

**TOWN OF VICTOR,  
ONTARIO COUNTY, NEW YORK**

**Communication of Matters Related to Internal Control  
Over Financial Reporting and Other Matters  
December 21, 2011**

**Bonadio & Co., LLP**  
Certified Public Accountants

December 21, 2011

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, 2010, 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.

In our report, we have identified items that have been classified as material weaknesses in internal control. This conclusion was reached based on their significance to the financial statements taken as a whole, their inter-reliance and counter-dependence, and the fact that most, if not all, of the errors were not identified by management or employees performing their assigned functions.

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 DECEMBER 21, 2011

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### INTERNAL CONTROL RELATED MATTERS

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

#### 1. BUDGET APPROPRIATIONS

##### **Observation**

The Town's 2011 budget included an appropriation of \$51,113 for the Consolidated Sewer Fund. However, the ending 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 December 31, 2010. The same situation occurred during the 2010 budget process when \$636 was 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 was entirely consumed during 2009.

##### **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. Going forward, the Town's financial reporting schedule will be improved and more timely which will help alleviate the situation above. The Town anticipates having its AUD and audit for 2011 completed before the 2013 budget cycle.

#### 2. SEGREGATION OF DUTIES

*We originally reported this observation following both the December 31, 2008 and 2009 audits. Since the 2010 year had already been completed prior to completing the 2009 audit, management was not in a position to affect those controls. However, we recognize that during 2010 and continuing into 2011, the Town has made improvements to the segregation of duties, and are working to fully implement the necessary controls.*

##### **Observation**

The Town Board is elected to oversee the operations of the Town and has fiduciary responsibility for ensuring the activities are appropriate. Although the Board does not directly oversee the day-to-day operations of the Town, it is responsible for the overall review and decision-making relating to organizational matters. In larger organizations, internal control is typically linked directly to an appropriate level of segregation of duties. The size of the Town's key departments does not allow for adequate segregation of duties for all critical functions. Historically, the Board has not been actively involved with internal control related matters, which are critical to ensure the accuracy and appropriateness of accounting records.

## **INTERNAL CONTROL RELATED MATTERS (Continued)**

### **2. SEGREGATION OF DUTIES (Continued)**

#### **Recommendation**

We understand that there are limitations to the Town's ability to implement an ideal set of internal controls that would include the appropriate level of segregation of duties due to the limited number of staff. We also understand that it is not feasible for the Board to become a primary part of those controls. The State of New York, as well as generally accepted auditing standards, has stressed the importance of strong Board governance. We recommend that the Town Board, or a committee thereof, review the existing policies and procedures, as well as review the Town's overall risks related to fraud, misappropriation or other loss, to assess the appropriate level of Board involvement going forward. From this review, additional procedures should be developed, documented and implemented.

### **3. BANK RECONCILIATIONS**

#### **Observation**

In 2008, we observed that only one bank account was actually being reconciled timely, and furthermore, this reconciliation was not reviewed. Additionally, in 2009, the bank accounts were not reconciled at all until the audit commenced during April 2010. For 2010, the bank reconciliations still were not fully completed until late 2011. All bank accounts were not fully reconciled until 2011.

#### **Recommendation**

Timely reconciliation of bank statements is one of the easiest and most effective ways to ensure that cash balances are appropriately reported at the Town. Preparing reconciliations on a timely basis will help prevent errors from occurring for longer than a one month period without going unnoticed, and will also help to demonstrate due diligence in the event of a loss and claim to insurance. Without an active role in safeguarding the Town's assets, an insurer or bank can easily point to contributory negligence in any loss situation.

We understand that improvements are continuing to be made at the Town and that during the period under audit, 2010, there were several extenuating circumstances that contributed to the situation described above. Since late 2010, a member of the board has been opening and initialing the original bank statement and subsequently reviewing the bank reconciliations. The purpose of this review is to look for unusual items, reconciling items without support, completeness, and accuracy. With the change in Board composition in 2012, it is imperative that the Town identify an individual to take over this responsibility.

