

**TOWN OF VICTOR,  
ONTARIO COUNTY, NEW YORK**

**Communication of Matters Related to Internal Control  
Over Financial Reporting and Other Matters  
May 17, 2011**

**Bonadio & Co., LLP**  
Certified Public Accountants

May 17, 2011

To the Town Board of the  
Town of Victor, Ontario County, New York:

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Victor, Ontario County, New York (the Town) as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States, we considered the Town's internal control over financial reporting (internal control) 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

*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.

In our report, we identified several items that have been classified as material weaknesses in internal control. This conclusion was reached based on their significance to the financial statements taken as a whole, their inter-reliance and counter-dependence, and the fact that most, if not all, of the errors were not identified by management or employees performing their assigned functions.

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

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# TOWN OF VICTOR, ONTARIO COUNTY, NEW YORK

## COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS MAY 17, 2011

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### INTERNAL CONTROL RELATED MATTERS

We have identified the following control deficiencies that we consider to be material weaknesses:

#### 1. COMMINGLED TOWN FUNDS

##### Observation

The Town currently uses one primary disbursement account for paying vendors of the Town. In addition, within the chart of accounts there is only one shared cash account for all operating funds and a manual allocation of the balances between funds must be performed using an off-line mechanism. During the 2009 audit, it was clear that this method of financial accounting was ineffective and inaccurate on a fund by fund basis. These inaccuracies resulted in a delay in completing the audit procedures and significant additional time by management to attempt to re-generate the activity for the period.

##### Recommendation

We recommend that until sufficient mitigating controls exist the Town establish, at a minimum, separate time deposit accounts for each operating fund of the Town. These accounts should represent that cash belonging to that fund, and no longer should cash be commingled among funds. Ideally, each fund would have a separate disbursement account as well. However, we understand that the cost to maintain separate depository accounts and potentially issue multiple checks to the same vendor may not outweigh the benefits of doing so. Therefore, it may be feasible to continue to utilize one disbursement account from the general fund, with actual interbank transfers as necessary to fund approved warrants for the Town between the funds from which they are to be disbursed. However, it is critical that these inter-fund transfers be appropriately authorized and approved by the Board.

#### 2. FINANCIAL TRANSACTION CONTROLS

##### Observation

During our audit we identified that Town personnel initiated changes to prior period transactions with no authorization or supporting documentation and without the knowledge of the Supervisor or Town Board. The result of the changes made significantly impacted the Town's ability to subsequently close the books as of and for the year ended December 31, 2009. The reason these changes were allowed to occur was a direct result of the weaknesses in the design and operation of the internal control structure, lack of appropriate oversight, and the lack of controls over the existing general ledger software system. The impact of these unauthorized and undocumented changes was a significant delay in closing the books and additional time, effort, and resources of the Town and outside personnel. Had individuals appropriately documented or identified the reasons, and support, for the changes made the Town may have been able to more timely close its books.

## **INTERNAL CONTROL RELATED MATTERS (Continued)**

### **2. FINANCIAL TRANSACTION CONTROLS (Continued)**

#### **Recommendation**

We continue to recommend that the Town discontinue its use of their existing QuickBooks software, and we understand that the timing of purchase of the new system and completion of the 2008 audit were not necessarily conducive to making a change in 2009. We strongly encourage the Town to consider re-entering all transactions beginning January 1, 2010 through the present into their new accounting system. Each transaction should then be reviewed for accuracy, relevance, and appropriateness to the Town, fund and classification of account. Appropriate segregation of duties, authorizations for transactions, and oversight needs to be established. Certain incompatible duties should be modified and reallocated as appropriate.

### **3. BUDGET APPROPRIATIONS**

#### **Observation**

The Town's 2010 budget included an appropriation of \$636 for the Consolidated Sewer Fund. However, the ending fund balance of the fund was not sufficient to allow for an appropriation to occur, and in fact was in a deficit position at the conclusion of December 31, 2009. We noted that as a result of a BAN obligation in 2009, the fund balance of the Consolidated Sewer was entirely consumed during 2009.

