
Certified Public Accountants

July 16, 2020

To Management and the Honorable Town Board
Town of Throop, New York:

In planning and performing our audit of the basic financial statements of the Town of Throop, New York (the “Town”) as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Town’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 entity’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and a deficiency that we consider to be a significant deficiency.

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 combination of deficiencies, in internal control over financial reporting, 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

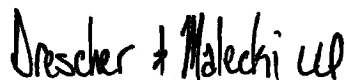
- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We consider the deficiencies presented in Exhibit I as items 2019-001, 2019-002, 2019-003, 2019-004, 2019-005, and 2019-006 to be material weaknesses in internal control over financial reporting.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency presented in Exhibit I as item 2019-007 to be a significant deficiency in internal control over financial reporting.

In addition, during our audit we identified a certain matter involving the internal control, operational matter, and future reporting requirements that are presented for your consideration. This letter does not affect our report dated July 16, 2020 on the financial statements of the Town. We will review the status of these comments during our next audit engagement. Our comment and recommendation, which has been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. Our comments are summarized in Exhibit II.

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

A handwritten signature in black ink that reads "Drescher & Malecki LLP". The signature is written in a cursive, slightly slanted style.

July 16, 2020

We consider the deficiencies identified below to be material weaknesses in internal control.

Finding 2019-001—Governmental Accounting Standards Board Compliance

Criteria: Governmental Accounting Standards Board (“GASB”) standards require that the Town present government-wide financial statements and appropriately account for its capital assets and the related depreciation on those assets.

Condition and Context: The Town does not present the government-wide financial statements on its governmental activities. Additionally, while conducting our audit we found that the Town does not track capital asset additions, deletions or depreciation. The Town has not performed, or have had performed, an inventory of capital assets that meets the recognition criteria under GASB standards.

Cause: The Town has elected to omit its government-wide financial statements and does not keep a comprehensive inventory of capital assets.

Effect or Potential Effect: The Town’s financial statements do not present the financial position, and the changes in financial position, of the Town’s governmental activities, fairly, in conformity with accounting principles generally accepted in the United States of America.

Recommendation: We recommend that the Town performs an inventory of capital assets that meet the recognition criteria of GASB and present government-wide financial statements.

Management’s Response: The Town plans to perform an inventory of capital assets to meet the GASB requirements in order to present government-wide financial statements.

Finding 2019-002—Procurement

Criteria: A formal policy should be established and followed to clearly identify the procurement guidelines, requirements, and procedures to be followed by all Departments of the Town.

Condition and Context: The Town does not follow a uniform procurement process including appropriate bidding procedures or utilize purchase orders prior to making purchases. Purchase orders should be reviewed and approved by appropriate personnel prior to initiating the purchase from the vendor.

Effect or Potential Effect: Formal procurement policies and procedures ensure that competition is sought in a reasonable and cost effective manner and ensures that uniform procedures are followed to minimize exposure to potential fraud.

Cause: Currently there is no formal policy for procurement including appropriate bidding procedures.

Recommendation: We recommend that the Town formulate and establish a formal written procurement policy which includes procedures to be followed in order to purchase goods or services for the Town, competitive bidding thresholds as outlined by General Municipal Law, and individuals responsible for creating, reviewing, and approving purchases.

Management’s Response: The Town plans to establish a formal written procurement policy covering the items described above.

Finding 2019-003—Journal Entries

Criteria: A formal policy should be established and followed to clearly identify the procedures necessary to record and independently review a journal entry. This policy should require adequate supporting documentation and an understanding of each entry that is recorded. Each journal entry should be reviewed by a person independent of the preparer.

Condition and Context: A formal journal entry policy will allow for consistent accounting treatment and ensures appropriate controls support the posting of entries to the general ledger.

Effect or Potential Effect: There is the potential the Town's financial statements will not present the financial position and the changes in financial position in conformity with accounting principles generally accepted in the United States of America.

Cause: Currently there is no formal policy for preparation, posting and review/approval of journal entries.

Recommendation: We recommend that the Town formulate and establish a formal written journal entry policy which includes a policy that would require formal documentation of review/approval of entries through a sign-off.

Management's Response: The Town plans to establish a formal written journal entry policy covering the items described above.

