

**TOWN OF RIVERHEAD**

**SINGLE AUDIT REPORTS**

Year Ended December 31, 2009

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**TOWN OF RIVERHEAD**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ended December 31, 2009

<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 Agriculture:			
Direct Program:			
Rural Housing Preservation Grant	10.433		\$ 34,461
U.S. Department of the Interior Fish and Wildlife Service:			
Direct Program:			
Fish and Wildlife Management Assistance	15.608		56,000
U.S. Department of Housing and Urban Development:			
Pass-through Program From:			
Suffolk County, New York, Office of Community Developer		B07-UC-36-0102 B08-UC-36-0102 B09-UC-36-0102	
Community Development Block Grant/Entitlement Grant	14.218	B10-UC-36-0102	170,158
U.S. Department of Justice:			
Direct Programs:			
Bulletproof Vest Partnership Program	16.607		9,037
<b>ARRA-</b> Edward Byrne Memorial Justice Assistance Grant	16.804		6,499
Asset Forfeiture			2,500
Pass-through Programs From:			
New York State Division of Criminal Justice Services			
Edward Byrne Memorial Justice Assistance Grant	16.738	BJ07-1018-D00	12,500
Edward Byrne Memorial Formula Grant	16.579	T902832	7,000
Total U.S. Department of Justice			37,536
U.S. Department of Transportation:			
<i>Highway Planning and Construction Cluster:</i>			
Pass-through Programs From:			
New York Energy Research and Development Authority			
Highway Planning and Construction	20.205	C012668	60,000
New York State Department of Transportation			
Highway Planning and Construction	20.205	D032107/D032120	12,086
<b>ARRA-</b> Highway Planning and Construction	20.205	D032230	35,706
Recreational Trails Program	20.219	C050108	8,075
Total Highway Planning and Construction Cluster			115,867
Pass-through Program From:			
New York State Department of Transportation			
State and Community Highway Safety	20.600	PT-5255101	18,700
Total U.S. Department of Transportation			134,567

(continued)

**TOWN OF RIVERHEAD**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ended December 31, 2009

<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	SCS09000002840	22,724
Special Programs for the Aging- Title III, Part C- Nutrition Services	93.045	SCS09000001865 SCS08000001865/	30,867
Nutrition Services Assistance Programs	93.053	SCS09000001865	<u>24,744</u>
Total Aging Cluster			<u>78,335</u>
Total U.S. Department of Health and Human Services			<u>78,335</u>
U.S. Department of Homeland Security:			
Pass-through Programs From:			
Suffolk County, New York, Police Department			
Homeland Security Grant Program	97.067	WM06834063	5,913
Suffolk County, New York, Sherriff's Office			
Homeland Security Grant Program	97.067	SC-0000003670	<u>4,552</u>
Total U.S. Department of Homeland Security			<u>10,465</u>
Total Expenditures of Federal Awards			<u>\$ 521,522</u>

See accompanying note to schedule of expenditures of federal awards.

**TOWN OF RIVERHEAD**  
**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended December 31, 2009

Note A – Basis of Presentation

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

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

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

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Riverhead, New York as of and for the year ended December 31, 2009, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant 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 material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 function, 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 identified as 2009-01 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 identified as 2009-02 through 2009-12 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 that are required to be reported under *Government Auditing Standards*.

We also noted certain other matters that we reported to management of the Town of Riverhead, New York in a separated letter dated June 27, 2011.

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

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

*Albert Vignio, Zerk & Company P.C.*

Hauppauge, New York  
June 27, 2011

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

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

Compliance

We have audited the compliance of the Town of Riverhead, New York with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Town of Riverhead, New York's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Riverhead, New York's management. Our responsibility is to express an opinion on the Town of Riverhead, New York's compliance based on our audit.

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

In our opinion, the Town of Riverhead, New York, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009. However, the results of our auditing procedures also disclosed an instances 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 items 2009-13 and 2009-14.

### Internal Controls Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned cost identified as 2009-14 to be a material weakness.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs identified as 2009-13 to be a significant deficiency.