#### **Recommendation**

We recommend that the Town improve its budgeting process to ensure that these situations do not occur in the future. The Town is unable to appropriate funds that do not exist for appropriation. As a result, the Town did not establish an appropriate tax rate for the Consolidated Sewer Fund.

### **4. SEGREGATION OF DUTIES**

*We originally reported this observation in November 2009 following the December 31, 2008 audit. We recognize that during 2010 and continuing into 2011, the Town has begun working on identifying areas where segregation of duties can be achieved, but at this time have not fully implemented the necessary controls.*

#### **Observation**

The Town Board is elected to oversee the operations of the Town and has fiduciary responsibility for ensuring the activities are appropriate. Although the Board does not directly oversee the day-to-day operations of the Town, it is responsible for the overall review and decision-making relating to organizational matters. In larger organizations, internal control is typically linked directly to an appropriate level of segregation of duties. The size of the Town's key departments does not allow for adequate segregation of duties for all critical functions. Historically, the Board has not been actively involved with internal control related matters, which are critical to ensure the accuracy and appropriateness of accounting records.

## **INTERNAL CONTROL RELATED MATTERS (Continued)**

### **4. SEGREGATION OF DUTIES (Continued)**

#### **Recommendation**

We understand that there are limitations to the Town's ability to implement an ideal set of internal controls that would include the appropriate level of segregation of duties due to the limited number of staff. We also understand that it is not feasible for the Board to become a primary part of those controls. The State of New York, as well as generally accepted auditing standards, has stressed the importance of strong Board governance. We recommend that the Town Board, or a committee thereof, review the existing policies and procedures, as well as review the Town's overall risks related to fraud, misappropriation or other loss, to assess the appropriate level of Board involvement going forward. From this review, additional procedures should be developed, documented and implemented. Without such a process in place, the Town will be vulnerable to another instance similar to what occurred in 2009 and 2010.

### **5. BUDGET PROCESS**

#### **Observation**

The Town has a legally adopted budget which is approved by the Board each year. In 2008, the Town significantly overspent its approved budget in the General Fund-Part Town due to expenditures in the general governmental support line. In the Highway Fund-Part Town, the Town spent significantly less than budget in the General Governmental Support line item, but spent significantly more in the Transportation line item. Budget line transfers were not processed or requested during the year to resolve these situations. In addition, we were not able to determine the cause for the variances. In 2009, there were smaller expenditures over appropriations resulting in budget to actual deficits. Although not as significant as the prior year, the Town still needs to be reviewing budget resolutions timely.

#### **Recommendation**

We recommend that the Town closely monitor its expenditures by analyzing actual results to budget at least quarterly. Budgets are meant to provide guidance and install discipline for management of the Town. Budgets can, and do, change through the year; however, we recommend that those changes be documented and provided to the Town Board on a timely basis. For example, management could have made a budget line item transfer from the General Governmental Support line item to the Transportation line item in the Highway Fund-Part Town so it was not so significantly overspent.

By tracking budget amendments and transfers, management will be readily able to document why it has deviated from its Board approved budget, will maintain its discipline over expenditures, and be able to use that information for future budgeting purposes.

### **6. INTERFUND ACTIVITIES**

#### **Observation**

The Town currently reports financial operations using nine separate funds as defined under governmental accounting standards board principles. Each fund's accounting transactions should be maintained using an independent, separate, self-balancing set of accounts. During 2008, there was one main cash general ledger account and one accounts payable general ledger account used across all funds. This resulted in a significant number of adjustments to balance each fund at year-end. In addition, due to/due from other funds and transfers in and transfers out of funds did not balance between funds. During our 2009 audit, although ultimately resolved, the record-keeping weaknesses resulted in out of balance interfund activity at the start of the audit.

## **INTERNAL CONTROL RELATED MATTERS (Continued)**

### **6. INTERFUND ACTIVITIES (Continued)**

#### **Recommendation**

Timely prepared account reconciliations are critical to ensuring that all activity is accurately recorded and captured in the general ledger on a fund by fund basis. This ensures that interim reporting to management and the Board is accurate and that decisions are made utilizing accurate financial information. We recommend that the accounting staff reconcile fund activity on a monthly basis to ensure that all interfund transactions agree between funds.

