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CERTIFIED PUBLIC ACCOUNTANTS

April 24, 2013

To the Town Council
Town of Bethlehem, New York

We have audited the financial statements of the governmental activities of the Town of Bethlehem, New York for the year ended December 31, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 1, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Town of Bethlehem, New York are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the Town's financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no sensitive disclosures affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 24, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

CURRENT YEAR RECOMMENDATIONS

Cash Receipts

During our audit we noted during our sample testing that at times there was a time-lag between when the deposit was physically made and when the deposit was posted to the accounting software.

We recommend cash receipts be posted to the general ledger in a more timely manner.

Cash Disbursements

During our audit we noted 3 instances (out of the 60 samples we tested) which lacked a purchase order, approval initials or an audited stamp. We also noted 13 instances (out of the same sample) which lacked approval initials or an audited stamp on the 'Field Purchase Orders' (some of these items were over \$500).

We recommend that all invoices, purchase orders, field purchase orders and any other document substantiating the payment have some indication of approval for payment.

Credit Cards

During our audit we noted on the credit card statements (with attached receipts) that, although reviewed, there was no indication of the statements being reviewed (i.e. initials and date). We also noted, during our walk-through of a randomly selected statement, one instance of a receipt lacking and two instances where there was sales tax charged.

We recommend having the Deputy Comptroller initial and review the credit card statements which would indicate these statements and their support documentation have been reviewed and approved for payment.

Payroll

During our audit we noted 3 instances (out of the 60 sampled) in which the time sheet or time card lacked supervisor signature. We also noted the payroll register lacking approval/reviewer signatures from the Director of HR and Deputy Comptroller (2 instances) and from the Town Supervisor (3 instances).

We recommend implementing procedures to resolve the issues noted above.

PRIOR YEAR RECOMMENDATIONS

Accounts Payable Cut-Off

During our audit we noted a significant amount of 2012 expenditures had been incorrectly accrued into 2011.

We recommend that procedures be developed and implemented to insure proper cut-off at year end.

Status: **Resolved**

Time Sheets

During our audit we noted 7 instances in which the employee time sheet was not signed by either the employee or employer.

We recommend Town management improve its quality control over this particular area of the payroll process in order for this control to operate more effectively.

Status: **Comment repeated in 2012**

This information is intended solely for the use of the Town Council and management of the Town of Bethlehem, New York and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



CUSACK & COMPANY CPA'S, LLC

TOWN OF BETHLEHEM

Albany County - New York

Comptroller's Office

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John M. Clarkson
Town Supervisor

Michael E. Cohen
Comptroller

May 31, 2013

Mr. John Criscone
Cusack & Company, CPAs, LLC.
7 Airport Park Blvd
Latham, NY 12110

Dear John,

Per your request on May 30, 2013, to provide management responses to the internal control comments suggested by your firm subsequent to the year-end financial audit, I am providing written response to each. Should you have questions or comments, please do not hesitate to let me know.

CURRENT YEAR RECOMMENDATIONS

Cash Receipts

During our audit we noted during our sample testing that at times there was a time-lag between when the deposit was physically made and when the deposit was posted to the accounting software.

We recommend cash receipts be posted to the general ledger in a more timely manner.

Management Response: This comment relates to miscellaneous cash only. While management believes that the timing of entering cash receipts into the general ledger system is a minor internal control risk [because deposits become reconciling items, which are monitored from month to month], management has begun to place greater emphasis on miscellaneous cash receipts entry. The payment processing function relating to accounts payable within the office has been reduced, as of March 15, to semi weekly check runs to free up resources and ensure that "timely" input of receipts is achieved.

Cash Disbursements

During our audit we noted 3 instances (out of the 60 samples we tested) which lacked a purchase order, approval initials or an audited stamp. We also noted 13 instances (out of the same sample) which lacked approval initials or an audited stamp on the 'Field Purchase Orders' (some of these items were over \$500).

We recommend that all invoices, purchase orders, field purchase orders and any other document substantiating the payment have some indication of approval for payment.

Management Response: The Town has an electronic purchase order system that employs a series of checks and balances within the system to control the flow of the requisitions, the approval process and maintains historical documentation. That being said, hard copy approvals for all purchases will be maintained to support the electronic process.

Credit Cards

During our audit we noted on the credit card statements (with attached receipts) that, although reviewed, there was no indication of the statements being reviewed (i.e. initials and date). We also noted, during our walk-through of a randomly selected statement, one instance of a receipt lacking and two instances where there was sales tax charged.

We recommend having the Deputy Comptroller initial and review the credit card statements which would indicate these statements and their support documentation have been reviewed and approved for payment.

Management Response: Purchasing card (P Card) statements are received monthly. The statements are received by each cardholder who must match up all posted transactions with an invoice and then forward to the Comptroller's Office for payment. The process requires that the department head, or designee, also approve all downloaded transactions electronically as they are posted to the Town finance system. When the Comptroller's Office receives the individual's P Card statements along with the receipts/invoices they are matched up to the master statement which is received directly in the Comptroller's Office. Transactions are checked for accuracy and compliance before payment is made through an accounts payable transaction.

Some smaller transactions are bought through the internet. The Town has made a choice to pay sales tax on small, single use vendor purchases, when dealing with out of state vendors because the savings on these purchases outweighs the added cost.

In the future, while the P Card statements are already being reviewed through the system and audited by the Comptroller's Office, we will have the master statement stamped to reflect its completeness for payment.

Payroll

During our audit we noted 3 instances (out of the 60 sampled) in which the time sheet or time card lacked supervisor signature. We also noted the payroll register lacking approval/reviewer signatures from the Director of HR and Deputy Comptroller (2 instances) and from the Town Supervisor (3 instances).

We recommend implementing procedures to resolve the issues noted above.

Management Response: The lack of supervisor signatures on the time sheets/cards was because time sheets were being held offsite, with document input occurring at that same location. Procedures have been changed to make the verification process consistent at all locations, with review performed by the human resources/payroll department. Further, processes have been clarified among departments to ensure that the payroll registers always have the proper authorization for payment.

Prior Year Recommendations

Time Sheets

During our audit we noted 7 instances in which the employee time sheet was not signed by either the employee or employer.

We recommend Town management improve its quality control over this particular area of the payroll process in order for this control to operate more effectively.

Status: Comment repeated in 2012

Management Response: See Management Response to similar comment (4) above.

Please let me know if we can provide anything further.

Best Regards,

[sig]

Michael Cohen
Comptroller