

**TOWN OF SMITHTOWN**

**SINGLE AUDIT REPORTS**

Year Ended December 31, 2013

## TABLE OF CONTENTS

	<u>Page</u>
Schedule of Expenditures of Federal Awards .....	1
Notes to Schedule of Expenditures of Federal Awards .....	2-3
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 <i>Government Auditing Standards</i> .....	4-5
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 .....	6-8
Schedule of Findings and Questioned Costs .....	9-22
Summary Schedule of Prior Year Audit Findings .....	23-26

**TOWN OF SMITHTOWN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ended December 31, 2013

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Program Expenditures
<b>U.S. Department of Housing and Urban Development</b>		
Pass-through program from:		
Suffolk County, New York		
Community Development Block Grant	14.218	\$ 411,887
Direct program from:		
Section 8 Housing Assistance Payment Program		
Section 8 Housing Choice Vouchers	14.871	<u>1,317,896</u>
Subtotal U.S. Department of Housing and Urban Development		<u>1,729,783</u>
<b>U.S. Department of Transportation</b>		
Highway Planning and Construction	20.205	<u>1,205,738</u>
Subtotal U.S. Department of Transportation		<u>1,205,738</u>
<b>U.S. Department of Energy</b>		
Energy Efficiency and Conservation Block Grant Program	81.128	<u>56,674</u>
Subtotal U.S. Department of Energy		<u>56,674</u>
<b>U.S. Department of Health and Human Services</b>		
Pass-through program from:		
Suffolk County, New York		
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	38,465
Nutrition Services Incentive Program	93.053	17,017
Block Grants for Prevention and Treatment of Substance Abuse	93.959	<u>239,076</u>
Subtotal U.S. Department of Health and Human Services		<u>294,558</u>
<b>U.S. Department of Homeland Security</b>		
Pass-through program from:		
New York State:		
Disaster Grants - Public Assistance:		
Hurricane Sandy October 2012 - 4085-DR-NY	97.036	490,828
Storm NEMO February 2013 - 4111-DR-NY	97.036	<u>472,040</u>
Subtotal U.S. Department of Homeland Security		<u>962,868</u>
<b>U.S. Department of Justice</b>		
Equitable Sharing Program	16.922	<u>2,102</u>
Subtotal U.S. Department of Justice		<u>2,102</u>
Total Expenditures of Federal Awards		<u>\$ 4,251,723</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, 2013

**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 under programs of the federal government for the year ended December 31, 2013. 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, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Smithtown.

**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  
Storm NEMO – FEMA 4111 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 and permanent work costs in 2013.

The federal disaster declaration 4111 DR NY enables the reimbursement of certain costs incurred related to snow removal through the Federal Emergency Management Agency (FEMA) of the U.S. Department of Homeland Security. Significant snow removal costs were incurred during 2013.

**Hurricane Sandy – FEMA 4085 DR NY**

Management is reporting federal expenditures relating to Hurricane Sandy (4085 DR NY) based on federally funded costs incurred during the year ended December 31, 2013 for which the Town has an approved Project Worksheet in place. Federal expenditures included in the schedule of expenditures of federal awards for Hurricane Sandy relate to the following Project Worksheets: 6800001, 6800002, 6800004, 6800006 and 6800007

**TOWN OF SMITHTOWN**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended December 31, 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 \$1,317,896 incurred by the subrecipient are reimbursed by the Town and included on the Schedule for the year ended December 31, 2013.



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 Town of Smithtown, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Town of Smithtown's basic financial statements and have issued our report thereon dated September 16, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Town of Smithtown'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 Town of Smithtown's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Smithtown'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'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 preceding 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 2013-01 through 2013-13.

PERSONAL SERVICE. TRUSTED ADVICE. 

ALBRECHT, VIGGIANO, ZURECK & COMPANY, P.C.