### **7. BANK RECONCILIATIONS**

#### **Observation**

In 2008, we observed that only one bank account was actually being reconciled timely, and furthermore, this reconciliation was not reviewed. Additionally, in 2009, the bank accounts were not reconciled at all until the audit commenced during April 2010. All bank accounts were not fully reconciled until 2011. This review should look for unusual items, reconciling items without support, completeness, and accuracy. The review should be evidenced by a signature and date.

#### **Recommendation**

As previously discussed, we understand there are certain limitations given the size of the accounting department; however, we recommend that an individual independent of the cash receipt and disbursement activities should receive, open and initial the original bank statement and subsequently review the bank reconciliations. Instituting this control will significantly improve the system of checks and balances necessary for strong cash control.

Alternatively, we suggest that unopened bank statements received in the mail be forwarded directly to a member of the Town Board. This person should review the bank statements and cancelled checks for any strange or unusual items on a timely basis and return the information to the Town for completion of the reconciliation. Documentation of the review should be made on the face of the bank statement. It is important that this review is completed timely in order for management to discuss any discrepancies with the bank. Regardless of the individual opening the bank statements, an independent person must review the bank reconciliations. The implementation of these procedures will further enhance the checks and balances necessary for strong controls over cash.

### **8. QUICKBOOKS**

#### **Observation**

The Town currently records of all of its transactions in one "Company" file using Quickbooks. In other words, all funds are combined into one file, or master fund, which provides the opportunity to make journal entries across funds. As identified, this was a significant issue during 2008 and 2009. Also, Quickbooks does not have the ability to track purchase orders or encumbrances. In other words, Quickbooks is not a recommended software package for municipal governments. In 2010, the Town purchased a new general ledger software system. Transactions were being posted to the new software beginning July 1, 2010.

## INTERNAL CONTROL RELATED MATTERS (Continued)

### 8. QUICKBOOKS (Continued)

#### **Recommendation**

We strongly encouraged the Town to discontinue the use of Quickbooks software to record the financial transactions of the Town. There are currently other inexpensive options available to municipal governments, as well as more costly high-end packages. The Town should consider functionality, ease of use, hardware needs, training requirements, and future needs when evaluating potential solutions. Many of the current reporting systems - payroll, capital assets, recreation, sewer and water, do not currently communicate and require manual procedures to record activity from one system to the other. The ability to interface these systems should be explored while considering costs, benefits, and risks to the Town for each application and decision. We further recommend that all transactions be entered in the new general ledger software beginning January 1, 2010 so that the entire 2010 year is consolidated into one accounting software system.

We have identified the following as a *deficiency in internal control* that we consider to be neither a material weakness nor a significant deficiency:

### 9. COMPLIANCE WITH LAWS AND REGULATIONS

#### **Observation**

Under NYS law, municipalities are required to prepare and submit an Annual Update Document (AUD) to the NYS Comptroller by April 30th following the end of the fiscal year. For the years ended December 31, 2008, 2009 and 2010, the Town did not submit the required AUD to the State on time. Part of this failure to file resulted from a lack of documented procedures for the Finance function and not having qualified individuals cross-trained in the critical accounting functions, or hiring temporary labor to fill the gaps in staffing.

#### **Recommendation**

We understand that the Town has experienced significant turnover and vacancies in the Finance area over the past several years. However, the Town Board is responsible for ensuring that the Town maintains compliance with all laws and regulations at all times. Fully documented policies and procedures manuals should be prepared and updated in the event the Town finds themselves in this situation in the future. The Town needs to begin putting procedures in place to not only file the AUDs as soon as possible, but also ensure that a late filing does not recur in the future.

