

TOWN OF RIVERHEAD

SINGLE AUDIT REPORTS

Year Ended December 31, 2012

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TOWN OF RIVERHEAD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended December 31, 2012

<u>Federal Agency/Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:			
Pass-through Program From:			
Suffolk County, New York, Office of Community Development			
		B09-UC-36-0102	
		B10-UC-36-0102	
		B11-UC-36-0102	
Community Development Block Grant/Entitlement Grant	14.218	B12-UC-36-0102	<u>282,869</u>
Total U.S. Department of Housing and Urban Development			<u>282,869</u>
U.S. Department of Justice:			
Direct Programs:			
Part E- Developing Testing and Demonstrating Promising New Programs	16.541		45,460
Bullet Proof Vest Partnership Program	16.607		5,573
Edward Byrne Memorial Formula Grant Program	16.738		28,134
Pass-through Programs From:			
Suffolk County, New York, Sherriff's Office			
Bulletproof Vest Partnership Program	16.607	JB10053891	13,010
Public Safety Partnership and Community Policing	16.710	2009-CSWX0018	<u>1,192</u>
Total U.S. Department of Justice			<u>93,369</u>
U.S. Department of Transportation:			
<i>Highway Planning and Construction Cluster:</i>			
Pass-through Programs From:			
New York State Department of Transportation			
ARRA- Highway Planning and Construction	20.205	D032230	95,988
New York State Office of Parks, Recreation, and Historic Preservation			
Recreational Trails Program	20.219	C050108	<u>38,726</u>
Total Highway Planning and Construction Cluster			<u>134,714</u>
Pass-through Program From:			
New York State Governor's Traffic Safety Committee			
State and Community Highway Safety	20.600	00280-052/0030-052	<u>5,208</u>
Total U.S. Department of Transportation			<u>139,922</u>

(continued)

TOWN OF RIVERHEAD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2012

<u>Federal Agency/Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:			
<i>Aging Cluster:</i>			
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	SCS00000005150	22,409
Special Programs for the Aging- Title III, Part C		SCS10000001865/	
Nutrition Services	93.045	SCS11000005341	58,296
		SCS10000001865/	
Nutrition Services Incentive Program	93.053	SCS11000005341	26,320
Total Aging Cluster			<u>107,025</u>
Total U.S. Department of Health and Human Services			<u>107,025</u>
U.S. Department of Homeland Security:			
Pass-through Programs From:			
New York State Division of Homeland Security and Emergency Services			
Disaster Grants- Public Assistance	97.036	1899 DR NY	15,871
Hazard Mitigation Grant	97.039	HMGP 1899-0016	964,807
Suffolk County, New York, Department of Fire, Rescue			
and Emergency Services			
Homeland Security Grant Program	97.067	C884289	3,340
Suffolk County, New York, Sherriff's Office			
Homeland Security Grant Program	97.067	SC-00000005095	9,552
Total U.S. Department of Homeland Security			<u>993,570</u>
Total Expenditures of Federal Awards			<u>\$ 1,616,755</u>

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, 2012

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, 2012. 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 position, 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 modified 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.
- (3) During October 2012, the Town of Riverhead, New York and much of the United States Eastern Coast, experienced damage from Hurricane Sandy which was declared a federal disaster. The federal disaster declaration enables the reimbursement of certain costs incurred related to debris removal and approved permanent work through the Federal Emergency Management Agency (FEMA) of the U.S. Department of Homeland Security. The Schedule does not include any expenditures related to Hurricane Sandy due to the following:
 - a. The Town of Riverhead and the Town of Brookhaven entered into an Inter-municipal Agreement ("agreement") for the period of October 28, 2012 through May 31, 2013. This agreement stated that the Town of Brookhaven would accept the Town of Riverhead's vegetative waste at a cost of \$75 per ton. This agreement also authorizes the Town of Brookhaven to request reimbursement of any disaster assistance directly from the granting agency when a federal declared emergency takes place. As a result, all reimbursable expenditures for vegetative waste from Hurricane Sandy which were disposed of at the Town of Brookhaven's landfill, will be reported on the Town of Brookhaven, New York's federal single audit report.
 - b. As of the date of this report, the costs related to the debris removal (labor) and protective measures for the year ended December 31, 2012 could not be quantified and therefore will be reported in the following year's schedule of expenditures of federal awards.



