

TOWN OF SMITHTOWN

SINGLE AUDIT REPORTS

Year Ended December 31, 2014

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TOWN OF SMITHTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2014

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Program Expenditures
U.S. Department of Housing and Urban Development		
Pass-through program from: Suffolk County, New York Community Development Block Grant	14.218	\$ 237,311
Direct program from: Section 8 Housing Assistance Payment Program Section 8 Housing Choice Vouchers	14.871	<u>1,242,238</u>
Subtotal U.S. Department of Housing and Urban Development		<u>1,479,549</u>
U.S. Department of Transportation		
Highway Planning and Construction	20.205	<u>580,590</u>
Subtotal U.S. Department of Transportation		<u>580,590</u>
U.S. Department of Energy		
Energy Efficiency and Conservation Block Grant Program	81.128	<u>15,046</u>
Subtotal U.S. Department of Energy		<u>15,046</u>
U.S. Department of Health and Human Services		
Pass-through program from: Suffolk County, New York Office of the Aging Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	36,388
Nutrition Services Incentive Program	93.053	16,093
Suffolk County, New York Office of Health Services Block Grants for Prevention and Treatment of Substance Abuse	93.959	<u>276,151</u>
Subtotal U.S. Department of Health and Human Services		<u>328,632</u>
U.S. Department of Homeland Security		
Pass-through program from: New York State: Disaster Grants - Public Assistance: Hurricane Sandy October 2012 - 4085-DR-NY	97.036	129,373
Pass-through program from: Suffolk County, New York: Operation S.H.I.E.L.D.	97.067	<u>768</u>
Subtotal U.S. Department of Homeland Security		<u>130,141</u>
Total Expenditures of Federal Awards		<u>\$ 2,533,958</u>

See accompanying notes to schedule of expenditures of federal awards.

TOWN OF SMITHTOWN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2014

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Town of Smithtown, New York under programs of the federal government for the year ended December 31, 2014. 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 Smithtown, New York, it is not intended to and does not present the financial position or changes in net position of the Town of Smithtown, New York.

Note B – Summary of Significant Accounting Policies

- (1) Expenditures reported on the Schedule are reported on the modified 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.
- (3) Federal grants received by the Town are subject to audit and adjustment. If any expenditure is disallowed by the grantor agencies as a result of such an audit, the grantor agencies could make claims for reimbursement, which would become a liability of the Town.
- (4) The federal expenditures for U.S. Department of Homeland Security and Federal Emergency Management Agency CFDA# 97.036 include expenditures related to the following Federally declared disasters:

Hurricane Sandy – FEMA 4085 DR NY

The federal disaster declaration 4085 DR NY enables the reimbursement of certain costs incurred related to debris removal and approved permanent work through the Federal Emergency Management Agency (FEMA) of the U.S. Department of Homeland Security. Significant costs incurred include debris removal costs during 2012 and 2013 and permanent work costs in 2013. Management is reporting federal expenditures relating to Hurricane Sandy (4085 DR NY) based on federally funded costs incurred during the year ended December 31, 2012 and 2013 for which the Town has approved project worksheets in place as of December 31, 2014. Federal expenditures included in the schedule of expenditures of federal awards for Hurricane Sandy relate to the following project worksheets: 6800001, 6800002, 6800004, 6800005 and 6800006. Project worksheet 6800001 includes expenditures of \$124,555 that were incurred during 2012. Project worksheets 6800002, 6800004, 6800005 and 6800006 include expenditures of \$4,818 that were incurred during 2013.

Note C – Award to Subrecipient

The Town passed through the Section 8 Housing Choice Vouchers, with the CFDA #14.871, to Community Development Corporation of Long Island, Inc. and Affiliates. The expenditures of \$1,242,238 incurred by the subrecipient are reimbursed by the Town and included on the Schedule for the year ended December 31, 2014.



CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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 Smithtown
Smithtown, New York

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Smithtown, New York, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Town of Smithtown, New York's basic financial statements and have issued our report thereon dated September 15, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Smithtown, New York's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Smithtown, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Smithtown, New York'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town of Smithtown, New York's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies, listed as items 2014-001 through 2014-007.

PERSONAL SERVICE. TRUSTED ADVICE. 

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Smithtown, New York's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*. Additional matters were communicated to management in a separate letter.

Town of Smithtown, New York's Response to Findings

The Town of Smithtown, New York's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Smithtown, New York's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Smithtown, New York's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Smithtown, New York's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Albert, Vijay, Zuck & Company P.C.

Hauppauge, New York
September 15, 2015



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Smithtown, 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 each of the Town of Smithtown, New York's major federal programs for the year ended December 31, 2014. The Town of Smithtown, New York's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Smithtown, New York's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Smithtown, 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Smithtown, New York's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Smithtown, New York complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

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Report on Internal Control over Compliance

Management of the Town of Smithtown, New York is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Smithtown, New York's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Smithtown, New York's internal control over compliance.