**TOWN OF VICTOR,  
ONTARIO COUNTY, NEW YORK**

**Communication of Matters Related to Internal Control  
Over Financial Reporting and Other Matters  
in Connection with the December 31, 2008 Audit**

**The following communications represent findings which were reported in connection with our December 31, 2008 audit and based on circumstances and controls in place at December 31, 2009, still warrant reporting to the Board at this time. As applicable, information has been updated to reflect the current conditions. Certain findings from the December 31, 2008 audit have been reported in the previous section.**

# TOWN OF VICTOR, ONTARIO COUNTY, NEW YORK

## COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS MAY 17, 2011

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### INTERNAL CONTROL RELATED MATTERS

We have identified the following control deficiencies that we consider to be material weaknesses:

#### 1. PREPARATION OF FINANCIAL STATEMENTS

##### **Observation**

Throughout the year, the Town records its transactions on the pure cash basis of accounting, which is not in accordance with generally accepted accounting principles. Although the use of the cash basis during the year is not uncommon in small municipal governments, subsequent to year-end, the Town did not have personnel capable of properly converting this activity to the modified accrual and accrual basis of accounting. Since the necessary adjustments were not made during fiscal 2008 or 2009, or subsequently after year-end, recording transactions in this manner led to many significant, material audit adjustments in virtually every financial area; including cash, capital assets, liabilities, debt, revenues, expenditures, and fund balance. In June 2010, the Town hired a Fiscal Manager for responsibility over the financial reporting process.

Based on the status of the books and records provided for audit, the information provided to the Town Board, from which they make their decisions, was clearly inaccurate and incomplete. The Board, acting on its fiduciary capacity over the operations of the Town, must ensure that the decisions made are backed by sound, supportable information. This may not have been the case in 2008 or 2009.

##### **Recommendation**

We realize the cash basis of accounting is easier to administer and understand on a day to day basis. We also understand that the procedure to maintain the books on a modified accrual basis throughout the year can be a time-consuming task. However, a governmental entity is required to record its transactions using the modified accrual basis of accounting. If the Town records its transactions properly, the interim data presented to the Town Board for analysis and decision making will better assist the Board in exercising its fiduciary responsibility.

Based upon the results of observations and adjustments made during our audits, we believe that the Town had a significant lack of control and direction regarding accounting and overall fiscal management. In general, an accounting system should be designed to provide management and the Town Board with accurate and timely financial information to enable well-informed decisions to be made. The system in place in 2008 and 2009 failed to meet these expectations. We strongly recommend that Town consider revising its accounting procedures to facilitate the production of accurate financial information, provide for accountability of assets and maintain an accurate historical record of operations. Accounting and financial information must be properly assessed and comprehended to allow for the Board and management to guide and direct the Town into the future.

In addition, it is critical that the Town ensure that all personnel have the appropriate education and training to perform their assigned functions. This training should be specific to the job functions that each employee holds. This training and education should include obtaining a complete understanding of the functions and features of the Town's accounting package.

## **INTERNAL CONTROL RELATED MATTERS (Continued)**

### **2. ACCOUNTING POLICIES AND PROCEDURES MANUAL**

#### **Observation**

During the course of our audits, we noted that the Town does not have a policy and procedures manual detailing the daily functions performed by the finance department. The lack of such a policy and procedures manual significantly impacted the Town's ability to prepare accurate and timely financial information.

#### **Recommendation**

We recommend that the Town focus on preparing an accounting policy and procedures manual. This manual should contain all procedures performed to maintain and operate all accounting functions. A detailed and comprehensive manual is extremely important in the event of employee turnover or job changes to ensure that the continuity of the financial function and internal control environment is maintained.

### **3. FIDUCIARY FUNDS ACCOUNTING**

#### **Observation**

The Town acts in a fiduciary capacity for amounts received on behalf of Eastview Mall, Town retirees, the Village of Victor cemetery, and the Parks and Recreation department, etc. As fiduciary, the Town's responsibility is to keep track of these funds. However, there is no clear recordkeeping of transactions made throughout the year related to these fiduciary accounts. The current accounting staff did not have the information necessary to identify what the assets and liabilities consisted of for these fiduciary accounts at year-end; and therefore, we could not definitively roll-forward the activity of the fiduciary accounts from the prior years.