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 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, 2012, 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 September 25, 2013.

Our report includes a reference to another auditor who audited the financial statements of the Town of Riverhead Industrial Development Agency, the discretely presented component unit. This report does not include the results of the other auditor's 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 findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

PERSONAL SERVICE. TRUSTED ADVICE. 

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2012-01 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 as items 2012-02 through 2012-05 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 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 25, 2013.

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 findings and questioned costs. 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.

Alvin, Vignar, Zerk & Company PC

Hauppauge, New York
September 25, 2013



CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

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, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Town of Riverhead, New York's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Town of Riverhead, New York's compliance.

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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

Opinion on the Major Federal Program

In our opinion, the Town of Riverhead, New York, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 items 2012-06 and 2012-07. Our opinion on the major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the Town of Riverhead, New York is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Riverhead, New York's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 assigned 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. *A significant deficiency in internal control over compliance* is a deficiency, or 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2012-06 through 2012-08 that we consider to be significant deficiencies.

The Town of Riverhead, New York's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Riverhead, New York's response was not subjected to the auditing procedure applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2012, and the related notes to the financial statements, which collectively comprise the Town of Riverhead, New York's basic financial statements. We issued our report thereon dated September 25, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic 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 basic financial statements or to the basic 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.

Albert Vignone, CPA

Hauppauge, New York
September 25, 2013

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of Town of Riverhead, New York.
2. There are five control deficiencies relating to the audit of the financial statements reported in the "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". 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. Three significant deficiencies relating to the audit of the major federal award program was reported in the "INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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 unmodified 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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
97.039	Hazard Mitigation Grant

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, 2012

FINDINGS – FINANCIAL STATEMENTS AUDIT

2012-01 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 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 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 purchasing new accounting software to move the Accounting, Payroll, Purchasing, Fixed Assets, Budget and Inventory modules off the mainframe to a windows platform. The purchase of new software will come with support, maintenance and disaster recovery. The process has been stalled due to an upgrade in the Town's Information Technology's infrastructure.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2012-01 SOFTWARE (continued)

Management's Response (continued)

- b. Mainframe programming is a specialized knowledge and it is more cost effective to utilize a consultant on an as need basis. Hardware support is typically part of the purchase of the new equipment.
- c. The Town has a backup procedure but currently has no formal disaster recovery plan. The Town expects to have the new software provide disaster recovery.

2012-02 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 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 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 sufficient 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

The balances outstanding are mainly a result of borrowings for various capital projects, some of which are waiting for financing sources such as bond or grant proceeds. We recommend the Town continue to reduce the interfund balances as soon as funds become available within the guidance provided by General Municipal Law. We are aware that in the current year, the Town started maintaining a schedule of interfund receivables and payables relating to capital projects. The Town should expand this existing schedule to include 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.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2012-02 INTERFUND RECEIVABLES AND PAYABLES (continued)

Management's Response

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

2012-03 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 financing sources available, causing the Town to use any unused cash in the Capital Projects Fund from other projects or borrowings from another fund.
- 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.
- c. Individual project schedules, which are used for tracking capital projects, are not updated on a timely basis (i.e. 2012 schedules for governmental activities were finalized in July 2013 and the proprietary fund activities were finalized in May 2013).

Effect

There is a potential for misuse or misallocation of borrowed Capital Project Funds and jeopardizing the Town's bond rating. 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 on a timely basis. We are aware that in the beginning of 2012, the Town no longer borrowed monies from other projects. We recommend the Town continue this practice going forward.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2012-03 CAPITAL ASSETS AND CAPITAL PROJECTS (continued)

Recommendation (continued)

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 uses by project.

