



BARONE, HOWARD & Co., CPAs, PC
CERTIFIED PUBLIC ACCOUNTANTS

October 9, 2009

To Management and Town Council Members
Town of New Hartford
Butler Hall
New Hartford, New York 13413

In planning and performing our audit of the financial statements of the Town of New Hartford (the Town) as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Town's internal control over financial reporting (internal control) 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 our 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.

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 there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

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 financial statement misstatements on a timely basis. A material weakness is a deficiency, or 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. We consider the following deficiencies in the Town's internal control to be material weaknesses:

1) Observation (P)

The accounting department performs no oversight of the cash receipt process at the Recreation Hall, Park, Codes, Senior Nutrition Center and Highway Departments. All of these locations receive cash and the way in which each location safeguards these amounts is different.

(P) Denotes communications from prior years.

Recommendation

We recommend that the accounting department at the Town expand its oversight of these locations to ascertain proper accounting records and cash controls are in place. Additionally, the Town would need to develop a system of monitoring these activities to make certain that the designed systems are in fact being performed as intended and continue to be effective.

Management's Response

The New York State Comptroller's Office offers guidance on internal controls for cash receipts through its publication "Local Government Management Guide: INTERNAL CONTROLS." During the month of November 2009 the Budget Director will be assigned the task of ascertaining whether proper cash controls are in place for those Departments that receive cash utilizing the Guide, including the Bookkeeper. The Budget Director will be required to report back the results to the Town Board at its scheduled meeting on December 9, 2009.

2) Observation (P)

The Town has several accounts on its general ledger showing amounts due to and from its various funds. Many of the balances are old and quite large.

Recommendation

These accounts balances should be analyzed to determine if money indeed should be shifted from one Fund of the Town to another in order to repay these inter-fund loans. These transfers may affect taxing districts within the Town. Consideration could also be given to cancelling out some of the inter-fund loans by making a permanent transfer from one Fund to another.

Management's Response

The Town has historically and routinely utilized inter-fund borrowing to offset cash flow needs. The last quarterly sales tax remittance to the Town is not received until February 15th of the following year and therefore can't be used towards the Town's cash flow needs of the prior year. There are not enough fund balances available to make permanent transfers at this time or in the near foreseeable future.

3) Observation

Over the years the Town has collected Fees in Lieu of Mitigation (FILM) from construction developers to assist the Town with infrastructure costs incurred as a result of their respective development. The stipulations over the use of these funds are governed by agreements between the Town and the various developers. The Town presently holds these funds in its Capital Fund. It was not until 2009 that the Town began determining which amounts of money accumulated in these accounts could be transferred to the Town as reimbursements for costs incurred by the Town. Other amounts, depending upon the agreements entered into, may need to be returned to the developers at some future time.

Recommendation

The Town needs to continue its research in costs it has incurred in prior years that are in need of reimbursement from the FILM account. Additionally, the Town needs to make

determinations as to the possibility of returning some of the FILM amounts to construction developers.

Management's Response

The Town has made reimbursements to General and Highway Funds for GEIS expenditures when presented and approved by the Town Board and therefore to state that not until 2009 were reimbursements made is inaccurate. There presently exists several opportunities for several small reimbursements to the Sewer Fund and the search for the proper documentation is underway.

4) Observation

The Trust and Agency Fund contains many account balances that relate to retainage amounts held from construction contractors. Some these amounts have been there for long amounts of time.

Recommendation

We recommend that these amounts be reviewed to determine which ones are in need of being paid to the contractors. We also recommend that future retainage amounts be monitored more closely so that payments to contractors are not unfairly held too long.

Management's Response

Management has contacted those individuals or corporations that had previously submitted retainers to request them to apply for the release of their retainer from the Town if they have met the requirements of the Town's Pre-Development Agreement. In those cases where the requirements are not met, the retainer will not be returned until such time as the requirements are met or the Town completes the necessary site development improvements on their behalf utilizing the retainer. The Town Board on November 4, 2009 enacted a GEIS Retainer Policy to minimize future retainers held by the Town.

Other Matters Related to Internal Controls and Accounting Issues

The general ledger does not reflect any inventory existing at year-end for the Highway Department. Normally, a Town would have a large amount of sand and salt at year-end. If this is the case for New Hartford, it should be inventoried at year-end and recorded as an asset of the Town at its original cost. (P)

Management's Response

This matter was outlined in the 2008 Management Letter, but the Letter was neither provided, nor was the Highway Superintendent apprised timely, after his appointment on December 1, 2009 in order to perform the 2008 year-end inventory for the Highway Department. On the last day of the fiscal year, or thereabouts, the Highway Superintendent has committed to meet with a representative of the Town's Accounting Department to document existing inventory at year-end for the Highway Department.

The accounting department performs no oversight over two bank accounts. These are the Town Clerk's account and the Receiver of Taxes account. We suggest that the Town consult with the NYS

Department of Audit and Control for guidance on the amount of financial oversight that would be appropriate. (P)

Management's Response

In discussion with the NYS Comptroller's Office, their "Local Government Management Guide: FISCAL OVERSIGHT RESPONSIBILITIES" states on page 18 "*The provisions of Town Law Section 123 requiring an annual accounting and the submission of books and records by all town officers and employees to the town board do not apply to a town having a town comptroller, nor a town which, prior to the twentieth day of January, has engaged the services of a certified public accountant or public accountant to make an annual audit to be completed within sixty days after the close of the town's fiscal year. In towns that have a town comptroller, it is the comptroller's responsibility to examine accounts of town officers and employees in accordance with this section (See Town Law Section 34(1)).*" In consulting with the NYS Comptroller's Office there is no other guidance. The Town Board passed a resolution on November 4, 2009 to issue a request for proposals for the independent audit of the Town's 2009 Financial Statements in order to meet the deadline for engaging the services of a certified public accountant prior to the twentieth day of January 2010.

Due to the fact that the Town now accounts for its infrastructure pursuant to GASB 34, each year beginning in 2009, the Town needs to update the depreciation schedule for new acquisitions and deletions. We suggest that the Town consult with the company that developed the depreciation schedule and inquire of them the process and cost of updating these records each year.

In similar fashion since the Town now accounts for post employment health care costs and the related liability, the Town will need to periodically update this calculation. The actuarial firm that performed this function has suggested that this be done every three years for a town the size of New Hartford.

This communication is intended solely for the information and use of the Board of Trustees and management of with the Town of New Hartford and is not intended to be and should not be used by anyone other than these specified parties.

We greatly appreciate your cooperation and the assistance we received during the course of the audit.

Very truly yours,

Barone Howard & Co, CPAs, P.C.
Barone, Howard & Co. CPAs, P.C.