

PATTISON, KOSKEY, HOWE & BUCCI, CPAS, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
502 UNION STREET
HUDSON, NEW YORK 12534
(518)-828-1565
FAX (518)-828-2672
rpkoskey@pkhbcpa.com

REGINALD H. PATTISON, CPA (1910-2002)
RICHARD P. KOSKEY, CPA
JON RATH, CPA (RETIRED)
NED HOWE, CPA
CAROL OLSTA, CPA
ACCOUNTANTS
A. MICHAEL BUCCI, CPA
SUZANNE E. MULDOON, CPA
NANCY K. PATZWahl, CPA
ACCOUNTANTS
BRAD CUMMINGS, CPA, CVA
SUSAN L. TRUE, CPA

MATTHEW H. VANDERBECK, CPA
JOHN B. SUTPHIN, CPA
JEAN HOWE LOSSI, EA
MELISSA W. WISHON
ELIZABETH A. CULLEN
LISA M. GILL

MEMBERS:

AMERICAN INSTITUTE OF
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NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC

Date: August 24, 2009

To: Richard Barrett

From: A. Michael Bucci, CPA



Re: 2008 Town accounting records and the AUD report.

As you are aware we have spent the last few days reviewing the Town's accounting records for 2007 and 2008. I have summarized below what procedures we have completed and the results of such procedures, thus far, and what procedures we believe to be left for us to perform to adjust your accounting records to make them more accurate. We also recommend that once the records are adjusted to be accurate, you hire us to correct and resubmit your AUD report for 2008 as the report seems to be prepared incorrectly.

Procedures performed to date:

Calendar year 2007:

We have reviewed the AUD report and audit reports prepared by your former Independent accountants and compared these reports to the Town's accounting records. Based on this review we have proposed journal entry adjustments to make the Town's accounting records agree to the audit reports. We also have reconciled the AUD amounts to the Audit reports and have determined that the adjustments the auditors made to the initial AUD report were correct.

Since we were not afforded the ability to review the Independent accountants work papers to determine proper audit documentation, we are relying on the fact that you paid for an audit to be done and we assume that it was done correctly. We have not re-audited any information. We have however reviewed some of the accounts for propriety (such as cash and the related cash reconciliations for each fund) and have not found anything material that we feel would be an issue for the town based on this review. There was a minor misclassification in the General fund of \$34,863 between revenues and expenses that on a gross level overstated revenues and expenses by this figure however on a net level the amounts netted to the proper figures. We therefore believe that an adjustment at this time is not necessary.

We also noted that the December 2007 justice court fees received in January 2008 were not accrued back to 2007 revenues however we also noted that December 2006 fees received in 2007 were not accrued in 2006, leaving a full 12 months of justice court revenue in 2007. We would have proposed an adjustment for the difference in revenues in 2007 if we were performing the audit however the difference is not material and as such are not proposing an adjustment. We also noted that there was no NYS retirement allocated to the DA fund even though there was well over \$100,000 in payroll and there was an amount budgeted for such an expense. Finally there was a \$9,000 entry in the DA fund Quickbooks file as a transfer to other funds for which we could not locate any information on. Therefore we are assuming since it was not recorded on the Audit report, there was no support for this entry. We would therefore recommend reversing such a transfer unless you can produce support for it.

Our adjusting journal entries are attached in Attachment A and once agreed to and posted to the town's accounting records they should be in complete agreement to the audited financial report from your Independent accountant.

Calendar year 2008:

We have reviewed most of the balance sheet items for all of the Town's different funds. We have compared bank statements and bank reconciliations to the town's records to determine accuracy and have identified postings that have been made to different accounts of each fund in order to make the accounts accurate. We have also reviewed the inter fund transfers and have found some inaccuracies that have to be investigated. We need to confirm with the town's board minutes to make certain the transfers that were made between funds were authorized and valid. We will need to spend some additional time to make sure our initial assumptions are correct and then propose adjusting journal entries to correct the inaccuracies, if any. We will then suggest to transfer funds from one fund to the other should we determine money is owed to the different funds. Below we will attempt to detail, by fund, what we have done so far and what we think it will take to complete the rest of our review in order to get the records together to prepare the AUD report accurately.

