TOWN OF RIVERHEAD

SINGLE AUDIT REPORTS

Year Ended December 31, 2011

TABLE OF CONTENTS

TOWN OF RIVERHEAD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2011

Federal Agency/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Identifying Number	Federal Expenditures
U.S. Department of Commerce/ National Oceanic and Atmospheric Administration:			
Pass-through Program From:			
American Rivers			
Habitat Conservation	11.463	232	$ 10,333
U.S. Department of Housing and Urban Development:			
Community Development Block Grant Entitlement Cluster:			
Pass-through Program From:			
Suffolk County, New York, Office of Community Development			
		B07-UC-36-0102	
		B09-UC-36-0102	
		B10-UC-36-0102	
Community Development Block Grant/Entitlement Grant	14.218	B11-UY-36-0102	121,678
ARRA - Community Development Block Grant/Entitlement Grant	14.253	B09-UY-36-0102	23,491
Total Community Development Block Grant Entitlement Cluster			145,169
Total U.S. Department of Housing and Urban Development			145,169
U.S. Department of Justice:			
Direct Program:			
Part E- Developing Testing and Demonstrating Promising New Programs	16.541		25,182
Edward Byrne Memorial Formula Grant Program	16.738		15,110
Pass-through Program From:			
Suffolk County, New York, Sherriff's Office			
Public Safety Partnership and Community Policing	16.710	2009-CSWX0018	608
Total U.S. Department of Justice			40,900
U.S. Department of Transportation:			
Highway Planning and Construction Cluster:			
Pass-through Programs From:			
New York State Department of Transportation			
Highway Planning and Construction	20.205	D032120	61,622
ARRA- Highway Planning and Construction	20.205	D032230/D032417	1,397,351
New York State Office of Parks, Recreation, and Historic Preservation			
Recreational Trails Program	20.219	C050108	4,414
Total Highway Planning and Construction Cluster			1,463,387
Pass-through Program From:			
New York State Governor's Traffic Safety Committee			
State and Community Highway Safety	20.600	00280-052/0030-052	21,457
Total U.S. Department of Transportation			1,484,844

(continued)

See accompanying notes to schedule of expenditures of federal awards.

TOWN OF RIVERHEAD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2011

Federal Agency/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Aging Cluster:			
Pass-through Programs From:			
Suffolk County, New York, Office of Aging			
Special Programs for the Aging- Title III, Part B-			
Grants for Supportive Services and Senior Centers	93.044	SCS10000004590	21,893
Special Programs for the Aging- Title III, Part C		SCS10000001865/	
Nutrition Services	93.045	SCS11000001865	56,733
Nutrition Services Incentive Program	93.053	SCS11000001865	25,328
Total Aging Cluster			103,954
Total U.S. Department of Health and Human Services			103,954
U.S. Department of Homeland Security:			
Pass-through Programs From:			
New York State Division of Homeland Security and Emergency Services		1899 DR NY/1957 DR NY	
Disaster Grants- Public Assistance	97.036	4020 DR/HMGP 1899	187,491
Suffolk County, New York, Police Department			
Homeland Security Grant Program	97.067	UN09-1018-EOO	8,027
Suffolk County, New York, Sherriff's Office			
Homeland Security Grant Program	97.067	SC-0000005095	9,552
Total U.S. Department of Homeland Security			205,070
Total Expenditures of Federal Awards			$ 1,990,270

See accompanying notes to schedule of expenditures of federal awards.

TOWN OF RIVERHEAD
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2011

Note A – Basis of Presentation

The accompanying schedule of expenditures of Federal awards (the "Schedule") includes the Federal grant activity of the Town of Riverhead, New York under programs of the Federal government for the year ended December 31, 2011. 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*. Because the Schedule presents only a selected portion of the operations of the Town of Riverhead, New York, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Town of Riverhead, New York.

Note B – Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

CERTIFIED PUBLIC ACCOUNTANTS

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, 2011, which collectively comprise the Town of Riverhead, New York's basic financial statements and have issued our report thereon dated September 20, 2012. 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. Those 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

Management of the Town of Riverhead, New York is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

ALBRECHT, VIGGIANO, ZURECK & COMPANY, P.C.