### 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, 2009, and have issued our report thereon dated June 27, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise of the Town of Riverhead, New York's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

*Albert, Vignar, Zant & Company P.C.*

Hauppauge, New York  
June 27, 2011

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**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 twelve 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. Two control deficiencies relating to the audit of the major federal award programs reported in the "REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133". One of these deficiencies is reported as a material weakness.
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 programs.
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 programs tested as major programs include:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant Program
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, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

**2009-01 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 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 owns the source code and makes modifications to the software system as needed.
- c. The Town relies on third party consultants to supplement the maintenance of the mainframe system and additional consultants to supplement the support and maintenance of the windows applications. Hardware support is supplemented by different sources: Unisys for the mainframe, and Gateway and Dell for the PC's. These outside vendors supplement the support for these items as necessary.
- d. Currently there is no disaster recovery system or offsite disaster recovery location.
- e. There is no procedure in place to ensure that the Town's Information Technology Department is notified that a Town employee is terminated, that there is a new hire, or that a current employee's status has changed.

Effect

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

Recommendation

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

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

We recommend that a disaster recovery plan including offsite storage and periodic tests (restore) be adopted as this is essential to preserve the integrity of the data.

Finally, we recommend that the Town implement a procedure to ensure that the Information Technology Department is notified on a timely basis as to any changes in the Town employees' status of employment for computer security purposes.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-01 SOFTWARE (continued)**

Management's Response

While there is no set time frame for upgrading the Town's financial software, an upgrade has been recommended, by the Accounting Department, and may be entertained once budgeting allows. The Town purchased a software program to export the Towns financial data to excel to facilitate the analysis and reporting of financial information. The Town makes changes to the financial software through the source code only when mandated by the State or Federal government. As the Town is limited by staffing constraints, the use of outside consultants will continue for the foreseeable future. The policy for changing passwords was implemented in 2009 and passwords are required to be changed every 30 days. The Town will consider obtaining additional hardware in order to test system backups and will also look into creating a disaster recovery policy, possibly through an agreement with Suffolk County.

**2009-02 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 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.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-02 INTERFUND RECEIVABLES AND PAYABLES (continued)**

Recommendation

Although improvement was noted in this area, 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 makes interfund cash advances on a temporary basis for operating purposes. Interfund Receivables and Payables were paid down to the extent that cash allowed in 2009 and 2010.

**2009-03 BANK RECONCILIATIONS, RECONCILING ITEMS AND OTHER CASH ITEMS (Repeat Finding) - Significant Deficiency**

Criteria

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

Condition

During our audit of cash we noted the following:

- a. Bank reconciliations prepared by outside departments (i.e. Receiver of Taxes, Town Clerk, Justice Court, and Recreation Department) are not reconciled on a monthly basis, and the cash book balances are not always properly recorded on the Town's books and records:
  1. The Receiver of Taxes office is not reconciling the monthly bank reconciliations to the manual records (currently maintained on an excel spreadsheet). The current reconciliation is a listing of daily cash receipts that agrees to the bank balance, without taking reconciling items into account.
  2. The Town Clerk's bank reconciliations are not being prepared for all accounts.
  3. The Justice Court's bank reconciliations do not accurately reflect outstanding checks or deposits in transit for the Justice Court cash accounts, with the exception of the bail account.
  4. The Town's Accounting Department does not receive or routinely review the outside department's monthly bank reconciliations.
  5. Based on the Town's verbal procedures, the Town's outside cash collecting departments are required to transfer all cash and checks on hand to the Accounting Department or Town Supervisor at year end, to ensure proper accounting and reporting of cash. This procedure was not followed for the 2009 year end.
- b. One of the authorized signers for a Tax Receiver cash account is a former employee of the Town.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-03 BANK RECONCILIATIONS, RECONCILING ITEMS AND OTHER CASH ITEMS**  
(continued)

Effect

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

Recommendation

Bank reconciliations must include all reconciling items and be prepared on a monthly basis for all cash accounts maintained by the Town, including those held in the outside departments. In addition, all bank reconciliations should agree to the general ledger as of month-end and year-end and all necessary entries must be posted to the Town's books. We also recommend the Town appoint a member of management to review, date and approve all monthly bank reconciliations. All authorized signers of the Town's bank accounts must be updated timely to ensure only current and authorized employees are listed as signers with the financial institutions.