245 PARK AVENUE, 39TH FLOOR  
NEW YORK, NY 10167  
T: 212.792.4075

25 SUFFOLK COURT  
HAUPPAUGE, NY 11788-3715  
T: 631.434.9500 F: 631.434.9518

www.avz.com  
INDEPENDENT MEMBER OF BKR INTERNATIONAL

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Town of Smithtown'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's Response to Findings**

Town of Smithtown's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Smithtown'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'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's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Albert, Victor, Zuck & Company P.C.*

Hauppauge, New York  
September 16, 2014



CERTIFIED PUBLIC ACCOUNTANTS

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 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 Town of Smithtown's major federal programs for the year ended December 31, 2013. Town of Smithtown'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 Town of Smithtown'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 Town of Smithtown'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 Town of Smithtown's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Town of Smithtown 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, 2013.

PERSONAL SERVICE. TRUSTED ADVICE. 

ALBRECHT, VIGGIANO, ZURECK & COMPANY, P.C.

245 PARK AVENUE, 39TH FLOOR  
NEW YORK, NY 10167  
T: 212.792.4075

25 SUFFOLK COURT  
HAUPPAUGE, NY 11788-3715  
T: 631.434.9500 F: 631.434.9518

www.avz.com  
INDEPENDENT MEMBER OF BKR INTERNATIONAL

## **Report on Internal Control over Compliance**

Management of Town of Smithtown 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 Town of Smithtown'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 Town of Smithtown'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, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-14, that we consider to be a significant deficiency.

Town of Smithtown's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Smithtown's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **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 Town of Smithtown, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Town of Smithtown's basic financial statements. We issued our report thereon dated September 16, 2014, 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.

*Alvin, Vijay, Zuh & Company P.C.*

Hauppauge, New York  
September 16, 2014

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2013

**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 thirteen 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 was one significant deficiency 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 program for the Town of Smithtown, New York expresses an unmodified opinion on all major federal programs.
6. There was one audit finding that is 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>
14.218	Community Development Block Grants/Entitlement Grants
14.871	Section 8 Housing Choice Vouchers
20.205	Highway Planning and Construction
97.036	Disaster Grants - Public Assistance

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, 2013

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

**2013-01 COLLATERAL AND INVESTMENT POLICY - SIGNIFICANT DEFICIENCY  
(REPEAT FINDING)**

Criteria

General Municipal Law §39 requires the adoption, by resolution, of a comprehensive investment policy which details the local government's policy and instructions to management and staff regarding the investing, monitoring, and reporting of funds of the local government. General Municipal Law §39 also provides that the policy be reviewed and re-adopted annually.

Condition

During our audit, we noted that:

- The Town's investment policy is outdated.
- The existing investment policy's authorized bank list is outdated and contains banks no longer in existence. However, we noted in the Board minutes that the Board adopts the approved banks and depositories to be utilized by the Town annually.
- Collateral agreements with banks securing deposits are outdated.
- One bank is not collateralizing in accordance with their collateral agreement.

Effect

There is a potential for bank balances to be under collateralized and be at risk for loss in the case of a bank failure.

Recommendation

The Town should review, amend as necessary and annually re-adopt the investment policy.

The Town should review its collateral procedures on all bank accounts. Monthly collateral reports should be closely monitored by the Comptroller's Office to ensure all accounts are being correctly collateralized according to collateral agreements, the Town's investment policy and General Municipal Law.

Management's Response

With respect to the above, the Town's Investment Policy, including all currently authorized banks, was updated and adopted by the Town Board on July 15, 2014. In addition, all collateral agreements with banks with which we deposit funds were updated as of January 23, 2014. Lastly, as of January 23, 2014, all banks are currently collateralized as per the terms of our agreement with each bank.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2013

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2013-02 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 Town Supervisor, 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 April 8, 2014, the Town Board made a Town Councilman an authorized signer, in addition to the Town Supervisor, for all Town related accounts. The Comptroller's Office will notify the Receiver of Taxes and the Town Clerk and advise them to add an additional signer for the accounts they oversee.

**2013-03 CAPITAL ASSET DISPOSITIONS - SIGNIFICANT DEFICIENCY (REPEAT FINDING)**

Criteria

In accordance with the Asset Management Policy, when an asset is to be either disposed of or transferred to another department, it is the responsibility of the asset custodian to notify the Town Comptroller's Office by submitting an Asset Inventory Change Report prior to disposition or transfer.

Condition

During our audit, we noted that assets were disposed of prior to the Comptroller's Office review and approval.