245 PARK AVENUE, 24TH FLOOR
NEW YORK, NY 10167
T: 212.792.4075

25 SUFFOLK COURT
HAUPPAUGE, NY 11788-3715
T: 631.434.9500 F: 631.434.9518
www.avz.com
INDEPENDENT MEMBER OF BKR INTERNATIONAL

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs 2011-01 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs 2011-02 through 2011-09 to be significant deficiencies.

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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town of Riverhead, New York in a separate letter dated September 20, 2012.

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.

Albrecht, Viggiano, Zureck & Company, P.C.

Hauppauge, New York
September 20, 2012

AVZ
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Town of Riverhead, New York's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Town of Riverhead, New York's major federal program for the year ended December 31, 2011. 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 the major federal program 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 of Riverhead, New York, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2011-10.

ALBRECHT, VIGGIANO, ZURECK & COMPANY, P.C.

245 PARK AVENUE, 24TH FLOOR
NEW YORK, NY 10167
T: 212.792.4075

25 SUFFOLK COURT
HAUPPAUGE, NY 11788-3715
T: 631.434.9500 F: 631.434.9518
www.avz.com
INDEPENDENT MEMBER OF BKR INTERNATIONAL

Internal Controls Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance 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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-10. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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, 2011, and have issued our report thereon dated September 20, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of Riverhead, New York's financial statements. 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. Those financial statements were audited by another auditor whose report thereon has been furnished to us and our opinion, insofar as it relates to the amount included for the Town of Riverhead Industrial Development Agency is based solely on the report of the other auditor. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Town of Riverhead, New York's response to the finding 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.

Albrecht, Viggiano, Zureck & Company, P.C.

Hauppauge, New York
September 20, 2012

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

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 nine control 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*". One of these deficiencies is reported as a material weakness.

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. One significant deficiency relating to the audit of the major federal award program was reported in the "INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 is:

CFDA Number	Name of Federal Program or Cluster
20.205/ 20.219	Highway Planning and Construction Cluster

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, 2011

FINDINGS – FINANCIAL STATEMENTS AUDIT

2011-01 SOFTWARE (Repeat Finding) - 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 Information Technology and the computer software:

a. The Town's software system is over 25 years old and no longer supported by the vendor that developed it. Some departments have migrated off the mainframe to Microsoft Windows for operational purposes.

b. The Town relies on third party consultants to supplement the maintenance of the mainframe system, to make modifications to the software system when required and to supplement the support and maintenance of the Windows applications

c. Currently there is no disaster recovery system or offsite disaster recovery location.

Effect

There is a potential for the Town's books and records to be compromised when using software that is no longer supported by the vendor and there is no disaster recovery in place. In addition, the Town's operations may not be running efficiently with software that is over 25 years old and the reliance of third party consultants.

Recommendation

We are aware that subsequent to year end the Accounting Department began investigating software providers to assess the best fit for the Town. We recommend the Town make a selection for the software and have it approved by the Town Board with a target date for implementation and an identified funding source.

In prior reports, we recommended that the Town consider more staffing in the Information Technology Department, however, once the Town implements the new software system, the need for outside consultants will be minimal or may be replaced by a third party maintenance contract.

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.

Management's Response

a. The Town is in the process of reviewing three companies software packages so that they can move the accounting, payroll, purchasing, fixed assets, budget and inventory modules off the mainframe to a Windows platform. The purchase of new software will also come with support and maintenance.

b. Mainframe programming is a specialized knowledge and it is more cost effective to utilize a consultant on as need basis. Hardware support is typically part of the purchase price of the new equipment.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2011-01 SOFTWARE (continued)

Management's Response (continued)

c. The Town has a backup procedure but currently has no formal disaster recovery plan. The Town is currently developing a disaster recovery plan.

