

VILLAGE OF RYE BROOK

**Independent Auditors' Report on Communication of
Internal Control Matters Identified in the Audit**

MAY 31, 2008



**Independent Auditors' Report on Communication of Internal Control Matters
Identified in the Audit**

To The Honorable Mayor and
Board of Trustees
Village of Rye Brook
940 King Street
Rye Brook, New York 10573

In planning and performing our audit of the basic financial statements of the Village of Rye Brook, New York (the "Village") as of and for the year ended May 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures 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 Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

We have included in this letter a summary of communications required by generally accepted auditing standards. We are also required to communicate any control deficiencies we identified during the audit and determined to be significant deficiencies or material weaknesses. This communication is a requirement of the auditing standard, Statement on Auditing Standards (SAS) 112: Communicating Internal Control Related Matters Identified in an Audit.

Our consideration of internal control was for the limited purpose of conducting your Village's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did identify certain other deficiencies that we consider to be control deficiencies that are defined and discussed below. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined below.

It is important to note that control deficiencies are not necessarily issues management and the Board of Trustees will choose to address, however, control deficiencies may represent potential risks. Our responsibility as your auditors is to ensure that management and the Board of Trustees are aware of these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks.

Bennett Kielson Storch DeSantis Division

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

As indicated in the attached Addendum A, we identified certain deficiencies in internal control that we consider to be control deficiencies as well as other comments and recommendations identified in Addendum B that are opportunities for strengthening internal controls and operating efficiency.

This report, summary of communications, addendum and management responses are intended for the information and use of management and the Board of Trustees. However, this report is a matter of public record and its distribution is not limited. We will be pleased to discuss these comments in further detail at your convenience, or to assist you in implementing the recommendations.

Bennett Kjelson Storch DeSantis

**The Government Services Division of
O'Connor Davies Munns & Dobbins, LLP**
October 24, 2008

Village of Rye Brook, New York

Summary of Communications

- Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America
 - Unqualified opinion on financial statements
 - No change in scope of the audit
 - No material errors, frauds, or illegal acts identified
 - No immaterial frauds or illegal acts identified
 - No instances/suspicion or allegations of fraud were noted during conduct of audit
- Internal Accounting Controls
 - Reviewed to extent necessary to render our opinion on the financial statements
 - No material weaknesses noted
- Significant Accounting Policies
 - Accounting policies appears appropriate
 - Significant accounting policies included in Note 1 to the financial statements
 - No changes in accounting policies during the year
- Management's Judgments and Accounting Estimates
 - Estimates used deemed adequate
- Audit Adjustments
 - No significant unrecorded adjustments
- Other Information in Documents Containing Audited Financial Statements
 - Management's Discussion and Analysis appears reasonable
- Disagreements with Management
 - None
- Unresolved Difficulties Encountered in Performing the Audit
 - None

Village of Rye Brook, New York

Summary of Communications

- Consultation by Management with Other Accountants
 - None of which we were made aware
- Management Consulting Services
 - None
- Independence
 - Bennett Kielson Storch DeSantis, The Government Services Division of O'Connor Davies Munns & Dobbins, LLP is independent in all respects
- Irregularities or Illegal Acts
 - Nothing to report

Village of Rye Brook, New York

Addendum A

- **Fixed Assets**

During our audit we noted that the Village did not post the appropriate adjustments to reconcile its fixed asset ledger with the report generated by their fixed asset appraisers.

Recommendation

We recommend that management reconcile at least on a quarterly basis the fixed asset ledger to the fixed asset ledger prepared by the appraiser.

Management's Response

The Village is no longer using an appraisal company for the fixed assets as we are keeping our own master spreadsheet of all fixed assets to allow for quarterly updates.

- **Agency Fund**

The Agency Fund is used to account for assets held by the Village in an "agency capacity" on behalf of others. Our audit procedures disclosed the following:

- Within the Agency Fund, there were instances noted where deposit accounts were comprised of debit balances. This is an indication that the Village has made payments on behalf of the accounts in question without being reimbursed.
- We noted that there are several deposit accounts which have remained financially inactive for the entire year.

Recommendation

We recommend all of the above amounts being held by the Village should be reviewed. Upon completion of this review, we suggest all amounts no longer due be closed and transferred to the General Fund. We have also noted that this is a repeat comment from multiple prior year's audits. While we noted that progress has been made in this area, and internal control have been in place for several years, the Village should attempt to analyze all accounts in this fund in order to ascertain their final disposition. The balances in developers' accounts should be reviewed to determine if the developer is owed a refund. If a refund is due, the monies should be returned to the developer. If monies are owed to the Village, management should attempt to contact the developers to collect monies owed. However, controls have been in place for several years ensuring that the village does not pay environmental fees to consultants unless funds are received by the developers. Many of the accounts in question have not had activity in several years.

Village of Rye Brook, New York

Addendum A

- **Agency Fund (continued)**

Management's Response

The Village realizes that this is a continuing comment. Since fiscal year 2003/2004 controls have been in place ensuring that the Village does not pay environmental fees to consultants unless funds are received by the developers.

The Village is analyzing accounts in order to close inactive accounts. The Village closed out eight accounts with no activity in fiscal year 2007/2008. This process is time-consuming because the Village is analyzing each account before closing it out so that monies can be returned to developers or funds transferred to the General Fund. The Treasurer will continue to review accounts in order to close out inactive accounts.

- **Cash**

At the time of our audit, we noted several checks in the General Fund Payroll account, and General Fund Regular Checking account that have been outstanding in excess of one year. These checks totaled \$1,226.

Recommendation

We recommend checks outstanding for greater than one year should be written off by the Village and, if necessary, stop payment notices should be sent to the bank.