#### **Recommendation**

The Town is fiscally responsible for the assets held on behalf of the organizations named above and must keep track of the activity going in and out of these accounts in an organized manner. At any given time, one, or all of these organizations could request distribution of their funds. The Town should consider establishing a separate bank account specifically for these funds. In addition, on a quarterly basis, reports of the period's activity and ending balances should be distributed.

### **4. PAYROLL**

#### **Observation**

We noted that the Finance Clerk is responsible for preparing payroll input, reviewing the payroll journals from the payroll system, finalizing each payroll for employees and amounts, determining the necessary bank transfer from operating, and reconciling the payroll bank account. In addition, the Finance Clerk inputs changes to employee status, such as adding new employees and deleting terminated employees. The Finance Clerk's duties are not reviewed by an independent individual. Payroll is the most significant, on-going, cost to the Town and as such poses the greatest potential risk of loss to the Town. During 2009, we understand that steps were taken to include oversight of the process, but that no set policy or procedure had been established.

#### **Recommendation**

We understand that segregation of duties is an issue through all finance functions because of the size of the Town's accounting office. However, having one person perform essentially every payroll step significantly increases the risk of an error or irregularity going undetected. We strongly suggest that some of these functions be segregated among other employees to protect the assets of the Town.

## **INTERNAL CONTROL RELATED MATTERS (Continued)**

### **4. PAYROLL (Continued)**

#### **Observation**

As part of our 2008 audit process, we selected 40 employees to test whether; a) they are receiving the pay rate specified in the budget or separate contract; and b) all time cards were properly approved for regular and overtime pay. In addition, we selected 15 out of the 40 employees to view payroll files for completeness of IRS Forms I-9 and W-4's. The results of our procedures disclosed several exceptions to our testing, and as a result, we were not able to rely on the controls over payroll in performing our audit, as they were deemed ineffective. We did not perform additional controls testing in connection with the 2009 audit.

#### **Recommendation**

We continue to recommend and encourage, with the assistance of legal counsel, that the Town perform a thorough review of all employee personnel files to ensure that the pay rate for each employee is supported by documentation in their personnel file or by the authorized budget. This will ensure that all employees are being paid only the amounts authorized by contract and/or action by the Town Board. The Town should also review all employee personnel files to ensure that all the required documentation is in each file. In addition, there should be an employee designated to review time off sheets and timecards for approvals, in accordance with established policies. Lack of time, or being an elected official, should not constitute a reason for not enforcing accountability for procedures. All payroll policies, procedures, and processes should be reviewed, created, or amended as appropriate.

### **5. CAPITAL ASSETS**

#### **Observation**

Currently, a manual Microsoft Excel file is used to record all capital assets. We noted that this Excel file does not keep track of capital assets accurately. For example, assets do not contain enough description to adequately identify the location, type of assets, or other necessary information. Also, some land accounts were being depreciated which is not allowed under generally accepted accounting principles, and some assets were being depreciated for a period in excess of the useful life.

#### **Recommendation**

We strongly recommend the Town convert to a computerized system designed to accumulate asset cost and calculate depreciation expense. This will eliminate a significant amount of manual record-keeping duties, make operations more efficient, and provide more accurate information with which to make business decisions regarding capital assets. We also recommend that the Town increase its efforts to obtain complete descriptions of assets; for example, the asset cost, date placed in service, estimated useful life, depreciation expense and accumulated depreciation, and the date asset is retired and proceeds received, if applicable.

#### **Observation**

The Town receives significant assets as part of dedications or transfers each year from various developers in connection with residential and commercial development. In 2008 and 2009, the Town received approximately \$1 million and \$3 million worth of assets, respectively; including sewer mains, water mains, and land. The dedications and transfers were not properly identified and recorded in the capital asset Excel file.

## **INTERNAL CONTROL RELATED MATTERS (Continued)**

### **5. CAPITAL ASSETS (Continued)**

#### **Recommendation**

We recommend that the Town develop a policy and procedure for tracking dedicated and transferred assets to ensure that they are properly reflected as capital assets of the Town. The policy should specify a minimum dollar amount to be recorded which is in accordance with its capitalization policy on a fund by fund basis and the method used to determine the fair market value of donated assets. This policy will be most beneficial in that it will allow for easier and more consistent accounting treatment. The Town will also be better able to keep track of the dedicated and transferred capital assets on a computerized system, as recommended above.

