

- 1) The Town is not liquidating the interfund receivables and payables within the required time periods set forth in General Municipal Law.
- 2) The Town does not have supporting documentation as to the nature of the interfund receivables and payables on the books and records.
- 3) The Town does not record interest income/expense between funds as required when there is lending across tax jurisdictions.

Effect

There is a potential for cash flow shortfalls and the understatement of interest income in the lending tax jurisdiction.

Recommendation

We recommend the Town reduce the interfund balances as soon as funds become available. In addition, the Town should maintain a supporting schedule to document the amount and nature of all interfund receivables and payables. This will assist the Town in eliminating the interfund receivables and payable for financial reporting purposes.

Management's Response

The Town pays down interfund balances as cash becomes available. Due to staffing constraints, older balances and related interest have not been properly calculated, recorded or repaid. The Town will attempt to reconcile old amounts as staffing allows and, going forward, will track these transactions more closely.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-06 ACCOUNTING FOR FEDERAL, STATE AND LOCAL GRANTS– Material Weakness**

Criteria

Governmental Accounting Standards Board (“GASB”) No. 33 requires that revenue for “expenditure driven” grant programs be recognized when the Town has met the eligibility requirements and the resources are available (i.e. a signed grant agreement is in place). When the Town receives grants in advance, a deferred revenue should be recorded until costs have been incurred and eligibility requirements have been met.

Condition

We noted the following when auditing grants:

- 1) The Town did not properly accrue for grants expended and not received by year end nor were deferred revenues for grants received in advance of expending the funds recorded in the books and records.
- 2) The Town did not properly classify Federal, State and Local grants on their books and records.

Since the Town did not perform the above for the prior year, it was necessary to record a prior period adjustment of approximately \$2,400,000.

Effect

The Town may violate terms of the grant agreement and compliance with OMB Circular A-133 if the grants are not properly tracked and monitored. In addition, grant revenues and expenditures may not be recorded in the proper period on the books and records or the schedule of federal awards.

Recommendation

We recommend that the Town implement policies and procedures to identify and track federal and state grants, including the preparation of worksheets listing all grants (including a CFDA number and pass-through identifying number), source of funding, revenues earned and expenditures incurred on a grant to date and year to date basis. In addition, the Town should establish procedures to determine if grant monies received are reimbursing the Town for costs already expended or advanced for future costs and account for the grant in accordance with GASB requirements.

Management’s Response

While staffing constraints limit the resources of the Town’s departments responsible for tracking and classifying grants, additional procedures will be considered to help ensure grant monies are properly tracked and accounted for.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-07 CAPITAL ASSETS AND CAPITAL PROJECTS– Material Weakness**

Criteria

The Town is responsible for adopting a written policy for the protection and accountability of the Town's capital assets as part of their oversight function. The capital asset policy establishes the internal control structure for capital asset oversight and should at a minimum, contain the following:

- 1) Designation of a property manager
- 2) Guidelines for the maintenance of capital asset records
- 3) A system for assigning identification numbers and tags or decals
- 4) Provisions for periodic inventories
- 5) An annual review of the policy by the Town Board to ensure it continues to meet the Town's objectives

The Town must maintain a complete and accurate schedule/report of all capital project activities, from inception through to the completion, for each project which must reconcile to the general ledger. This schedule/report should document the history and current status of a project to date to ensure a proper accounting and accountability of each project. In total, this report should reconcile to current revenues, expenditures, encumbrances and fund balance in any given year as well as provide financial information from inception to date. This schedule/report should be organized by fund within governmental and proprietary activities.

Local Finance Law § 165 provides that the proceeds of debt can only be used for the object and purpose for which the debt was issued. Using such debt proceeds for other purposes could result in the inability to pay claims related to the original purpose of the borrowing. Additionally, the unauthorized use of these proceeds could impact the tax-exempt status of the debt and negatively impact the ability of the Town to borrow in the future.