2011-02 INTERFUND RECEIVABLES AND PAYABLES (Repeat Finding) - Significant Deficiency

Criteria

General Municipal Law provides the criteria under which interfund cash advances can be made and must be repaid. Repayment 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 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:

a. The Town is not liquidating the interfund receivables and payables within the required time periods set forth in General Municipal Law.

b. The Town does not have supporting documentation as to the nature of some of the interfund receivables and payables on the books and records.

c. 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

Significant improvement continues to be noted in this area. The balances outstanding are mainly timing issues occurring near year end. We recommend the Town continue to reduce the interfund balances as soon as funds become available within the guidance provided by General Municipal Law. 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 paid down all interfund balances where cash was available to do so as of December 31, 2011. Beginning in 2012, the Town has support for all current interfund receivable and payables. Interest on the interfund balances are immaterial.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2011-03 WATER FUND ACCOUNTS RECEIVABLE AND WATER BILLING (Repeat Finding) - Significant Deficiency

Criteria

The Water Fund, a proprietary fund, is accounted for utilizing the full accrual accounting 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 and water billings, we noted the following:

a. 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. In addition, no one is reviewing monthly aging reports for water receivables. The Receiver of Taxes Department is not reconciling or reviewing daily batch closings ("cash receipts for the day"). There are no formal approvals required when the Receiver of Taxes Department closes batches.

b. The Water Department receives rental payments for leasing space to cell phone carriers. Currently, no one is tracking the receipts to ensure payments are made timely and in accordance with the lease agreements.

c. Any adjustments to a customer's bill, based on review of the "prebill" report are made by one employee in the Water Department. In addition, the same employee is responsible for adjusting customer accounts when the customer requests a refund in the event they have a credit balance. An individual is not reviewing and authorizing these manual changes.

Effect

There is an opportunity for human error, fraudulent behavior and revenues not being recognized in the proper year.

Recommendation

We recommend the Town begin reviewing 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 be investigated and cleared promptly. A member of management should review the reconciliation and initial to ensure propriety. A member of management should be reviewing monthly billings and collections to ensure amounts are reasonable based on how much water was pumped and billed for. Any significant variances in the gallons of unbilled water should be investigated and documented.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2011-03 WATER FUND ACCOUNTS RECEIVABLE AND WATER BILLING (continued)

Recommendation (continued)

All lease agreements terms should monitored to ensure proper and timely payments are received. In addition, the Town may consider that rental tower revenues be collected and monitored by the Accounting Department going forward.

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 and manual adjustments recorded every month, which can be reviewed and approved by management.

The Town should also investigate utilizing a lockbox for collections.

Management's Response

a. The aged receivables will be reconciled to the billings and collections on a monthly basis. Water pumped will be reconciled to water billed on a quarterly basis.

b. A schedule of receipts for rental of cell towers has been updated through August 31, 2012. The Water Superintendent will update the schedule monthly to ensure the timely collect of payments.

c. As of October 2012, management is approving all credit memos and reporting periodically to the Town Supervisor.

2011-04 CAPITAL ASSETS AND CAPITAL PROJECTS (Repeat Finding) - Significant Deficiency

Criteria

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.

Condition

During the audit, we noted the following:

a. Capital Projects Fund debt is issued after all cash is exhausted in the Capital Projects Fund. Projects are often started without any funding in place thereby needing to use any unused cash in the Capital Projects Fund from other projects. Projects are often overexpended as they are awaiting future bonds.

b. Although the Town is tracking the individual project's revenues and expenditures in excel, the cash balance per each project cannot always be traced back to that individual's capital projects cash balance per the general ledger since the Town has a "general cash" account that has not been allocated to individual projects.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2011-04 CAPITAL ASSETS AND CAPITAL PROJECTS (continued)

Condition (continued)

c. Individual project schedules, which are used for tracking capital projects, are only updated once a year and not on a timely basis (i.e. 2011 schedules were finalized in July 2012). In addition, these schedules were not always updated to reflect new approved authorizations.

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. The Town may not be able to easily determine the available funds for a particular project.

Recommendation

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. In addition, all debt proceeds should be tracked to ensure that project proceeds are used for the purpose for which they were borrowed.