Management's Response

The Accounting Department is now reviewing all year end bank reconciliation and reporting all outside department's cash on the Towns books. All Town cash accounts handled by the Accounting Department are now routinely reconciled. Due to staffing limitations, individual department's bank accounts continue to be reconciled within the respective department with no management review or overview by the Accounting Department.

**2009-04 COLLATERAL AND INVESTMENT POLICY (Repeat Finding) - Significant Deficiency**

Criteria

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

Condition

During our audit, we noted that:

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

Effect

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

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-04 COLLATERAL AND INVESTMENT POLICY (continued)**

Recommendation

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

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

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

Management's Response

The Town will update its investment policy in the latter part 2011 and the policy will be reviewed and adopted yearly to ensure only institutions are listed. The Town's cash deposits were adequately collateralized.

**2009-05 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, we noted the following:

1. The water bills are generated and mailed by the Water Department and the Receiver of Taxes collects the receipts. The Accounting Department adjusts the accounts receivable balance annually. No one is responsible for reconciling the cash receipts collected to the general ledger. The Receiver of Taxes 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.
2. The Water Department receives rental payments for leasing space to cell phone carriers. Currently, the signed lease agreement is held by the Department's outside attorney. The Town does not have a copy. In addition, no one is tracking the receipts to ensure payments are made timely and in accordance with the lease agreements.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-05 WATER FUND ACCOUNTS RECEIVABLE AND WATER BILLING (continued)**

Condition (continued)

3. 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. No individual is reviewing and authorizing these manual changes.

Effect

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

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.

Copies of all signed lease agreements should be maintained by the Town and monitored to ensure proper and timely payments are received.

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

Due to staffing constraints, management review of billings prior to mailing, and reconciliation of receipts to postings is not feasible. While the current accounting software does not allow for an aging report, an outside consultant wrote a script to run every month that gives the Town an aging of the receivables, a module will be considered if the Town upgrades the system. The Town will consider instituting a policy whereby the Town Board is informed of all credit memos issued. Currently lease agreements are being maintained by outside counsel, however the Town will obtain copies of all lease agreements to be maintained in the Town Clerk's Office.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-06 CAPITAL ASSETS AND CAPITAL PROJECTS (Repeat Finding) - Significant Deficiency**

Criteria

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

- a. Designation of a property manager
- b. Guidelines for the maintenance of capital asset records
- c. A system for assigning identification numbers and tags or decals
- d. Provisions for periodic inventories
- e. An annual review of the policy by the Town Board to ensure it continues to meet the Town's objectives

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:

1. Capital Projects Fund debt is issued after all cash is exhausted in the Capital Projects Fund. The Town does not ensure that legally borrowed money is only spent for the purpose for which it was borrowed. Projects are often started without any funding in place thereby needing to use any unused cash in the Capital Projects Fund from other projects. Projects are often overexpended as they are awaiting future bonds.
2. Although the Town is tracking the individual project's revenues and expenditures in excel, the cash balance per each project can not always be traced back to that individual's capital projects cash balance per the general ledger since the Town has a "general cash" account with approximately \$5.2 million that has not been allocated to individual projects.
3. There were instances where the Town did not recognize an amount due from other governments/revenues for "expenditure driven" grant programs when the costs were incurred for specific capital projects and the Town met the eligibility requirements and the resources are available (i.e. a signed grant agreement is in place).
4. The Town misclassified amounts totaling approximately \$82,000 as an encumbrance instead of an accounts payable at year end for the Capital Projects Fund. In addition, the Town is manually maintaining a listing of accounts payable at year end instead of utilizing an "accounts payable module" which can be integrated with the Town's general ledger.
5. The Town does not have a written and Board approved capital asset policy.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-06 CAPITAL ASSETS AND CAPITAL PROJECTS (continued)**

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. Grant revenues and accounts payable may not be recognized in the proper year.

Recommendation

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

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

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. All grant revenues must be recognized in the period in which the related capital project costs were incurred.

