

**TOWN OF SMITHTOWN**

**SINGLE AUDIT REPORTS**

Year Ended December 31, 2012

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**TOWN OF SMITHTOWN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ended December 31, 2012

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	\$ 194,694
ARRA - Community Development Block Grant	14.253	52,087
Direct program from:		
Section 8 Housing Assistance Payment Program		
Section 8 Housing Choice Vouchers	14.871	1,467,566
Subtotal U.S. Department of Housing and Urban Development		1,714,347
<b>U.S. Department of Transportation</b>		
Highway Planning and Construction	20.205	49,015
<b>U.S. Department of Energy</b>		
Conservation Research and Development	81.086	48,690
Energy Efficiency and Conservation Block Grant Program	81.128	69,847
Subtotal U.S. Department of Energy		118,537
<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	29,485
Nutrition Services Incentive Program	93.053	14,501
Block Grants for Prevention and Treatment of Substance Abuse	93.959	268,304
Subtotal U.S. Department of Health and Human Services		312,290
<b>U.S. Department of Homeland Security</b>		
Pass-through program from:		
New York State:		
Disaster Grants - Public Assistance:		
Hurricane Irene August 2011 - 4020-DR-NY	97.036	1,093,449
Hurricane Sandy October 2012 - 4085-DR-NY	97.036	6,135,773
Direct program from:		
Port Security Grant Program	97.056	390
Subtotal U.S. Department of Homeland Security		7,229,612
Total Expenditures of Federal Awards		\$ 9,423,801

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, 2012

**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, 2012. 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, Federal Emergency Management Agency CFDA# 97.036 include expenditures related to the following Federally declared disasters:

Hurricane Irene – FEMA 4020 DR NY  
Hurricane Sandy – FEMA 4085 DR NY

The federal disaster declaration 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 debris removal costs were incurred during 2011 and 2012.

**Hurricane Irene – FEMA 4020 DR NY**

Management is reporting federal expenditures relating to Hurricane Irene (4020 DR NY) for the following Project Worksheets: 6800001, 6800002, 6800003, 6800004, and 6800005. The federal expenditures incurred during 2011 and 2012, related to the above listed Project Worksheets, have been included in the schedule of federal awards for the year ended December 31, 2012.

**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, 2012 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 Project Worksheet 6800001. Approximately \$89,000 of costs relating to Project Worksheet 6800001 have not been incurred as of December 31, 2012, and therefore, are not included in the schedule of expenditures of federal awards.



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, 2012, 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 23, 2013.

**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.

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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, listed as items 2012-01 through 2012-07.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies, listed as items 2012-08 through 2012-29.

PERSONAL SERVICE. TRUSTED ADVICE. 

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### **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.

*Alvin, Vijay, Zuh & Comp PC*

Hauppauge, New York  
September 23, 2013



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, 2012. 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, 2012.

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## 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 2012-30 through 2012-34, that we consider to be significant deficiencies.

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, 2012, 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 23, 2013, 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 Vignozzo, CPA & Comp. P.C.*

Hauppauge, New York  
September 23, 2013

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

**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 twenty-nine 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." Seven of the deficiencies reported are considered to be material weaknesses.
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 five significant 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 program for the Town of Smithtown, New York expresses an unmodified opinion on all major federal programs.
6. There were 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
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 determined to be a low-risk auditee.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

**2012-01 PRIOR PERIOD ADJUSTMENTS – MATERIAL WEAKNESS**

Criteria

Internal controls over financial reporting should be in place to ensure the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States (GAAP).

Condition

The Town's financial statements for the year ended December 31, 2012 reflect the following prior period adjustments for 2011:

- Understatement of cash – fiduciary funds
- Understatement of grants receivable - government-wide, general fund, highway fund, refuse and garbage fund and outside village fund.
- Understatement of accounts receivable – government-wide and general fund
- Understatement of inventory – highway fund
- Understatement of capital assets and accumulated depreciation – government-wide
- Overstatement of deferred charges – government-wide
- Understatement of compensated absences payable – government-wide

Effect

The Town's January 1, 2012 fund balance and net position required restatement to reflect the prior period adjustments to the general fund, highway fund, refuse and garbage fund, outside village fund, fiduciary funds and government-wide statements.