Long-term liabilities related to proprietary funds should be reported in the proprietary funds. All other long-term liabilities not reported in proprietary funds, should be accounted for in the schedule of non-current governmental liabilities.

Condition

During the audit, we noted the following:

- 1) The Town is attempting to track the financial activity for each capital project from inception to date through excel. However, there is no workable reconciliation to the Capital Projects Fund general ledger. The general ledger for the Capital Projects Fund includes all funds, governmental, proprietary, and internal service fund activity.
- 2) The Capital Projects Fund general ledger includes long-term assets and liabilities as well as some current asset and liability items for the proprietary funds.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-07 CAPITAL ASSETS AND CAPITAL PROJECTS– Material Weakness (continued)**

Condition (continued)

- 3) Capital Projects Fund debt is issued after all cash is exhausted in the Capital Projects Fund. The Town does not ensure that legally borrowed money is only spent for the purpose for which it was borrowed. Projects are often started without any funding in place thereby needing to use any unused cash in the Capital Projects Fund from other projects.
- 4) Capital assets are not being recorded in the correct year.
- 5) Items below the Town's threshold were being capitalized.
- 6) The Town does not have a written and Board approved capital asset policy.

Due to the above, it was difficult to determine the status of current project's financial activity and to determine if the Town was in compliance with various laws and regulations affecting the timing of the financing of capital projects outstanding debt and proper Capital Projects Fund accounting. As a result, the Town, per our recommendation, hired an outside consultant to analyze the Capital Projects Fund activity and record all necessary adjustments to the Town's books and records.

Effect

There is a potential for misuse or misallocation of borrowed Capital Project Funds and jeopardizing the Town's bond rating and the tax exempt status of the bonds.

Recommendation

In general, the Town Board should establish and implement a capital asset policy for the Town's capital assets. The Town Board should establish and implement written guidelines for the disposal of the Town's capital assets. The Town Board should review the Town's capital asset policy on an annual basis.

Capitalization thresholds set up by the Town should be adhered to consistently. The Government Finance Officers Association recommends not capitalizing items with a useful life of less than two full years; maintaining control over non-capitalized assets at the department level and recommend setting a threshold at \$5,000 or above. The Town must establish capitalization thresholds that result in the financial statements being fairly presented and consider the resources available to do this.

Items must be capitalized in the correct year.

Due to the volume of transactions and the importance of properly managing and monitoring capital project activity, we recommend that the Town continue to have an experienced governmental accountant reconcile the Capital Projects Fund and prepare schedules/reports that agree to the general ledger. All long-term items should be reclassified to the proper funds. The Town should investigate hiring an experienced, knowledgeable person to handle not only the Town's capital projects, but also the capital assets and debt management. The Town must reassess the capabilities of the Towns' current software system and the feasibility of using the current accounting software to track project-to-date activity using a proper cost accounting format. If it is determined that the current accounting software cannot track a capital project from inception-to-date, the Town should investigate other accounting software packages better suited for governmental and project accounting. We further recommend that any schedules/reports generated be reconciled to the general ledger and be reviewed by a responsible Town official and approved by the Board at least quarterly.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-07 CAPITAL ASSETS AND CAPITAL PROJECTS– Material Weakness (continued)**

Recommendation (continued)

The Town Board should formally acknowledged the closure of each project and properly determine the intended disposition of any unexpended funds. Unexpended funds can only be used to pay outstanding debt for the project. If there is no remaining debt the funds are transferred back to the fund servicing the debt.

Management's Response

The Town hired a consultant in 2008 to assist in closing all completed capital projects. Upon investigation of the 265 open projects in the Capital Fund 165 were completed and have been closed. Due to the lack of flexibility in the accounting software there is no ability to separate the projects by governmental, proprietary and internal service other than creating new capital project funds. The Town created separate capital funds in 2008 and will address revamping the accounting structure when a new software program is implemented. The Town will attempt to fund future projects by borrowing money from an operating fund or through short term financing until the project is completed. As stated above, staff shortages have prevented the Town from following this process in the past. The Town will adopt a written capital asset policy.

