

VILLAGE OF BROCKPORT
MONROE COUNTY, NEW YORK

MANAGEMENT LETTER

For Year Ended May 31, 2009

Raymond F. Wager, CPA, P.C.
Certified Public Accountants

Shareholders:

Raymond F. Wager, CPA
Thomas J. Lauffer, CPA
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Members of
American Institute of
Certified Public Accountants
and
New York State Society of
Certified Public Accountants

August 19, 2009

To the Village Board
Village of Brockport
Monroe County, New York

In planning and performing our audit of the financial statements of the Village of Brockport, Monroe County, New York as of and for the year ended May 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Brockport, Monroe County, New York's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Material Weaknesses:

1. Budgeting –

General Fund

The Village's expenditures for the General Fund for the year ended May 31, 2009 exceeded the approved budget amount by \$626,606. As a result, the Village's General Fund sustained a decrease in equity totaling \$587,812.

Water Fund

The Water Fund expenditures for the year ended May 31, 2009 exceeded the approved budget by \$109,652.

**To the Village Board
Village of Brockport
Monroe County, New York**

(Material Weaknesses) (Continued)

2. Establishing Tax Levy –

We noted that the Village approved the tax levy and collected \$70,157 over the amount budgeted as property tax revenue in the 2008-09 operating budget without specific explanation in the Board minutes.

3. Appropriated Fund Balance –

The Appropriated Fund Balance to support the 2009-10 Water Fund budget exceeded the available fund balance resulting in an unappropriated deficit fund balance at May 31, 2009 of \$65,604.

4. Bank Account Reconciliations –

- a. The payroll checking account has not been reconciled for the entire 2008-09 fiscal year. The bank balance at May 31, 2009 was \$24,547 and the general ledger balance was \$13,327
- b. Monthly bank reconciliations are not currently reviewed by someone independent of the process. A mitigating control could be to have an individual independent of the bank reconciliation process receive bank statements unopened and review contents for unusual items.

5. Financial Statement Preparation –

The Village did not have adequate internal controls over the preparation and application of accounting principles to prepare the financial statements in accordance with generally accepted accounting principles. As a result, we have prepared those financial statements and related disclosures for management's review and approval. In addition, we have determined that the opening fund balances required restatement as follows:

	<u>Amount</u>
Water billing accrual	\$ 98,244
Reclassification of Trust and Agency Fund to separate financial statement	(116,911)
Reclassification of Bond Anticipation Note	(200,000)
Reclassification of Bond Anticipation Note from General Long-Term Debt	<u>200,000</u>
Net Total	<u>\$ (18,667)</u>

6. Payroll –

We noted that the individual who processes payroll can also change pay rates. This same individual also maintains personnel files. We also noted that payroll expenditures are being charged to the Water Fund, for an employee that does not perform any duties for the department.

**To the Village Board
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Significant Deficiencies:

1. Computer Weaknesses –

During the course of our examination, we noted the following:

1. It has been several years since the computer accounting system has been updated.
2. There is no individual designated as system administrator.
3. Current employees are using usernames and passwords of individuals who are no longer employees of the Village.
4. There are no procedures in place to verify new vendors added to the system.

2. Third Party Billing Administrator –

During our review we noted that the Village did not track the billing, accounts receivable, and amounts deemed to be uncollectible regarding ambulance service and the third party billing/collection administrator.

3. Lack of Segregation of Duties - Water –

Our examination revealed that billings for water usage are not reviewed by someone independent of the billing department before the bills are sent out. In addition, we noted that the same individual is responsible for preparing and sending out bills, collecting money, and posting receipts to the system.

4. Disbursements–

During the course of our disbursements examination we noted that 26 of the 44 credit card transactions tested were not supported by an original vendor invoice or itemized receipt.

5. Journal Entries –

Journal entries are not routinely reviewed by someone other than the preparer.

6. Payroll –

Our payroll examination revealed the following:

1. The taxable benefit for the personal use of Village owned vehicles by employees is not currently being reported.
2. An employee was allowed to use compensatory time to leave work early before the time had been earned.
3. The Village does not have written procedures which require an independent review of all changes made to the payroll system.