The Town should reassess the capabilities of the Town's 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 new software is purchased, the Town should consider a capital asset module, if available, to track financing sources and use by project.

We further recommend that any schedules/reports that are generated continue to be reconciled to the general ledger and be reviewed by a responsible Town official at least quarterly. Any closed projects should be reviewed on an annual basis and residual equity transfers made as necessary.

Any "general cash" should be accounted for and reclassified with the related projects cash accounts.

Management's Response

a. The Town sold $22,000,000 of general obligation bonds in December of 2011 and the overdrawn projects related to the bonds were replenished.

b. The Town has reconciled all completed projects. Town is tracking cash on the project level, ensuring each project is funded properly. Unallocated cash is expected to be reconciled by the end of 2012 and reclassified to the correct project's cash balance.

c. Starting in 2012, individual project schedules are updated monthly.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2011-05 PROCUREMENT POLICY (Repeat Finding) - 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 connection 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 updated and readopted in March 2011. This policy requires that "all purchases of goods or services must be accompanied by a duly signed and completed purchase order" (guideline 7). Based on that guideline and all other criteria in the new policy, we noted the following:

a. Seven instances where there were no purchase orders used for a purchase of a good or service.

b. Four instances in which two verbal or faxed quotes should have been obtained based on individual purchase amounts, however upon reviewing the voucher package, there was no documentation that the quotes were obtained.

c. One instance where goods were purchased through a New York State contract, however, the related contract and contract number were not properly documented on the corresponding purchase requisition or purchase order.

d. One instance where the aggregate purchases exceeded the thresholds for procurement requirements and sealed bids should have been obtained. However, per scan of voucher package, no evidence suggests the solicitation of bids or exceptions noted.

e. An instance where a Town's purchase was considered an emergency item; however there was no such documentation on the purchase order or requisition.

f. An instance where the invoice date was before the purchase order date.

In addition, we noted that although the Town began generating reports by commodity codes in 2010, it appears no one at the Town is utilizing these reports to ensure compliance with the Town's procurement policy.

Effect

The Town's purchases are not always in accordance with the Town adopted procurement policy.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2011-05 PROCUREMENT POLICY (continued)

Recommendation

The Town should review the current procedures in place and update as necessary to ensure that each purchase complies with the Town's procurement policy and General Municipal Law. All purchase orders and supporting documents must contain enough detail (written quotes, state bid contract numbers, sole source, etc.) to prove that the Town performed their due diligence when procuring goods and services. All commodity reports must be reviewed periodically to ensure compliance with the procurement policy.

We observed that the adopted procurement policy contains very restrictive guidelines. We recommend the Town review the current policy to ensure the practicality of the Town following the guidelines while making sure that the policy reflect the requirements of General Municipal Law. In addition, the Town should consider addressing confirming purchase orders in the policy.

Management's Response

a. Purchasing will send letters to vendors and department heads reminding them of the procurement policy whereas no purchase shall be made without obtaining a purchase order.

b. Purchasing will be more fastidious about making sure the documentation be attached to the entire package.

c. Purchasing will be more fastidious about making sure the documentation be attached to the entire package.

d. In 2012, this has been corrected. The Purchasing Department records all commodities so that they do not exceed aggregate amounts.

e. The Purchasing Department will document that an emergency purchase was required; and the Purchase Order will clearly state that.

f. Purchasing will send letters to vendors and department heads reminding them of the procurement policy whereas no purchase shall be made without obtaining a purchase order.

2011-06 INTERNAL CONTROL AND STAFFING QUALIFICATIONS (Repeat Finding) - 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.

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.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2011-06 INTERNAL CONTROL AND STAFFING QUALIFICATIONS (continued)

Criteria (continued)

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

Although we acknowledge the hiring of a Deputy Financial Administrator in recent years and continued use of a consultant, there are remaining 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. The Town must continue its endeavors to train personnel to raise the expertise level of the core staff.

In the event the consultant is no longer engaged by the Town, or is engaged in a diminished capacity, the Town should consider hiring, at minimum, an accountant level position to ensure that all progress gained at this point is not lost and can be maintained on an ongoing basis. Time constraints will not permit the Accounting Department's management to perform this function.