**2007-08 PROPER RECOGNITION OF ACCOUNTS PAYABLE AND ENCUMBRANCES– Material Weakness**

Criteria

All governmental and proprietary funds should accrue an expenditure/liability when the related liability is incurred (goods received or services provided by year end). The only exceptions for governmental funds are formal debt agreements (principal and interest is recorded when the amounts are due and payable), liabilities that are normally expected to be liquidated with expendable available financial resources (compensated absences, claims and judgments, and landfill closure and post closure care costs) and other commitments that are not current liabilities but are properly recorded in the governmental funds.

Encumbrances represent commitments related to contracts not yet performed and orders not yet filled.

Condition

We noted that the Town did not record a liability for approximately \$660,000 of costs that were incurred during the year ended December 31, 2007. Of this amount, approximately \$449,000 was misclassified as reserves for encumbrances at year end.

The Town is manually maintaining a listing of accounts payable at year end instead of utilizing an "accounts payable module" which can be integrated with the Town's general ledger.

Effect

There is a potential for understating liabilities and overstating fund balance at year-end and not reserving a portion of fund balance sufficient to meet the requirements of these commitments.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-08 PROPER RECOGNITION OF ACCOUNTS PAYABLE AND ENCUMBRANCES– Material Weakness (continued)**

Recommendation

We recommend that the Town review year end procedures to ensure that transactions are properly recorded as an accounts payable (goods received or services provided by year end) or an encumbrance (commitment related to unperformed contracts for goods or services). In addition, we recommend that the accounts payable and encumbrance listing be reviewed periodically by the Town's management to determine that the listings are complete, that all items are valid and that any cancelled or paid encumbrances have been liquidated and removed from the reserve. These listings should be signed off by the reviewer to indicate management's approval.

The Town should consider using an integrated accounts payable module to account for their payables. This would provide management with an updated accounts payable listing throughout the year and alleviate the risk of errors which are inherent when entering data and maintaining an excel spreadsheet.

Management's Response

The Town's accounting software is 20 years old and is not supported any longer. We will investigate the capability of tracking accounts payable through the system. If the system is not capable then we will establish procedures to track the payables manually more closely to ensure proper recording until the accounting software is updated.

**2007-09 COMMUNITY PRESERVATION FUND (CPF)– Material Weakness**

Criteria

Chapter 114 of the Laws of 1998 authorized the creation of the CPF. The CPF is financed by a two percent real estate transfer tax. Chapter 14 - §14-4 item D. states "In no event shall monies deposited in the fund be transferred into any other account".

The purpose of the CPF is to implement a plan for the preservation of community character. In addition to costs associated with the purchase of land, monies from this fund may be used to repay related indebtedness and to provide a management and stewardship program for such interests and rights. No monies can be expended from the CPF for management and stewardship purposes, except as provided by a plan adopted by the Board and then only those permitted pursuant to Town Law can be included.

Condition

During the audit, we noted that the CPF budget for indebtedness is based on an estimate of anticipated bonding. Beginning in 2002, these budgeted amounts have been transferred into the debt service fund annually. Transferring of the budgeted amounts resulted in the recognition of a prior period adjustment for the current year for an excess accumulated CPF debt service reserve in the amount of approximately \$15,800,000. Additionally, in prior years, the notes to the financial statements incorrectly identified the debt service reserve as being General Fund reserves.

During the audit, we noted that the Town has not adopted a management and stewardship plan.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-09 COMMUNITY PRESERVATION FUND (CPF)– Material Weakness (continued)**

Effect

There is a potential for the misuse of CPF funds.

Recommendation

The Town should only transfer, from the CPF Fund to the Debt Service Fund, the actual amount of the payments being made.

The Town should prepare and adopt a management and stewardship plan.

Management's Response

The Town transferred amounts between the debt service fund and the CPF fund to ensure balances are properly stated. Going forward, only amounts for actual payments made will be transferred from the CPF. Additionally, the Town will adopt a management and stewardship plan.