Recommendation

We recommend the Town establish a written policies and procedures manual for financial accounting and reporting. In addition the Town should prepare monthly reconciliations to all subsidiary ledgers and supporting schedules for substantially all balance sheet items and appropriate revenue and expenditure accounts, establish monthly and year end closing procedures, and establish appropriate monitoring and review controls.

Management's Response

The Town Comptroller's office has begun the process of evaluating and documenting the Town's internal accounting controls in an effort to ultimately compile a comprehensive accounting policy and procedures manual. We will continue to consult with our auditors with regard to the content of the manual. We expect the manual to include monthly and year-end closing procedures, establish the requirement for various departments to perform reconciliations as well as establishing the controls necessary to monitor and review financial operations town-wide. Additionally, we will establish procedures for future review and evaluation of the manual.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012 -02 MATERIAL CASH BALANCES OMMITTED – MATERIAL WEAKNESS**

Criteria

All cash on hand and in the bank should be reconciled and recorded on the Town's books and records as of year-end.

Condition

In the current and previous years, the Town was not including the cash balances maintained by the Receiver of Taxes and the Town Clerk on the Town's books and records as of year-end.

Effect

The Town's December 31, 2012 financial statements reflect a prior period and current year adjustment to the fiduciary funds to properly include ending cash balances of the Receiver of Taxes and Town Clerk.

Recommendation

We recommend that the Town establish a procedure to ensure that all Town cash on hand and in the bank is recorded on the Town's books and records as of year-end.

Management's Response

These are the balances held in trust by elected officials, namely the Town Clerk and the Receiver of Taxes, who are not part of the Town Board. Even though this change brings no net change to the balance sheet, we believe we have taken the appropriate measures to correct this practice currently and in the future so as to incorporate these balances into the Town's general ledger. Also, we will ensure that the aforementioned cash balances are reconciled to the statements provided by the respective financial institutions.

**2012-03 METERED WATER SALES AND RECEIVABLES – MATERIAL WEAKNESS**

Criteria

Metered water sales and respective receivables should be reviewed, reconciled and recorded on a regular basis.

Condition

During our audit, we noted that the Town did not record the receivable balances for unbilled water sales. In addition, monthly metered water sales were not reviewed in comparison to water purchased or reconciled to the general ledger.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-03 METERED WATER SALES AND RECEIVABLES – MATERIAL WEAKNESS (continued)**

Effect

The Town's December 31, 2012 financial statements reflect a prior period and current year adjustment to the water districts to properly include unbilled water sales receivables. In addition, we noted a significant discrepancy between the amount of water purchased and the amount of water sold in the St. James Water District.

Recommendation

We recommend that the Town establish a procedure to ensure that metered water sales and respective receivable balances are reviewed, reconciled and recorded on a regular basis. In addition, we recommend that the Town further investigate the discrepancies regarding the St. James Water District.

Management's Response

Regarding the recording of unbilled water sales/receivable balances, we will do all that can be reasonably achieved considering the Town currently reads each residential water meter once every three months. Ideally, each meter should be read each month but this would however, require additional personnel and equipment. Additionally, we will establish procedures to ensure that an analytical comparison is periodically performed between water sales and water purchases

**2012-04 COMMERCIAL REFUSE REVENUE AND RECEIVABLES – MATERIAL WEAKNESS**

Criteria

Commercial refuse revenue and respective receivable should be reviewed, reconciled and recorded on a regular basis.

