

TOWN OF RIVERHEAD

SINGLE AUDIT REPORTS

Year Ended December 31, 2010

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TOWN OF RIVERHEAD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended December 31, 2010

Federal Agency/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Identifying Number	Federal Expenditures
U.S. Department of Agriculture: Direct Program: Rural Housing Preservation Grant	10.433		\$ 28,315
U.S. Department of Commerce/ National Oceanic and Atmospheric Administration: Pass-through Program From: American Rivers Habitat Conservation	11.463	163/ 232	39,667
FishAmerica Foundation Habitat Conservation	11.463	FAF-5087	40,000
Total U.S. Department of Commerce/ National Oceanic and Atmospheric Administration			79,667
U.S. Department of Housing and Urban Development: Pass-through Program From: Suffolk County, New York, Office of Community Development			
Community Development Block Grant/Entitlement Grant	14.218	B08-UC-36-0102 B09-UC-36-0102 B10-UC-36-0102	49,182
ARRA - Community Development Block Grant/Entitlement Grant	14.253	B09-UY-36-0102	20,735
Total U.S. Department of Housing and Urban Development			69,917
U.S. Department of Justice: Direct Program: ARRA - Edward Byrne Memorial Justice Assistance Grant	16.804		65,435
U.S. Department of Transportation: <i>Highway Planning and Construction Cluster:</i> Pass-through Programs From: New York State Department of Transportation Highway Planning and Construction	20.205	D032107/D032120	1,133,552
ARRA - Highway Planning and Construction	20.205	D032230/D032417	3,619,836
New York State Office of Parks, Recreation, and Historic Preservation Recreational Trails Program	20.219	C050108	48,785
Total Highway Planning and Construction Cluster			4,802,173
Pass-through Program From: New York State Governor's Traffic Safety Committee State and Community Highway Safety	20.600	00145-052/00131-052	39,621
Total U.S. Department of Transportation			4,841,794

(continued)

TOWN OF RIVERHEAD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended December 31, 2010

<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	SCS10000002840	24,641
Special Programs for the Aging- Title III, Part C-			
Nutrition Services	93.045	SCS10000001865	37,975
Nutrition Services Assistance Programs	93.053	SCS10000001865	24,637
Total Aging Cluster			<u>87,253</u>
Total U.S. Department of Health and Human Services			<u>87,253</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	281,417
Suffolk County, New York, Police Department			
Homeland Security Grant Program	97.067	WM07834073	4,638
Suffolk County, New York, Sherriff's Office			
Homeland Security Grant Program	97.067	SC-0000004400	7,560
Total U.S. Department of Homeland Security			<u>293,615</u>
Total Expenditures of Federal Awards			<u>\$ 5,465,996</u>

TOWN OF RIVERHEAD
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2010

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, 2010. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Town of Riverhead, New York, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Town of Riverhead, New York.

Note B – Summary of Significant Accounting Policies

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



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, 2010, which collectively comprise the Town of Riverhead, New York's basic financial statements and have issued our report thereon dated November 23, 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. Those financial statements were audited by another auditor whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for the Town of Riverhead Industrial Development Agency, is based solely on the report of the other auditor.

Internal Control Over Financial Reporting

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

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

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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 2010-01 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 2010-02 through 2010-11 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 separate letter dated November 23, 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, Virginia, Zuck & Company P.C.

Hauppauge, New York
November 23, 2011



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the Town of Riverhead, New York's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Town of Riverhead, New York's major federal program for the year ended December 31, 2010. The Town of Riverhead, New York's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major federal program is the responsibility of the Town of Riverhead, New York's management. Our responsibility is to express an opinion on the Town of Riverhead, New York's compliance based on our audit.

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

In our opinion, the Town of Riverhead, New York, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010. The results of our auditing procedures also disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-12.

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Internal Controls Over Compliance

The management of the Town of Riverhead, New York is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Riverhead, New York's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A 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. *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 costs as item 2010-12 to be a material weakness.

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, 2010, and have issued our report thereon dated November 23, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. 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 U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Town of Riverhead, New York's response and, accordingly, we express no opinion on it.

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

Albert, Virginia, Zark & Company P.C.

Hauppauge, New York
November 23, 2011

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

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 eleven control deficiencies relating to the audit of the financial statements reported in the "REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS". One of these deficiencies is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the Town of Riverhead, New York which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One material weakness relating to the audit of the major federal award program was reported in the "INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133."
5. The auditors' report on compliance for the major federal awards program for the Town of Riverhead, New York expresses an unqualified opinion on the major federal program.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program is:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT

2010-01 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 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. 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.
- c. Currently there is no disaster recovery system or offsite disaster recovery location.
- d. 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 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 a software that is 25 years old and the reliance of third party consultants.