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 assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Smithtown, New York, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Town of Smithtown, New York's basic financial statements. We issued our report thereon dated September 15, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Albert, Vajzi, Zank & Gony P.C.

Hauppauge, New York
September 15, 2015

TOWN OF SMITHTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2014

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the Town of Smithtown, New York.
2. There are seven significant deficiencies relating to the audit of the basic financial statements reported in the "INDEPENDENT AUDITORS' 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."
3. No instances of noncompliance material to the financial statements of the Town of Smithtown, New York, which would be required to be reported in accordance with governmental auditing standards, was disclosed during the audit.
4. There were no deficiencies relating to the audit of the major federal award programs reported in the "INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133."
5. The auditors' report on compliance for the major federal awards programs for the Town of Smithtown, New York expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 in this Schedule.
7. The programs tested as major programs include:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Vouchers
20.205	Highway Planning and Construction

8. The threshold for distinguishing between Types A and B programs was \$300,000.
9. The Town of Smithtown, New York was not determined to be a low-risk auditee.

TOWN OF SMITHTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2014

FINDINGS – FINANCIAL STATEMENTS AUDIT

2014-001 AUTHORIZED SIGNERS - SIGNIFICANT DEFICIENCY (REPEAT FINDING)

Criteria

Authorized signers on bank accounts should be reviewed and approved on a periodic basis but not less than annually.

Condition

During our audit, we noted that there is only one authorized signer on the Receiver of Taxes and Town Clerk bank accounts.

Effect

The Town lacks an additional signer authorized on accounts in the case of an emergency or when an authorized signer is unable to sign. This could result in the Town losing temporary access to funds in its bank accounts.

Recommendation

We recommend that the Town review and approve the authorized signers annually and consider adding an additional signer on all accounts.

Management's Response

On June 1, 2015 the Town Clerk added a Deputy Town Clerk as an authorized signer in addition to the Town Clerk. The Tax Receiver will be adding the Assistant Tax Receiver as an authorized signer in September 2015.

2014-002 FUND BALANCE POLICY - SIGNIFICANT DEFICIENCY (REPEAT FINDING)

Criteria

The Town Board should adopt a policy incorporating Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and establish a fund balance policy which defines the hierarchy of fund balance and the levels of government required to constrain fund balance, any stabilization amounts and minimum fund balance requirements.

Condition

During our audit, we noted that the Town did not have a fund balance policy.

Effect

Although the fund balance of the Town is correctly stated, the Town's use of resources (restricted, committed, assigned or unassigned) could be inconsistent with the Board's intentions and result in inaccurate reporting of fund balance in the future.

TOWN OF SMITHTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2014

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2014-002 FUND BALANCE POLICY - SIGNIFICANT DEFICIENCY (REPEAT FINDING)
(continued)

Recommendation

The Town Board should adopt a fund balance policy incorporating the provisions of Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*.

Management's Response

The Town has adopted GASB 54 and is properly classifying fund balance. Furthermore, we have developed a draft fund balance policy which we believe satisfies GASB 54 requirements regarding the hierarchy of the Town's various fund balances. We are in the process of reviewing this draft and expect to be able to present it to the Town Board in 2015.

2014-003 BUILDING DEPARTMENT - SEGREGATION OF DUTIES - SIGNIFICANT DEFICIENCY (REPEAT FINDING)

Criteria

Although the size of the Town's Building Department office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. Proper segregation of duties states that for each employee, there should be separation of all of the following: 1) physical custody of assets; 2) authorization or approval of related transactions affecting those assets, and 3) recording or reporting of related transactions.

Condition

During the audit, we noted the following related to the Building Department:

- At the end of each day, the clerks hand all cash and checks to the Senior Clerk Typist with a copy of all receipts and two system generated reports called Daily Fee Report and Daily Fee Report - Summary, along with the stack of applications that were submitted that day. However, there is no sign off on these reports performed by the clerks before submitting to the Senior Clerk Typist.
- The Senior Clerk Typist reviews all information that is posted into MUNICIPALITY for each application that is submitted to the Building Department. This person additionally has the ability make adjustments to this information. In addition, there is no independent review of adjustments made.
- The Senior Clerk Typist prepares the deposit slips and deposits the money into bank after reviewing the Daily Fee Reports.

Effect

The primary objective of separation of duties is to assist in the prevention of fraud and errors. When there is a lack of segregation of duties, there is an increased risk that fraud and or errors may occur and not be detected on a timely basis.