Effect

There is a potential for material misstatement and human error when internal controls and core staffing qualifications are not maintained at the proper levels. In addition, the timely completion of the external audit is contingent upon management's ability to close the books in an expeditious manner. Future grant funding and scrutiny by the New York State Comptroller's Office and the bonding community is also at risk.

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 consider adding an accountant level position to perform the capital asset, capital projects, debt service and grant reconciliation process. Individuals hired by the Town need to have a working knowledge of the laws and regulations that affect financial reporting in New York State as well as 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.

In prior years, we stressed that the Town consider the time invested in the past five years which has led to significant progress in the Accounting Department which needs to be maintained by the addition of an accountant level position. We are aware that the Town hired an employee at the accountant level to replace a vacated position in September 2012 and will be reorganizing the Accounting Department to assist with the above.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2011-06 INTERNAL CONTROL AND STAFFING QUALIFICATIONS (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. In 2012, the Town of Riverhead hired an Accountant.

2011-07 SEGREGATION OF DUTIES (Repeat Finding) - Significant Deficiency

Criteria

An effective system of internal controls requires the segregation of duties so that certain duties are spread among several 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, from a practical standpoint, it is important to have increased supervisory review of activities.

Condition

During our audit, we noted the following:

a. 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, writing and signing checks 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.

b. One employee at the Justice Court is responsible for opening mail, collecting cash receipts, reconciling the cash drawer at the end of each day, performing monthly reconciliations of cash receipts and disbursements and comparing to bank statements, is an authorized signer on the bail bank account, has access to the safe and is aware of the safe's combination. In addition, the petty cash drawer is maintained in this employee's office in an unlocked drawer. These are incompatible functions in a properly segregated control environment.

Effect

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

Recommendation

We recommend the Town review the current duties in the Justice Court and Receiver of Taxes to ensure proper segregation of duties.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2011-07 SEGREGATION OF DUTIES (continued)

Management's Response

a. The Accounting Department will review bank reconciliations on a monthly basis.

b. Justice Court procedures changed in 2012 as follows: a) an employee other than the one that prepares the bank reconciliations will open the mail, b) a locked drawer has been installed and c) the Accounting Department will review monthly bank reconciliations.

2011-08 TRUST AND AGENCY ACCOUNTS - (Repeat Finding) Significant Deficiency

Criteria

All trust and agency accounts must be reconciled on a timely basis and should only reflect funds held in a custodial capacity.

Condition

During our audit procedures, we again noted that several trust and agency account balances as of December 31, 2011 did not change from the prior years. Upon further investigation, it was noted that the Town had not reconciled these accounts to determine if the balances are proper and if funds should be returned to other funds or third parties.

Effect

The Town's trust and agency fund may have amounts that are required to be transferred to other funds or returned to third parties.

Recommendation

We recommend the Town review all trust and agency fund accounts to ensure the balances only reflect amounts the Town is holding in a custodial capacity for others.

We noted that in April 2012, the Town hired an outside consultant to reconcile the trust and agency fund, which resulted in the Town reducing the trust and agency accounts by approximately $400,000 and transferring the cash to the appropriate Town fund.

Management's Response

In 2012, the Town of Riverhead hired a consultant to reconcile trust and agency accounts. Trust and Agency is reconciled and activity is monitored currently.

2011-09 MANAGEMENT OF GRANTS - Significant Deficiency

Criteria

All reimbursable grants should be monitored to ensure that grant reimbursements are filed timely and that payment is received. All Town departments administering grants must communicate the status of grants (i.e. grant award, expenditures that apply to the grants, receipt of grant, etc.) to the Accounting Department to ensure proper reporting of grants in the general ledger.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2011-09 MANAGEMENT OF GRANTS (continued)

Condition

We noted the following when auditing various reimbursable grants:

a) Several instances where there was a significant delay between the Town paying a vendor for grant eligible costs and the Town requesting reimbursement from the granting agency. In two instances, the Town incurred the costs in April and June of 2011 and the Town still has not submitted for reimbursement.

b) Instances where capital projects from previous years, expected to be paid for by the Consolidated Local Street and Highway Improvement Program (CHIPS) grant, will be paid for with Highway Fund's fund balance as the reimbursement process was not handled correctly or in a timely manner.