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, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2010-01 SOFTWARE (continued)

Management's Response

- a. The Town is in the process of reviewing three companies software packages so that they can move the accounting, payroll, purchasing, fixed assets, budget and inventory modules off the mainframe to a Windows platform. The purchase of new software will also come with support and maintenance.
- b. Mainframe programming is a specialized knowledge and it is more cost effective to utilize a consultant on as need basis. Hardware support is typically part of the purchase price of the new equipment.
- c. The Town has a backup procedure but currently has no formal disaster recovery plan. The Town is currently developing a disaster recovery plan.
- d. The Town implemented a procedure in 2011 in which the Information Technology department is notified of all changes in personnel.

2010-02 INTERFUND RECEIVABLES AND PAYABLES (Repeat Finding) - Significant Deficiency

Criteria

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

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

Condition

During our audit we noted the following:

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

Effect

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

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2010-02 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 pays down interfund balances as cash becomes available. Since the payable can only be relieved by a cash payment and the final balances for 2008 were not known until 2011, the Town has been making payments as cash allows. The Town will be selling \$22,000,000 in bonds in 2011 and paying back all balances possible by December 31, 2011.

2010-03 WATER FUND ACCOUNTS RECEIVABLE AND WATER BILLING (Repeat Finding) - Significant Deficiency

Criteria

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

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

Condition

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

- a. The Town did not record the amount of unbilled water receivables for the December billings which did not get mailed until January 2011, due to a new system which resulted in an adjustment to the Town's books in the amount of approximately \$191,000.
- b. The water bills are generated and mailed by the Water Department and the Receiver of Taxes collects the receipts. The Accounting Department adjusts the accounts receivable balance annually. No one is responsible for reconciling the cash receipts collected to the general ledger. In addition, no one is reviewing monthly aging reports for water receivables. The Receiver of Taxes Department is not reconciling or reviewing daily batch closings ("cash receipts for the day"). There are no formal approvals required when the Receiver of Taxes Department closes batches.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2010-03 WATER FUND ACCOUNTS RECEIVABLE AND WATER BILLING (continued)

Condition (continued)

- c. The Water Department receives rental payments for leasing space to cell phone carriers. Currently, no one is tracking the receipts to ensure payments are made timely and in accordance with the lease agreements.
- d. 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.
- e. When reviewing supporting documentation, we noted the "Water Pumpage" report submitted to New York State showed a difference of approximately 6.8 million in gallons of water pumped and billed when compared to the Town's billing registers. Although this difference represented only 2% of the total gallons billed, the Town's internal controls did not discover this error.

Effect

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

Recommendation

We recommend the Town begin reviewing aging reports for water accounts receivables on a monthly basis. The general ledger accounts (i.e. water accounts receivable and water revenues) should be updated, at the minimum, on a monthly basis. A reconciliation of the accounts receivable ledger detail to the general ledger should be performed each month and any reconciling items be investigated and cleared promptly. A member of management should review the reconciliation and initial to ensure propriety. A member of management should be reviewing monthly billings and collections to ensure amounts are reasonable based on how much water was pumped and billed for. Any significant variances in the gallons of unbilled water should be investigated and documented.

All lease agreements terms should 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.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2010-03 WATER FUND ACCOUNTS RECEIVABLE AND WATER BILLING (continued)

Management's Response

- a. The water bills for November and December 2010 did not go out until January 2011. The Accounting Department only recorded the December bills as unbilled as of 12/31/10. In the future, the Accounting Department will review aged receivables on a monthly basis.
- b. In the future, the Accounting Department will review aged receivables to billings and collections on a monthly basis.
- c. Currently, there is no one tracking receipts to insure payments are being made according to the lease agreements. The Water District is working with the Accounting Department to implement procedures to track these leases. Procedures will be implemented in December of 2011.
- d. A procedure has been implemented where management is approving all credit memos and reporting periodically to the supervisor.
- e. Going forward, the Water District will compare gallons pumped to gallons billed on monthly basis and reconcile the difference.

2010-04 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.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2010-04 CAPITAL ASSETS AND CAPITAL PROJECTS (continued)

Condition

During the audit, we noted the following:

- a. Capital Projects Fund debt is issued after all cash is exhausted in the Capital Projects Fund. Projects are often started without any funding in place thereby needing to use any unused cash in the Capital Projects Fund from other projects. Projects are often overexpended as they are awaiting future bonds.
- b. Although the Town is tracking the individual project's revenues and expenditures in excel, the cash balance per each project 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 that has not been allocated to individual projects. We did note the Town started reallocating a significant amount of general cash to specific capital project accounts during 2010.
- c. At December 31, 2010, the Town did not have a written and Board approved capital asset policy.