TOWN OF SMITHTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2014

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

**2014-003 BUILDING DEPARTMENT - SEGREGATION OF DUTIES - SIGNIFICANT DEFICIENCY
(REPEAT FINDING) (continued)**

Recommendation

We recommend that the Town consider separating the accounting functions as described above to mitigate significant risks of error and/or misappropriation of the Town's assets. We recommend that another employee perform the step of preparing the deposit slip or bringing the money to the bank. Separating these duties will improve internal control over cash and other assets and reduce the possibility of errors and irregularities by limiting opportunities for employee fraud. Also, it is recommended that any adjustment in the system is properly reviewed and approved. In addition, the clerks in the Building Department should properly sign off on the Daily Fee Reports showing their reconciliation to the receipts collected.

Management's Response

The Building Department has separated duties in 2015. Deposits which are prepared by a Senior Clerk Typist are now brought to the bank by another individual, a Clerk Typist. Also, adjustments in MUNICIPALITY are recommended by the Senior Clerk Typist and reviewed by the Administrative Assistant to the Building Director and initialed for approval by the Administrative Assistant for data entry into MUNICIPALITY by an IT employee. The process for the reconciliation of the Daily Fee Reports will be reviewed and appropriately modified to satisfy the above recommendations.

**2014-004 PAYROLL – SEGREGATION OF DUTIES - SIGNIFICANT DEFICIENCY
(REPEAT FINDING)**

Criteria

A good system of internal control provides for a proper segregation of the various accounting functions including proper review and approval of transactions and reconciliations.

Condition

During the audit, we noted that the payroll department has the ability to add employees, change pay rates and prepare a check run.

Effect

The Town payroll records could be altered without detection.

Recommendation

We recommend that the Town place additional controls throughout the payroll process to ensure that duties are properly segregated. This includes cross-training and cross-verification.

TOWN OF SMITHTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2014

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

**2014-004 PAYROLL – SEGREGATION OF DUTIES - SIGNIFICANT DEFICIENCY
(REPEAT FINDING) (continued)**

Management's Response

The Town is in the process of installing a new payroll system which is expected to “go-live” in October 2015. This new payroll system will enable us to properly establish controls which will prevent the payroll department from adding employees, changing pay rates or preparing check runs.

2014-005 PROCUREMENT - SIGNIFICANT DEFICIENCY (REPEAT FINDING)

Criteria

New York State General Municipal Law requires the Town Board to adopt a procurement policy annually in accordance with the New York State recommended model policy. The objective of the policy is to assure the prudent and economical use of public monies, and facilitate the acquisition of goods and services, for maximum quality, at the lowest possible cost and to guard against favoritism, improvidence, extravagance, fraud and corruption. The policy must encompass all legal requirements for competitive bidding and must address any procurement of goods and services that are not subject to competitive bidding by law. In accordance with New York State Municipal Law, the Town's purchasing policies requires, for purchases not requiring competitive bidding, that verbal and written quotations be obtained and documented. In addition, this policy establishes the procedures to be followed to ensure that only goods and services properly authorized are purchased. New York State General Municipal Law requires purchases of similar items to be aggregated to determine if they meet the threshold for formal competitive bidding.

Condition

During the audit we noted that the purchasing department does not accurately track aggregated vendor or commodity purchases.

Effect

The Town may violate both general municipal law and the Town's stated purchasing policy.

Recommendation

We recommend that the Town ensure that all purchases are made in compliance with the Board adopted procurement policy and General Municipal Law and that all exceptions to the policy be documented on the payment package.

Management's Response

In September 2015, the Comptroller's office generated a detailed listing of disbursements by vendor. Working with the Purchasing Director, this listing has been utilized to make a reasonable determination of commodities that should be bid. This will be done again at year end for determining 2016 bid requirements.

TOWN OF SMITHTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2014

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

**2014-006 CASH DISBURSEMENT PROCESSING - SIGNIFICANT DEFICIENCY
(REPEAT FINDING)**

Criteria

Cash disbursements processing should ensure that purchase orders are in place prior to incurring expenditures and that department heads are reviewing and approving all claims generated through their departments prior to approval by the Comptroller's Office.

Condition

During the audit we noted the following deficiencies in regards to cash disbursement processing:

- 3 out of 25 items tested - the invoice was dated prior to the purchase order.
- 2 out of 25 selections - there was no departmental employee sign off that indicated that work performed or quantities received agree

Effect

Town funds could be improperly disbursed.

Recommendation

We recommend that the Town follow cash disbursement policies and procedures, defining the necessary approvals and steps that need to take place for payment. These procedures should incorporate a requirement that the preparation and approval of purchase orders prior to procuring a good or service, the necessary support to be attached for payment, all approvals required prior to payment and all required review processes. In addition, all disbursements should be supported by proper purchase orders and invoices.