**2007-10 PROCUREMENT POLICY– Significant Deficiency**

Criteria

New York State General Municipal Law, §104-b requires, the Town Board to adopt a procurement policy in accordance with the NYS recommendations. Goods and services not required by law to be competitively bid must be procured in a manner to assure the prudent and economical use of public monies, facilitating the acquisition of goods and services of maximum quality at the lowest possible cost and to guard against favoritism, improvidence, extravagance, fraud and corruption. The Town Board, by resolution, shall adopt internal policies and procedures governing all procurements of goods and services which are not subject to the competitive bidding requirement of §103 or any other Town law. Among other things, the policies must provide, generally, when competitive bidding is not required by law, that alternative proposals or quotations will be secured for goods and services, adequate documentation of actions taken in connections with each method of procurement and require justification and documentation of any contract awarded to other than the lowest bidder when competitive bidding is not required by law.

Condition

The Town's procurement policy was last adopted in January 1996. There was no evidence of annual review, though that was a policy requirement. The Town's 1996 policy does not comply with §104-b.

During our audit testing, we noted the following:

- 1) In general, the Town was not consistently following their own procurement policy. Aggregate purchases that exceeded bid limits were not competitively bid and, in many instances, there was no support to document that the Town had in fact obtained written or verbal quotes.
- 2) Aggregate purchases were not tracked properly in accordance with General Municipal Law.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-10 PROCUREMENT POLICY– Significant Deficiency (continued)**

Condition (continued)

- 3) Numerous instances where members of management did not approve requisition forms, as required by the Town's verbal procedures.
- 4) Several instances were noted where the requisition was never stamped that it was received.
- 5) Several instances were noted where the requisition and the purchase order were not used for procured items.
- 6) Several instances were noted where the purchase order did not have the appropriate sign offs.
- 7) One instance was noted where the information on the requisition form did not match the purchase order.
- 8) Instances were noted where the Town did not obtain "sole source" documentation from the vendor.
- 9) Instances were noted where the Town purchased items from the New York State Bid List, however this information was not documented on the purchase order.

Effect

Not operating in accordance with New York State General Municipal Law §103 and §104-b creates the potential for fraud and misuse of taxpayer dollars.

Recommendation

The Town should review, revise and adopt a current procurement policy that includes all aspects of General Municipal Law §104-b. The Town should thereafter annually review its policies and procedures in accordance with §104b-4 and readopt the policies. The department heads should be required to sign off, annually, that they have reviewed the policy, understand its provisions, and will comply with the policy.

The Town should review the current procedures in place and update as necessary to ensure that each purchase complies with the Town and General Municipal Law. All purchase orders and supporting documents must have enough detail (written quotes, state bid contract numbers, etc) to prove that the Town did their due diligence when procuring goods and services.

Management's Response

The Town has instituted procurement and purchasing procedures to more closely monitor purchases for aggregate limits, to ensure proper signatures are present and items purchased agree to procurement documents prior to payment of vouchers, and to properly document sole source, bid numbers, etc. on claim vouchers.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-11 NON-CURRENT GOVERNMENTAL LIABILITIES– Material Weakness**

Criteria

The Town's books and records (general ledger and trial balance) should support the balances reported in the annual financial statements.

Condition

Certain non-current governmental liability account balances have not been properly updated on the Town's books and records in years. These non-current governmental accounts include liabilities for general obligation bonds payable, compensated absences, and claims and judgments, which include estimated liabilities for general liability, workers' compensation and medical claims.

During the audit, we noted a misstated amount in judgments and claims resulting in prior period adjustment of approximately \$1,100,000.

Effect

This creates the potential for the misstatements of non-current governmental liabilities.

Recommendation

We recommend the Town review the trial balance for the non-current governmental liabilities and update the balances on a real time basis.

Management's Response

The Town has instituted procedures in 2008 to properly track and record these amounts.