Condition

During our audit, it was noted that the Town did not record the receivable balances for commercial refuse revenue. In addition, monthly commercial waste billings were not reconciled to the general ledger and monthly reports were not maintained for documentation purposes. Upon further review and reconciliation of the commercial refuse revenue account, the following was noted:

- Cash payments per the Tulsa monthly billing summary history reports are lower than the cash receipts in the general ledger
- The ending bill amounts per the monthly billing summary history reports did not agree to the beginning billed amounts on the subsequent monthly billing summary history reports for certain months
- The accounts receivable reports for December 31, 2012 and 2011 did not agree to the ending bill amounts in the December billing summary reports

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-04 COMMERCIAL REFUSE REVENUE AND RECEIVABLES – MATERIAL WEAKNESS (continued)**

Effect

The Town's December 31, 2012 financial statements reflect a prior period and current year adjustment to the commercial refuse revenue to properly include accounts receivable balances. In addition, the Town was unable to explain certain discrepancies in the commercial refuse revenue account.

Recommendation

We recommend that the Town establish a procedure to ensure that commercial refuse revenue and respective receivable are reviewed, reconciled and recorded on a regular basis. In addition, we recommend that the Town further investigate the discrepancies between the billing system and the general ledger.

Management's Response

The Town has begun the process of evaluating new software which will allow for a more modern approach to billing and collection for goods and services provided to the public. If purchased, this new software will post directly to the general ledger which we expect will significantly reduce, if not eliminate, any discrepancies between the subsidiary and general ledgers.

**2012-05 LANDFILL CLOSURE COSTS NOT CAPITALIZED – MATERIAL WEAKNESS**

Criteria

Capital outlay expenditures should be capitalized and depreciated in the proper period.

Condition

During our audit, we noted that the landfill capping and closure costs were not capitalized as a part of capital assets.

Effect

The Town's December 31, 2012 financial statements reflect a prior period adjustment to capital assets and accumulated depreciation to record the assets related to landfill closure.

Recommendation

We recommend that the Town establish a procedure to ensure that all capital expenditures are properly capitalized and depreciated in the proper period.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-05 LANDFILL CLOSURE COSTS NOT CAPITALIZED – MATERIAL WEAKNESS (continued)**

Management's Response

At this point in time, all closure costs have been capitalized and the related accumulated depreciation has been recorded. Since closure work is complete, the associated fixed assets are considered fully depreciated and have been recorded as such and have ultimately had no net effect on fixed assets or the balance sheet. Considering that all of the Town's landfills have been capped and closed, we are not aware of any additional landfill closing costs that should be expected in the future.

**2012-06 COMPENSATED ABSENCES LIABILITY – MATERIAL WEAKNESS**

Criteria

Vacation, sick and personal leave and other salary related benefits should be accrued as a part of the compensated absence liability as the benefits are earned by the employees so the liability could be recorded in the government-wide financial statements.

Condition

During our audit, we noted that personal leave and Federal Insurance Contribution Act (FICA) tax was not included in the Town's compensated absence liability calculation.

Effect

The Town's December 31, 2012 financial statements reflect a prior period and current year adjustment to the compensated absence liability to properly include the FICA tax liability. In addition, the Town liability excluded the personal leave liability.

Recommendation

We recommend that the Town establish a procedure to ensure that liabilities related to personal leave, FICA tax and any other salary related benefit are included in the compensated absence liability.

Management's Response

We will ensure that all salary related benefits, including personal leave and FICA tax are properly accrued in the Town's compensated absence liability at year-end.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-07 GRANTS ADMINISTRATION- MATERIAL WEAKNESS**

Criteria

Governmental Accounting Standards Board ("GASB") No. 33 and the Town's revenue recognition policy (as disclosed in the financial statements) requires that revenue for expenditure driven grant programs be recognized when the Town meets the eligibility requirements and the resources are available (as defined by the Town's policy). When grant monies are received in advance, a deferral or payable should be recorded until the costs have been incurred and eligibility requirements are met.