Management's Response

Several cases are noted above where an invoice was dated prior to the issuance of the purchase order. In these cases, the Town is issuing a confirming purchase order, a standard procurement practice where procurement rules do not require the issuance of a purchase order prior to procurement. We are, however, considering steps which will significantly reduce any need for a confirming purchase order. It is Town policy to have every voucher submitted for payment approved and signed by the department head and signed by the employee. In 2015, we also have established as part of the Internal Audit function to check for proper employee departmental sign off for all goods received and work performed.

2014-007 CAPITAL PROJECTS - SIGNIFICANT DEFICIENCY (REPEAT FINDING)

Criteria

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. This includes financial resources to be used for the acquisition, construction, renovation, expansion and major improvement of various Town facilities, thoroughfares, arterial streets and drainage improvements, improvements and construction of parks and recreational facilities and acquisition of land and other large nonrecurring projects.

TOWN OF SMITHTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2014

FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)

2014-007 CAPITAL PROJECTS - SIGNIFICANT DEFICIENCY (REPEAT FINDING) (continued)

Condition

During our audit we noted the following deficiencies in relation to the capital projects fund:

- Large residual balances are maintained in the capital projects fund rather than being transferred back to the operating funds. In addition, operating funds continue to make annual transfers into this fund.
- Certain projects are overexpended until revenues are received.
- Retainage was not withheld for the some of the capital projects that are in progress (namely Nichols Road). If something goes wrong with the project or if the Town is not satisfied with the project, the Town may have difficulty recovering the money. In addition, the Town is not accurately tracking and monitoring retainage payable and therefore not recording it on the books.
- The Town does not have a written capital improvement plan. A capital improvement plan is a short-range plan, usually 5 years, which identifies future capital projects and equipment purchases, providing a planning schedule and identifying options for financing the plan.

Effect

Residual equity is accumulating in the capital projects fund. Overexpended capital projects could be improperly utilizing sources from another capital project.

Recommendation

Once a capital project is completed, the Town should close the project and transfer any remaining funds to the operating funds and reserve, if applicable. If temporary financing (loan from operating fund) is needed until permanent financing is secured, it is recommended that this be approved by the Town Board. It is suggested that the Town adopt a capital improvement plan on an annual basis and that the plan is reviewed and approved by the Town Board. In addition, the Town should make sure that retainage is withheld for all construction-related projects and that the retainage payable is properly monitored and recorded on the Town's books.

Management's Response

The Comptroller's Office continuously reviews capital projects throughout the year and has been successful in significantly reducing residual balances in 2014 and 2015.

While some of the Town's construction projects provided for retainage, all did not. Some contracts require a performance bond such as Nichols Road. We will notify the Purchasing Director that any and all construction contracts should contain a provision for retainage and/or a performance bond. In addition, we will evaluate how to best capture and record retainage in the general ledger at year end.

Lastly, we have adopted a long-term capital plan in 2015 which will enable the Town to properly plan capital expenditures.

TOWN OF SMITHTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2014

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None

TOWN OF SMITHTOWN
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2014

SUMMARY OF PRIOR YEAR FINDINGS – SINGLE AUDIT

DEPARTMENT OF HOMELAND SECURITY

2013-14 DISASTER GRANTS - PUBLIC ASSISTANCE, FEMA 4085 & 4111 DR NY - CFDA No. 97.036 (REPEAT FINDING)

Criteria

In accordance with the provisions listed in the Public Assistance Program Handbook of Policies and Guidelines for Applicants related to FEMA 4085 DR NY Hurricane Sandy and FEMA 4111 DR NY NEMO (“Handbook”), within thirty days of completion of all work associated with a project or a defined “Blue Book” date, the grantee is required to notify New York State Division of Homeland Security and Emergency Services of the project completion using the FEMA Project Listing worksheet (“P.4 certification”) included in the Project Application Supplement.

Condition

During the 2013 audit, we noted the following with respect to the completion and filing of the P.4 certification forms:

- FEMA 4085 DR NY: for four project worksheets examined, the P.4 Certifications were not filed within the thirty day time period.
- FEMA 4111 DR NY: one out of two project worksheets examined, the P.4 Certification was not filed within the thirty day time period.

Current Status

We have discussed this matter at length with the Town’s Public Safety Department and concluded that the Public Safety Department is well aware of FEMA’s reporting requirements and that Town’s submission of P.4s for both FEMA 4020 and FEMA 4085, although late by the 30-day standard, were reviewed and submitted to FEMA within a reasonable period of time (in most cases, within a few days) of receipt from FEMA.

In addition, it should be noted that in some cases, the FEMA Blue Book wasn’t received until well after the 30-day P.4 submission date had passed which is clearly beyond the Town’s control. However, in every case, the Town’s Public Safety Department succeeded in returning a completed P.4 within a reasonable time after having received the Blue Books from FEMA.