Finding 2019-004—Bank Reconciliations

Criteria: A formal policy should be established and followed regarding the preparation and review of bank reconciliations. This policy should include the preparer signing off and dating the bank reconciliation as completed, and the reviewer signing off and dating the bank reconciliation as reviewed.

Condition and Context: The person who prepares the reconciliations does not initial and date the reconciliation as prepared. Additionally, while the Town has initiated a formal review process of bank reconciliations, the reviewer does not include the date the review was performed. As such, we were unable to determine if the bank reconciliation performance or review process was performed in a timely manner.

Effect or Potential Effect: The Town is at risk of misstated general ledger account balances and exposed to increased risk of errors in reporting and the opportunity for fraud.

Cause: Currently there is no policy for the preparation of bank reconciliations.

Recommendation: We recommend that the Town adopt a policy regarding the preparation of bank reconciliations, which includes the preparer signing off and dating the bank reconciliation as completed and the reviewer signing off and dating the bank reconciliation as reviewed.

Management's Response: The Town plans to establish a formal written bank reconciliation policy covering the items described above.

Finding 2019-005—Cash Collection Procedures

Criteria: Key cash functions including receiving deposits, recording cash receipts and preparing and making deposits should be appropriately segregated.

Condition and Context: Due to Town staffing, when an individual is not available, whether out sick or on vacation, there is only one individual available to collect cash and prepare the daily cash reconciliation. Further, at these times, there is no individual performing a review on the cash receipt reconciliations.

Effect or Potential Effect: The absence of a segregated control system presents the opportunity for the misappropriation of assets and the potential misstatement of the financial statements.

Cause: There are currently no procedures in place to ensure adequate segregation of duties in the event of an employee's absence.

Recommendation: We recommend that the key cash functions including receiving deposits, recording cash receipts and preparing and making deposits should be appropriately segregated including alternative procedures in place to follow in the case of the absence of a key employee.

Management's Response: The Town has evaluated the key cash functions and has updated procedures to ensure that proper segregation of duties is in place.

Finding 2019-006—Information Technology (“IT”) Policies and Procedures

Criteria: A formal policy should be established and followed regarding the Town's IT procedures.

Condition and Context: During our audit we found that Town employees maintained Town documentation and information on personal computers.

Effect or Potential Effect: The absence of a formal IT policy outlining proper controls and procedures to be utilized can result in Town information being accessed by unauthorized users. A risk also results in losing financial data if information is maintained on personal computers.

Cause: There are currently no procedures in place regarding IT policies and procedures.

Recommendation: We recommend that the Town implement a formal IT policy outlining proper controls and procedures to maintain the Town's financial data and information in a safe and secure manner.

Management's Response: The Town plans to implement a formal IT policy and has taken steps to ensure IT procedures exist to protect the Town's financial data information.

We consider the deficiency presented below to be a significant deficiency in internal control.

Finding 2019-007—Budget Monitoring

Criteria: A formal policy should be established and followed regarding the budget process and budget monitoring.

Condition and Context: The Town does not routinely monitor the budget throughout the year or have policies in place establishing procedures to perform budget amendments and transfers.

EXHIBIT I

Effect or Potential Effect: The absence of budget monitoring policies and procedures can result in overspending when there are budget shortfalls. Additionally, budget amendments and transfers can be utilized to aid in the potential of budget shortfalls to ensure the budget is appropriate given current Town spending.

Cause: There are currently no procedures in place to ensure that the Town budget levels are appropriate given current needs of the Town.

Recommendation: We recommend that the Town formalize its policy to ensure budget monitoring is being performed continuously throughout the fiscal year. Additionally, budget amendments and transfers should be reviewed and approved on a more frequent basis to ensure that transfers are appropriate and no budget issues arise.

Management's Response: The Town plans to formalize a policy regarding budget monitoring to include items as described above.

Internal Control Assessment

The departments within the Town each have their own unique sets of circumstances that affect the implementation and practice of internal controls. As employee turnover occurs, job duties evolve and other circumstances change, the internal controls within the departments should be evaluated and a risk assessment should be performed. The Town has not performed internal control risk assessments of its departments.