Effect

Assets that could be sold or used in another department could be disposed without Town benefit.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2013

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2013-03 CAPITAL ASSET DISPOSITIONS - SIGNIFICANT DEFICIENCY (REPEAT FINDING)**  
(continued)

Recommendation

The Town Comptroller's Office (or another designated individual) should review and approve asset disposals prior to disposal, to ensure the Town is obtaining any potential benefit from the disposal and that assets are not improperly being disposed.

Management's Response

The Town Comptroller's Office will continue to remind department heads of their responsibility to report potential asset dispositions prior to taking action and ensure that they have received permission to dispose of assets. In addition, the Town expects to be able to enforce this policy through regular internal audits.

**2013-04 FUND BALANCE POLICY - SIGNIFICANT DEFICIENCY (REPEAT FINDING)**

Criteria

The Town Board should adopt a policy adopting 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 Town did not have a fund balance policy.

Effect

The fund balance of the Town could be incorrectly classified in the financial statements.

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

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 2014.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2013

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2013-05 BUILDING DEPARTMENT - SEGREGATION OF DUTIES - SIGNIFICANT DEFICIENCY**

Criteria

Although the size of the Town's 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.

Recommendation

We recommend that the Town consider means for 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 Town Comptroller's Office will work with the Town's new Building Director to remedy this condition and to create a proper segregation of accounting tasks.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2013

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2013-06 ESTABLISH AN INTERNAL AUDIT FUNCTION - SIGNIFICANT DEFICIENCY  
(REPEAT FINDING)**

Criteria

Internal auditing is an independent activity within a government for the review of accounting, financial, and other operations. The overall objective is to carry out a program of tests of the Town's financial and operational activities and transactions to provide management with information about the effectiveness (and efficiency) of established accounting and operational policies, procedures, and controls, and the extent to which they are being followed. In the course of gathering such information, the reliability of accounting and other data generated within the Town may be evaluated. Another objective is the awareness, prevention and detection of fraud through the performance of audit tests and procedures.

Condition

At present, the Town does not have an internal audit function.

Effect

Establishment of an internal auditing function could result in substantial benefits to the Town in terms of strengthened internal control and increased efficiency. Some benefits of an internal audit function are as follows:

- Strengthening the Town's internal controls over assets and increasing the reliability of the accounting records.
- Reducing the time spent by management in the development of Town procedures.
- Increasing assurance that Town policies are being adhered to and that departmental procedures and controls are being reviewed objectively.
- Ensuring that each division is accounting and reporting in a consistent manner and that they are operating in accordance with management's wishes.
- Making procedural reviews to determine that the various divisions are operating efficiently.
- Providing an excellent training ground for future secondary and top management positions.
- Providing an ongoing and continuous awareness throughout the Town of its commitment to fraud prevention/detection and the efficiency of its operations.

Recommendation

We recommend that the Board and management evaluate the costs and potential benefits of establishing an internal audit function.

Management's Response

In the 2014 Budget, the Town authorized the hiring of an auditor which we expect to begin working on September 10, 2014. We believe that many of the issues in this report will be mitigated with the implementation of an effective internal audit function.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2013

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2013-07 ESTABLISH AN AUDIT COMMITTEE - SIGNIFICANT DEFICIENCY (REPEAT FINDING)**

Criteria

Establishment of an audit committee could result in substantial benefits to the Town in terms of strengthened internal control and increased efficiency.

Condition

At present, the Town does not have an audit committee.

Effect

The Town audit committee would function and assist on the following levels:

- Review all significant findings and recommendations of the internal auditor on an on-going basis.
- Monitor the Town's implementation of new policies and procedures.
- Assist in the evaluation of the internal auditor by providing feedback on the performance of the internal audit function.
- Provide recommendations on the appointment for the external auditor.
- Meet with the external auditor prior to commencing the annual audit of the Town.
- Review and discuss with the external auditor the auditor's risk assessment of the Town's fiscal operations.
- Receive and review the draft of the audit report and management letter.
- Work with the external auditor to help implement recommendations contained in the management letter.
- Provide recommendations to the Board regarding acceptance of the external audit reports.

Recommendation

We recommend that the Town evaluate the costs and potential benefits of establishing an audit committee. We would be pleased to discuss this matter further with the Town or to assist the Town in setting up an audit committee.