We further recommend that any schedules/reports that are generated continue to be reconciled to the general ledger and be reviewed by the management of the Accounting Department at least on a quarterly basis. Any closed projects should also be reviewed, at minimum, on a quarterly basis and all residual equity transfers be made as necessary.

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

Management's Response

As of February 2012, all loans to the Capital Projects Fund were made from operating funds and tracked individually. The Town is in the process of reconciling the general cash account and expects this will be completed by December 31, 2013.

2012-04 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

Upon testing the Town's Board approved procurement policy, as updated on March 2011 and then November 2012, we noted the following:

- a. Three instances where there were no purchase orders used for a purchase of a good or service as required by the March 2011 policy.
- b. Two instances 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.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2012-04 PROCUREMENT POLICY (continued)

Condition (continued)

- c. An instance in where two written 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.
- d. Three instances where a Town's purchase was considered an emergency item; however there was no such documentation on the purchase order or requisition. For one of these instances there was no purchase order or requisition supporting the purchase.
- e. An instance where an item was purchased from a sole source vendor however no documentation was provided from the vendor verifying this as required.
- f. An instance where the invoice date was before the purchase order date.
- g. An instance where a requisition was not signed by the Deputy Supervisor as required.
- h. An instance where two bidders responded for purchase of pavement patches, one price for a low quantity (1,200 square feet at a cost of \$6.50 per square foot) and one price for a high quantity (more than 1,201 square feet at \$5.25 square foot). The Town awarded the bid to the low quantity bidder, however 7,500 square feet was purchased which resulted in an additional cost of approximately \$9,400. The Town was not able to explain why the wrong vendor was selected.
- i. An instance where a purchase of a service (repair service for a diesel generator at the water facility) did not have a supporting purchase order. In addition, the only support that the Town complied with the procurement policy was a professional service contract covering a future time period. This purchase required the Town to obtain two verbal quotes as repair services.
- j. An instance where a purchase was made for services in August 2012, however, the contract with the vendor expired July 31, 2012 and was renewed effective September 1, 2012. No additional procedures were taken to comply with the procurement policy.

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.

We noted the supporting documentation for bids did not always include the notarized affidavit of published "notice to bidders" or listings of opened bids detailing the vendor and the amounts.

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, 2012

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2012-04 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. Such supporting documents should be maintained by the Purchasing Department as the main function of this department is to ensure that the Town is in compliance with the latest Board adopted procurement policy and state laws relating to procurement. All commodity reports must be reviewed periodically to ensure compliance with the procurement policy.

As a best practice, the Town should consider maintaining the notarized affidavit of the published "notice to bidders" and a list of opened bids as part of the bid supporting documentation.

Management's Response

The Purchasing Agent will remind department heads and vendors that each purchase of goods or services requires authority prior to filling such order or performing services. The Purchasing Agent will review commodity code reports to ensure all purchases in excess of the threshold are properly bid and all emergencies and other exceptions are properly documented.

2012-05 MANAGEMENT OF GRANTS (Repeat Finding) - 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.

Condition

When performing audit procedures on various reimbursable grants we noted instances where there was a significant delay between the Town incurring costs for grant eligible expenditures (i.e. internal costs for labor and/or vendor payments) and the Town requesting reimbursement from the granting agency and receiving payment. For example, the Town incurred approximately \$965,000 of costs related to a reimbursable hazard mitigation grant which, at the time of this report, there was no reimbursement request submitted to the granting agency. There are other grants with the New York State Department of Transportation where the Town incurred over \$1,000,000 of costs in 2010 which still have not been received. Additionally, we noted that the amounts of costs eligible for reimbursement from the disaster assistance grant related to Hurricane Sandy for 2012 could not be quantified as of the time of this report.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2012-05 MANAGEMENT OF GRANTS (continued)

Condition (continued)

There were instances during the audit when the Accounting Department was not able to reconcile and properly account for certain grants which affected the books and records of the Town for the year ended December 31, 2012. This was a result of the Accounting Department not being provided the proper documentation (i.e. reimbursement requests, grant agreements, correspondence with granting agencies, etc.) necessary to properly record the activity related to grants for the Town for the purpose of the audited financial statements and the schedule of awards of federal expenditures.

