

TOWN OF RIVERHEAD

**INDEPENDENT AUDITORS' 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***

December 31, 2016



INDEPENDENT AUDITORS' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, 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, 2016, and the related notes to the financial statements, which collectively comprise the Town of Riverhead, New York's basic financial statements and have issued our report thereon dated November 27, 2017.

Our report includes a reference to another auditor who audited the financial statements of the Town of Riverhead Industrial Development Agency and the Riverhead IDA Economic Development Corporation, the aggregate discretely presented component units. These reports do not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by the other auditor.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Riverhead, New York's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Town of Riverhead, New York's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of audit findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

BEYOND THE NUMBERS...

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

245 PARK AVENUE, 39TH 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 Control Over Financial Reporting (continued)

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 Town of Riverhead, New York's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of audit findings as items 2016-001 and 2016-004 to be material weaknesses.

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 audit findings as items 2016-002, 2016-003, and 2016-005 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 from 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of audit findings as item 2016-006.

We noted certain other matters that we reported to management of the Town of Riverhead, New York in a separate letter dated November 27, 2017.

The Town of Riverhead, New York's Response to Findings

The Town of Riverhead, New York's response to the findings identified in our audit is described in the accompanying schedule of audit findings. The Town of Riverhead, New York's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Riverhead, New York's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Riverhead, New York's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Albert, Vignio, Zark & Gony P.C.

Hauppauge, New York
November 27, 2017

TOWN OF RIVERHEAD
SCHEDULE OF AUDIT FINDINGS
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2016-001 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 the following conditions relating to Information Technology and the computer software:

- a. The Town's software system is 30 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 or business continuity plan, nor an 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 30 years old and dependent on the reliance of third party consultants.

Recommendation

We are aware that the Accounting Department is actively investigating different software products 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 and business continuity plan including offsite storage be adopted, and periodic tests (restore) performed, as this is essential to preserve the integrity of the Town's data.

Views of Responsible Officials

- a. The Town has upgraded its Information Technologies infrastructure and has moved most of its users to a virtual environment. The Town started processing its payroll using ADP software starting in December 2016. ADP will provide the software, back up in the cloud, support and maintenance. Included in the ADP software is a human resource module that is Affordable Care Act compliant.

TOWN OF RIVERHEAD
SCHEDULE OF AUDIT FINDINGS
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2016-001 SOFTWARE (Repeat Finding) - Material Weakness (continued)

Views of Responsible Officials (continued)

- b. The Town purchased Edmunds Associates accounting software inclusive of a purchasing, inventory, fixed assets, budgeting and municipal garage billing modules. The Town has entered into an agreement with BAS software to implement their software to various departments to eliminate the reliance on the mainframe and outside programmers and consultants.
- c. The solutions implemented will have the town off the mainframe by April 1, 2018. The Town is also in the process of an RFP for its I.T. support contract. This contract will combine functions of several support contracts and looks to upgrade the existing virtual environment so that it fits our current demands and plans for our future needs and demands. The new contract will also allow for the Town to address business continuity, disaster recovery and cyber security.

2016-002 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 monies 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 that the Town is not liquidating the interfund receivables and payables within the required time periods set forth in General Municipal Law. In addition, the Town does not record interest income/expense between the 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

During our audit, we noted the Town did reduce the interfund balances outstanding at year end, particularly in the Sewer and Water District Funds. We recommend the Town continue to paydown the interfund receivables/ payables as funds become available.

Views of Responsible Officials

The Town is tracking all current interfund loans and is paying down existing loans as cash becomes available in the borrowing funds.

TOWN OF RIVERHEAD
SCHEDULE OF AUDIT FINDINGS
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2016-003 FUND BALANCE POLICY (Repeat Finding) - Significant Deficiency

Criteria

The Town's adopted fund balance policy states that the Town Board will "make all reasonable efforts to maintain total fund balance in the General Fund at the end of each fiscal year equal to no less than 15% of its total operating budget. If an emergency or a need were to occur that necessitated the appropriation of funds that would result in reducing the projected fund balance in the General Fund below 15% of operating expenditures, a resolution of the Town Board should be adopted to approve such appropriation."

