TOWN OF VICTOR,
ONTARIO COUNTY, NEW YORK

Communication of Matters Related to Internal Control
Over Financial Reporting and Other Matters
May 10, 2012

Bonadio & Co., LLP
Certified Public Accountants

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To the Town Board of the
Town of Victor, Ontario County, New York:

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Victor, Ontario County, New York (the Town) as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed on the following pages, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

This communication is intended solely for the information and use of management, the Town Board, and others within the Town, and is not intended to be and should not be used by anyone other than these specified parties.

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TOWN OF VICTOR, ONTARIO COUNTY, NEW YORK

COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS
MAY 10, 2012

INTERNAL CONTROL RELATED MATTERS

We have identified the following deficiencies in internal control that we consider to be *material weaknesses*:

1. BUDGET APPROPRIATIONS

Observation
The Town's 2012 budget included an appropriation of $3,100 for the Consolidated Sewer Fund. However, the ending December 31, 2011 fund balance of the fund was not sufficient to allow for an appropriation to occur, and in fact was in a deficit position at the conclusion of the year. The same situation occurred during the 2011 and 2010 budget process when amounts were appropriated from a deficit fund balance in the Consolidated Sewer Fund. We noted that as a result of a BAN obligation in 2009, the fund balance of the Consolidated Sewer Fund was entirely consumed.

Recommendation
We recommend that the Town improve its budgeting process to ensure that these situations do not occur in the future. The Town is unable to appropriate funds that do not exist for appropriation. As a result, the Town did not establish an appropriate tax rate for the Consolidated Sewer Fund.

2. PAYROLL

Observation
We noted that the Finance Clerk continues to be responsible for preparing payroll input, reviewing the payroll journals from the payroll system, finalizing each payroll for employees, determining the necessary bank transfer from operating, and reconciling the payroll bank account. In addition, the Finance Clerk inputs changes to employee status, such as adding new employees and deleting terminated employees. During 2011, most of the Finance Clerk's duties were reviewed by the Fiscal Manager; however, the Clerk was still allowed to make changes to employees' deductions without oversight. Payroll will always be the most significant, on-going cost to the Town and as such will pose the greatest potential risk of loss to the Town, if the appropriate controls and segregation of duties are not implemented.

Recommendation
We understand that in 2012, the payroll process was changed in order to facilitate additional oversight by the Fiscal Manager. In addition, segregation of controls was improved in 2012 because the Administrative Assistant in the Finance Office took over several duties of the payroll functions. We further understand that segregation of duties is an issue through all finance functions because of the size of the Town's accounting office.

INTERNAL CONTROL RELATED MATTERS (Continued)

2. PAYROLL (Continued)

Observation
We noted that salaried employees receive a full paycheck in the first payroll of the year, which results in those employees getting paid in advance of work performed. Further, we observed that when employees are terminated, the amounts that they received in advance were not deducted from their paycheck. Additionally, we noted that the Town does not accrue salaried employees' payroll expenditures as a liability at year-end.

Recommendation
We recommend that the Town review and improve its payroll procedures and only pay employees for work that has already been performed. This will strengthen controls over payroll and ensure that the Town is not paying employees more than what is required. We also recommend that the Town accrue payroll expenditures for salaried employees at year-end as this will improve financial reporting over payroll expenditures, which are significant for the Town.

3. CAPITAL ASSETS

Observation
The Town continues to use a manual Microsoft Excel file to record all capital assets. We noted that this Excel file is not the most effective means of tracking capital assets accurately. For example, assets do not contain enough description to adequately identify the location, type of assets, or other necessary information.

Recommendation
We strongly recommend the Town convert to a computerized system designed to accumulate asset cost and calculate depreciation expense. This will eliminate a significant amount of manual record-keeping duties, make operations more efficient, and provide more accurate information with which to make business decisions regarding capital assets. The descriptions of assets have improved during the current year; however, we continue to recommend that the Town obtain complete descriptions of all assets; for example, the asset cost, date placed in service, estimated useful life, depreciation expense and accumulated depreciation, and the date asset is retired and proceeds received, if applicable.

4. INTERFUND ACTIVITIES

Observation
The Town currently reports financial operations using nine separate funds as defined under governmental accounting standards board principles. Each fund's accounting transactions should be maintained using an independent, separate, self-balancing set of accounts. Interfund activities, specifically due to and due from other funds, did not balance at the start of the audit. This resulted in an audit adjustment of approximately $436,000 in the General Fund.

Recommendation
Timely prepared account reconciliations are critical to ensuring that all activity is accurately recorded and captured in the general ledger on a fund by fund basis. This ensures that interim reporting to management and the Board is accurate and that decisions are made utilizing accurate financial information. We recommend that the accounting staff reconcile fund activity on a monthly basis to ensure that all interfund transactions agree between funds.

INTERNAL CONTROL RELATED MATTERS (Continued)

5. ACCOUNTING POLICIES AND PROCEDURES MANUAL

Observation
We noted that the Town does not have a policy and procedures manual detailing the daily functions performed by the finance department. Over the past several years, the lack of such a policy and procedures manual significantly impacted the Town's ability to prepare accurate and timely financial information. Although process improvements and continuity of personnel were noted in the current year, no formal policy manual has been developed.

Recommendation
We understand that the Town is in the process of preparing this accounting policy and procedures manual during 2012. This manual should contain all procedures performed to maintain and operate all accounting functions. A detailed and comprehensive manual is extremely important in the event of employee turnover or job changes to ensure that the continuity of the financial function and internal control environment is maintained.

OTHER MATTERS FOR THE CONSIDERATION OF MANAGEMENT

1. ACTUARIAL ASSUMPTIONS

Observation
The Town obtains an actuarial report to value the liability for its postretirement health care benefits plan in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In this report, the actuary assumed 5.0% for the discount rate. The discount rate is intended to represent the average or expected rate that the Town is earning on its investments. At December 31, 2011, the liability for the postretirement health care benefits was approximately $534,000, or 12% of the Town's total liabilities.

Recommendation
Given the current economic climate, we recommend that the Town confer with its actuary about the reasonableness of the current discount rate assumption. A change in this assumption, which would be more in line with the current earnings rate of approximately 1-3%, could significantly affect the valuation of the liability, which is significant for the Town.

2. VICTOR FREE LIBRARY ASSOCIATION

Observation
The Town provides the Victor Free Library Association (the Library) approximately $300,000 each year. This represents approximately 70% of the Library's total receipts. Currently, the Town does not receive any formal accounting or reporting of the Library's spending.

Recommendation
We recommend that the Town review the transactions and accounting at the Library to ensure that its funds are being used appropriately. These procedures could be in the form of an audit or an agreed-upon procedures engagement. We can assist the Town in performing these procedures if desired.