

**VILLAGE OF RYE BROOK**

**Independent Auditors' Report on Communication of  
Internal Control Matters Identified in the Audit**

**MAY 31, 2009**



**Independent Auditors' Report on Communication of Internal Control Matters  
Identified in the Audit**

To The Honorable Mayor and  
Board of Trustees  
Village of Rye Brook  
940 King Street  
Rye Brook, New York 10573

In planning and performing our audit of the basic financial statements of the Village of Rye Brook, New York (the "Village") 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's internal control over financial reporting 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.

We have included in this letter a summary of communications required by generally accepted auditing standards. We are also required to communicate any control deficiencies we identified during the audit and determined to be significant deficiencies or material weaknesses. This communication is a requirement of the auditing standard, Statement on Auditing Standards (SAS) 112: Communicating Internal Control Related Matters Identified in an Audit.

Our consideration of internal control was for the limited purpose of conducting your Village's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did identify certain other deficiencies that we consider to be control deficiencies that are defined and discussed below. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined below.

It is important to note that control deficiencies are not necessarily issues management and the Board of Trustees will choose to address, however, control deficiencies may represent potential risks. Our responsibility as your auditors is to ensure that management and the Board of Trustees are aware of these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks.

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 entity'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 Village's internal control.

As indicated in the attached Addendum A, we identified certain deficiencies in internal control that we consider to be control deficiencies as well as other comments and recommendations identified in Addendum B that are opportunities for strengthening internal controls and operating efficiency.

This report, summary of communications, addendum and management responses are intended for the information and use of management and the Board of Trustees. However, this report is a matter of public record and its distribution is not limited. We will be pleased to discuss these comments in further detail at your convenience, or to assist you in implementing the recommendations.

*O'Connor Davies Munns & Dobbins, LLP*

**O'Connor Davies Munns & Dobbins, LLP**  
**Bennett Kielson Storch DeSantis Division**  
December 22, 2009

Village of Rye Brook, New York

Summary of Communications

- Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America
  - Unqualified opinion on financial statements
  - No change in scope of the audit
  - No material errors
  - No fraud or illegal acts identified
  - No instances/suspicion or allegations of fraud were noted during conduct of audit
- Internal Accounting Controls
  - Reviewed to extent necessary to render our opinion on the financial statements
  - No material weaknesses noted
- Significant Accounting Policies
  - Accounting policies appears appropriate
  - Significant accounting policies included in Note 1 to the financial statements
  - No changes in accounting policies during the year
- Management's Judgments and Accounting Estimates
  - Estimates used deemed adequate
- Audit Adjustments
  - No significant unrecorded adjustments
- Other Information in Documents Containing Audited Financial Statements
  - Management's Discussion and Analysis appears reasonable
- Disagreements with Management
  - None
- Unresolved Difficulties Encountered in Performing the Audit
  - None

Village of Rye Brook, New York

Summary of Communications

- Consultation by Management with Other Accountants
  - None of which we were made aware
- Management Consulting Services
  - None
- Independence
  - O'Connor Davies Munns & Dobbins, LLP Bennett Kielson Storch DeSantis Division is independent in all respects
- Irregularities or Illegal Acts
  - Nothing to report

Village of Rye Brook, New York

Addendum A

• **Agency Fund**

The Agency Fund is used to account for assets held by the Village in an “agency capacity” on behalf of others. Our audit procedures disclosed the following:

- Within the Agency Fund, there were instances noted where deposit accounts were comprised of debit balances. This is an indication that the Village has made payments on behalf of the accounts in question without being reimbursed.
- We noted that there are several deposit accounts which have remained financially inactive for the entire year.

***Recommendation***

We recommend all of the above amounts being held by the Village should be reviewed. Upon completion of this review, we suggest all amounts no longer due be closed and transferred to the General Fund. We have also noted that this is a repeat comment from multiple prior years’ audits. While we noted that progress has been made in this area, and internal control has been in place for several years, the Village should attempt to analyze all accounts in this fund in order to ascertain their final disposition. The balances in developers’ accounts should be reviewed to determine if the developer is owed a refund. If a refund is due, the monies should be returned to the developer. If monies are owed to the Village, management should attempt to contact the developers to collect monies owed. However, controls have been in place for several years ensuring that the village does not pay environmental fees to consultants unless funds are received by the developers. Many of the accounts in question have not had activity in several years.

***Management Response***

The Village realizes that this is a continuing comment. Since fiscal year 2003/2004 controls have been in place ensuring that the Village does not pay environmental fees to consultants unless funds are received by the developers.

The Village is analyzing older projects in order to close inactive accounts. In 2008/2009, the Village closed out seventeen (17) accounts with no activity, and in 2007/2008 eight (8) inactive accounts were closed. The process is time-consuming because the Village is analyzing each account before closing it out so that monies can be returned to developers or funds transferred to the General Fund. The Treasurer will continue to review accounts in order to close out inactive accounts.

Village of Rye Brook, New York

Addendum A

- **Cash**

At the time of our audit, we noted two checks in the General Fund Payroll account that have been outstanding in excess of one year. These checks totaled \$9,140.

***Recommendation***

We recommend checks outstanding for greater than one year should be written off by the Village and, if necessary, stop payment notices should be sent to the bank.

***Management Response***

The Village does investigate outstanding checks in the regular checking and payroll accounts on a regular basis. The Treasurer's Office contacts the vendor or employee to see if they still have the check. If not, the Village issues a replacement check and a stop payment is placed on the original check. The checks outstanding for over one year were inadvertently missed and will be researched. Also, a stop payment will be placed on the two checks mentioned in the audit.