I. General Fund A:

We have reviewed the bank reconciliations for most of the year and looked through all of the balance sheet accounts for propriety, including accounts payable and fund balance entries. We have found the following inconsistencies with the related accounts.

1. Cash is out of balance by what appears to be \$107,024.15. Cash appears to be short from the bank. The discrepancies are detailed as follows:
 - The comptroller's office representative instructed the bookkeeper to make an entry for \$70,868.12 to cash and fund balance as a transfer. We cannot find any documentation to support this entry. There is no entry on the bank statements for such amounts and the bank reconciliations show this amount as un-cleared for several months, up to present. Unless documentation is produced to support this entry it should be reversed.
 - There appears to be \$11,350 of checks voided in Quickbooks but appear to have cleared the bank. We are not certain what the resolution for these checks as they are not being carried as reconciling items to the bank. We need to investigate these more.
 - A \$12,000 payroll transfer entry appears to have been recorded four times when the money was only transferred once. The three incorrect entries need to be reversed or deleted.
 - Justice court fees for January 2007 were attempted to be accrued to 2008 and were reversed twice for a total understatement of \$10,125.
 - There appears to be an entry to the Bond fund reserve made by the Controller's office personnel for \$1,553.18. We do not understand this entry and need to investigate its sufficiency.
 - We need to investigate stale outstanding reconciliation items amounting to \$172.24 for possible writeoff.

2. Accounts receivable account appears to have several postings to either record accounts receivable or reverse accounts receivable that do not appear to have any validity.
 - There is an entry for Justice court fees for \$10,125 and a miscellaneous revenue posting for \$3,580.17 that need to be adjusted.
 - An \$8,506.40 entry for state aid was not recorded properly to A/R

3. Interfund accounts are out of balance. We need to completely reconcile Due to/from accounts with the other funds. Some items we noted were:
 - There appears to be a 2008 transfer for mowing for \$11,528.89 recorded twice in error.
 - A \$17,030 transfer for workers comp appears to not have been recorded.

4. General fund "fund balance" accounts appear to have multiple entries made in an attempt by the controller's office representative to balance fund balance. We believe the entries have been made in error. The total amounts and their apparent reasons are as follows:

- A \$3,000.77 entry was made to fund balance for which we cannot find any support for. This amount needs to be investigated.
- The controller's office made entries to fund balances, accounts receivable, accounts payable and due to/from accounts that we cannot find support for. We need to investigate the source of these entries. On surface we think these are incorrect.
- \$73.26 of fund balance adjustments were made by Quickbooks to record imbalances upon bank reconciliations. These amounts need to be researched and adjusted.

Items left to complete:

1. We feel we should re-reconcile all 12 months of the general funds bank accounts after preparing adjusting journal entries for the above items once fully investigated.
2. We need to fully investigate interfund activity to make certain all items are accounted for.
3. We also should review the income and expense accounts more fully with budget to investigate any discrepancies.

Time estimate: two days work 16 hours

II. Highway Fund DA –

We have reviewed the bank reconciliations for most of the year and looked through all of the balance sheet accounts for propriety, including accounts payable and fund balance entries. We have found the following inconsistencies with the related accounts.

1. Cash is out of balance by what appears to be \$11670.53. Cash appears to be over from the bank. The discrepancies are detailed as follows:
 - payments were reversed twice amounting to \$11770.53. Cash needs to be reduced.
 - \$100 check was voided twice.

2. Highway fund "fund balance" accounts appear to have multiple entries made in an attempt by the controller's office representative to balance fund balance. We believe the entries have been made in error. The total amounts and their apparent reasons are as follows:
 - A \$35000 entry was made to fund balance and due to other funds for which we cannot find support for. We will need to investigate further.

- The controller's office proposed to write off \$28324.81 balance in due from other funds against fund balance with no support for such an entry. We feel that the balance in the due from other funds (once the \$35000 entry above is completed and we reverse the \$28324.81 incorrect write-off) will be a \$6675.19 amount due to the DA fund from Trust and Agency, which we believe to be a valid overpayment for payroll charges. We will need to verify this for certain.
- A \$13524.70 entry was made to reverse accounts payable to fund balance and a/p for amounts which we believe to be valid payables. We propose to reverse the reversing entry.