Condition

We noted that total expenditures and transfers out for the Town's General Fund for the year ended December 31, 2016, were \$45,859,151 of which 15% would be \$6,878,873. The General Fund's total fund balance was \$2,434,275 and therefore the Town did not meet the minimum fund balance requirement. There were no Board Resolutions to approve appropriations in excess of the 15% fund balance minimum.

Effect

The Town is not in compliance with the Board adopted fund balance policy.

Recommendation

We recommend the Town review the Board approved fund balance policy and implement procedures to monitor the total fund balance as percentage of the operating budget to ensure compliance with the policy. Any additional appropriations, in excess of the 15% of operating budget, must be approved through a Board Resolution.

Views of Responsible Officials

The Town's 2015, 2016 and 2017 budget is balanced and does not rely on fund balance. The 2018 budget does not rely on fund balance. The Town is waiting on an offer to sell property based on the subdivision at EPCAL which would add significant revenues and increase the fund balance.

2016-004 JUSTICE COURT AUDIT - Material Weakness

Criteria

New York State Law §2019-a of the Uniform Justice Court Act states that it is the duty of each Justice, at least once a year and upon the last audit day (i.e. December 31, 2016), to present the records and docket to the auditing board of the Town or to a certified public accountant or public accountant, which shall examine the records and docket and a report be submitted and documented in the Board minutes stating that the records and dockets were examined and that the fines therein collected have been turned over to the proper officials of the Town as required by law.

TOWN OF RIVERHEAD
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2016-004 JUSTICE COURT AUDIT - Material Weakness (continued)

Criteria (continued)

Based on New York Town Law §123, Annual Accounting by Town Officers and Employees, in the past, the Town's policy and practice was that the Justice Court annual audit be completed within sixty days after the close of the town's fiscal year to ensure compliance with the laws and regulations applicable to a Town Justice Court.

Per the *New York State Handbook for Town and Village Justices and Court Clerks*, the Chief Administrative Judge of the Office of the Court Administration will request that mayors and supervisors submit a copy of the annual audit.

Condition

In the past the Town has taken the position that the Justice Court audit is required to be completed sixty days after year end based on New York Town Law §123. We are aware the Town had engaged a public accounting firm to complete the year ended December 31, 2016 Justice Court audit, however as of the date of this report, the Town was not able to complete the annual audit in a timely manner. Therefore, the Town is not in compliance with its policy over compliance with the laws and regulations applicable to Town Justice Courts.

Effect

The Town may not be in compliance with State or Town Law.

Recommendation

We recommend the Town work with the Town of Riverhead, Justice Court to ensure that the Court can provide the necessary information to complete the annual 2016 audit as required and going forward be able to complete future audits in a timely manner.

Views of Responsible Officials

The Town of Riverhead, pursuant to and consistent with Town Law Section 123, contracted with a Certified Public Accounting firm to conduct an independent audit of the Town's Justice Court for the year ending December 31, 2016. The Town, through its two Justices and personnel employed by and assigned tasks related to reporting and documentation for receipt and disbursement of monies, did provide all books, records and all such other documents to meet the reporting requirements pursuant to and in compliance with the Uniform Justice Court Act Section 2019-a within such time period required to complete the independent audit within the 60 days after the close of the Town's fiscal year. To the best of the Town's knowledge, while the Certified Public Accounting firm completed its audit of the books and records, the audit was deemed incomplete or open due to the failure of the Town Justice's signing a document/form created by the Certified Public Accounting firm titled "Fraud Risk Inquiries Form". It must be noted that a Justice reported that inquiry regarding appropriateness and requirement to execute such a form to the New York State Office of Court Administration opined that completion is not an appropriate responsibility or duty of a Town Justice. The Town requests that this audit reflect that on March 16, 2017 the Town approved an Agreed Upon Procedures engagement focusing on the cash receipts and disbursements and detailed procedure audit of the Town's Justice Court for the year ending December 31, 2016. The Town anticipates that this engagement shall be complete and presented in the very near future.

TOWN OF RIVERHEAD
SCHEDULE OF AUDIT FINDINGS
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2016-005 INTERNAL CONTROLS OVER THE YEAR END CLOSING PROCESS / MANAGEMENT REVIEW - Significant Deficiency

Criteria

A good system of internal control includes preparing and maintaining supporting schedules to ensure accurate financial reporting. This also requires that all supporting schedules, documents, and journal entries have a preparer and reviewer. This should be evidenced with sign-offs and dates from both the preparer and reviewer.

