Town of Greenburgh, New York

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

December 31, 2007
Independent Auditors' Report on Communication of Internal Control Matters Identified in the Audit

To The Honorable Supervisor and
Members of the Town Board
Town of Greenburgh
177 Hillside Avenue
Greenburgh, New York 10607

In planning and performing our audit of the basic financial statements of the Town of Greenburgh, New York ("Town") as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

We have included in this letter a summary of communications with the Finance Committee of the Town Board ("Town Board") as 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 Town'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 deficiencies in internal control that we consider to be significant deficiencies and 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.** Management's written response to the control deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

O'Connor Davies Murns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Bennett Kielson Storch DeSantis Division
One Barker Avenue, White Plains, New York 10601 914.421.5600 tel 914.421.5099 fax www.odmd.com
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 entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’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.

As indicated in the attached Addendum A, we identified certain deficiencies in internal control that we considered to be significant deficiencies, in Addendum B we identified certain deficiencies in internal control that we consider to be control deficiencies as well as other comments and recommendations identified in Addendum C that are opportunities for strengthening internal controls and operating efficiency. As previously mentioned, management’s responses are included in the document and have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on these responses.

This report, summary of communications, addendums and management responses are intended for the information and use of management and the Town Board. 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.

Bennett Kielson Storch DeSantis

The Government Services Division of
O'Connor Davies Munns & Dobbins, LLP
August 12, 2008
Town of Greenburgh, 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, frauds, or illegal acts identified
  - No immaterial frauds 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
  - The Town established an accrual for tax certioraris in accordance with Statement of Financial Accounting Standards No. 5 "Accounting for Contingencies"

- 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
Town of Greenburgh, New York

Summary of Communications
(Concluded)

- Consultation by Management with Other Accountants
  - None of which we were made aware

- Management Consulting Services
  - None

- Independence
  - Bennett Kiesel Storch DeSantis, The Government Services Division of O'Connor Davies Munns & Dobbins, LLP is independent in all respects

- Irregularities or Illegal Acts
  - Nothing to report
Town of Greenburgh, New York

Addendum A

• General Fund

We noted that there is an account on the Town’s books that is used to record the overpayment and underpayment of taxes. This account should, theoretically, have a zero balance once the refunds are paid and payments are received. The balance in this account has been consistently growing from year to year and, as of December 31, 2007, has a balance in excess of $2.3 million.

Recommendation

We suggest that this account be thoroughly investigated and that a policy be implemented regarding the proper treatment of those funds.

Management’s Response

Management is aware of the $2.3 million account balance in the overpayment of taxes account and has sought counsel from the NYS Comptroller’s office on the appropriate accounting treatment/disposition of the detailed transactions contained therein because they are in effect unclaimed funds and possibly subject to NYS escheat rules and regulations. The staff person that management spoke to in the NYS Comptroller’s office did not agree that the overpayment of taxes were subject to NYS escheat rules and regulations but declined to put that in writing.

It is management’s position that the Town should not take ownership of the $2.3 million in overpayment of taxes until such time that the Town receives the appropriate authority to do so in writing.

• Capital Projects Fund

Our review of the Capital Projects Fund indicated that several capital projects reflected overexpended budgets at December 31, 2007, and in certain cases created deficits within the project, by the amounts indicated below:

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Records Imaging and Storage</td>
<td>$ 18,445</td>
</tr>
<tr>
<td>Improvement and Embellishment of Parks</td>
<td>5,281</td>
</tr>
<tr>
<td>Police Headquarters Vestibule Reconstruction</td>
<td>188,219</td>
</tr>
<tr>
<td>Acquisition/Reconstruction of 177 Hillside Avenue</td>
<td>113,600</td>
</tr>
<tr>
<td>Consultant Services – Reconstruction of Town Library</td>
<td>5,512</td>
</tr>
<tr>
<td>Purchase of Various Items of Equipment</td>
<td>5,459</td>
</tr>
<tr>
<td>Reconstruction of Community Center Wall</td>
<td>18,765</td>
</tr>
<tr>
<td>Purchase of Police Vehicle and Equipment</td>
<td>126,909</td>
</tr>
<tr>
<td>Emergency Generator – Town Hall</td>
<td>43,382</td>
</tr>
<tr>
<td>Purchase of Police Vehicles and Related Equipment</td>
<td>3,519</td>
</tr>
<tr>
<td>Motor Vehicles for Various Departments</td>
<td>14,585</td>
</tr>
</tbody>
</table>
Capitol Projects Fund (Continued)

Recommendation

We suggest that when it appears that costs will exceed approved project budgets, increased authorizations should be approved by the Town Board. We also suggest that a plan to reduce these deficits be implemented.