**2007-12 FINANCIAL STATEMENT PREPARATION– Significant Deficiency**

Criteria

The independence standards contained in *Government Auditing Standards* and recent Statements on Auditing Standards ("SAS") issued by the AICPA require an evaluation on whether or not an entity has the ability to prepare its own financial statements and related note disclosures to the financial statements in accordance with accounting principles acceptable under current standards.

Under the independence rules contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, independent auditors are prohibited from becoming part of a client's internal control. Under auditing standards issued by the AICPA, auditors may perform certain accounting functions but may not make management decisions and, again, may not be become part of an entity's internal control.

Condition

We assisted in preparing the draft of the financial statements including the note disclosures for the Town's review and approval.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-12 FINANCIAL STATEMENT PREPARATION– Significant Deficiency (continued)**

Effect

There is a potential for compromising the auditors independence and the Town not being able to produce its own financial statements on a timely basis.

Recommendation

We recommend that the Town constantly monitor the non-audit work provided by the outside auditors to ensure compliance with independence standards.

Management's Response

The Town will research training courses that will provide their staff with the proper resources to oversee work performed by the outside auditors and the preparation of the annual financial statements.

**2007-13 GENERAL LEDGER AND CLOSING SCHEDULES– Significant Deficiency**

Criteria

The general ledger is a collection of the groups of accounts that support the items shown in the major financial statements. The general ledger must reflect accurate balances at year end. Schedules prepared by management must agree to the amounts per the general ledger.

Condition

During our audit, we noted that:

- 1) The general ledger had to be reorganized in numerous excel spreadsheets in order to create the correct balances for reporting purposes. Client prepared schedules did not agree to the general ledger and /or documentation provided.
- 2) Town personnel does not update the fund equity section of the general ledger to properly account for the balances in the control accounts, reserves, and various categories of fund balances.
- 3) Control accounts do not match the detail of the revenues, expenditures or encumbrances.
- 4) The general ledger for the Debt Service Fund contained a reserve amount that properly belonged to the Community Preservation Fund resulting in a prior period adjustment of approximately \$15,800,000. It also contained reserves belonging to other Town funds.
- 5) The Town's general ledger contains "clearing funds" with significant balances.

The above mentioned conditions resulted in numerous audit and closing adjustments.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-13 GENERAL LEDGER AND CLOSING SCHEDULES– Significant Deficiency (continued)**

Effect

The potential for material misstatement and fraud is greatly enhanced when the books and records do not support the financial information as presented.

Recommendation

We recommend that the Town review the general ledger so that it is an accurate reflection of the state of the Town's finances. Closing entries and schedules should be prepared diligently, checked to the general ledger and be reviewed by management.

We recommend that the Town update the general ledger to reflect actual Town Board changes to reserves and fund balances and to insure correct results of operations.

We recommend that the Town reconcile its control account to the detail on a monthly basis.

We recommend that the Town review all clearing funds periodically to ensure activity is properly recorded.

Management's Response

The Town will consider providing additional training to staff to assist in the reconciliation of subsidiary ledgers to the general ledger and overall general ledger maintenance.

**2007-14 SOFTWARE– Material Weakness**

Criteria

Computer software is the backbone of the Town's financial reporting as well as the control over capital assets. Technology is changing at a rapid pace and the current system cannot be brought up to that level or keep pace with the changing environment.

Condition

During the audit, we noted following conditions relating to IT and the computer software:

- 1) The Town's software system is 25 years old and no longer supported by the vendor that developed it. The vendor does offer an upgrade. Some departments have migrated off the mainframe to Microsoft Windows.
- 2) The Town owns the source code and makes modifications to the software system as needed.
- 3) Passwords are confidential but there is no procedure to change them periodically.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-14 SOFTWARE– Material Weakness (continued)**

Condition (continued)

- 4) The Town relies on third party consultants to supplement the maintenance of the mainframe system and additional consultants to supplement the support and maintenance of the windows applications. Hardware support is supplemented by different sources: Unisys for the mainframe, and Gateway and Dell for the PC's. These outside vendors supplement the support for these items as necessary.
- 5) While the Town has a monthly backup procedure, there is no formal procedure in place to test the backup. The backups are sent to an offsite location on a daily basis.
- 6) Currently there is no disaster recovery system or offsite disaster recovery location.

