

Town of Rye, New York

Communication of Internal Control Matters Identified in the
Audit to Those Charged with Governance and Management

December 31, 2015



**Communication of Internal Control Matters Identified in the Audit to
Those Charged with Governance and Management**

The Honorable Supervisor and
Members of the Town Board
Town of Rye
222 Grace Church Street, 3rd Floor
Port Chester, New York 10573

Auditors' Communication on Internal Control

In planning and performing our audit of the basic financial statements of the Town of Rye, New York ("Town") as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, as indicated in the attached Addendum A, we share for your consideration other observations about the internal control and operations. In Addendum B, we identify other accounting and auditing matters for your information.

This communication and addenda are intended solely for the information and use of management and the Town Board and are not intended to be and should not be used by anyone other than these specified parties. We will be pleased to discuss these communications and comments in further detail at your convenience, or to assist you in implementing the recommendations.

PKF O'Connor Davies, LLP
PKF O'Connor Davies, LLP
Harrison, New York
August 26, 2016

Town of Rye, New York

Addendum A

Control Deficiencies

- **General Fund**

Fund Balance

During our testing, it was noted that the opening fund balance as per the client's trial balance was not in agreement with the prior year's financial statements. It was noted that the Town's trial balance had a difference of \$81,164 from the prior year financials. An adjust adjustment was required to correct this variance.

Recommendation

It is essential that the amount reflected as opening fund balance must agree to the final audited fund balances to ensure that all of the prior year's audit adjustments were appropriately recorded and rolled over into the new fiscal year. Procedures should be implemented to ensure a review of trial balances and of the opening fund balance amounts after the conclusion of the annual audit.

- **Maintain a Detailed Schedule of Balances for Capital Assets (Prior Year Comment)**

During our audit, we noted that the Town did not maintain a detailed schedule of the balances in capital assets. While a large portion of the recorded capital assets are fully depreciated, assets could be potentially misappropriated without the proper records being maintained and controls in place. Also, any obsolete capital asset with no value should be properly removed from the books and records.

Recommendation

To address this situation, we recommend that the Town perform an inventory of all capital assets currently in use. We further suggest that the Town prepare a detailed schedule that supports the cost, book value, and depreciation schedule for each item and delete all obsolete or unidentified assets. This schedule should then be maintained on a current basis.

- **Journal Entries**

Internal Control (Prior Year Comment)

As part of our internal control testing, we randomly review journal entries posted throughout the year. We noted that there is no formal policy of approval for posting journal entries.

Recommendation

We recommend that the Town establish a formal approval policy for posting and approving journal entries. This would enhance internal controls within the Town.

Town of Rye, New York

Addendum A

Control Deficiencies

- **Journal Entries**

No Numbering System

During our journal entry testing, it was noted that the client does not have a numbering system for all journal entries made.

Recommendation

We recommend that the Town establishes a formal policy regarding the numbering, or some form of tracking procedures, for the entries made.

- **Claims**

Lack of Proper Approval for Payment of Claims

During our claims testing, it was noted that for fourteen out of 25 selections made, proper approval was not documented on the invoice or voucher. As per the Town's policy, the Town Comptroller must review and approve all invoices prior to payment.

Recommendation

We recommend that the Town Comptroller approves all claims prior to payment being made.

- **Encumbrances**

Encumbrance System not Utilized

Generally accepted accounting principles applicable to governmental units provide that liabilities for goods and services received prior to the close of the fiscal year be charged as an expenditure of that year. These liabilities are distinguished from encumbrances in that the latter represents commitments for purchases, which have not yet taken place and are, therefore, reflected in the financial statements as a reservation of fund balance. Our audit disclosed that the Town does not utilize an encumbrance system.

Recommendation

We suggest the Town implements an encumbrance system.

Town of Rye, New York

Addendum A

Control Deficiencies

- **Cash Receipts**

Receipts Not Deposited Timely

During our testing, it was noted that four of the five receipts selected were not deposited within 72 hours of receipt.

Recommendation

We recommend that the Town deposit all receipts within 72 hours.

Missing Deposit Slips

During our testing, it was noted that for one receipt selected the Town was unable to provide the deposit slip. As a result, the auditor was unable to determine when exactly the receipt was deposited.

Recommendation

We recommend that the Town keeps all deposit slips on file with the appropriate remittance advice.