Condition

Upon performing our audit, we noted the following which resulted in adjustments to the Town's books and records and/or supporting documentation:

- 1) Budget adjustments – There were instances noted where the budget adjustments approved by the Board were not properly reflected in the related Town funds, which resulted in final budgets not equaling to zero by individual fund. In addition, we noted there were budget adjustments recorded where the same Town employee signed off as the preparer and reviewer and also was responsible for entering the entry in general ledger.
- 2) Year-end audit schedules – During the audit, there were schedules provided by the Town that did not show evidence that a member of management performed a review of the schedule to ensure accuracy of the work and that the balances agreed to supporting documents or the Town's books and records. This resulted in many audit schedules needing to be redone and adjustments to the Town's books and records. This was noted specifically when auditing the Town's capital asset, compensated absences, bond amortization, payroll reconciliation, collateral schedules and judgements and claims liabilities.
- 3) Account coding – There were instances noted that the account coding, specifically for items capital in nature were not recorded in the correct functionality account.

Effect

The Town's internal controls may not detect a misstatement in the books and records.

Recommendation

We recommend the Town more formally put in place internal controls to ensure that there is a preparer and reviewer for key areas (i.e. payroll reconciliation, budget adjustments, cash disbursements, supporting schedules for noncurrent assets and liabilities, etc.). Reviews should be performed by someone with the right level of experience, preferably a member of management and there should be documentation of who prepared the support and who reviewed it and the date.

In addition, we recommend the Town document, in writing, the internal controls in place over key areas (budgeting, cash receipts, disbursements, payroll and grants).

TOWN OF RIVERHEAD
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2016-005 INTERNAL CONTROLS OVER THE YEAR END CLOSING PROCESS / MANAGEMENT REVIEW - Significant Deficiency(continued)

Views of Responsible Officials

The Accounting Department has been through numerous changes in the past two years. The Accounting Department converted to a new payroll software solution and in the process of converting accounting software. The Accounting Department also lost three employees and only recently replaced two of those employees. With the implementation of the new software and the training of the new employees the Accounting Department will have the qualified employees to prepare the books and records and financial statements timely.

2016-006 SPECIAL TRUST FUND TRANSFER AND DEFICIT FUND BALANCE - Compliance and Other Matter

Criteria

The Town's capital projects must have authorized financing (i.e. bond proceeds, operating transfers in from other funds, grant proceeds) prior to the start of the project. If the financing of expenditures for a particular project cannot be obtained, the Town must determine how the costs incurred for an individual capital project will be recovered to avoid any deficits in the Capital Project Fund. The Town Board must approve all transfers between funds and should have a planned course of action to ensure that any fund balance deficits will be eliminated in future years.

Condition

We noted that the Capital Projects Fund had a park and recreation project which had costs in previous years and was expected to be financed with general obligation bonds. During 2016, the bonding authorization for this project had expired and the Town's management determined it was necessary to fund the deficit in the Capital Project Fund with a transfer in from the related operating fund (Special Trust Fund). This resulted in an overall deficit in the Special Trust Fund's fund balance in the amount of \$813,185 as of December 31, 2016.

Effect

The Town's reporting of a transfer out of the Special Trust Fund may not be properly authorized and the Town does not currently have a plan in place to eliminate the deficit in the Special Trust Fund.

Recommendation

We recommend the Town Board and management review the accounting transaction to fund the park and recreation project deficit that resulted from the bond authorization expiring in 2016. This should include proper authorization from Town Board for the reimbursement of the Capital Project Fund as well as a written planned course of action to eliminate the deficit in the Special Trust Fund in future years.

TOWN OF RIVERHEAD
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2016-006 SPECIAL TRUST FUND TRANSFER AND DEFICIT FUND (continued)

Views of Responsible Officials

The Town made an accounting adjustment to correct the deficit in the Capital Projects Fund. Due to the timing of the report there is no Board authorization for the transaction. The Board will authorize the proper source of funds for the Capital project.