Management's Response

Management has increased its periodic review of capital projects and has already acted to increase authorizations for capital projects where costs are expected to exceed any existing approved project budgets, most notably the increase in the Library Expansion project earlier this year. Management will be proposing a plan to reduce or eliminate most if not all of these deficits as part of the 2009 operating and capital budgets.

Retained percentages, which represent amounts withheld from contractors for completed work pending satisfactory approval of their phase of a construction project, should be classified as expenditures and recorded on the books of account simultaneously with the payment to the contractor. Our audit of the amounts reflected as a liability for retained percentages indicated that the balance included amounts totaling in excess of $379,000 which have remained unchanged for a period in excess of one year.

Recommendation

We suggest that the status of these retainages be determined and that the Town Attorney formally advise the Comptroller's Office of the appropriate disposition.

Management's Response

Retained percentages, which represent amounts withheld from contractors for completed work pending satisfactory approval of their phase of a construction project, are classified as expenditures and recorded on the books of account simultaneously with the payment to the contractor.

In the evolution of certain activities, the accounting control over retainages has been allowed to be taken from its traditional department, namely the Town Comptroller, and placed with the Department of Public Works / Town Engineer. While these departments have the responsibility for monitoring various projects and determining their status of completion and thus whether these retainages should be released, the accounting integrity of these funds and the account components should, resources permitting, be a function of the Comptroller's Department.
Town of Greenburgh, New York

Addendum A

- Water Fund – Inventory

Our audit disclosed that the Water Fund physical inventory taken for December 31, 2007 was approximately $100,000 greater than the general ledger amount. The difference was caused by the purchasing department incorrectly coding the purchases of the Water Fund inventory during the course of the year.

Recommendation

We suggest that the physical inventory and general ledger be reconciled more frequently than once a year. This will ensure that all purchases and uses of the inventory items are safeguarded and accounted for.

Management’s Response

Management agrees that a physical inventory should be taken more frequently than once a year. In regard to the $100,000 difference noted above, a second physical inventory was taken on September 3, 2008 and reconciled to the general ledger.

- Special Purpose/Agency Fund

Our audit disclosed that there are numerous accounts within the Agency and Special Purpose Funds that were financially inactive during the current and prior fiscal years.

Recommendation

We recommend that Management review the balances in this account so that a determination may be made as to the proper disposition of the amounts recorded.

Management’s Response

Subject to having available resources to review and address this recommendation, we agree.
Fund Deficits

Deficits place a financial burden on a municipal entity. They are created either by revenue shortfalls or expenditures in excess of budgetary provisions. The effects of a deficit are varied but their greatest impact will generally be felt on cash flow. The larger the amounts involved, the greater the problems. Financial controls must be instituted to cure the deficit. A variety of alternatives may be used to eliminate a deficit; the simplest of which is an additional tax levy or increased user charges. The ability to generate additional revenue sources as well as the effect of more stringent expenditure controls should be examined. In addition, management must determine the origin of the deficit. If the deficit was the result of unique circumstances that will not repeat, a tax levy or user charge approach may suffice. However, if the deficit is an indication of continuing problems, then a plan must be developed which may require the use of all the available solutions.

The financial statements of the Town reflect a fund deficit in the Combined Fire Protection Districts and the Combined Special Assessment District of $235,413 and $292,142, respectively.

Recommendation

We recommend that formal budgetary control over fund expenditures be instituted. When it appears that costs will exceed approved budgets and revenues received, increased authorizations should be approved by the Board of Trustees and alternate resources of funding should be obtained.

Management's Response

The Combined Fire Protection Districts' fund deficit is more the consequence of contract mismanagement than lack of budgetary control. Management must often prepare the Combined Fire Protection Districts' budget without knowing what the underlying fire protection contract terms (expenditures) will be when the contracts are ultimately settled and retroactive payments are made. In addition, management will attempt to incorporate the results of the tax certiorari analyses into its forecasts so an appropriate fund balance may be established.

The Combined Special Assessment District (District) fund deficit can not avail itself of the aforementioned recommendation. The District's budget is a reflection of a long term financial obligation that the District has to the General Fund. That financial obligation will be met in the fiscal year ended 12/31/09 in which year the District's fund balance will turn positive.
Town of Greenburgh, New York

Addendum 3

- **Segregating Funds (Agency/Special Purpose)**

The Special Purpose Fund is used to account for assets held by the Town in accordance with the terms of a trust agreement. The revenue and expenditure activity for each trust agreement should be reflected in the general ledger for proper tracking. Furthermore, as one of the requirements promulgated under the provisions of Governmental Accounting Standards Board Statement No. 34, these transactions are required to be reported separately from those activities reported as “Agency Fund” type activities. However, the Town continues to account for both Agency and Special Purpose activities within the same fund structure. Furthermore, the revenues and expenditures related to the activity of each trust are not recorded in separate revenue and expenditure account codes, thus requiring additional analysis to determine the transactions that took place.