Town of Rye, New York

Addendum B

Other Matters

- During 2015, a question arose regarding the Town's processing of "Exemptions Terminated". This term refers to tax parcels that change ownership subsequent to the property taxes being levied. These tax parcels may have been granted exemptions from property tax based upon the prior owners tax status and the new owners were therefore not entitled to the exemption. The Town hired a consultant to address the accounting procedure and in conjunction with the Town attorney made suggested modifications to the method utilized to record these "exemptions terminated".

Recommendation

We recommend the Town continually review this procedure in order to stay in compliance with the New York State Real Property Tax Law.

- **Governmental Accounting Standards Board ("GASB") Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions"**

In June 2015, GASB issued Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." This Statement replaces the requirements of GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions". The key difference in the new standard for New York municipalities and school districts (since New York State has not authorized the establishment of an Other Postemployment Benefit ("OPEB") trust fund) is that these governments must now report the *total OPEB liability* related to their employees. The prior standard allowed for the amortization of prior service cost over a thirty year period.

The statement requires municipalities and school districts to present more extensive note disclosures and required supplementary information ("RSI") about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than that assumed in the financial statements. The new RSI includes a schedule showing the causes of the increase and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

This new standard parallels the pension standard in GASB Statement No. 68 "Accounting and Financial Reporting for Pensions". Together, these two new standards provide consistent and comprehensive disclosure for all postemployment benefits. **The provisions of this Statement are effective for fiscal years beginning after June 15, 2017 (i.e., the Town's financial statements for the year ending December 31, 2018).**

- **GASB Statement No. 77 "Tax Abatement Disclosures"**

In August 2015, GASB issued Statement No. 77 "Tax Abatement Disclosures". The requirements of this Statement are intended to improve financial reporting by providing users of financial statements essential information and disclosure about the nature and magnitude of tax abatements, making these types of transactions more transparent to financial statement users. As a result, users should be better equipped to understand how tax abatements affect a government's future ability to raise

Town of Rye, New York

Addendum B

Other Matters

- **GASB Statement No. 77 “Tax Abatement Disclosures”** (Continued)

resources and meet its financial obligations and the impact those abatements have on a government’s financial position and economic condition.

The statement requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government’s tax revenues. The new disclosures about one’s own tax abatement agreements include:

- The purpose of the abatement program
- The tax being abated
- Dollar amount of taxes abated
- Provisions for recapturing abated taxes
- The types of commitments made by tax abatement recipients
- Other commitments made by the entity in tax abatement agreements, such as to build infrastructure assets

The new disclosures about tax abatements that are entered into by other governments and reduce the reporting government’s tax revenues include:

- The name of the government entering into the abatement agreement
- The tax being abated
- Dollar amount of the reporting government’s taxes abated

The provisions of this Statement are effective for fiscal years beginning after December 15, 2015 (i.e., the Town’s financial statements for the year ending December 31, 2016).

Town of Rye, New York

Communication of Matters Identified in the Audit to Those Charged with Governance

We have audited the financial statements of the Town of Rye, New York ("Town") as of and for the year ended December 31, 2015, and have issued our report thereon dated August 26, 2016. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated December 20, 2014. This letter provides additional required communications related to our audit.

Our responsibility under professional standards

Our responsibility is to form and express an opinion about whether the financial statements, which are the responsibility of management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Those individuals charged with governance of the Town are responsible for the oversight of the financial reporting process, and our audit does not relieve management and those charged with governance of their respective responsibilities.

Our responsibility for the supplementary information accompanying the financial statements is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

With respect to such supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with US GAAP, the method of preparing it has not changed from the prior year, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In connection with our audit we performed tests of the Town's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective to our tests was not to provide an opinion on compliance with such provisions.

Planned scope and timing of the audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Qualitative aspects of significant accounting practices

Significant accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements other than the adoption of the provisions of the Governmental Accounting Standards Board ("GASB") Statement Nos. 68, "Accounting and Financial Reporting for Pensions" and 71, "Pension Transition for

Town of Rye, New York

Communication of Matters Identified in the Audit to Those Charged with Governance

Qualitative aspects of significant accounting practices *(Continued)*

Contributions Made Subsequent to the Measurement Date” as disclosed in the notes to financial statements. No matters have come to our attention that would require us to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant accounting estimates

Accounting estimates made by management are an integral part of the financial statements and are based on management’s knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.

Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change, such as:

- Actuarial assumptions related to the Other Post Employment Benefit Obligations (“OPEB”)
- Actuarial assumptions and proportionate share calculations related to pension obligations
- Asset lives for depreciable capital assets
- Estimates of certain receivable balances and allowances for uncollectible amounts
- Estimates for certain operating and long-term liabilities

Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

Financial statement disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to:

- Pension plan information
- Other post employment benefit obligations payable
- Outstanding bonded indebtedness
- Fund balances

The financial statement disclosures are consistent and clear.

Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Town of Rye, New York

Communication of Matters Identified in the Audit to Those Charged with Governance

Uncorrected and corrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

We are required to communicate to you misstatements that remain uncorrected, including any related to prior periods, and the effect, if any, that they may have on the opinion in our report, and request their correction. There are no such financial statement misstatements that remain uncorrected.

In addition, we are required to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The adjusting journal entries following this communications letter summarize the material misstatements that were corrected by management.

Disagreements with management

For purposes of this letter, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations requested from management

We have requested certain written representations from management in a separate letter dated August 26, 2016.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other matters discussed with management

We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Town, and plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

We have provided our comments regarding deficiencies and other matters noted during our audit in the attached addenda.

Auditor independence

We affirm that PKF O'Connor Davies, LLP is independent with respect to the Town in accordance with professional standards.

This communication is intended solely for the information and use of the Town Board and management of the Town, is not intended to be, and should not be used by anyone other than these specified parties.

Town of Rye, New York

Material Adjusting Journal Entries

General Fund			
Adjusting Journal Entries JE # 4			
To reclass BAN payment into the Capital Fund per G/L detail.			
	9730-1000	BAN - PRINCIPAL	107,000.00
	0001-0275	Due From Capital Fund	107,000.00
Total			<u>107,000.00</u> <u>107,000.00</u>
Adjusting Journal Entries JE # 5			
To correct opening fund balance. Client made entries to correct 2013 accrued			
	0001-0601	Accrued Expenses	36,302.00
	0001-0909	FUND BALANCE	599.00
	0001-0909	FUND BALANCE	80,565.00
	0001-2401	INTEREST AND EARNINGS	599.00
	9060-1000	PRIOR YEAR'S EXPENSES	31,084.00
	9060-1000	PRIOR YEAR'S EXPENSES	85,783.00
Total			<u>117,466.00</u> <u>117,466.00</u>
Adjusting Journal Entries JE # 10			
To book Dave's In Reim Entry			
	0001-2660	SALE OF REAL PROPERTY	154,546.00
	0001-0280	PROPERTY IN REM	136,229.00
	0001-0290	TAXABLE TRANSFERS	18,317.00
Total			<u>154,546.00</u> <u>154,546.00</u>
Adjusting Journal Entries JE # 12			
To reclass gain on sale.			
	0001-2660	SALE OF REAL PROPERTY	297,154.00
	0001-1051	GAIN ON SALE OF PROPERTY	297,154.00
Total			<u>297,154.00</u> <u>297,154.00</u>
Adjusting Journal Entries JE # 13			
To agree allowance to Property Acquired			
	0001-0340	ALLOW FOR UNCOLLECTIBLE TAXES	516,645.00
	0001-1001	REAL ESTATE TAXES	516,645.00
Total			<u>516,645.00</u> <u>516,645.00</u>
Adjusting Journal Entries JE # 19			
To adjust the reserve for long-term taxes receivables to match calculation.			
	0001-0911	Fund Balance-Reserve for	313,368.00
	0001-0909	FUND BALANCE	313,368.00
Total			<u>313,368.00</u> <u>313,368.00</u>
Capital Fund			
Adjusting Journal Entries JE # 3			
To reclass BAN payment per G/L detail			
	391	due from general	107,000.00
	5031	Transfer in	107,000.00
Total			<u>107,000.00</u> <u>107,000.00</u>
Adjusting Journal Entries JE # 4			
To book receivable and deferred revenue from WJWW			
	380	ACCOUNTS RECEIVABLE	108,076.00
	691	UNEARNED REVENUE	108,076.00
Total			<u>108,076.00</u> <u>108,076.00</u>