Effect

There is a potential for fraud when the Town maintains the source code for the vendor software and has the ability to manipulate it at will. There also exists a potential to compromise and corrupt the books and records of the Town when using software that is no longer supported by the vendor.

Recommendation

We recommend that the Town assess the current computer system and consider an upgrade or new platform in the immediate future.

We recommend that the Town consider more staffing in the IT department, to provide for less reliance on outside vendors.

We recommend that a disaster recovery plan including offsite storage and periodic tests (restore) be adopted as this is essential to preserve the integrity of the data. We recommend that the Town adopt a plan for system administrator passwords and user security options that are available to management in the event that reconstruction or recovery is necessary.

Management's Response

While there is no set time frame for upgrading the Town's financial software an upgrade has been recommended by the Accounting Department and may be entertained once budgeting allows. The Town makes changes to the financial software through the source code only when mandated by the State or Federal government. As the Town is limited by staffing constraints, the use of outside consultants will continue for the foreseeable future. The policy for changing passwords is currently under revision and will be implemented once it is agreed to by the labor unions. The Town will consider obtaining additional hardware in order to test system backups and will also look into creating a disaster recovery policy, possibly through an agreement with Suffolk County.

**2007-15 INTERNAL CONTROL AND STAFFING QUALIFICATIONS– Significant Deficiency**

Criteria

Personnel employed in the Accounting Department to handle Town finances should possess the proper knowledge and expertise to ensure the proper administration, handling and recording of Town funds and to ultimately report on the status of the Town's finances.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-15 INTERNAL CONTROL AND STAFFING QUALIFICATIONS– Significant Deficiency**  
(continued)

Criteria (continued)

Government officials entrusted with public resources are responsible for complying with laws and regulations, meeting goals and objectives, safeguarding assets, and issuing reports that inform the public of the results of government activities. A good internal control system is intended to assist local officials in meeting these responsibilities.

Internal controls are essential to the effective operation of local governments. Internal controls are those activities in place to provide reasonable assurance that things are “going according to plan.” Without adequate safeguards, managers have little assurance that their fiscal goals and responsibilities are being met. Adequate controls can reduce the likelihood that errors and/or irregularities could occur and go undetected. Five elements of internal control are: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Condition

There are extensive comments relating to the administration, handling, recording and reporting of Town finances. These comments deal mainly with adequate handling of Town monies and reflect on the need for additional knowledge of governmental accounting as well as designing, revising and following proper policies and procedures. Although the Town has endeavored to train personnel, greater expertise and more high level staff is needed.

Many weaknesses were identified in the accounting function and financial reporting process which is due to the lack of proper oversight and written policies and procedures. The Town has only one person on staff that is fully knowledgeable about the laws and regulations in New York State regarding town finances and proper operational procedures and that same person is involved in internally performing the Town’s accounting functions as they possess the only experienced knowledge of accounting principles generally accepted in the United States of America.

Effect

There is a potential for material misstatement and human error when internal control and staffing qualifications are not maintained at the proper levels.

Recommendation

The Town must ensure that employees entrusted to manage, administer, handle, record and report on the Town’s finances possess the necessary knowledge and expertise to perform these job functions adequately. The Town should require extensive training for employees in these positions and investigate adding additional staff as necessary. Individuals hired by the Town need to have a good knowledge of the laws and regulations that affect financial reporting in New York State as well as a good knowledge of accounting principles generally accepted in the United States of America. We also recommend that background checks be performed on all individuals in key positions.