Per OMB Circular A-133, it is the responsibility of the auditee to prepare the schedule of expenditures of federal awards. The schedule of federal awards should include the following: each individual grant by federal agency, identification of pass-through entity, as applicable, identification of the applicable Catalog of Federal Domestic Assistance number, with expenditures of Recovery Act funds separately identified, and the amount of federal awards expended by grant/program.

Condition

Community Development Block Grant and Section 8 are the Town's most significant and recurring grants. These grants are accounted for in separate funds. In addition to those two funds, the Town receives many other grants which are administered by various departments and accounted for in various operating funds.

Although, the Town prepared a schedule of federal awards in the current year, this schedule was in some instances incomplete and inaccurate. In addition, a grant from the prior year was omitted from the prior year schedule of expenditures of federal awards and had to be included as a part of the schedule in the current year.

The preparation of this schedule requires the Comptroller's Office to be provided certain data such as copies of grant agreements and copies of requests for reimbursement. There also needs to be ongoing communication between those administering the grant and the Comptroller's Office.

Effect

Federal grant expenditures may not be properly identified resulting in noncompliance with OMB Circular A-133 and the Single Audit Act.

Recommendation

We recommend the Town implement policies and procedures to identify and track federal and state grants. These procedures should include communication between the department administering the grants and the Comptroller's Office and maintaining a schedule of all grants, detailing source of funding, revenues earned and expenditures incurred on a grant-to-date basis and a year-to-date basis. Additionally, we recommend that the Town consider that the Comptroller's Office be afforded a higher level of oversight over the grants.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-07 GRANT ADMINISTRATION- MATERIAL WEAKNESS (continued)**

Management's Response

We attempted to provide our auditors with an initial schedule of federal awards which we thought was understood to be preliminary but sufficient to commence audit work. In the future we will refrain from providing the auditors with information until we consider it to be complete or we are certain there will be no misunderstanding with the auditors. We will work with our auditors to evaluate and improve our existing procedures for recording and communicating information regarding grants. Currently grants are managed by departments administering the grant with review by the Town Comptroller's office. In the future we will look to have the Town Comptroller's office exercise greater oversight of the Town's grant programs.

**2012-08 COMMERCIAL WASTE RECEIVABLES – UNTIMELY AND UNPAID- SIGNIFICANT DEFICIENCY**

Criteria

In accordance with Town Code, interest and penalties will be charged on commercial waste fees that are paid untimely and all unpaid commercial waste fees will be liened to the property owner.

Condition

During our audit, we noted that the Town was not charging interest and penalties to certain municipalities that were late in paying commercial waste fees. In addition, we noted that selective properties were not liened in accordance with Town Code.

Effect

The Town is violating Town Code and forfeiting revenue in regards to interest, penalties and commercial waste fees.

Recommendation

We recommend the Town follow Town Code in charging interest and penalties and in collecting unpaid balances.

Management's Response

We have had discussions with the Town Attorney regarding this issue and will attempt to collect, lien or write-off any of the unpaid balances. In addition, it is our understanding that these issues were not presented to the Town Board for its consideration and we will endeavor to discover what level of management made those decisions.

**2012-09 CASH RECONCILIATIONS - TOWN CLERK- SIGNIFICANT DEFICIENCY**

Criteria

A good system of internal controls includes preparing and maintaining supporting schedules to ensure accurate financial reporting.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-09 CASH RECONCILIATIONS - TOWN CLERK- SIGNIFICANT DEFICIENCY (continued)**

Condition

During the audit we noted that the Town Clerk did not maintain copies of bank reconciliations performed in prior years.

Effect

Cash as recorded in the general ledger is unsupported. Any irregularities regarding cash could go undetected for significant periods of time.

Recommendation

The Town should implement written procedures regarding cash. These procedures should comply with the recommendations of the NYS Comptroller's Office as contained in the "Financial Management Guide for Local Governments."