**To the Village Board
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Monroe County, New York**

(Significant Deficiencies) (Payroll) (Continued)

4. The police chief is not approving timesheets for his department and no one approves the time sheets of Village department heads.
5. There were nine instances in which Form I-9 was not properly supported by two forms of identification.

7. Reserve Funds –

At year end, there were six separate capital reserve funds that reported deficit balances totaling \$256,687. These deficit balances have been closed to unreserved fund balances as authorized by Board resolution at the August 2009 Board meeting. In addition, it does not appear as though the following capital reserves were properly authorized by the Village Board:

1. #24 Capital Reserve-Village Equipment
2. #26 Capital Reserve-Ambulance
3. #30 Capital Reserve-Communication Equipment
4. #49 Capital Reserve-Curb, Sidewalks, and Streets
5. #50 Capital Reserve-Computer Replacement

Finally, legal compliance requirements should be reviewed to ensure all capital reserve fund expenditures are properly administered.

8. Year End Adjustments –

As a result of year end audit procedures, several material adjusting entries were required in the General Fund, Water Fund, Capital Fund, General Long-Term Debt and General Fixed Assets to properly reflect year end account balances.

9. Fixed Assets –

During the course of our examination, we noted that the Village Board has not established the dollar threshold for the capitalization of fixed assets. In addition, the fixed asset listing maintained is not updated for fixed asset acquisitions and disposals. Also, the value of fixed assets are not currently maintained on the accounting system.

Control Deficiencies:

1. General Accountability –

Our examination revealed the following:

1. Key financial employees of the Village are not bonded.
2. The Village does not have a disaster recovery plan in place regarding financial data.
3. There is a lack of cross-training among finance department staff.

**To the Village Board
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(Control Deficiencies) (Continued)

2. Miscellaneous Funds –

The Village has a liability recorded in the General Fund for the Walk-Bike Group Fund in the amount of \$5,300. These funds may be more appropriately recorded in the Village's Trust & Agency Fund.

3. Health Insurance Premiums –

Our examination revealed that the responsibility for billing health insurance premiums for retirees, and current employees, is not segregated from the collection and accounting functions. In addition, billings for retirees are not reviewed by someone other than the preparer prior to mailing.

We also noted one retiree receiving monthly payments in lieu of health insurance coverage. Under the terms of the contract, the Village should be making payments directly to the individual's insurance provider, if possible, or to the retiree directly. The Village should not pay more than the total cost of the retiree's health insurance. The Village has not obtained documentation to ensure that these monthly payments do not exceed actual premiums paid by the individual.

4. Purchase Order System –

Historically the Village has not maintained a fully integrated purchase order system.

5. Village Policies –

As part of review, we noted that the Village does not currently have policies in place relating to the following:

- Use of Village Equipment
- Use of Village Cell Phones
- Use of Village Credit Cards

We also noted that the Village board does not review the investment policy on an annual basis.

Other Items:

The following items are not considered to be significant or control deficiencies, however, we consider them other items which we would like to communicate to you as follows:

1. Auditing Standards –

Recent auditing standard requires that management document in writing their understanding of the internal accounting controls that are in place in the finance office.

In an effort to accomplish this task, we suggest management begin the process to document the procedures performed for the various finance department functions (payroll, cash receipts, cash disbursements, bank reconciliations, and monthly closing).

**To the Village Board
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(Other Items) (Continued)

2. Ambulance Surplus –

The Village currently tracks cash revenues and expenditures associated with ambulance services. As you know the New York State Comptroller has issued guidance detailing restrictions imposed on surpluses incurred if ambulance revenues exceed expenditures. The Village should review this situation to ensure compliance with the Comptroller's guidance.

3. GASB #45 – Postemployment Health Benefits –

Implementation of GASB # 45 will be effective for the Village as of May 31, 2010. It will require the Village to begin to report the cost associated with the retiree health obligation over the terms of employment, as opposed to the pay-as-you-go basis.

This liability will be recorded on your Village-Wide financial statements on a phased in basis over 30 years.

The pronouncement does not require any funding of this obligation, however, once legislation is passed to establish a legally restricted Irrevocable Trust then the Village will need to evaluate the possible funding options.

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

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We wish to express our appreciation to all Village office staff for the courtesies extended to us during the course of our examination.

Raymond F. Wager, CPA, PC.

August 19, 2009