### **6. CAPITAL ASSET DISPOSITION POLICY**

#### **Observation**

We observed that the Town does not have a formal policy to ensure that capital assets are disposed of properly, whether by destruction, sale, scrap, or trade-in.

#### **Recommendation**

Due to the volume of capital assets at the Town, we recommend that a formal policy be implemented to ensure the proper reporting of capital asset dispositions. This policy should specify the necessary level of approvals for disposal based on the value of the asset. We suggest that a simple yet standardized form be developed to provide adequate approvals for disposal and other pertinent information as documentation of disposal of significant assets. Implementing this policy would protect the Town from loss, waste, or fraud relating to the disposal of capital assets.

### **7. SEGREGATION OF DUTIES OVER CASH RECEIPTS**

#### **Observation**

We noted that there was a lack of segregation of duties surrounding cash receipts, especially in the Water department, where one person is responsible for collecting funds, depositing them, and crediting a customer account.

#### **Recommendation**

The objective of internal controls over cash receipts is to ensure control over amounts received at the time of receipt. Separating these closely related functions in the cash receipts system of the Town will result in much greater internal control. To achieve this control, certain duties involving receipts should be handled by more than one member of the Town's personnel. Ideally, the following procedures should be enacted to ensure efficient internal control:

- One employee should open the mail, make a control list of all receipts, and restrictively endorse all items received. This would prevent any unauthorized endorsement should the checks be misplaced or lost before being deposited.
- The receipts should then go to another employee for further processing and deposit to the bank on a timely basis. The lack of timely deposits poses a risk to the Town and also impacts the level of interest earnings possible on Town funds.
- Then, someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited. If in agreement, that person should then record those amounts in the general ledger.

We noted that in 2010, the Town added the following procedures:

- The Finance Clerk will now input the entries onto the accounting software and the Fiscal Manager will review those entries before they are posted.

## **INTERNAL CONTROL RELATED MATTERS (Continued)**

### **8. REVENUE RECOGNITION IN THE WATER AND PARKS AND RECREATION DEPARTMENTS**

#### **Observation**

We noted that the Water and Parks and Recreation Departments keep track of their customer balances independently of the Finance department in the Town. Although the accounting office eventually receives deposit slips showing how much money is received from the activities in those departments, the accounting office does not first receive a report showing how much was billed and what the Town should expect to receive in payment. Therefore, there is a potential for revenue in these departments to be understated.

#### **Recommendation**

Although we did not identify any improprieties in our audit, we recommend that the Water and Parks and Recreation departments provide the accounting office with a report showing how much was billed, as applicable. In that way, the Town's accounting office performs an independent review of those departments and internal controls are strengthened. Additionally, the billing systems of both departments should be integrated with a Town-wide system so that the accounting for all cash receipts could be centralized and better controlled.

While this was not in place in 2009, we understand that the Finance office now receives detailed reports showing what was billed and deposited in the Water Fund in 2010. However, in the Parks and Recreation department, the Finance department is only receiving additional deposit detail and not billing data.

### **9. MANDATORY VACATION POLICY**

#### **Observation**

We noted that during fiscal 2008, one of the Town's key employees rarely completed a timecard, nor did they take any regular vacation for an extended period of time. The rationale provided for why this was acceptable is that this individual was never close to their allotted vacation time and therefore not at risk for using more than allowed. However, according to the unused vacation listing, this individual has carried over the maximum 80 hours of vacation into the next fiscal year. Additionally, without an accurate process for tracking vacation usage, it is unclear whether the actual vacation time used is being recorded as appropriate.

#### **Recommendation**

The lack of a mandatory vacation policy poses a significant risk to the Town. Requiring cross-training and the performance of an individual's duties while on vacation is in itself a great internal control and deterrent to improper behavior. Although we are unaware of any inappropriate transactions, our audit is not designed to specifically test for these items. Additionally, all individuals, regardless of title or position should be held accountable for their time as their working represents a contractual relationship between the employer and employee.