Once qualified accountants are hired, an operational review should be performed in order to streamline the Town’s various accounting functions and free up the Finance Administrator’s time to manage and report to the Town Board. In the long run this will allow the Board to make staff reductions as deemed appropriate to contain costs due to the hiring of higher skill level personnel.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-15 INTERNAL CONTROL AND STAFFING QUALIFICATIONS– Significant Deficiency**  
(continued)

Management's Response

In 2009, the Town hired a qualified Deputy Financial Administrator to assist the Financial Administrator in maintaining the Town's finances. The Town will consider hiring additional accounting staff and/or providing existing staff with the training required to cope with the financial accounting and reporting requirements of the Town.

**2007-16 SEGREGATION OF DUTIES– Significant Deficiency**

Criteria

An effective system of internal controls requires the segregation of duties so that certain duties are spread among several officers and/or employees to reduce the risk of errors and fraudulent activities. No single individual should control most phases of a transaction. Where duties are not required by law to be segregated, or cannot be segregated, it is important to have increased supervisory review of activities.

Condition

During our audit, we noted the following:

- 1) An employee in the Information Technology Department is currently responsible for reconciling the payroll bank account.
- 2) The Receiver of Taxes Department does not have proper segregation of duties. There is one employee who is responsible for receiving cash receipts, preparing deposits, and reconciling cash collected to the bank statements. The same individual also has access to the billing system and the combination to the safe where blank checks are located.

Effect

Lack of appropriate oversight increases the risk that errors or fraud will not be prevented or detected in a timely manner.

Recommendation

We recommend the Town review the current duties in the Information Technology, Accounting and Receiver of Taxes Departments to ensure proper segregation of duties.

Management's Response

While the Town segregates duties to the extent possible within its staffing constraints, it will continue to look for areas that can be improved and institute review procedures to mitigate these risks.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2007

**2007-17 ESTABLISH AN INTERNAL AUDIT FUNCTION– Significant Deficiency**

Criteria

Internal auditing is an independent appraisal activity within a municipality for the review of accounting, financial, and other operations. The overall objective is to carry out a program of tests of the Town's financial and operational activities and transactions to provide management with information about the effectiveness (and efficiency) of established accounting and operational policies, procedures, and controls, and the extent to which they are being followed. In the course of gathering such information, the reliability of accounting and other data generated within the Town may be evaluated. Another objective is the prevention and detection of fraud through the performance of audit tests and procedures.

Condition

At present, the Town does not have an internal audit function. We believe the Town should consider the creation of an internal audit function due to the decentralization of transactions and departments, and the size and complexity of the Town. Internal auditors could help ensure that each department is accounting and reporting in a consistent manner and that they are operating in accordance with management's wishes. The results of the internal audits should be documented, and the reports should be submitted directly to the Town Board and to the head of the audited department. The department head should be required to formally respond to each point raised.

Effect

Establishment of an internal auditing function could result in substantial benefits to the Town in terms of strengthened internal control and increased efficiency. Some benefits of an internal audit function are as follows:

- 1) Strengthening the Town's internal controls over assets and increasing the reliability of the accounting records.
- 2) Reducing the time spent by management in the development of Town procedures.
- 3) Increasing assurance that Town policies are being adhered to and that departmental procedures and controls are being reviewed objectively.
- 4) Ensuring that each department is accounting and reporting in a consistent manner and that they are operating in accordance with management's wishes.
- 5) Making procedural reviews to determine that the various departments are operating efficiently.
- 6) Helping to streamline the length of the Town's annual audit, since the outside auditors could make use of work performed by the internal auditors, thus reducing the number of hours required to complete the audit.

**TOWN OF RIVERHEAD**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2007

**2007-17 ESTABLISH AN INTERNAL AUDIT FUNCTION– Significant Deficiency (continued)**

Recommendation

We recommend that management evaluate the costs and potential benefits of establishing an internal audit function. We would be pleased to discuss this matter further with the Town or to assist the Town in setting up an internal audit function. Should the Board decide not to consider the use of an internal auditor, the Board should ensure that the accounting department is adequately staffed and has the authority to conduct oversight of individual departments in order to be able to challenge unusual transactions and/or to conduct department reviews as considered necessary.

Management's Response

The Town will consider the cost-benefit aspects of establishing an internal audit position.