Management's Response

We will develop a procedure regarding the reconciliation of cash balances to statements provided by financial institutions. In addition, we will remind the Town's departments of their responsibilities regarding record retention as promulgated in the NYS Education Department's MU-1.

**2012-10 COLLATERAL AND INVESTMENT POLICY- SIGNIFICANT DEFICIENCY**

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 sets 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.

**TOWN OF SMITHTOWN**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2012

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

**2012-10 COLLATERAL AND INVESTMENT POLICY- SIGNIFICANT DEFICIENCY (continued)**

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 prepared and 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

We are in the process of amending/updating the Town's investment policy. In addition, we will review all of the Town's collateral agreements with financial institutions and evaluate our collateralized balances on a monthly basis.

**2012-11 AUTHORIZED SIGNERS- SIGNIFICANT DEFICIENCY**

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

We will recommend that there be an alternate signer to the Town Supervisor, the Town Clerk and the Receiver of Taxes.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-12 CAPITAL ASSET DISPOSITIONS- SIGNIFICANT DEFICIENCY**

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.

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

We will review the existing procedures in our Asset Management Policy and update it if necessary. In addition, we will remind departments of their responsibilities to file the proper reports to the Town Comptroller's office regarding the anticipated disposition of assets.

**2012-13 FUND BALANCE POLICY - SIGNIFICANT DEFICIENCY**

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.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-13 FUND BALANCE POLICY - SIGNIFICANT DEFICIENCY (continued)**

Recommendation

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

Management's Response

We will develop a fund balance policy which at minimum satisfies GASB #54 requirements regarding the hierarchy of the Town's various fund balances.

**2012-14 INVENTORY – PARTS AND SUPPLIES- SIGNIFICANT DEFICIENCY**

Criteria

The National Council on Governmental Accounting Statement No.1 (NCGA-1) (General Accounting and Financial Reporting Principles) requires that an inventory item must be presented on the balance sheet if the amount of inventory is considered significant. In addition, according to New York State Highway Law §142 paragraph 3, "the town superintendent shall annually make a written inventory of all such machinery, tools, implements and equipment, indicating each article and stating the value thereof, and the estimated cost of all necessary repairs thereto, and deliver the same to the town board on or before September 30th in each year."

Condition

In common with other governments, the Town purchases parts and supplies in quantity and stores them until needed. During the audit, we noted the Town Highway Department is not maintaining, tracking and valuing the inventory on hand. Although the Highway Department was able to produce an inventory for the year ended December 31, 2012, this report was incomplete and in some instances missing the values of certain items.

Effect

The Town's assets were understated and not properly tracked and safeguarded. The Town's December 31, 2012 financial statements reflect a prior period adjustment to the reflect inventory balances in the books and records and financial statements.

Recommendation

We recommend that the Town inventory parts and supplies in all departments that purchase and store significant amounts.

Management's Response

In an effort to maintain accurate inventory records, we have begun to evaluate our existing purchasing practices, our current technology and our audit procedures. We will consult with our auditors and possibly other municipalities as to how they maintain their inventory balances and best-practices they employ.

**TOWN OF SMITHTOWN**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2012

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

**2012-15 COMPENSATED ABSENCES – EMPLOYEE BALANCES- SIGNIFICANT DEFICIENCY**

Criteria

A good system of internal controls includes preparing, maintaining and reviewing supporting schedules to ensure accurate financial reporting.

Condition

During our audit, we noted certain differences related to the accounting and documenting of compensated absences as follows:

- Certain employee timesheets were missing timekeeper's signature.
- Discrepancies between the detail and reported type of time taken.
- Transactions in the time system were deleted rather than adjusted.
- Instances where time earned/accrued did not agree to the amount allowed per the contract.

Effect

Inaccurate time records and calculations could potentially cause the compensated absence liability to be misstated.

Recommendation

We recommend that the Town ensure that all required documentation be put in place and approved for all earned/used employee time and that adjustments to time be made as an adjustment to the system and adequately supported.