We recommend that the Town evaluate and perform an internal control risk assessment of each of its departments. This risk assessment should include the identification of potential risk areas, the evaluation of those identified risk areas, and the prioritization of mitigating the identified risks. During the identification process, the Town should gain an understanding of the existing procedures within each department through inquiries and observations of the department. Once risks are identified, they should be evaluated for their potential impact. This includes evaluating the likelihood and impact of an event occurring. At this point, a cost/benefit analysis should be performed to determine if the benefit of implementing additional control procedures would outweigh cost of implementing the additional controls. After the evaluation has occurred, the Town should prioritize what evaluated risks have the most widespread or significant impact, and determine a plan to address these risks. In conclusion, we recommend that the Town create a formal plan for performing the internal control risk assessment, including identifying the individuals responsible for performing and following-up on the assessment, developing any questionnaires or checklists to be completed during the assessment, and how often the assessment should be performed.

Departmental Reporting

The Town does not currently have a formalized, town-wide policy for reporting cash receipts by Town departments including, but not limited to, funds received at the concession stand, water sales, and the historical society.

We recommend that the Town implement a policy outlining proper procedures and protocols for Town departments to follow to ensure the proper segregation of duties and adequate controls are in place to prevent any misuse of Town funds.

Capital Projects Fund and Monitoring

Capital Projects Funds are used to account for the financial resources supporting capital projects during the life of the project. The Town should utilize Capital Projects Funds in order to track any upcoming projects the Town may perform. Additionally, proper monitoring of a capital project can aid in ensuring proper oversight and funding is in place.

We recommend that the Town properly monitor and track capital projects using a Capital Projects Fund for future projects of the Town.

Expense Reimbursement and Vehicle Use

The Town does not currently have a policy relating to travel, vehicle use, and expense reimbursement. A travel, vehicle use, and expense reimbursement policy should address guidelines for travel expenses that are reimbursable, mileage allowances, and items that are not reimbursable.

We recommend that the Town implement an expense reimbursement policy to ensure employees have proper guidelines to follow when submitting expenses for reimbursement.

Year-end Cut-off and Accrual Policy

While performing testing of purchases, we observed that the Town does not have formally documented cut-off procedures surrounding accruals. Cut-off procedures should, at a minimum, describe the process, length of time, and dollar thresholds. Additionally, this policy would note the individual who has authority to declare the cut-off date and monetary threshold regarding such accrual procedures.

We recommend that the Town formalize its current cut-off policy and distribute the document to the appropriate Department Heads.

Succession Planning

The Town does not currently have a succession plan for key positions throughout the Town. Often these positions use the institutional knowledge of the longer-tenured employees. The lack of a succession plan could jeopardize the functions should any key positions not be trained properly when experienced staff elect to retire.

We recommend the Town evaluate which key positions could be at risk of transition and develop a succession plan, including cross-training, to mitigate that risk.

Investment Policy

It was noted that the Town does not have a Board approved policy regarding investments. As outlined in General Municipal Law Section 39, “each local government, shall by resolution adopt a comprehensive investment policy which details the local governments operative policy and instructions to officers and staff regarding the investing, monitoring and reporting of funds of the local government.”

We recommend that the Town establish and implement a written investment policy.

Code of Ethics and Related Parties

It noted that the Town does not have a Board approved code of ethics or a policy regarding related party transactions. A code of ethics is essential to ensure an internal guideline is established for employees that outlines the Town’s mission and values. Additionally, a related party transaction policy outlines what constitutes a related party that Town employees should be cognizant of.

We recommend that the Town establish and implement a written Code of Ethics and related party transactions policy.

Prepaid Retirement

The Town did not prepay their employee retirement system bill and therefore did not recognize the discount available to them through prepayment.

We recommend that the Town evaluate their cash flow to determine if there are sufficient funds to make the retirement payment in December and receive the discount that is offer

Coronavirus (“COVID-19”) Impact

The Town’s financial condition is significantly impacted by effects to the Cayuga County and New York State budgets due to the COVID-19 pandemic. Since March 30th, 2020, the following communications were received relating to the County and New York State budgets and the COVID-19 pandemic:

March 30th. The New York State Association of Counties (“NYSAC”) releases “Coronavirus Economic Impact: County Sales Tax Revenue Projections”. The report constructs two scenarios. The first is consistent with a mild recession and quick recovery, and the second assumes a more severe and prolonged recession. Under the mild scenario, sales tax revenue would fall about 3.7 percent. Under the more severe scenario, sales tax revenue would fall about 11.3 percent.