**Recommendation**

We suggest that a separate fund be created to track the trust activities in accordance with the above requirements and that this includes detailed revenue and expenditure codes for each trust.

**Management’s Response**

This recommendation has been made in prior years and fundamentally we agree subject to having sufficient resources available to implement this.

- **SAS 99 Inquiries**

Recent reports indicate that fraud is rapidly growing in the United States. The Association of Certified Fraud Examiners estimates that 6% of revenue is lost to fraud and abuse. A proven and effective deterrent to fraud is the establishment of an antifraud culture within the Town. A strong and ethical “tone at the top” can provide significant strength to deter fraud. As part of our audit, we hand out “SAS 99” fraud interview questionnaires to various Town employees to determine if they suspect fraud may be occurring and what their thoughts are on how the Town can be susceptible to such frauds. Most of these questionnaires were returned without proper responses (i.e.; “n/a”, “don’t know”, etc.)

**Recommendation**

We recommend that fraud-related policies be discussed with all Town employees so that they become aware of the risks of fraud occurring and can learn how to properly report potential fraud and abuse if the situation arises.
SAS 99 Inquiries (Continued)

Management’s Response

On May 6, 2008, the Town Comptroller provided the Town Board with a memorandum highlighting certain instances of breakdowns in the system of internal controls. While no fraud has come to the attention of management, we understand the significance of educating the entire Town organization as to the importance of a sound system of internal controls as presented by the Committee of Sponsoring Organizations (“COSO”).

Year-End Closing Entries

Prior to the commencement of the audit fieldwork, all year-end journal entries should be recorded. If however, management has determined that additional journal entries need to be recorded, these entries should be provided prior to conclusion of the fieldwork. These procedures, if adhered to, would reduce any additional time incurred in finalizing the financial statements and avoid the incurrence of any additional audit costs.

Subsequent to conclusion of the fieldwork, several journal entries were provided to us by management. As a result, an excessive amount of additional time was required to not only record the journal entries but to then reconcile and review the entire financial statements, a second time, to assure their completeness and accuracy.

Recommendation

We recommend that, prior to the commencement of the audit field work that the books and records are “audit ready”. This includes the procedures mentioned above, that all year-end closing entries are recorded prior to the commencement of field work.

Management’s Response

Management recognizes that the most efficient way to conduct an audit is to have all year end journal entries posted to the Town’s books and records prior to the commencement of the audit field work. Management also recognizes that in order to do so, adequate staffing must be available to achieve that objective. To put the current year’s preparation for the year end audit field work in recent historical perspective, there were three professional members on the Town’s staff involved in the preparation of the year end workpapers for the 12/31/05 audit, two professional
Year-End Closing Entries (Continued)

staff members involved in the preparation of the year end workpapers for the 12/31/06 audit and one professional staff person involved in the preparation of the workpapers for the 12/31/07 audit.

During the period of time that is normally dedicated to the preparation of year end workpapers and journal entries, management had to amend the 2008 budget prior to the issuance of the Town/County tax bills on 3/31/08 to reflect the NYS Appellate Court’s decision rendered on 2/13/08 that reversed the lower court’s decision regarding the application of the Finnemran law to Taxter Ridge, implemented a complicated, convoluted and labor intensive tax exemption for volunteer firemen prior to the issuance of the Town/County bills on 3/31/08, coordinated and executed the refunding of $5.3 million of outstanding debt, completed the Town’s fixed asset conversion ($90 million) to an in-house software module and affected a seamless transition of the addition of a new Town Comptroller to the executive team.

If, upon review of the of the financial statements by management or the auditors subsequent to the conclusion of the audit field work and prior to their issuance in final form, it is determined that an adjusting journal entry should be made, it is incumbent upon both management and the auditors to make the appropriate adjusting journal entry in the interest of fairly presenting the financial condition of the Town of Greenburgh at 12/31/07.

It is management’s intention to be fully prepared for the commencement of the audit field work. It is also management’s expectation that the audit team discuss any proposed adjusting journal entries or management letter comments with management, at the conclusion of the audit field work, in order to allow management the time to take any corrective action deemed necessary before the preparation of the financial statements in order to avoid any “excessive amount of time” incurred to take any corrective action after the financial statements have been prepared.
As part of the total compensation offered to attract and retain the services of qualified employees, many state and local governmental employers, in addition to pensions, provide other post-employment benefits (OPEB). OPEB includes post-employment healthcare, as well as other forms of post-employment benefits when provided separately from a pension plan. The Government Accounting Standards Board has issued Statement No. 45, Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans, which establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities in the financial reports of state and local governmental employers.