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 on a timely manner to meet the filing requirement of the Federal Single Audit. As mentioned in the finding 2012-02 for interfund receivables and payables, the delay in requesting grant reimbursement also creates unnecessary borrowings between the Town's funds.

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.

It is imperative that there 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 and be provided access to the relative information for the grants in a timely manner. 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. At the minimum, a designated person in the Accounting Department should be included in all communications the Town has with granting agencies, including emails, meetings and conference calls. The Accounting Department must be provided with copies of all reimbursement requests and all related supporting documentation.

Management's Response

The Town agrees with the recommendation. Upon award and implementation of any grant, the Town shall designate a representative from the Accounting Department to meet with the project manager for grants and such other individuals participating in any aspect of grant. A worksheet shall be created outlining the grant requirements and reimbursement procedures. The project manager will conduct quarterly meeting with individuals identified above to track the project and the expenditures of funds and reimbursement.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

2012-06 FORMAL DEED RESTRICTIONS - Significant Deficiency

Federal Program/Cluster

Hazard Mitigation Grant- CFDA Number 97.039

Criteria

Per the letter of approval of funding from the US Department of Homeland Security, dated October 4, 2011, under the conditions of approval, the Town was required to place deed restrictions on the purchased properties to ensure the properties are dedicated and maintained in perpetuity for uses compatible with open space, recreational, or wetlands management practices.

Additionally, the grant agreement between the New York State Office of Emergency Management and the Town of Riverhead provided a “draft deed” for the Town to utilize to comply with this requirement.

Condition

The Town was not able to provide the deed restrictions.

Effect

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

Recommendation

We recommend that the Town prepare and file deed restrictions to ensure compliance with this grant agreement.

Management's Response

Pursuant to terms and conditions of Phase I of the grant awarded under NYSOEM/FEMA regarding HMGP-1899, the Town of Riverhead prepared “Declaration of Covenants” addressing purpose of acquisition and limitation regarding use for all properties which will be filed with the Suffolk County Clerk. The Project Manager, Chief Hegermiller, will obtain approval from NYSOEM/FEMA as to the form and language set forth in the Declaration of Covenants prior to filing/recording with the Suffolk County Clerk.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT
(continued)

2012-07 TIMELY REPORTING OF PERIOD OF PERFORMANCE EXTENSIONS - Significant Deficiency

Federal Program/Cluster

Hazard Mitigation Grant- CFDA Number 97.039

Criteria

Per the letter of approval of funding from the US Department of Homeland Security, dated October 4, 2011, under the conditions of approval, the Town was required to complete phase 1 of the Hazard Mitigation Grant Program (acquisition and demolition of twelve homes) by June 30, 2012. It also stated that all potential asbestos abatement, environmental compliance, demolition, and site restoration for the acquired homes must be completed within 90 days of each property closing.

If the above completion dates are not expected to be met, the subgrantee (the Town) must submit a formal written request to the Regional Administrator (New York State Division of Homeland Security and Emergency Services) requesting a period of performance extension no later than 60 days prior to the expiration of the period of performance (i.e. May 2, 2012) and must include a justification for the extension.

Condition

We noted that the period of performance extensions were not requested in the timeframe that was prescribed in the letter of approval from the US Department of Homeland Security. The first period of performance extension was due May 2, 2012 but was not filed until July 20, 2012. The extensions requested thereafter are all dated the day before the requested deadline (i.e. the next extended deadline was November 30, 2012 and the extension request was dated November 29, 2012).

Effect

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

Recommendation

We recommend that going forward, the Town prepare and file period of performance extensions in a time frame that meets the requirements of the grant agreement.

Management's Response

The Town agrees with the recommendation. The Town requests that it be noted that portions of the Town were devastated due to a Federally declared disaster and this grant was unique in that it involved negotiations with residents for purchase of homes destroyed by the disaster and flooded properties. The Town was in constant communication with the granting agency and the Town did receive in writing approval for each extension (also see response to finding 2012-05).

