

**TOWN OF RHINEBECK, NEW YORK
FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2009**

DRAFT

**TOWN OF RHINEBECK, NEW YORK
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To the Supervisor and
Members of the Town Board
Town of Rhinebeck, New York
80 East Market Street
Rhinebeck, New York 12572

In planning and performing our audit of the financial statements of the Town of Rhinebeck, New York for the year ended December 31, 2009, we considered the Town's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed in Section I, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or 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.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. Section II summarizes our findings and recommendations regarding those matters

We will review the status of these comments during our next engagement. We have previously discussed these comments and suggestions with Town personnel, and we will be pleased to discuss them in further detail, at your convenience, and to perform any additional study of these matters, or to assist you in implementing the recommendations.

We would like to thank Thomas Traudt, Supervisor, Shelly Day, Town Office Manager/Bookkeeper and Town staff, for their assistance.

This report is intended solely for information and use of the Board, management, and staff, and is not intended to be and should not be used by anyone other than the specified parties.

Poughkeepsie, New York
January 17, 2011

DRAFT

**TOWN OF RHINEBECK, NEW YORK
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009**

SECTION I - SIGNIFICANT DEFICIENCIES:

PRIOR YEAR FINDINGS CONTINUING:

1. FIXED ASSETS

FINDING:

The Town has received an adverse opinion on its Government wide financial statements since it has not fully implemented GASB Statement No. 34 *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Government’s* by not inventorying and depreciating its capital assets.

CAUSE:

The Town has not completed an inventory of its fixed assets, including infrastructure assets and had not recorded related depreciation.

EFFECT:

The Town has received an adverse opinion on its financial statements. An unqualified opinion or “clean opinion” is the equivalent of a good credit rating which is very important should the Town want to issues bond or procure financing for long-term construction projects. An inventory of capital assets can help a government plan for future costs of major projects such as road construction, water and sewer line replacements and building renovations. A comprehensive list of assets held by the Town can help to also safeguard against theft.

RECOMMENDATION:

The Town should develop a capitalization policy, including determining useful lives of its fixed assets, take a physical inventory of its fixed assets, stated at historical costs or estimated historical cost, compute depreciation and maintain this information on an on-going basis.

RESPONSE:

**TOWN OF RHINEBECK, NEW YORK
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009**

SECTION I - SIGNIFICANT DEFICIENCIES (CONTINUED):

PRIOR YEAR FINDINGS CONTINUING (CONTINUED):

2. SEGREGATION OF DUTIES

FINDING:

We note that the office manager/bookkeeper has the ability to control transactions, by recording transactions, reconciling bank accounts and adjusting the general ledger, as well as authorizing and making inter-bank transfers. It is also noted that during the 2009 audit, a mortgage tax receipt that was received at the beginning of December 2009 was not deposited into the bank until January 4, 2010. The bank deposit slip was prepared in December and put in the safe until the next day when it would be deposited. However, the deposit slip became trapped in between some other documents and was not discovered until early January 2010.

EFFECT:

Inappropriate recording of funds may occur and not be timely detected. Cash receipts may not be recorded timely.

CAUSE:

Many of these procedures have evolved as the Town has grown without consideration of internal controls. There is no tracking system of cash receipts in place to assist in the timely reconciling of cash receipt discrepancies.

RECOMMENDATION:

We recommend that the office manager/bookkeeper not be the person recording original transactions. Her duties should be ones of review, reconciliation of accounts and reporting to the Supervisor and Town Board. Clearly defining duties should streamline the accounting and reporting process. Further, movement of funds should be done concurrently with the signing of checks and by the signer of the checks (generally the Supervisor). It is also recommended that the person who opens the mail keeps an electronic spreadsheet of the cash receipt information so that there is a log of each cash receipt that comes through the Town Hall. This way, if there is a discrepancy, it can be easily determined when the receipt was received, the amount, and the date deposited into the bank.