Effect

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

Recommendation

In general, the Town Board should establish and implement a 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. We noted that the Town implemented a Board approved capital asset policy during 2011.

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.

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. Any closed projects should be reviewed on an annual basis and residual equity transfers made as necessary.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2010-04 CAPITAL ASSETS AND CAPITAL PROJECTS (continued)

Management's Response

- a. The Town is in the process of selling \$22,000,000 of general obligation bonds and once finalized the overdrawn projects will be replenished.
- b. The Town has reconciled all completed projects. Once the cash is paid back, the Town will track cash on the project level, ensuring each project is funded properly.
- c. The Town passed a Capital and Intangible Asset Policy in 2011.

2010-05 PROCUREMENT POLICY (Repeat Finding) - Significant Deficiency

Criteria

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

Condition

The Town's procurement policy was updated and readopted in February 2010. The new policy requires that "all purchases of goods or services must be accompanied by a duly signed and completed purchase order" (guideline 7). Based on that guideline and all other criteria in the new policy, we noted the following:

- a. Eight instances where there were no purchase orders used for a purchase of a good or service.
- b. Four instances in which two oral or faxed quotes should have been obtained based on individual purchase amounts, however upon reviewing the voucher package, there was no documentation that the quotes were obtained.
- c. Four 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.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2010-05 PROCUREMENT POLICY (continued)

Condition (continued)

- d. Four instances where the aggregate purchases exceeded the thresholds for procurement requirements and written quotes should have been obtained however per scan of voucher package no evidence suggests the solicitation of bids or exceptions noted.
- e. Three instances where the purchase order date was after the invoice date.

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

Effect

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

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 have enough detail (written quotes, state bid contract numbers, sole source, etc.) to prove that the Town performed their due diligence when procuring goods and services. All commodity reports must be reviewed periodically to ensure compliance with the procurement policy.

We observed that the newly adopted procurement policy contains very restrictive guidelines. We recommend the Town review the current policy to ensure the practicality of the Town following the guidelines while making sure that the policy reflect the requirements of General Municipal Law.

Management's Response

- a. The current procurement policy states "All purchases of goods or services must be accompanied by a duly signed and completed purchase order." The policy has been reiterated to all department heads.
- b. The purchasing department will maintain documentation for all oral and faxed quotes.
- c. The cover page as well as the specification page of the documents will be attached and also indicated on the purchase order.
- d. The purchasing director will maintain written documentation of all quotes.
- e. The current procurement policy states "All purchases of goods or services must be accompanied by a duly signed and completed purchase order." The policy has been reiterated to all department heads.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2010-05 PROCUREMENT POLICY (continued)

Management's Response (continued)

The Town established a new procurement policy on February 2, 2010, as well assigned a commodity code for all purchases starting in 2010 to allow for the tracking of aggregate purchases. The purchasing director will utilize those reports to comply with the policy. The Town updated the procurement policy again on 3/15/2011.

2010-06 INTERNAL CONTROL AND STAFFING QUALIFICATIONS (Repeat Finding) - Significant Deficiency

Criteria

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

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

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

Condition

Although we acknowledge the hiring of a Deputy Financial Administrator in recent years and continued use of a consultant, there are remaining comments relating to the administration, handling, recording and reporting of Town finances. These comments deal mainly with adequate handling of Town monies and reflect on the need for additional knowledge of governmental accounting as well as designing, revising and following proper policies and procedures. The Town must continue its endeavors to train personnel to raise the expertise level of the core staff.

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

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2010-06 INTERNAL CONTROL AND STAFFING QUALIFICATIONS (continued)

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 four 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 provide existing staff with the training required to cope with the financial accounting and reporting requirements of the Town. Based on the volume of Federal aid and the expertise required to track and record all grant projects, the Town Supervisor is recommending hiring a third party consultant to continue to monitor and prepare the Schedule of Expenditures of Federal Awards.

2010-07 SEGREGATION OF DUTIES (Repeat Finding) - Significant Deficiency

Criteria

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

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2010-07 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 during 2010. We did note that in 2011 this procedure was changed and the reconciliation is now performed by the Accounting Department.
- 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

- a. As noted the procedure for reconciling the payroll bank account was changed in 2011. 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.
- b. The Accounting Department will review bank reconciliations on a monthly basis.
- c. An employee other than the one that prepares the bank reconciliations will open the mail. The Accounting Department will review monthly bank reconciliations.