4. Interfund transfers were looked at.

- \$12594.92 of capital expenditures paid for by Bond proceeds were incorrectly posted to the DA account. An adjustment appears to need to be made between the Capital fund and the DA account. This also has to be made to fund balance.
- We believe there is an amount due to the DA fund from the Trust and Agency fund, for payroll advances. We have not completely determined this amount.

Items left to complete:

1. We need to fully investigate interfund activity to make certain all items are accounted for.
2. We need to completely review accounts payable entries.
3. We need to investigate the capital funding expenditures paid for with bond funds that appear to also be reporting in the DA fund. (see Capital fund below)
4. We also should review the income and expense accounts more fully with budget to investigate any discrepancies.

Time estimate: two days work 16 hours

III. Park land, Wilcox and Escrow funds:

Items left to complete:

We need to verify cash entries and reconciliations. There appears to be a \$6,500 entry in the Park land fund that is not explained. We need to determine what this was for?

Time estimate: 2 hours additional work

IV. Bond funds

Items left to complete:

We need verify the bonds outstanding with the bond holders and confirm debt payments made. We also noted that the interest was being paid from Bond proceeds. This is normally not done. It is usually paid for and budgeted by the certain fund it relates to (ie. Highway fund or General fund).

Time estimate: 2 hours additional work

V. Capital fund

We need to review the following:

- a. posting for the project expenses for proper recording (appears to be improperly reported in the Highway fund)
- b. record the bond proceeds properly in the fund.
- c. Need to review interfund activity

Time estimate: 5 hours additional work

VI. Fire protection fund

We have not reviewed this fund at all. We need to review cash activity for propriety

Time estimate: 2 hours additional work

VII. Trust and Agency

We need to review all of the postings made from January 2008 to present with appropriate payroll activity. This fund does not appear to be accounted for properly since the end of 2007. This fund has to be totally reconstructed.

Time estimate: 2 days work (16 hours)

Work summary:

To complete reviewing the accuracy of the accounts through the end of 2008 we anticipate completing the above outlined procedures in 59 hours at an average rate of \$100 per hour amounts to \$5,900. We anticipate the correction of the AUD to be 16 hours at a rate of \$100 per hour or \$1,600. We have also spent more than the original \$1000 to look at the situation we have spent 24 hours at \$100 per hour or \$2,400. We therefore anticipate the additional fees to correct 2008 to be \$9,900.

We also recommend that we enter into an agreement to fix 2009 information and then complete your AUD for 2009 for a monthly fee of \$600 per month or a total of \$7200 for the entire year. This also includes assistance by phone or in person to help with issues training of bookkeepers, reconciling accounts maintaining proper monthly board reports, etc.

ATTACHMENT A

Town of Milan General Fund AJE 12/31/2007

				<u>Debit</u>		<u>Credit</u>	
1.	A1620.4	Building Expense	\$	29,000.00			
	A911	Unreserved Fund Balance			\$	29,000.00	
	-To adjust equity for direct entry to equity shown as an expense on the audit report						
2.	A600	Accounts payable	\$	2,477.00			Williams Lumber
	A7120.2	Park Equipment			\$	2,477.00	
	-To move bill into 2008 year to reflect correct balance on audit report						
3.	A600	Accounts payable	\$	1,872.00			Kosco & Bottini
	A5132.4	Highway contractual			\$	1,872.00	
	-To move bill into 2008 year to reflect correct balance on audit report						
4.	A910	Appropriated fund balance	\$	130,000.00			
	A911	Fund balance			\$	130,000.00	
	-to correct the balance for appropriated balance to audit report						

Comments:

Accounts receivable balance did not include December 2007 justice court fines- immaterial amounts
Reserve for the equity cash does not match the reserve at year end?

Town of Milan Highway- DA Fund AJE 12/31/2007

				<u>Debit</u>		<u>Credit</u>
DA911	Equity		\$	11,763.28		
	Transfer prior year highwayfund				\$	11,763.28
DA911	Equity			7056.29		
DA5110.4						1599.78
DA5130.4						297.47
DA5140.4						5159.04
DA2300				5296.23		
DA911						5296.23

NO ADJUSTMENTS SHOULD BE MADE TO QUICKBOOKS AS THE BALANCE SHEET TIES GOING FORWARD

Comments:

Noted that there was no allocation of NYS retirement to this fund even though over 100,000 in payroll and there was a budgetd amount

There was a \$9,000 transfer out but it is not on the GL?