**TOWN OF RHINEBECK, NEW YORK
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009**

SECTION I - SIGNIFICANT DEFICIENCIES (CONTINUED):

PRIOR YEAR FINDINGS CONTINUING (CONTINUED):

2. SEGREGATION OF DUTIES (CONTINUED)

RESPONSE:

SECTION I - SIGNIFICANT DEFICIENCIES (CONTINUED):

CURRENT YEAR FINDING:

3. POSTEMPLOYMENT BENEFITS

FINDING:

The Town has received an adverse opinion on its Government wide financial statements since it has not implemented GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

CAUSE:

The Town did not have the required actuarial valuation completed for the year ended December 31, 2009.

EFFECT:

The Town has received an adverse opinion on its financial statements for not implementing a required GASB Statement, in addition to not implementing GASB No. 34 as noted in Finding 1 above. Liabilities and expenses are significantly understated on the government-wide Statement of Net Asset and Statement of Activities, respectively.

RECOMMENDATION:

The Town should ensure that the required actuarial valuation is performed for the year ending December 31, 2010 so that the Town will be in compliance with GASB No. 45.

**TOWN OF RHINEBECK, NEW YORK
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009**

SECTION II - OTHER MATTERS:

PRIOR YEAR FINDINGS CONTINUING

3. SEWER FUND DEFICIT

FINDING:

During our review of the financial statements we identified that the Sewer Fund has a deficit fund balance of \$300,008. The Sewer Fund is being supported by the General Fund through the use of interfund loans (Due To and Due From accounts). The deficit increased during the year by \$125,017 from \$174,991 at December 31, 2008.

CAUSE:

The Vanderburgh Cove Sewer District has needed major repairs.

EFFECT:

The Sewer Fund is borrowing money from the General Fund preventing the General Fund from investing and earning interest on amounts borrowed.

RECOMMENDATION:

The Town should implement authorized financing and pay back the General Fund with interest.

RESPONSE:

**TOWN OF RHINEBECK, NEW YORK
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009**

SECTION II - OTHER MATTERS (CONTINUED):

PRIOR YEAR FINDINGS CONTINUING (CONTINUED)

4. CAPITAL PROJECTS FUND

FINDING:

During our review of the Capital Projects Fund we noted that there are eighteen capital project funds set up. There is little or no activity in most of these capital projects and most are set up to reserve funds or the capital project purpose has been completed. We estimate that fourteen of the projects should be closed and monies returned to appropriate funds.

CAUSE:

The Town has not closed old completed capital projects and has used the capital projects fund to reserve money.

EFFECT:

The Town is understating the reserved fund balances in the General and Highway funds.

RECOMMENDATION:

The Town should close completed capital projects and return money to appropriate funds. If the board resolves to reserve monies for certain purposes they may do so and it will be reserved within the appropriate fund.

RESPONSE:

**TOWN OF RHINEBECK, NEW YORK
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009**

SECTION II - OTHER MATTERS (CONTINUED):

PRIOR YEAR FINDINGS CONTINUING (CONTINUED)

5. BOOKKEEPING

FINDING:

The Town's office manager/bookkeeper keeps a manual set of ledgers to verify data that is entered into the computer system. Although accurate, it can be very time consuming.

CAUSE:

The manual records are used as a verification of the computerized records.

EFFECT:

The office manager/bookkeeper's time is taken up by duplicate work and may have less time to prepare reports.

RECOMMENDATION:

The Town should fully implement use of the computer system and use reconciliations of account balances to serve as a check on the computerized accounting system.

RESPONSE:

**TOWN OF RHINEBECK, NEW YORK
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009**

SECTION II - OTHER MATTERS (CONTINUED):

PRIOR YEAR FINDINGS CONTINUING (CONTINUED)

6. STALE CHECKS

FINDING:

The Town is carrying outstanding checks considered stale (too old for payment) amounting to \$4,085 on the General Fund and \$45 on the Trust & Agency Fund bank reconciliations, respectively.

CAUSE:

Vendors and Payroll checks were not cashed within the appropriate time.

EFFECT:

The Town's cash is understated by these amounts.

RECOMMENDATION:

The Town should research these checks and void/replace or remit them to unclaimed funds as necessary.