April 3rd. The New York State budget is passed with a provision in the budget that allows the Governor to cut state spending, including aid to local municipalities, for the state fiscal year that began April 1, 2020 if revenues fall below projections. Lawmakers would have 10 days to pass spending resolutions of their own.

April 10th. NYSAC releases “SFY 21 Enacted State Budget County Impact Report”. The report cites that today, April 10, 2020, the Governor is projecting a revenue shortfall between \$10 and \$15 billion for the 2020-21 state fiscal year. Based on that projection, state aid to counties, local governments and all others that receive reimbursements, aid or grants from the state could see a reduction of about 15 percent on a full annual basis.

April 30th. A NYSAC press release provides that now, six weeks after their initial projections, the initial sales tax loss estimate is doubled.

May 6th. NYSAC releases “Coronavirus Impact Part II – Lost Revenue and State Aid Cuts”. The report projects potential state aid losses of 20 percent to 50 percent based on an \$8.2 billion cut in Aid to Localities reflected in the Enacted State Financial Plan. The report also revises its loss of sales tax revenue in a mild recession from 3.7 percent to 9 percent. And, under the more severe scenario the sales tax revenue would fall about 21.6 percent as compared to its earlier projection of 11.3 percent.

May 11th. City and State of New York reports that “Right now, the Cuomo administration estimates plans to cut \$8.2 billion in aid to localities.” Further, it states “Even with federal aid cuts will likely be unavoidable because the budget gap is only expected to grow in the coming years.”

Today. The impacts of COVID-19 on municipal finances are still with us and will continue to create challenges for years to come.

We recommend the Town create a short and long term forecasting (budget) model that considers different scenarios. The forecasting model should have the ability to vary the severity of economic loss and recovery period. The impacts should be continually monitored and adjusted as information becomes available on local economic activity. Budget deficits identified in the modeling process will need to be mitigated through appropriated fund balances, budget reductions, tax increases, federal assistance and other innovative ideas.

The Government Finance Officers Association (“GFOA”) includes “financial forecasting in the budget preparation process” as a best practice. The Town may find the GFOA’s key steps outlined in that “best practice” to be a useful guide in developing its long term forecasting model.

New Reporting Requirements

The Governmental Accounting Standards Board (“GASB”) released Statement No. 87, *Leases* (“GASB 87”), which will impact the Town’s financial statement presentation for the fiscal year ending December 31, 2022.

The objective of GASB 87 is to better meet the needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

In preparation for implementation, it is recommended that the Town compile a list of all current capital and operating leases and evaluate those leases for identified potential exceptions to the GASB.

GASB has adopted other new pronouncements in addition to GASB 87, which may have a future impact upon the Town. These should be evaluated to determine the extent the Town will be impacted in future years.

GASB Statement No. 89—The Town is required to implement GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the fiscal year ending December 31, 2021. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs.

GASB Statement No. 91—The Town is required to implement GASB Statement No. 91, *Conduit Debt Obligations*, effective for the fiscal year ending December 31, 2022. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

GASB Statement No. 92—The Town is required to implement GASB Statement No. 92, *Omnibus 2020*, effective for the fiscal year ending December 31, 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements.

GASB Statement No. 93—The Town is required to implement GASB Statement No. 93, *Replacement of Interbank Offered Rates*, effective for the fiscal year ending December 31, 2022. The objectives of this Statement are to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (“IBOR”).

GASB Statement No. 94—The Town is required to implement GASB Statement No. 94, *Public-Public and Public-Private Partnerships and Availability Payment Arrangements*, effective for the fiscal year ending December 31, 2023. The objectives of this Statement are to improve financial reporting by addressing issued related to public-private and public-public partnerships arrangements (“PPPs”).

GASB Statement No. 96—The Town is required to implement GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the fiscal year ending December 31, 2023. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (“SBITAs”) for government end users.

GASB Statement No. 97—The Town is required to implement GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, effective for the fiscal year ending December 31, 2022. The objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.