

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

**Communication of Matters Related to Internal Control
Over Financial Reporting and Other Matters
May 13, 2013**

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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, 2012, 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 13, 2013

INTERNAL CONTROL RELATED MATTERS

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

1. WATER FUND ACCOUNTS RECEIVABLE

Observation

We observed that the water fund's accounts receivable balance included a material error in a billing to a customer account. As a result, approximately \$235,000 was recorded as an audit adjustment to correct this error.

Recommendation

We recommend that procedures be established to ensure that accounts receivable balances are reconciled between the general ledger and the water fund's billing software on a consistent and timely basis. All differences and the reason for such differences should be investigated and resolved as soon as possible. These procedures will assist the Town in establishing reliable internal control for the billing and collection of water receivables and revenues.

2. CAPITAL ASSETS

Observation

The Town continued to use a manual Microsoft Excel file to record all capital assets during 2012. We noted that this Excel file is not the most effective means of tracking capital assets accurately.

Recommendation

We 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 understand that the Town purchased fixed asset software at the end of 2012 and is planning to implement it in 2013.

3. ACCOUNTING PROCEDURES MANUAL

Observation

We noted that the Town does not have a procedures manual detailing the daily functions performed by the finance department; specifically for billing and payroll.

Recommendation

During 2012, the Town adopted several new procedures, including a capital asset policy and a budget transfer policy. We understand that the Town is continuing the process of preparing a procedures manual during 2013. 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, 2012, the liability for the postretirement health care benefits was approximately \$720,000, or 20% 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. For the year ended December 31, 2013, the Town will receive an updated actuarial report and the Town should discuss with its actuary during that process.

2. VENDOR FILE MAINTENANCE

Observation

We noted that the vendor file contains a large number of vendors, former employees, and duplicate entries of vendors.

Recommendation

To reduce the risk of using a vendor name or address either in error or for an unauthorized transaction, we recommend that the Town delete or inactivate vendors and former employees that are no longer relevant to the Town's business.