2010-08 JUSTICE COURT FUND AUDIT (Repeat Finding) - Significant Deficiency

Criteria

New York State law §2019-a of the Uniform Justice Court Act and Town Law §123 state that it is the duty of each Justice, at least once a year and upon the last audit day (i.e. December 31, 2010), to present the records and dockets to the auditing board of the Town or to a certified public accountant or public accountant, which shall examine the records and dockets 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 Law §123 specifically states that this report be completed within sixty days after the close of the Town's fiscal year.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2010-08 JUSTICE COURT FUND AUDIT (continued)

Condition

Due to the delay in issuance of the 2007, 2008 and 2009 Justice Court audits, the Town was not able to complete this examination in a timely manner for the year ended December 31, 2010.

Effect

The Town is not complying with Town 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 that the 2010 Justice Court audit is in progress, we recommend the Town take steps going forward to ensure that the Justice Court audit be completed and issued within sixty days after year end.

Management's Response

The Town's Justice Court audit for the years 2007, 2008, 2009 and 2010 were just completed. The Town expects to complete the audits timely going forward.

**2010-09 PROPER RECOGNITION OF ACCOUNTS PAYABLE AND ENCUMBRANCES -
Significant Deficiency**

Criteria

All governmental and proprietary funds should accrue an expenditure/liability when the related liability is incurred (goods received or services provided by year end). The only exceptions for governmental funds are long term obligations such as general obligation bonds, compensated absences, claims and judgments, landfill closure and post-closure care costs and other postemployment benefits.

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

Condition

Upon testing accounts payable, we noted approximately \$285,000 of costs were not properly included in the Town's accounts payable balances.

In addition, after our initial review of encumbrances, the Town had to record a net adjustment to reduce the Town's encumbrances by approximately \$837,500. This is primarily a result of the Town not properly adjusting encumbrances after the expense is incurred and the accounts payable or retainage is recognized.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2010-09 PROPER RECOGNITION OF ACCOUNTS PAYABLE AND ENCUMBRANCES (continued)

Effect

There is a potential for misstating liabilities and fund balance at year end and not properly reserving a portion of fund balance to reflect the requirements of these commitments.

Recommendation

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

If the Town changes their general ledger software, 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.

Management's Response

The Town has established procedures to track the payables manually to ensure proper recording. The Town establishes the accounts payable based on the payments made after the year end for goods or services delivered prior to year end. For 2010 the cut-off for establishing accounts payable was made on 3/18/11. There were additional capital project bills that were required to be accrued back that were paid subsequent to that date. In the future the Town will evaluate Capital Project Fund payables separate from operating payables.

The Town will close all purchase orders on a timely basis and reduce the encumbrance on those purchase orders accordingly.

2010-10 TRUST AND AGENCY ACCOUNTS - Significant Deficiency

Criteria

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

Condition

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

Effect

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

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2010-10 TRUST AND AGENCY ACCOUNTS - (continued)

Recommendation

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

Management's Response

Trust and Agency activity is monitored currently. In 2012, the Town will begin review old beginning balances one account at a time, starting with critical balances first.

2010-11 ACCOUNTING FOR GRANTS - Significant Deficiency

Criteria

Governmental Accounting Standard Board (GASB) No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, requires governments to report all pass-through grants received by a government that are transferred to or spent on behalf of a secondary recipient. Generally, these are reflected as revenues and expenditures on the government's books and records.

Condition

We noted the Town did not recognize the revenue and expenditure for one grant in the amount of approximately \$637,000 that was received by New York State and passed through to a third party.

Effect

The Town may not be recognizing the grants in accordance with GASB requirements.

Recommendation

We recommend all grants received by the Town be reviewed to ensure proper recognition based on governmental accounting standards.

Management's Response

The documentation existed and was maintained in Community Development Department. The Accounting Department was not aware the information was available. Going forward, the Town will communicate with all departments to ensure all grant revenue and expenditures are recognized properly.

TOWN OF RIVERHEAD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

**2010-12 FILING DEADLINE FOR AUDITED FINANCIAL STATEMENTS (Repeat Finding) -
Material Weakness**

Criteria

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

Condition

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

Effect

The Town is not in compliance with OMB Circular A-133 requirements with regard to this deadline.

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.

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 is now up to date and expects to have audits completed timely going forward.

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

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

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.

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.

Current Status

The Town hired a third party consultant to reconcile grants and ensure that all program income was properly reported as of December 31, 2010. The Town is communicating with Suffolk County to determine if monthly program income reports are required to be submitted.

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

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

**PRIOR YEAR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (continued)**

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

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.

Current Status

The Town did not meet the required September 30, 2011 filing deadline for the December 30, 2010 audited financial statements. This is a current year finding (see 2010-12).