There needs to be better communication between the Town departments that are administering grants and the Accounting Department. The Accounting Department must be made aware of the status of awarded grants. This will make it more efficient for the Town to properly account for grants.

Effect

The Town runs the risk of losing funding and the Accounting Department may not be able to properly record activity relating to grants on the Town's books and records.

Recommendation

We recommend the Town implement a procedure to ensure all reimbursement requests to other governments are filed in a timely manner (i.e. within three months of expenditure being completed) and monitored to make sure payment is received. If payment is not expected to be collected, the receivable must be written off in the year it is deemed uncollectible.

In addition, the Town should review its current procedures for grants to ensure all Town departments are providing the necessary information for grants to the Accounting Department in a timely manner.

Management's Response

a) This delay resulted from continuous requests by the Federal Highway Administration for additional documentation and material certifications prior to certifying expenses as reimbursable. The Town provided extensive documentation of all expenses incurred on the project based on eligibility of the project for the purpose funding was used as well as documentation of project elements. The Town provided thorough follow-up with extensive project documentation and is in the process of closing the project but due to staffing reductions in both Community Development and Engineering the process took over a year. The department briefed the Board about the situation and the Board approved paying project bills ahead of requesting reimbursement.

b) All CHIPS reimbursements have been submitted. The amount of the disallowed projects are now available for future projects and will be filed timely.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2011

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

2011-10 TIMELY REPORTING FOR AMERICAN RECOVERY AND REINVESTMENT ACT FUNDS - Significant Deficiency

Federal Program/Cluster

Highway Planning and Construction Cluster- CFDA Numbers 20.205/20.219

Criteria

Per the grant agreement between the New York State Department of Transportation (NYSDOT) and the Town of Riverhead, any grants financed with American Recovery and Reinvestment Act of 2009 must submit Form FHWA-1589 to the NYSDOT by the 10^{th} of each month for the preceding month's data from the contract award date until contract completion.

Condition

There were two projects under the Highway Planning and Construction Cluster for which the Town was required to submit Form FHWA-1589 on a monthly basis. We noted that there were four months that the Town did not file the form by the 10^{th} day of the subsequent month, as required.

Effect

The Town is not meeting the requirements as prescribed in the grant agreements.

Recommendation

We recommend that the Town review the current procedures in place and modify as necessary to ensure the Town submits the required reports to the NYSDOT in a timely manner (i.e. 10 days after the month end).

Management's Response

This involved one late filing for Rail Project and three months of late filing for the Alternative Transportation Path during last quarter 2011. Due to extenuating circumstances, the forms were filed late and the Department corrected that procedure to send the forms to meet deadline.

TOWN OF RIVERHEAD
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year ended December 31, 2010

PRIOR YEAR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

2010-12 FILING DEADLINE FOR AUDITED FINANCIAL STATEMENTS - Material Weakness

Federal Program/Cluster

Highway Planning and Construction Cluster- CFDA Numbers 20.205/20.219

Criteria

OMB Circular A-133 at Section 320(a) states that the reporting package (which includes the audit reports) must be submitted no later than 30 days after the reports are received from the independent auditors but no later than nine months after the end of the audit period. The Federal Audit Clearinghouse considers the submission requirement complete when it has received both the data collection form and the reporting package electronically.

Condition

The Town did not meet the required September 30, 2011 filing deadline for the audited financial statements.

Effect

The Town is not in compliance with OMB Circular A-133 requirements.

Recommendation

We recommend that going forward the Town institute a timeline to ensure certain closing procedures take place in a timely manner. In addition, the Town may need to consider if they require additional accounting staff to assist with the closing process.

Current Status

The Town met the required September 30, 2012 filing deadline for the December 31, 2011 audited financial statements.