## INTERNAL CONTROL RELATED MATTERS (Continued)

We have identified the following as a *deficiency in internal control* that we consider to be neither a material weakness nor a significant deficiency:

### 4. BUDGET PROCESS

#### Observation

The Town has a legally adopted budget which is approved by the Board each year. In prior years, the Town has had difficulty assessing the budget variances at year-end, as well as being able to adequately react to them for subsequent year's budgets. In 2010, the Town's budget process improved and was more in line with actual results at year-end. For 2010, the Town passed a resolution in late 2010 and one in early 2011 to re-allocate budget dollars accordingly.

#### Recommendation

We recommend that the Town closely monitor its expenditures by analyzing actual results to budget at least quarterly. Budgets are meant to provide guidance and install discipline for management of the Town. Budgets can, and do, change through the year; however, we recommend that those changes be documented and provided to the Town Board on a timely basis. By tracking budget amendments and transfers, management will be readily able to document why it has deviated from its Board approved budget, will maintain its discipline over expenditures, and be able to use that information for future budgeting purposes. Management has indicated that quarterly monitoring has started during late 2011.

### 5. COMPLIANCE WITH LAWS AND REGULATIONS

#### Observation

Under NYS law, municipalities are required to prepare and submit an Annual Update Document (AUD) to the NYS Comptroller by April 30th following the end of the fiscal year. For the years ended December 31, 2008, 2009 and 2010, the Town did not submit the required AUD to the State on time. As of the December 31, 2010 audit each AUD through 2009 has been filed with the State.

#### Recommendation

We understand that the Town has experienced significant turnover and vacancies in the Finance area over the past several years. However, the Town Board is responsible for ensuring that the Town maintains compliance with all laws and regulations at all times. Fully documented policies and procedures manuals should be prepared and updated in the event the Town finds themselves in this situation in the future. We understand that the Town has put procedures in place to not only file the AUDs as soon as possible, but also ensure that a late filing does not recur in the future.

**TOWN OF VICTOR,  
ONTARIO COUNTY, NEW YORK**

**Communication of Matters Related to Internal Control  
Over Financial Reporting and Other Matters  
in Connection with the December 31, 2008 and 2009 Audits**

**The following communications represent findings which were reported in connection with our December 31, 2008 and 2009 audits and based on circumstances and controls in place at December 31, 2010, still warrant reporting to the Board at this time. As applicable, information has been updated to reflect the current conditions.**

# TOWN OF VICTOR, ONTARIO COUNTY, NEW YORK

## COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS DECEMBER 21, 2011

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### INTERNAL CONTROL RELATED MATTERS

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

#### 1. ACCOUNTING POLICIES AND PROCEDURES MANUAL

##### **Observation**

During the course of our audits, we noted that the Town does not have a policy and procedures manual detailing the daily functions performed by the finance department. The lack of such a policy and procedures manual significantly impacted the Town's ability to prepare accurate and timely financial information.

##### **Recommendation**

We recommend that the Town focus on preparing an accounting policy and procedures manual. 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.

#### 2. PAYROLL

##### **Observation**

We noted that the Finance Clerk is currently responsible for preparing payroll input, reviewing the payroll journals from the payroll system, finalizing each payroll for employees and amounts, 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. The Finance Clerk's duties are not reviewed by an independent individual. Payroll is the most significant, on-going, cost to the Town and as such poses the greatest potential risk of loss to the Town. During 2009 and 2010, we understand that steps were taken to include oversight of the process. Furthermore, we understand that additional procedures are continuing to be implemented to improve controls.

##### **Recommendation**

We understand that segregation of duties is an issue through all finance functions because of the size of the Town's accounting office. However, having one person perform essentially every payroll step significantly increases the risk of an error or irregularity going undetected. We strongly suggest that some of these functions be segregated among other employees to protect the assets of the Town.

## **INTERNAL CONTROL RELATED MATTERS (Continued)**

### **3. CAPITAL ASSETS**

#### **Observation**

Currently, a manual Microsoft Excel file is used 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. We also recommend that the Town increase its efforts to obtain complete descriptions of 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. CAPITAL ASSET DISPOSITION POLICY**

#### **Observation**

We observed that the Town does not have a formal policy to ensure that capital assets are disposed of properly, whether by destruction, sale, scrap, or trade-in.