Management's Response

As noted earlier, the Town has hired an internal auditor who will begin working shortly. With the internal auditor in place, we will proceed with seeking the Town Board's approval to form an audit committee.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2013

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2013-08 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.

Management's Response

The Town is in the process of installing a new payroll system which is expected to "go-live" some time in November 2014. 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.

**2013-09 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.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2013

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2013-09 PROCUREMENT - SIGNIFICANT DEFICIENCY (REPEAT FINDING) (continued)**

Condition

During the audit we noted the following deficiencies with regard to procurement:

- The purchasing department does not accurately track aggregated vendor or commodity purchases.
- The Procurement Policy was not adopted for 2013.

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. In addition, the procurement policy should be adopted annually by the Board.

Management's Response

The Town has purchased new financial software which will enable us to better track aggregate purchases made by vendor and by commodity. In addition, the Town is investigating the purchase of a standardized commodity code list to be imported into the new financial software. The Town adopted a procurement policy in 2012 and in 2014. While it was the Town's intention to adopt a 2013 procurement policy, it was inadvertently omitted. In the future, the Town Purchasing Director will be responsible for presenting a procurement policy to be adopted by the Town Board at the annual organizational meeting.

**2013-10 CASH DISBURSEMENT PROCESSING - SIGNIFICANT DEFICIENCY  
(REPEAT FINDING)**

Criteria

Cash disbursements processing should ensure that supporting documentation is attached to the claim for payment, 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:

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

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2013

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2013-10 CASH DISBURSEMENT PROCESSING - SIGNIFICANT DEFICIENCY  
(REPEAT FINDING) (continued)**

Condition (continued)

- 1 out of 25 selections – did not contain an invoice or other appropriate supporting documentation. Such disbursement was related to payment for snow plowers. Only documentation received was a spreadsheet from the Highway Department showing name of the person who was doing the snow plowing and how many hours worked.

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. These procedures should also limit the payment of invoices to a weekly/biweekly/monthly schedule to facilitate in Board review and approval. A claim form facilitates the approval and recording process by having all required information on one document. We recommend that the Town adopt its own claim form, sequentially numbered claim voucher to which all documentation be attached. (i.e., purchase/service order, invoice, quotes, etc.)

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 confirming purchase orders. With regard to departmental sign off, we will work with the departments to remedy this issue. Lastly, in addition to the spreadsheet presented, the Highway Department tracks the hours worked using a time clock and punch cards, copies of which were included with their submission for payment.

**2013-11 INTERFUND ALLOCATIONS - SIGNIFICANT DEFICIENCY (REPEAT FINDING)**

Criteria

Allocation of expenditures between funds should be supported with an actual or reasonable basis for allocation and incorporate the actual costs incurred.

Condition

During the audit, we noted that interfund allocations of medical, general liability and workers' compensation expenditures were not properly documented or based on sound criteria.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2013

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2013-11 INTERFUND ALLOCATIONS - SIGNIFICANT DEFICIENCY (REPEAT FINDING)**

(continued)

Effect

Individual taxing jurisdictions could be improperly burdened.

Recommendation

We recommend that the Town support interfund allocations with an actual or reasonable basis for the allocation.

Management's Response

Beginning with the 2014 budget, the funding requirements were based on current employee/retiree census data or other measurement where applicable. Where actual costs are not always available at the time the budgets are developed, estimates will continue to be part of the allocation to individual funds. Additionally, discussions with our actuary have indicated that the current approach for several of the allocations were reasonable. We will continue our discussions with our actuary in order to improve this process.

**2013-12 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.

Condition

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

- Certain operating expenditures, such as fuel purchases and small repairs were paid from this 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 majority of the capital projects that are in progress (namely Nichols Rd). If something goes wrong with the project or if the Town is not satisfied with the project, the Town may have a difficulty recovering the money. In addition, for 2 of the 90 items selected for our subsequent disbursement testing, there was a retainage payable withheld but such amounts were not recorded on the books.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2013

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2013-12 CAPITAL PROJECTS - SIGNIFICANT DEFICIENCY (REPEAT FINDING) (continued)**

Condition (continued)

- 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 and in certain instances being used to pay for operating expenditures that should be paid out of the operating funds. 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 should be approved by the 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 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.