Management's Response

The Town has purchased a new timekeeping system which will use automated "punch" clocks to feed data into the payroll system and eliminate the need for the existing paper timesheets. Once fully implemented, we believe this system will eliminate many of the existing issues with the current timekeeping system and will further strengthen internal controls.

**2012-16 RISK RETENTION - SIGNIFICANT DEFICIENCY**

Criteria

In accordance with Governmental Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the Town should account for and report the risk of loss.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-16 RISK RETENTION - SIGNIFICANT DEFICIENCY (continued)**

Condition

The Town is self-insured for a portion of workers' compensation and general liability. Each year the Town estimates the amount payable for the workers' compensation and general liability by consulting with legal counsel and considering past experience with similar claims. Also, an estimate for the amount payable of claims that have "incurred but not yet reported" must be included in this amount.

During the audit we noted the following:

- No documentation could be provided supporting the Town's general liability reserve recorded in the prior year financial statements. In addition, this liability remained unchanged from the previous year.
- The Town is not using an actuary to determine the liability associated with the Town's general liability self-insurance.
- The Town is not annually monitoring and re-evaluating insurance coverage in relation to the Town's property subject to the risk of loss.

Effect

The Town's self-insurance liability could be incorrectly reported as of year-end and the Town could be subject to additional risk of loss.

Recommendation

We recommend that the Town consider utilizing the services of an actuary to assist in the estimation of the liability for judgments and claims relating to the self-insured risk. An actuary can offer a consistent and efficient approach to this aspect of financial reporting. In addition, we recommend that the Town review their insurance coverage to ensure that the Town is adequately protected against loss.

Management's Response

We will discuss with the Town Attorney the need for additional evaluation of our current self-insured exposure in addition to our overall risk management picture.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-17 ESTABLISH AN INTERNAL AUDIT FUNCTION - SIGNIFICANT DEFICIENCY**

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 it's commitment to fraud prevention/detection and the efficiency of it's operations.

Recommendation

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

Management's Response

We will present to the Town Board the benefits of implementing an internal audit function and stress its importance from an accounting and overall risk management perspective. We believe that many of the issues in this report would be mitigated with the implementation of an effective internal audit function.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-18 ESTABLISH AN AUDIT COMMITTEE- SIGNIFICANT DEFICIENCY**

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 with the internal audit function, we will present the benefits to the Town Board while stressing its importance.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-19 CASH DISBURSEMENTS - WIRE TRANSFERS – SIGNIFICANT DEFICIENCY**

Criteria

Wire transfers should be simultaneously reported to someone independent of the transfer process.

Condition

During the audit, we noted that wire transfer confirmations from the bank were not simultaneously reported to someone independent of the transfer process in the Comptroller's Office and Receiver of Taxes Office.

Effect

An unauthorized transfer could go undetected.

Recommendation

We recommend that the wire transfer confirmations be sent to an individual who is independent of the transfer process.

Management's Response

Bank confirmations come via mail addressed to the Town of Smithtown as well as the printed bank confirmations done at the time of wire transfers. We will establish who would be considered independent of the transfer process and establish a procedure to send wire transfer confirmations to those individuals.

**2012-20 BANK RECONCILIATION - REVIEW- SIGNIFICANT DEFICIENCY**

Criteria

Bank reconciliations should be reviewed by someone independent of the reconciliation process.

Condition

During the audit, we noted that the consolidated bank reconciliations are prepared by the Deputy Comptroller, but are not reviewed by someone independent of the process.

Effect

Errors or irregularities in cash could go undetected.

Recommendation

We recommend that bank reconciliations be reviewed by someone independent of the reconciliation process. In addition, we recommend that this review and approval be documented by initialing the bank reconciliations.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-20 BANK RECONCILIATION - REVIEW- SIGNIFICANT DEFICIENCY (continued)**

Management's Response

We have hired new staff to perform the consolidated bank reconciliation. The Deputy Town Comptroller, now independent of the process, will review and initial the bank reconciliation.