## **INTERNAL CONTROL RELATED MATTERS (Continued)**

We have identified the following as *deficiencies in internal control* that we consider to be neither material weaknesses nor significant deficiencies:

### **10. EXPENSE REIMBURSEMENT POLICY**

#### **Observation**

We noted that the Town currently allows Department Heads to approve their own expense reimbursements.

#### **Recommendation**

We recommend that the Supervisor or an employee designated in the Finance Department approves Department Heads' expense reimbursements. Implementing this procedure will strengthen controls over cash and prevent potential improprieties.

### **11. CONTROLS OVER INFORMATION TECHNOLOGY**

#### **Observation**

In 2009, the Town contracted with Dox Electronics, Inc. to perform an assessment of its controls over information technology. This assessment found several significant weaknesses in the Town's controls. Due to the sensitive nature of the findings and their significance to the Town we will not repeat them in this letter. However, given the potential implications on financial reporting, we have deemed these to be material weaknesses in internal control over financial reporting.

#### **Recommendation**

We commend the Town's initiative in performing a risk assessment of its information technology controls and we understand that the Town has already addressed several of the high and medium risk areas mentioned in the report. We recommend that the Town continue to review its risk areas surrounding information technology to make improvements to reduce its vulnerabilities in this area. We understand that in 2009 and 2010, the Town has continued to address the items in this report.

## **OTHER MATTERS FOR THE CONSIDERATION OF MANAGEMENT**

### **12. VILLAGE OF VICTOR CONTRACTS**

#### **Observation**

We identified that the Town has many contracts currently in place with the Village of Victor; for example, the Village Voice newsletter and the Village of Victor agreement for water services. These activities were not documented in a current contract.

#### **Recommendation**

To protect the Town and to eliminate potential problems that can arise from oral agreements, we recommend that written agreements be prepared and signed in all instances. Each agreement should name the parties involved and list the terms of the agreement. Ideally, the Town and legal counsel should develop a standard contract to be used in these situations that should only be modified with the express consent of counsel.

## **OTHER MATTERS FOR THE CONSIDERATION OF MANAGEMENT (Continued)**

### **13. CENTRALIZED PURCHASING SYSTEM**

#### **Observation**

The purchasing function at the Town has traditionally been performed at many levels of management in separate departments. As a result, similar goods are ordered at different times by different employees. This is inefficient and does not allow the Town to take advantage of discounts for buying in bulk. This practice also causes a certain loss of control and efficiency.

#### **Recommendation**

If purchasing is centralized, this function can be reformed into a very specialized process that offers the Town great benefit. This would permit more frequent contact with suppliers and more purchases of large quantities that provide for volume discounts. We recommend that Town centralize the purchasing function to avail it of these benefits.

### **14. NEW VENDOR APPROVAL**

#### **Observation**

We observed that the Town currently does not have a policy specifying how to approve new vendors. This gives the potential for the Town to enter into contracts with unapproved or illegitimate vendors and exposes the Town to loss or misappropriation of assets.

#### **Recommendation**

We recommend that the Town develop a policy and procedure for approving new vendors.

### **15. STANDARDS AND LAWS**

#### **Observation**

The Town has not completely assessed its responsibility for compliance as it relates to New York State and Federal standards for regulatory and legal compliance controls and requirements.

#### **Recommendation**

We recommend that a standards, regulatory and legal compliance review be completed by the Town to determine whether the Town is subject to these requirements. Areas that need to be reviewed include, but are not limited to:

- New York State document retention requirements
- Federal Trade Commission's Red Flags Rule (June 2010) - protection of any consumer accounts information
- Patriot Act - Relates to protection of critical infrastructure
- Payment Card Industry (PCI DSS) - process, storing and transmitting credit card numbers
- Federal Code of Civil Procedure - saving information related to civil lawsuits
- Digital Millennium Copyright Act - cover copyrighted software and documentation