We have implemented controls to prevent the payment of operating expenses through capital projects.

While some of the Town's construction projects provided for retainage, all did not. We will notify the Town Attorney that any and all construction contracts should contain a provision for retainage. In addition, we will evaluate how to best capture and record retainage in the general ledger.

Lastly, we have begun the process of developing a long-term capital plan which will enable the Town to properly plan capital expenditures.

**2013-13 PARK FUND MONEY - SIGNIFICANT DEFICIENCY (REPEAT FINDING)**

Criteria

In accordance with Section 248-24 of the Town Code, park fund money is to be used for the purchase of land.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2013

**FINDINGS – FINANCIAL STATEMENTS AUDIT (continued)**

**2013-13 PARK FUND MONEY - SIGNIFICANT DEFICIENCY (REPEAT FINDING) (continued)**

Condition

During our audit, we noted that there were expenditures from the park fund for decking at Long Beach Pavilion.

Effect

Park fund money was not spent on the purchase of land.

Recommendation

We recommend that the Town ensure that park fund money is spent in accordance with Town Code.

Management's Response

On May 22, 2014, the Town Board amended the Town Code (Chapter 248 – Land Use Standards) to allow for the expenditure of park fund money on park improvements.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2013

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT**

**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 current year 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.

Effect

The Town is not in compliance with the reporting requirements of the Handbook and grant agreement.

Recommendation

We recommend the Town implement policies and procedures to ensure the P.4 Certification is filed within the thirty day time period.

Management’s Response

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.

**TOWN OF SMITHTOWN**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
Year Ended December 31, 2013

**SUMMARY OF PRIOR YEAR FINDINGS – SINGLE AUDIT**

**DEPARTMENT OF HOMELAND SECURITY**

**2012-30 DISASTER GRANTS - PUBLIC ASSISTANCE, FEMA 4020 DR NY - CFDA No. 97.036**

Criteria

Costs charged to federal programs are to be supported by adequate documentation in accordance with guidelines established in the OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments.

Condition

We noted the Town requested reimbursement on the full amount of a vendor invoice which was reduced prior to payment.

Current Status

The particular invoice in question was included on a FEMA 4020 (Hurricane Irene) project worksheet without knowing it was being disputed. As a result of the dispute, the invoice was ultimately resubmitted by the vendor and paid by the Town, subsequent to it having been submitted to FEMA for reimbursement.

To prevent this from happening in the future, a single person within the Town's Public Safety Department has been made responsible for coordinating with the Town's departments, including the Town Comptroller's Office, and for obtaining and reviewing all project worksheets prior to submission. Likewise, a single person within the Town Comptroller's Office has been made responsible for coordinating with the Public Safety Department to ensure all amounts submitted for reimbursement reconcile to the general ledger and that they have actually been paid prior to being submitted. As a result, there have been no questioned costs for FEMA 4085 (Hurricane Sandy).

We have been in communication with New York State Department of Homeland Security and Emergency Services (DHSES), the pass-through entity for these FEMA grants, in an effort to remedy the \$10,196 overpayment.

**2012-31 DISASTER GRANTS - PUBLIC ASSISTANCE, FEMA 4020 DR NY - CFDA No. 97.036**

Criteria

Costs charged to federal programs are to be supported by adequate documentation in accordance with guidelines established in the OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments. Labor documentation should be accurately recorded as to dates worked, hours per day, rate of pay (regular or overtime), and fringe benefits rate. This information should be obtained from individual time cards and accurately consolidated on the force account labor worksheet in a timely manner. Field records such as equipment logs and operator logs should be accurately kept, copied and consolidated onto the force account equipment. Equipment hours should be compared to appropriate personnel hours to ensure both are accurate.

**TOWN OF SMITHTOWN**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
Year Ended December 31, 2013

**SUMMARY OF PRIOR YEAR FINDINGS – SINGLE AUDIT (continued)**

**DEPARTMENT OF HOMELAND SECURITY (continued)**

**2012-31 DISASTER GRANTS - PUBLIC ASSISTANCE, FEMA 4020 DR NY - CFDA No. 97.036**  
(continued)

Condition

We noted the Town documented more labor hours on the force account labor worksheet submitted to FEMA than was recorded in the Town's time records. In addition, we noted certain instances where equipment usage hours were higher than the labor hours.