**2012-21 JOURNAL ENTRIES - REVIEW- SIGNIFICANT DEFICIENCY**

Criteria

Journal entries should be reviewed and approved by management independent of the entry process.

Condition

During the audit, we noted that certain journal entries were prepared and posted by the same individual with no approval process.

Effect

The Town records could be inaccurately adjusted without detection and errors or irregularities could go undetected.

Recommendation

We recommend that Town ensure that journal entry functions are separated and that proper level of management approval is in place.

Management's Response

All journal entries are reviewed either before or after entry by the Deputy Town Comptroller. The Deputy Comptroller maintains custody of the journal entries. We will institute some type of mark to show this control.

**2012-22 PAYROLL – SEGREGATION OF DUTIES- SIGNIFICANT DEFICIENCY**

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.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-22 PAYROLL – SEGREGATION OF DUTIES- SIGNIFICANT DEFICIENCY (continued)**

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 has purchased new payroll processing software and is currently in the process of implementing it. Once implemented, this software will allow us to properly segregate duties.

**2012-23 PROCUREMENT - SIGNIFICANT DEFICIENCY**

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 the following deficiencies with regard to procurement:

- The purchasing department does not accurately track aggregated vendor or commodity purchases.
- Service or purchases met bidding thresholds under General Municipal Law and were not bid accordingly.
- Instances where the service or purchase met thresholds to obtain quotes in accordance with the Town Procurement policy and the quotes were not obtained.
- Certain bid packages did not contain a signed certificate of non-collusion.

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.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-23 PROCUREMENT - SIGNIFICANT DEFICIENCY (continued)**

Management's Response

We believe the purchasing department makes a concerted effort to comply with all NYS laws as well as the Town's procurement policy. We will work the Purchasing Department to address these issues.

**2012-24 CASH DISBURSEMENT PROCESSING- SIGNIFICANT DEFICIENCY**

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:

- 28 out of 90 items tested - the invoice was dated prior to the purchase order
- 3 out of 90 selections - there was no departmental employee sign off that indicated that work performed or quantities received agree
- Medicare reimbursements did not have supporting documentation attached.

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. 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 adopted 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

We have begun to outline the procedures surrounding the entire procurement and payment process and will seek to produce a comprehensive series of procedures which we believe will address many of these issues along with others presented throughout this report.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-25 CASH DISBURSMENTS – VENDOR ADDITION- SIGNIFICANT DEFICIENCY**

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 accounts payable department has the ability to enter new vendors.

Effect

Unauthorized vendors could be added to the system without approval and potentially paid.

Recommendation

We recommend that the Town place additional controls throughout the account payable process to ensure that duties are properly segregated.

Management's Response

We will evaluate the vendor approval process and establish the internal controls which will properly segregate duties.

**2012-26 INTERFUND ALLOCATIONS - SIGNIFICANT DEFICIENCY**

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, workers' compensation and employee retirement system expenditures were not properly documented or based on sound criteria.

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.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-26 INTERFUND ALLOCATIONS - SIGNIFICANT DEFICIENCY (continued)**

Management's Response

Beginning with the 2014 budget, the funding requirements will be 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.

**2012-27 CAPITAL PROJECTS – APPROVAL BY TOWN BOARD- SIGNIFICANT DEFICIENCY**

Criteria

The Board should authorize capital projects and establish the source of funds prior to project expenditures being made.

Condition

The Town is incurring capital expenditures prior to the Board's authorization of the project and related financing.

Effect

Project expenditures would be paid from other projects balances (either locally funded or bonded money) or the contingency balance.

Recommendation

We recommend that the Town develop a process whereby the Board authorizes the project and establish the funding sources prior to project expenditures being incurred. Any changes to the original project cost or funding should also be approved by the Board.