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT
(continued)

2012-08 INTERNAL CONTROLS OVER CASH DISBURSEMENTS/ COMPLETENESS OF SUPPORTING DOCUMENTATION - Significant Deficiency

Federal Program/Cluster

Hazard Mitigation Grant- CFDA Number 97.039

Criteria

Per the letter of approval of funding from the US Department of Homeland Security, dated October 4, 2011, under the conditions of approval, all property acquisition offers need to be coordinated with the New York State Division of Homeland Security and Emergency Services (“NYS OEM”) prior to the offer being submitted to the homeowner.

All claim vouchers and the supporting documentation for disbursements related to grants must be complete and include all information to support the nature and amount of the disbursements.

Condition

Upon reviewing the certain supporting documentation when testing the internal controls over compliance we noted the following:

- a) The process of obtaining the NYS OEM’s approval of the purchase price was done via email, which was the preferred method of communication of the granting agency. Upon reviewing the email correspondence, we noted that the approvals, in many instances, were not clear as to which properties were being approved and at what offering price.
- b) An instance where the property owner was overpaid by \$235 due to a mathematical error on the claim voucher. Although the amount is not significant, the internal controls in place did not find the error.
- c) Two instances whereby the voucher package did not include supporting documentation as to the final purchase price (i.e. the final appraisal or the approval email from the NYS OEM).
- d) A “Statement of Determination of Fair Compensation” was included in the “offer letter packet” provided to the property owners. This form could not be located for two of the five property purchases we tested.
- e) The various supporting documents for each property purchase (from appraisal to closing) were not maintained in a central location but by two separate departments in the Town. As a result, it was often difficult to obtain information related to the procedures that took place prior to the closing in a timely manner. Ideally, there should be one file for each property purchase and all of the supporting documents, including email correspondence, should be maintained in this file.
- f) The Town Board authorized an Inter-municipal agreement with another government, stating that in-kind services for this grant would be contributed to meet the requirement for the matching of local funds; however the Town never received this agreement back signed and authorized by the other government.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT
(continued)

2012-08 INTERNAL CONTROLS OVER CASH DISBURSEMENTS/ COMPLETENESS OF SUPPORTING DOCUMENTATION (continued)

Effect

Documentation may not be sufficient to meet the requirements of the granting agency or support the nature and amount of the disbursement. If agreements are not signed by all parties, it will not be valid and the Town may not be able to receive the services agreed upon or could be liable for paying for any services already provided.

Recommendation

We recommend that going forward all approvals from outside agencies be documented in a format that clearly describes what is being approved, the basis and the amount of approval (i.e. the offering price for a parcel XX, based on an appraisal done by XX on the date of XX, at the offering price of \$XX).

In addition, we recommend that one Department be in charge of maintaining all the proper documentation for the individual purchases of properties for this grant and any future grants similar in nature. This Department would be in charge of making sure all the required documentation per the granting agency and per Town procedures was obtained in a timely manner.

The Town must maintain copies of all signed agreements with third parties.

Management's Response

The Town agrees with the recommendation. As stated, in response the Town will include the format set forth in the recommendation. In response to the conditions, it should be noted that two properties did not contain residential structures or conditions for which duplication of benefits would apply and as to all properties, the granting agency did in fact determine and approve fair compensation and final purchase price. The Town never received a signed IMA with Suffolk County, however the Town and the County originally had a joint application outlining both municipalities contribution to the project.

TOWN OF RIVERHEAD
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year ended December 31, 2011

**PRIOR YEAR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS 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 ("NYS DOT") and the Town of Riverhead, any grants financed with American Recovery and Reinvestment Act of 2009 must submit Form FHWA-1589 to the NYS DOT by the 10th 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 10th 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 NYS DOT in a timely manner (i.e. 10 days after the month end).

Current Status

This projects described in the above condition were closed out in 2011 and did not require any further filings in 2012.