#### **Recommendation**

Due to the volume of capital assets at the Town, we recommend that a formal policy be implemented to ensure the proper reporting of capital asset dispositions. This policy should specify the necessary level of approvals for disposal based on the value of the asset. We suggest that a simple yet standardized form be developed to provide adequate approvals for disposal and other pertinent information as documentation of disposal of significant assets. Implementing this policy would protect the Town from loss, waste, or fraud relating to the disposal of capital assets.

### **5. MANDATORY VACATION POLICY**

#### **Observation**

The Town does not currently have a mandatory vacation policy in place. Therefore, no requirements exist for individuals to be separated from their day-to-day duties for an extended period of time and another individual perform those functions in their absence.

#### **Recommendation**

The lack of a mandatory vacation policy poses a significant risk to the Town. Requiring cross-training and the performance of an individual's duties while on vacation is in itself a great internal control and deterrent to improper behavior. Although we are unaware of any inappropriate transactions, our audit is not designed to specifically test for these items. Additionally, all individuals, regardless of title or position should be held accountable for their time as their working represents a contractual relationship between the employer and employee.

## **INTERNAL CONTROL RELATED MATTERS (Continued)**

### **6. SEGREGATION OF DUTIES OVER CASH RECEIPTS**

#### **Observation**

We noted that there was a lack of segregation of duties surrounding cash receipts, especially in the Water department, where one person is responsible for collecting funds, depositing them, and crediting a customer account.

#### **Recommendation**

The objective of internal controls over cash receipts is to ensure control over amounts received at the time of receipt. Separating these closely related functions in the cash receipts system of the Town will result in much greater internal control. To achieve this control, certain duties involving receipts should be handled by more than one member of the Town's personnel. Ideally, the following procedures should be enacted to ensure efficient internal control:

- One employee should open the mail, make a control list of all receipts, and restrictively endorse all items received. This would prevent any unauthorized endorsement should the checks be misplaced or lost before being deposited.
- The receipts should then go to another employee for further processing and deposit to the bank on a timely basis. The lack of timely deposits poses a risk to the Town and also impacts the level of interest earnings possible on Town funds.
- Then, someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited. If in agreement, that person should then record those amounts in the general ledger.

We noted that in 2010, the Town added the following procedures:

- The Finance Clerk will now input the entries onto the accounting software and the Fiscal Manager will review those entries before they are posted.
- Additionally, deposits are being handled by a separate individual.

## **OTHER MATTERS FOR THE CONSIDERATION OF MANAGEMENT**

### **7. VILLAGE OF VICTOR CONTRACTS**

#### **Observation**

We identified that the Town has many contracts currently in place with the Village of Victor; for example, the Village Voice newsletter and the Village of Victor agreement for water services. These activities were not documented in a current contract.

#### **Recommendation**

To protect the Town and to eliminate potential problems that can arise from oral agreements, we recommend that written agreements be prepared and signed in all instances. Each agreement should name the parties involved and list the terms of the agreement. Ideally, the Town and legal counsel should develop a standard contract to be used in these situations that should only be modified with the express consent of counsel.

### **8. CENTRALIZED PURCHASING SYSTEM**

#### **Observation**

The purchasing function at the Town has traditionally been performed at many levels of management in separate departments. As a result, similar goods are ordered at different times by different employees. This is inefficient and does not allow the Town to take advantage of discounts for buying in bulk. This practice also causes a certain loss of control and efficiency.

#### **Recommendation**

If purchasing is centralized, this function can be reformed into a very specialized process that offers the Town great benefit. This would permit more frequent contact with suppliers and more purchases of large quantities that provide for volume discounts. We recommend that Town centralize the purchasing function to avail it of these benefits.

### **9. STANDARDS AND LAWS**

#### **Observation**

The Town has not completely assessed its responsibility for compliance as it relates to New York State and Federal standards for regulatory and legal compliance controls and requirements.

#### **Recommendation**

We recommend that a standards, regulatory and legal compliance review be completed by the Town to determine whether the Town is subject to these requirements. Areas that need to be reviewed include, but are not limited to:

- New York State document retention requirements
- Federal Trade Commission's Red Flags Rule (June 2010) - protection of any consumer accounts information
- Patriot Act - Relates to protection of critical infrastructure
- Payment Card Industry (PCI DSS) - process, storing and transmitting credit card numbers
- Federal Code of Civil Procedure - saving information related to civil lawsuits
- Digital Millennium Copyright Act - cover copyrighted software and documentation