

INCORPORATED VILLAGE OF MASTIC BEACH
MEMORANDUM ON ACCOUNTING PROCEDURES
AND INTERNAL CONTROLS
2014



NawrockiSmith

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
the Incorporated Village of Mastic Beach:

In planning and performing our audit of the financial statements of the Incorporated Village of Mastic Beach (the "Village") as of and for the year ended May 31, 2014, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the Village's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances 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 Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we became aware of matters involving the internal control structure and other operational matters that are presented for your consideration in the accompanying memorandum. This memorandum also presents information as to the status of prior audit recommendations. This letter does not affect our report dated October 1, 2014 on the financial statements of the Village.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional studies of these matters, or to assist you in implementing the recommendations.

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

Melville, New York
October 1, 2014

INCORPORATED VILLAGE OF MASTIC BEACH
MEMORANDUM ON ACCOUNTING PROCEDURES
AND INTERNAL CONTROLS
FOR THE YEAR ENDED MAY 31, 2014

CURRENT YEAR RECOMMENDATIONS:

1. Budget transfer policy

We noted that the Village has not developed a formal policy or procedure pertaining to budget transfers. This situation increases the risk that inappropriate budget transfers could occur.

We recommend that the Village develop a standard policy pertaining to budget transfers. The policy developed should specify the individual authorized to approve budget transfers as well as any threshold limitations above which would require additional approval by the Board of Trustees. During our review of transactions subsequent to year-end we noted the Village has started to implement this recommendation. In this manner, control over budget transfers may be enhanced.

2. Cash disbursements - employee reimbursements

We noted instances in which employee travel and conference reimbursements were lacking sufficient supporting documentation identifying the business purpose. All disbursements should contain the necessary documentation to verify that they are valid and reasonable expenditures.

We recommend policies and procedures be enforced and an employee reimbursement request form be implemented whereby all supporting documentation is attached. In this manner, internal control over employee reimbursements may be enhanced.

3. Information systems

We noted that the Village utilizes Peachtree as its primary accounting software program. The Village is a substantial entity and should consider procuring an accounting software program that may better suit the needs of its operations (i.e. accounting software that offers fund accounting).

We recommend that the Village consider obtaining an accounting software application which is designed for fund accounting and municipalities. In this manner, data processing systems may be more consistent with the Village's needs.

4. Supporting documentation for credit card expenditures

During our review of credit card expenditures, we noted supporting documentation to consist primarily of the monthly credit card statement and credit card receipts. However, detailed expense statements, validation of the goods being received by the Village and information as to the business purpose of the expenses were not attached to the statement.

We recommend that someone other than purchaser validate the goods as being received by the Village, and detailed expense statements and information as to business purpose of the expenditures accompany all credit card transactions. In this manner, credit card expenditures may be properly authorized, documented and supported.

5. Timely deposits of cash receipts

During our work performed on cash receipts, we noted that a significant amount of time passed between the recording of the cash receipts on the general ledger and the actual date of deposit. This situation increases the risk of loss of cash assets.

We recommend that all cash receipts be processed and deposited in a timely basis. In this manner, internal control over cash assets may be enhanced.

6. Appropriation codes

During our work performed on cash disbursements, we noted no indication of the appropriation code on the cash disbursement voucher. This situation increases the risk of disbursements being recorded to the wrong appropriation code.

We recommend that all cash disbursements be supported by vouchers documenting the proper appropriation code. In this manner, internal control over budgetary expenditures may be enhanced.

7. Outstanding checks

During our work performed in the cash area, we noted that there were several checks that had been outstanding for an extended period of time. Tracking outstanding checks is an important control procedure that ensures all outgoing checks are properly accounted for.

We recommend that a procedure be established whereby long outstanding checks are reviewed, analyzed and adjusted. In this manner, accurate information on cash is readily available.

8. Password changes

During our review of the Village's information technology environment, we noted the Village does not have policies and procedures in place that require Village employees to periodically change their passwords for accessing the computer system. In addition, the Village does not require passwords to be of a specific length or to have a specific composition of letters, numbers and symbols. This situation could lead to potential unauthorized access to the computer system.

We recommend that the Village adopt policies and procedures which require forced password changes and require a certain secure composition of letters, numbers and symbols on at least a ninety-day frequency. In this manner, internal control over computer systems access may be enhanced.

9. Information technology policy

During our review of the Village's information technology environment, we noted the Village does not have a formally adopted policy pertaining directly to the following:

- a. Backup and data retention (scheduling, storage, access etc...)
- b. Information security
- c. Implementation of new software
- d. Disaster recovery

This situation increase the risk of the Village's computer system not being secure and available for Village operations at all times.

We recommend that the Village create and adopt policies and procedures related to items identified above. In this manner, internal control over the Village's information technology may be enhanced.

10. Vendor database maintenance

During our review of the Village's vendor database we noted seven (7) vendors to have duplicate records. This situation increase the risk of inaccurate payments being made to vendors.

We recommend that the Village perform a regular review of the vendor database to ensure that duplicate or inactive vendors are properly identified. In this manner, internal controls over vendor payments may be enhanced.

STATUS OF PRIOR YEAR RECOMMENDATIONS:

In connection with the prior year's audit of the financial statements of the Village, certain recommendations were reported. Reference is made to our letter dated October 1, 2013 for details on those observations and recommendations. The following presents an overview of these matters, as well as our understanding of its current status:

1. Journal entries

We recommended that the Village ensure each journal entry is supported by the standard journal entry request form and be approved by a member of management independent of the person inputting the journal entries into the accounting system.

We noted that this recommendation was implemented.

2. Accounting policies and procedures manual

We recommended that a Manual be developed for current accounting policies and procedures.

We noted that this recommendation was not implemented.

3. General ledger reconciliation schedules

We recommended that the person responsible for reviewing general ledger reconciliation schedules date and sign their approval in order to confirm review and approval of the schedules is done in a timely manner.

We noted that this recommendation was implemented.

4. Security deposits

We recommended that the Village maintain documentation for all balance sheet items.

We noted that this recommendation was implemented.

5. Capital assets policy

We recommended that the Village give consideration to creating a capital asset policy that includes depreciable lives, capitalization threshold, and a methodology for depreciating capital assets.

We noted that this recommendation was implemented.

6. Fund balance policy

We recommended that the Village establish a fund balance policy with respect to GASB Statement number 54.

We noted that this recommendation was not implemented.

7. Payroll reconciliations

We recommended that reconciliations of the general ledger to the quarterly tax filings be performed (at a minimum) on a quarterly basis.

We noted that this recommendation is in the process of being implemented.

8. Approved invoices

We recommended that all disbursements be approved in writing by management and such approval be documented and maintained with supporting documentation.

We noted that this recommendation was implemented.