Current Status

During our 2012 audit, the auditors discovered a \$187 discrepancy in the Town's FEMA 4020 project worksheet submission. As noted above, a single person within the Town's Public Safety Department has been made responsible for coordinating with the Town's departments, including the Town Comptroller's Office, and for obtaining and reviewing all project worksheets and a single person within the Town Comptroller's Office has been made responsible for coordinating with the Public Safety Department. As a result, there have been no questioned costs for FEMA 4085, a much larger more complicated event than FEMA 4020.

In addition, the Town is in the process of upgrading its timekeeping, payroll and financial systems which is expected to be completed within the next few months. Once fully implemented, these systems will assist the Town with the reconciliation of project worksheets to original time records.

The questioned cost of \$187 has not been resolved with FEMA. However, due to the immaterial amount we are not currently pursuing this issue internally or with FEMA.

**2012-32 DISASTER GRANTS - PUBLIC ASSISTANCE, FEMA 4020 & 4085 DR NY - CFDA No. 97.036**

Criteria

OMB Circular A-87 establishes principles and standards for determining allowable direct and indirect costs for Federal awards. Additionally, in accordance with OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, all eligible costs must be supported by adequate documentation.

Condition

Upon initial request, the Town was unable to provide project worksheets which agreed to the total federal expenditures reported to FEMA.

Current Status

As noted previously, a single person in the Town's Public Safety department has been made responsible for obtaining and reviewing all project worksheets to be submitted to FEMA and then coordinating with the Town Comptroller's office. Similarly, a single person in the Town Comptroller's office has been tasked with coordinating with Public Safety to assist with reconciliation to the Town's general ledger and timekeeping records.

**TOWN OF SMITHTOWN**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
Year Ended December 31, 2013

**SUMMARY OF PRIOR YEAR FINDINGS – SINGLE AUDIT (continued)**

**DEPARTMENT OF HOMELAND SECURITY (continued)**

**2012-32 DISASTER GRANTS - PUBLIC ASSISTANCE, FEMA 4020 & 4085 DR NY - CFDA No. 97.036 (continued)**

Current Status (continued)

The Town is currently implementing new timekeeping, payroll and financial systems which will reduce many of the current obstacles which make compiling and verifying source payroll information rather difficult. The upgrade to the financial system software will allow for the identification of detailed information at both the employee/pay period/pay type level for payroll and the invoice level for accounts payable and code them as part of a FEMA event. This will greatly decrease the time needed for project worksheet preparation and reconciliation to source data as well as improving accuracy.

We believe any discrepancies that existed were immaterial. However, the Town Comptroller's Office is prepared to coordinate the Public Safety Department to ensure proper record keeping and retention in the event of a future disaster.

**2012-33 DISASTER GRANTS - PUBLIC ASSISTANCE, FEMA 4020 & 4085 DR NY - CFDA No. 97.036**

Criteria

In accordance with the provisions listed in the Public Assistance Program Handbook of Policies and Guidelines for Applicants related to FEMA 4020 DR NY Hurricane Irene ('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 audit, we noted the following with respect to the completion and filing of the P.4 certification forms:

- FEMA 4020 DR NY: for five project worksheets examined, the P.4 Certifications were not filed within the thirty day time period.
- FEMA 4085 DR NY: for two project worksheets examined, the P.4 Certifications were 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.

**TOWN OF SMITHTOWN**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
Year Ended December 31, 2013

**SUMMARY OF PRIOR YEAR FINDINGS – SINGLE AUDIT (continued)**

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**2012-34 SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (HCVP) - CFDA 14.871**

Criteria

Public Housing Authorities are required to enter into depository agreements with their financial institutions in the form required by Housing and Urban Development (HUD). The agreements serve as safeguards for Federal funds and provide third-party rights to HUD.

Condition

We noted the Town did not have a current depository agreement in place with a bank.

Current Status

On December 17, 2013, the Town Board adopted a new depository agreement with HUD.