Management's Response

We believe that each and every capital project is presented to the Town Board in various forms. In the case of capital projects to be bonded, the Town Board approves a formal bond resolution which we believe adequately describes the individual projects along with the funding source. In a situation where the Town is to commence a project using existing funds, the Town Board approves any budget modifications and/or transfers necessary to establish the project in the Town's accounting system. We will continue to discuss this issue with our auditors to better understand the issue and resolve any issues that may exist.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-28 CAPITAL PROJECTS – RESIDUAL BALANCES- SIGNIFICANT DEFICIENCY**

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:

- The Town is paying debt service principal and interest from this fund rather than properly transferring the residual equity on the bonded projects back to the operating funds for payment.
- Certain operating expenditures, such as fuel purchases and small repairs were paid from this fund.
- Large residual balances are maintained in the Capital 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.

Effect

Residual equity is accumulating in the Capital 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 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. In addition, the Town should not expend capital funds until financing is in place. If temporary financing (loan from operating fund) is needed until permanent financing is secured, it should be approved by the Board.

Management's Response

We agree with the auditors that recurring expenditures should not be paid out of the capital funds and the immaterial amounts that have been allowed in the past will cease. It is current policy not to expend or commit funds until financing has been established. We will continue to discuss this finding with our auditors to correct any control weaknesses.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

**2012-29 PARK FUND MONEY- SIGNIFICANT DEFICIENCY**

Criteria

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

Condition

During our audit, we noted that there were expenditures from the Park Fund to widen a driveway for the Armory and 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

We agree that the Town should spend the Park Fund money in accordance with the Town Code. However, the Town Attorney has opined that the Town Board has acted appropriately in the past since it had adhered to the less restrictive state enabling legislation which permits the above mentioned projects. To remedy this issue going forward, the Town Attorney has recommended that the Town Board amend the existing Town Code to mirror the State's enabling legislation.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM 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

Effect

The Town may have received reimbursement/grant proceeds in excess of allowable costs.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT**  
**(continued)**

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

Questioned Cost

\$ 10,196

Recommendation

We recommend with respect to future declared disasters, that the Town verify amounts actually paid prior to requesting reimbursement.

Management's Response

We will review this issue and coordinate with the Public Safety Department to remedy this specific case with FEMA and to prevent this from occurring in the future.

**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.

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.

Effect

The Town may have received reimbursement/grant proceeds in excess of allowable costs.

Questioned Cost

Under \$10,000

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT**  
**(continued)**

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

Recommendation

We recommend with respect to future declared disasters, the Town performed a detailed review of the time cards and equipment use records in relation to the force account labor worksheets.

Management's Response

We will coordinate with the Public Safety Department to ensure all the necessary documentation is received from the each of the departments provided force labor and equipment worksheets. We also feel that the implementation of our new timekeeping and payroll systems along with other software that we are evaluating will assist in mitigating these issues.

**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.

Effect

The Town had inadequate support of federal expenditures for reimbursement. Final documentation was obtained from the EMMIE system.

Questioned Cost

N/A

Recommendation

We recommend the Town implement procedures to ensure adequate support is maintained for all federally funded expenditures and projects worksheets.

Management's Response

While we believe any discrepancies that exist were immaterial, we will work with our auditors and the Public Safety Department to refine our data collection and documentation procedures.

**TOWN OF SMITHTOWN**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2012

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT  
(continued)**

**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.

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 individuals administering the grant agreements are aware of the necessary reporting requirements.

Management’s Response

We will discuss this finding with the Public Safety Department in an effort to remedy this issue.

**TOWN OF SMITHTOWN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2012

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

Effect

The Town's Section 8 funds may not be adequately safeguarded or provide third-party rights to HUD.

Questioned Cost

N/A

Recommendation

We recommend the Town enter into a depository agreement with any banks where Section 8 funds are deposited.

Management's Response

We will discuss with the bank the need for a depository agreement with the Town as prescribed by HUD.