Management's Response

The Village does investigate outstanding checks in the regular checking and payroll accounts on a regular basis. The Treasurer's Office contacts the vendor or employee to see if they still have the check. If not, the Village issues a replacement check and a stop payment is placed on the original check. The checks outstanding for over one year were inadvertently missed.

- **Encumbrances**

During our testing of encumbrances in the general fund we noted the balance per the general ledger detail did not agree to the amount reflected on the trial balance. There was a \$3,559 uninvestigated difference. This is an indication that proper reconciliations are not being performed for the encumbrance account. Management oversight is crucial to the accuracy of financial reporting.

Village of Rye Brook, New York

Addendum A

- **Encumbrances (continued)**

Recommendation

We suggest reconciliations be performed on a regular basis regarding the encumbrance account to enhance accuracy.

Management's Response

The Treasurer will perform reconciliations on a regular basis to ensure that the balance per the general ledger detail agrees to the amount reflected on the trial balance.

- **Subsequent Receipts**

During our audit we noted a cash receipt journal was not available. This record is an integral part of the reconciliation of bank accounts and Village records. As a result alternative procedures were necessary in testing to satisfy management's assertions regarding proper valuation. Record retention is a critical component of adequate internal control.

Recommendation

We suggest Management and personnel adhere to control policies already implemented regarding the receipt cycle. We also recommend evaluating current policies and procedures for possible improvements.

Management's Response

Management and personnel do adhere to control policies already implemented regarding the receipt cycle. The Village does maintain a cash receipts journal. The book was not available during the audit and was located after the audit was completed. Management will evaluate current policies and procedures for possible improvements.

Addendum B

- **Fund Balance**

There is much discussion concerning the appropriate level of fund balance a municipality should retain. It is generally acknowledged by the financial community that no one amount or percentage is appropriate for every municipality. Generally, fund balance should be retained at a level that directly correlates with the economically sensitive revenues and expenditures. An assessment of an exposure to contingencies should also be a factor. Unique characteristics of the government's operation must also be quantified. A review of the Village's financial statements indicates that the General Fund undesignated fund balance is \$2,463,930. The Village should continue its policy of reviewing its existing fund balances and determine if they are at a sufficient level to meet its day to day operations and to provide a cushion for any unexpected contingencies. A multi-year financial plan, in addition to the existing capital plan, would enable the Village to assess the most judicious use of available funds.

Management's Response

Management will continue its policy of reviewing its existing fund balance and determine if it is at a sufficient level to meet the day to day operations and to provide a cushion for any unexpected contingencies.

- **Future Application of Accounting Standard**

Retiree health care costs have traditionally been accounted for and financed on a pay-as you go basis. Each year's budget has included an appropriation for the current year's cost of retiree health care. Governmental accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions ("OPEB"), requires that retiree's health care costs be treated on an accrual basis, on the Village's "governmental-wide" financial statements. Presently, New York State has not established a vehicle to fund this liability. Recently, the New York State comptroller announced legislation to authorize the creation on trust funds to help State and local governments plan the costs of OPEB.

The Village's annual OPEB cost (expense) is calculated based on the annual required contribution ("ARC") of the employer, which is an actuarially determined amount. GASB Statement No. 45 establishes standards for the measurement, recognition and display of the expenses and liabilities for retirees' medical insurance. As a result, reporting of expenses and liabilities will no longer be recognized under the "pay-as-you-go" approach. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Addendum B

- **Future Application of Accounting Standard (continued)**

Status

The Village has engaged an actuary to determine the future costs of retiree health care coverage, and calculate projections of the accrued liability for present retirees and the present value of the future benefits and accrued liability for current employees. GASB Statement No. 45 is effective for the Village's fiscal year ending May 31, 2009.

Management's Response

Management is in the process of gathering information needed by the actuarial company engaged by the Village.

- **Continuing Emphasis on Governance**

The Village has established guidelines and policies that address the principles of governance for a municipality. As management is aware, recent years have seen a heightened awareness in government regarding the responsibilities of governing boards. Accordingly, we bring to your attention the following considerations:

Document Retention – The time period for which a government's routine accounting and financial documents should be retained needs to be established so that important documentation could be kept at hand, in the context of the cost-benefit considerations of storing such information over time. In today's environment, regulators and other interested parties may be concerned, for a variety of reasons, about the availability and an entity's historical accounting and financial information. Accordingly, it is important now that the Board of Trustees formally assigns to a specific representative the sole authority to delete, destroy, or discard the Village's documents, based on the established policy's guidelines for the type of documentation to be maintained and the time frame for maintaining it.

Providing Access for Employee Comments and Concerns – This is an area frequently referred to as the "whistleblowers' provision", although the term "whistleblower" may sometimes have negative connotations in the public's mind that are not intended here. The intention is to provide a municipality's officers and employees with a mechanism that will permit them to communicate and concerns they may have regarding the organization, such as, but not limited to, what they may consider to be inappropriate behavior or actions by management. It is essential to this process that any communications from employees are completely confidential – to protect them from potential reprisals – and that their comments are received directly by the governing board or its audit committee, perhaps through an independent third party. The Village should continue its emphasis on governance.

Village of Rye Brook, New York

Addendum B

- **Continuing Emphasis on Governance (continued)**

Management's Response

The Village has a records management committee and the Village Administrator/Clerk is the Records Management Officer. The Village follows the Record Retention and Disposition Schedule MU-1 issued by the State Education Department to determine how long financial documents must be kept.

The Village of Rye Brook has a Code of Ethics in Chapter 24 of its Village Code which includes procedures for an Ethics Board, whose members are appointed by the Village Board. Management will discuss with the Village Board whether they would like to consider any additional procedures in this area.