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. 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 and approved by the Board at least quarterly.

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

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

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-06 CAPITAL ASSETS AND CAPITAL PROJECTS (continued)**

Management's Response

The Town will fund future projects by temporarily borrowing money from the operating fund that will eventually service the debt, or through the issuance of short term financing until the project is completed. In the past staff shortages have prevented the Town from following this process. In 2011 the Town adopted a written capital asset and intangible asset policy.

**2009-07 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 connections with each method of procurement and require justification and documentation of any contract awarded to other than the lowest bidder when competitive bidding is not required by law.

Condition

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

During our audit testing, we noted the following:

- a. Three instances where three written quotes should have been obtained however upon reviewing the voucher package, there was no documentation that the quotes were obtained.
- b. Four instances in which two written quotes should have been should have been obtained however upon reviewing the voucher package, there was no documentation that the quotes were obtained.
- c. Eight instances where goods were purchased through a New York State or Suffolk County contract, however, the related contract and contract number were not properly documented on the corresponding purchase requisition or purchase order.
- d. Two instances where goods were purchased through a sole source provider; however, "sole source" was not properly documented on the corresponding purchase requisition or purchase order.

In addition, based on verbal discussions with Town employees, it appears the Town is not properly tracking aggregate purchases in accordance with General Municipal Law.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-07 PROCUREMENT POLICY (continued)**

Effect

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

Recommendation

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

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

Management's Response

The Town established a new procurement policy on February 2, 2010. To allow for the tracking of aggregate purchases, the Town began using commodity codes, in 2010, for all of its purchases. The Town amended its procurement policy in July of 2010 and again in March of 2011 to further enhance its policy.

**2009-08 GENERAL JOURNAL ENTRIES (Repeat Finding) - Significant Deficiency**

Criteria

The Town records numerous manual general journal entries in the normal course of maintaining its books and records. A description as to the nature of the general journal entry, supporting documentation and authorization by the Financial Administrator or another designated member of management must readily be available.

Condition

The Town was not able to provide a report for the manual general journal entries recorded during the year. This appeared to be a limitation of the computer software utilized by the Accounting Department. In addition, there was no supporting documentation as to the nature of the entries or evidence that these were authorized by a member of the Town's management.

Effect

Manual general journal entries entered into the general ledger may not have the proper support to document the nature, purpose and amount of the entry and may not be authorized by a member of the Town's management.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-08 GENERAL JOURNAL ENTRIES (continued)**

Recommendation

We recommend the Town adopt a journal entry policy whereby all general journal entries be prepared on sequentially numbered "journal entry sheets" and initialed by the preparer and the individual approving the entry. In addition, all supporting documents must be attached or referenced. We also recommend the Town maintain a ledger of all manual general journal entries, as the computer system can not provide a summary report. We noted the Town implemented such a policy in 2010 and therefore any 2009 adjusting entries made in the 2010 year were properly supported by journal entry sheets and supporting documentation.

Management's Response

As noted in the recommendation above, the Town implemented a policy in 2010 for adjusting journal entries made for 2009. The Town will continue to follow this policy for all subsequent years.

**2009-9 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.

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 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.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-9 INTERNAL CONTROL AND STAFFING QUALIFICATIONS (continued)**

Condition (continued)

In the event the consultant is no longer engaged by the Town, 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 control 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.

The Town should consider the time invested in the past three years which led to significant progress in the Accounting Department as a major turning point which now needs to be maintained by the addition of an accountant level position.

Management's Response

In 2009, the Town hired a qualified Deputy Financial Administrator to assist the Financial Administrator in maintaining the Town's finances. While the Town recognizes the essential need for an additional qualified accountant, the Town can not consider this until funds are available. In the interim, the Town will utilize existing staff, to whatever extent possible, and consider alternate options to cope with the financial accounting and reporting requirements of the Town.

**2009-10 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, it is important to have increased supervisory review of activities.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-10 SEGREGATION OF DUTIES (continued)**

Condition

During our audit, we noted the following:

- a. An employee in the Information Technology Department is responsible for reconciling the payroll bank account.
- b. 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. In addition, this employee approves their own timesheet.
- c. One employee at the Justice Court is responsible for opening mail, reconciling the cash drawer, performing monthly bank reconciliations, is an authorized signer on the bank account, and has access to the safe combination. 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 Information Technology Department, Justice Court and Receiver of Taxes to ensure proper segregation of duties.