Post-employment benefits (OPEB) are part of an exchange of salaries and benefits for employee services rendered, and are taken after the employee's services have ended. From an accrual accounting perspective, the cost of OPEB should be associated with the periods in which the exchange occurs, rather than with the periods, often many years later, when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to recognize the cost of the benefits in periods when the related services are received by the employer, provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded and provide information useful in assessing potential demands on the employer's future cash flows. The Statement would improve the relevance and usefulness of financial reporting by (a) requiring systematic, accrual basis measurement and recognition of OPEB expense over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

OPEB expenditures for governmental funds should be recognized on the modified accrual basis. The amount recognized should be equal to the amount contributed to the plan or expected to be liquidated with expendable available resources. Essentially, there is no change from current practice for governmental funds. However, for proprietary and government-wide financial
Statement of the Governmental Accounting Standards Board - Accounting and Financial Reporting for Employers for Post-Employment Benefits Other than Pensions (GASB 45) (Continued)

statements, the accrual basis must be used. The accrual method will require the calculations to be made using actuarial computations and will result in the recognition of a present value liability, which measures the value of OPEB benefits earned by employees during their tenure with the government and likely to be paid upon retirement. It should be apparent that this calculation will result in substantial amounts, due to the current employee cost of such benefits and their escalating costs. It should also be emphasized that there is no requirement to fund these benefits with current resources. The Statement merely requires the reporting of the value of the benefit primarily in the government-wide financial statements. The computations are extremely complex and the use of an actuary will invariably be required.

The Statement permits prospective implementation, that is, employers would be permitted to set the beginning net OPEB obligation at zero as of the beginning of the initial year. Implementation occurs in three phases based on the government’s phase for implementing GASB’s Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments. This statement is effective for the Town’s December 31, 2008 Financial Statement.

Recommendation

The contents of this statement are highly complex and will require significant lead time to implement by the above mentioned implementation date. We would suggest that the Town obtain a thorough understanding of the requirements and initiate planning for implementation in a prudent manner.

Management’s Response

See footnote number 2(F), page 39, in the Comprehensive Annual Financial Report wherein the Town discloses that an actuary has been retained and determined that the Town’s unfunded actuarial accrued liability at 1/1/07 is $123 million.

The Town’s actuary will be updating the initial OPEB actuarial valuation during the fiscal year ended 12/31/08 in time to fully implement the financial reporting requirements under GASB 45 for the Town’s fiscal year ended 12/31/08.

Finally, management has provided the Town Board with a comprehensive memorandum of the impact of GASB 45 on the Town’s proprietary funds and an estimate of the impact on funding requirements and future tax rates.
Town of Greenburgh, New York

Addendum C

- **Internal Review**

As indicated in professional standards, an annual audit is designed to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatement and present fairly the financial position and results of operations of the entity. To assure ourselves of the integrity of the financial statements, we perform a variety of tests on the entity’s internal control over financial reporting as well as substantiation of major assets, liabilities, revenues and expenditures based on certain calculated materiality thresholds. We are also required under Statement on Auditing Standards No. 99 (SAS 99) to consider and make inquiries about an entity’s fraud risk factors. We must 1) document our inquiries of management regarding fraud risks and how the entity addresses those risks, 2) interview appropriate personnel about whether they are aware of fraud or suspected fraud, and 3) consider the results of analytical procedures performed in planning the audit along with other information gathered, and document any indications that the financial statements might have a material misstatement due to fraud.

All of the above mentioned procedures are designed to prevent the financial statements from being materially misstated. However, most entities generate a large volume of transactions that, individually, are not material and would not be examined as a part of the normal year-end audit sample, such as travel expenditures. In these instances, procedures should be instituted to monitor these expenditures internally during the year, on a random basis, to ensure that they are disbursed in accordance with State and local statutes, where applicable, and that there is appropriate documentation to support the outlay.

Therefore, we would suggest that, on an annual basis, the Town Board perform a review of "sensitive" type expenditures to ensure that they are supported by appropriate documentation, containing all required approvals and are in compliance with existing statutes.

**Management’s Response**

In 2008, management has undertaken a number of new and significant reports and analyses never made available to the Town Board before. For example, the Town Board receives a quarterly analysis of revenues by major fund showing the current month and year to date compared with the corresponding prior periods, the current year’s budget and the prior year’s total activity. A narrative accompanies this report highlighting issues of possible concern. Periodic monitoring of compliance with adjusted approved budgets also facilitates that “sensitive” transactions receive an appropriate amount of attention and review.