RESPONSE:

**TOWN OF RHINEBECK, NEW YORK
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009**

SECTION II - OTHER MATTERS (CONTINUED):

CURRENT YEAR FINDINGS:

1. PROCUREMENT POLICY

FINDING:

During our audit, we noted 4 exceptions to the Town's procurement policy out of a sample of 25 items. The 4 exceptions related to the Town Board approving abstracts verbally in the minutes as opposed to signing off on the individual vouchers. While it is acceptable for the Board to approve abstracts as a whole instead of individual vouchers, it is best practice to have at least one Board member sign the abstract to acknowledge in writing that the vouchers and invoices have been reviewed for accuracy.

In addition, the procurement policy that the Town adopted at the end of 2008 and put into practice in 2009 appears to be vague on certain requirements and procedures. In early 2009, the Town issued a document further explaining the procurement procedures. Certain items, such as purchase orders, are addressed in the explanation document which were not even mentioned in the original policy. This had led to confusion among Town staff and has caused a hindrance in fully implementing this policy.

CAUSE:

Procurement procedures are not always being followed or are open to interpretation.

EFFECT:

The Town procurement policy is not being consistently implemented and certain areas are open to interpretation. Additionally, there is no written evidence that the Town Board members are reviewing the individual invoices/vouchers for accuracy and reasonableness.

RECOMMENDATION:

We recommend that the Town Board Finance Committee revise the Town's procurement policy to incorporate the more detailed aspects of the explanation document issued in 2009. It is also recommended that the Town clarify when a purchase order is required (i.e. is a purchase order required for all disbursements or required for only certain disbursements? If it is only required for certain disbursements, those types of disbursements should be spelled out in the policy). The Board should work in conjunction

**TOWN OF RHINEBECK, NEW YORK
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009**

SECTION II - OTHER MATTERS (CONTINUED):

CURRENT YEAR FINDINGS:

1. PROCUREMENT POLICY (CONTINUED)

RECOMMENDATION (CONTINUED):

with the Town Bookkeeper and the Town departments in developing the policy to ensure that all questions and concerns are addressed and that the policy can be implemented quickly and efficiently. It is also important to revise the policy to include that the Town Board will no longer approve individual invoices and vouchers, but that they will approve the abstract as a whole. It is a best practice to have at least one Town Board member approve the abstract in writing as a means of good control due to the fact that there is a lack of segregation of duties in the Town Business Office.

RESPONSE:

2. TRUST AND AGENCY CASH SEGREGATION

FINDING:

It was noted that cash held for escrow accounts is maintained in the same bank account as the cash for the Trust & Agency checking, from where Town disbursements for payments to vendors are made. These funds should not be commingled; there should be a separate bank account for the Trust & Agency checking and a separate account for the escrow funds. The main concern is that during times when necessary transfers have not been made to the Trust & Agency account to cover Town bills, escrow funds are being used to pay for Town vendor payments.

CAUSE:

Escrows funds and Trust & Agency checking are not segregated into separate bank accounts.

EFFECT:

At times, Town payments to vendors are being "floated" by escrow funds until the necessary transfers have been made into the bank account.

**TOWN OF RHINEBECK, NEW YORK
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009**

SECTION II - OTHER MATTERS (CONTINUED):

CURRENT YEAR FINDINGS:

2. TRUST AND AGENCY CASH SEGREGATION (CONTINUED)

RECOMMENDATION:

The escrows funds and the Trust & Agency checking funds should be held in separate bank accounts.

RESPONSE:

3. LENDING BETWEEN FUNDS

FINDING:

During our audit, we noted that the Sewer Fund has a negative cash balance. This resulted from a transfer not being made to the General Fund before checks were recorded to pay bills out of the Sewer Fund for Vanderburgh Cove expenses. Since the Sewer Fund has a deficit and does not have enough cash to cover expenses for the project, the General Fund has been loaning the Sewer Fund the funds necessary to pay its bills, resulting in a Due To/Due From interfund balance.

CAUSE:

The Sewer Fund has a deficit fund balance and did not have enough cash to pay the bills relating to the Vanderburgh Cove project

EFFECT:

Sewer Fund cash has a negative balance.

RECOMMENDATION:

The Board should only authorize payment of bills when there is cash available.