Management's Response

The Town moved the responsibility of reconciling the payroll account to accounting. While the Town segregates duties to the extent possible within its staffing constraints, it will continue to look for areas that can be improved and institute review procedures to mitigate these risks.

**2009-11 COMPENSATED ABSENCES (Repeat Finding) - Significant Deficiency**

Criteria

Accurate recordkeeping of compensated absences accruals is essential as it serves as the determinant of the associated liability.

Condition

During the audit, we noted the following when testing compensated absences:

- a. In numerous instances, the payroll department employees made "manual adjustments" to the computer system for the hours accrued for sick, vacation or personal time for Town employees. The adjustments were not documented and therefore management could not explain what the purpose was for these adjustments.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-11 COMPENSATED ABSENCES (continued)**

Condition (continued)

- b. One employee's compensated absences liability was overstated due to an incorrect management code in the payroll system which result in additional hours accrued for the year.
- c. An instance where one employee earned additional hours due to a system error and another instance where the system incorrectly capped an employees hours.
- d. An instance where a manual adjustment was input into the system incorrectly causing hours to be overstated for that employee.

Although, none of the above resulted in an audit adjustment, we feel there is a potential weakness in the internal control system as these errors were not detected by the Town's own controls.

Effect

In the event an employee is terminated, uses time or asks for a buy back, the Town's records may not be producing the proper amount of compensated absences balances as prescribed by collective bargaining agreements, which could result the Town making payments in excess of amounts owed.

Recommendation

We recommend that all manual adjustments made to the system be documented by a payroll department employee and approved and signed off by a member of management. In addition, a member of management should periodically review the system inputs to ensure compensated absences hours are calculated and accruing properly based on the current contracts.

Management's Response

The Town reviews and verifies the accruals posted to each employee's balance yearly, and has implemented an approval form for manual adjustments to employee's accrual balances.

**2009-12 JUSTICE COURT FUND AUDIT (Repeat Finding) - Significant Deficiency**

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, 2009), 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**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2009-12 JUSTICE COURT FUND AUDIT (continued)**

Condition

Due to the lack of staffing, the Town was not able to complete this examination in a timely manner for the year ended December 31, 2009.

Effect

The Town is not complying with State Law in a timely manner. Audit findings and recommendations, if any, may not be corrected and/or implemented in the proper timeframe.

Recommendation

Although we are aware the Town had the 2009 Justice Court audit performed, we recommend the Town take steps going forward to ensure that the Justice Court audits be completed and issued in a more timely manner.

Management's Response

The Town's justice court audit for the years 2007, 2008 and 2009 are in the process of being completed.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT**

**2009-13 PROGRAM INCOME - Significant Deficiency**

Federal Program

Community Development Block Grant Program - CFDA Number 14.218

Criteria

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

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

Condition

We noted that economic development loans repayments, generated from Federal grants, should have been considered "program income" and segregated from the Town's cash to be used in a method prescribed by the Federal Regulations.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT**  
(continued)

**2009-13 PROGRAM INCOME** (continued)

Effect

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

Recommendation

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

Management's Response

Loans and program revenue was reviewed and recorded properly in 2010.

**2009-14 FILING DEADLINE FOR AUDITED FINANCIAL STATEMENTS – Material Weakness**

Federal Program / Cluster

Community Development Block Grant Program - CFDA Number 14.218  
Highway Planning and Construction Cluster - CFDA Number 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, 2010 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.

**TOWN OF RIVERHEAD**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended December 31, 2009

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT**  
(continued)

**2009-14 FILING DEADLINE FOR AUDITED FINANCIAL STATEMENTS** (continued)

Management's Response

The Town hired a consultant to assist in preparing the Schedule of Expenditures of Federal Awards, for the year ended December 31, 2010. The Town will evaluate the need, going forward, to prepare the schedule of federal financial awards.