- **Compensated Absences**

During the audit, it came to our attention that there is no limit on the amount of vacation time that Highway Department employees can accrue. We noted one individual in the Highway Department that is carrying over 21 weeks of vacation. There is a limit on Park Department employees who are part of the Teamsters' contract. In addition there is no formal written agreement between the Village and the Police Department for "comp time".

The lack of a limit on vacation accrual will potentially allow for an employee to accumulate very large amounts of vacation time that must be paid (or taken) upon the employee's retirement. This situation can have a serious negative cash impact and financial effect on the Village.

***Recommendation***

We suggest that when the contracts are renegotiated, June 1, 2012 for the Teamsters and June 1, 2011 for the Police that the Village recommend there be a limit on the amount of vacation time for Highway employees and comp time for the Police.

***Management Response***

During previous contract negotiations with the Teamsters and Police, Management concentrated on seeking gains in employee contributions toward health insurance premiums due to the high cost of these premiums. In future contract negotiations Management will consider seeking a limit to the amount of vacation time that Highway

Village of Rye Brook, New York

Addendum A

Department employees can carry over, and will consider establishing a written policy on police "comp time".

- **Test of Transactions**

*Journal Entries*

There is no approval policy for posting of journal entries. Due to the limited number of people working in the Finance Department the Treasurer and Deputy Treasurer make general journal entries without prior approval.

***Recommendation***

We recommend that Finance establish a general journal policy and identify an individual, perhaps the Village Administrator, to approve general journal entries.

***Management Response***

The Treasurer and Deputy Treasurer have always followed the existing procedure for journal entries. In order to provide additional checks and balances a new policy will be established whereby the Village Administrator will approve the Journal Entry Edit Listing.

*Cash Receipts*

Our test of cash receipts of the Building Department indicated that 2 of the 5 receipts tested were not deposited within 72 business hours.

***Recommendation***

The department should insure that all cash receipts are deposited on a timely basis.

***Management Response***

The Treasurer's Office does have a procedure in place whereby cash receipts are deposited within 72 business hours. Cash receipts are usually deposited on a timely basis.



Village of Rye Brook, New York

Addendum A

• **Capital Projects Fund**

*Deficit Balances*

The following projects although not exceeding authorized budget amounts have deficit balances because funds were not transferred to the Capital Project Fund to cover the entire amount of the cost. The Board has authorized \$11,000 for the Pine Ridge Sprinkler System but this amount had not been transferred at year end.

Human Resources Software	\$	1,440
Police Vehicles 2008		45,754
Village Hall Vehicles		46,000
Senior Bus		26,376
Pavement Management Software		5,680
Village Hall Expansion		2,500
Police Vehicles 2009		871
Highway Equipment Generator		2,699
Parks Equipment Trailer		6,826
Pine Ridge Park Sprinkler System		13,502

***Recommendation***

We recommend that management monitor projects to insure that authorized amounts are transferred on a timely basis and projects do not exceed authorized budgets.

***Management Response***

Management will transfer the amounts identified from the General Fund to the Capital Projects Fund. Beginning 2009-10, the Village established a new practice of transferring the funds to budgeted capital projects in the beginning of the fiscal year.

## Village of Rye Brook, New York

### Addendum B

- **Written Investment Policy**

The current economic crisis has altered the relationship between banks and the various municipal entities that they service. In addition to sweeping changes in Federal Deposit Insurance Corporation ("FDIC") coverage that affect all depositors, banks have also begun to expand the options permitted under Section 10 of the New York State General Municipal Law in regards to collateralizing a municipality's deposits that exceed FDIC limits. For instance, one of the options that has been most prevalent is the acceptance of a letter of credit issued by the Federal Home Loan Bank.

Section 39 of the New York State General Municipal Law requires municipalities, under their written investment policies, to include in the policy "procedures and provisions to secure in a satisfactory manner the local municipality's financial interest in investments". Accordingly, many entities have included in their written investment policy a listing of the collateral which will be accepted by them as collateral to secure deposits in excess of FDIC coverage.

We suggest that a review of the written investment policy, collateral agreements and FDIC coverage regulations be performed to ensure that all deposits are fully covered and that the list of acceptable collateral instruments to secure deposits in excess of FDIC limits in the written investment policy is consistent with the collateral agreements with the banks.

- **Future Application of Accounting Standard – Statement of the Governmental Accounting Standards Board ("GASB") – Fund Balance Reporting and Governmental Fund Type Definitions (GASB Statement No. 54)**

In February 2009, the Governmental Accounting Standards Board ("GASB") issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement is intended to improve the usefulness of information provided to users of governmental financial statements about fund balance by 1) providing clearer, more structured fund balance classifications and 2) by clarifying the definitions of existing governmental fund types.

It is said that fund balance is among the most widely and frequently used piece of information provided in local government financial statements. GASB Statement No. 54 was developed to address the diversity and lack of consistency that had developed in the reporting of this vital information. To reduce this confusion, the new standard establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints imposed upon how resources reported in governmental funds may be used.

Addendum B

• **Future Application of Accounting Standard – Statement of the Governmental Accounting Standards Board (“GASB”) – Fund Balance Reporting and Governmental Fund Type Definitions (GASB Statement No. 54) (Continued)**

GASB Statement No. 54 distinguishes fund balance between amounts that are considered nonspendable (such as fund balance associated with inventories) and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Accordingly, fund balance amounts will be reported in the following classifications:

- **Restricted** – amounts stipulated by constitution, external resource providers or through enabling legislation.
- **Committed** – amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority.
- **Assigned** – amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- **Unassigned** – amounts that are not constrained at all in the government’s General Fund and includes all spendable amounts not contained in other classifications.

GASB Statement No. 54 also clarifies the definitions of individual governmental fund types. It provides an interpretation of certain terms within the definition of special revenue fund types, while further clarifying the debt service and capital projects fund type definitions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010 with earlier implementation encouraged.