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September 18, 2015

To the Board of Trustees
Incorporated Village of Patchogue
Patchogue, New York

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Incorporated Village of Patchogue (Village) as of and for the year ended May 31, 2015, we considered the Village's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comment and suggestion concerning this matter. This letter does not affect our report dated September 18, 2015 on the financial statements of the Incorporated Village of Patchogue.

The accompanying comment and recommendation is intended solely for the use and information of the Board of Trustees, management, others you deem appropriate within the Village, and any governmental authorities you need to share this information with. It is not intended for use by anyone other than these specified parties.

Very truly yours,

Cullen & Danowski, LLP

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STATUS OF PRIOR YEAR COMMENT

Computer Controls

The Village utilizes a financial accounting software package, KVS Information Systems, to maintain its books and records. This software package is supported by the software company. The Village has designated an employee of the Village as its Information Technology (IT) Administrator.

The basic applications within this software package include recording cash receipts, processing payroll, encumbering purchase orders, producing accounts payable checks and recording adjusting journal entries. These transactions are all automatically posted to the Village's general and subsidiary ledgers.

As in any Business Office operation, the Village should implement internal controls over the computer function. These controls include the safeguard of the software and data, the limitation of access to the software and data, the oversight of input and output from the system and the segregation of duties within the processes.

The following comments from the prior year still have not been addressed:

- The software company has access to the application function within the system.
- The individual that assigns the permissions to allow for access to segments of the software also has the ability to execute transactions and adjust the books.
- The system does not provide for a log indicating who enters into the system and from where and when.

We again recommend that the Village review all internal controls within its computer operations.

CURRENT YEAR COMMENTS

Physical Controls Over Blank Check Stock

Strong physical controls over certain assets and good segregation of duties is vital to the control environment of any organization.

During our audit we noted that the Village keeps blank check stock on hand for the payment of normal and routine expenditures. This stock is kept in a locked closet which is accessible by key to the Deputy Treasurer and the accounts payable clerk. Both of these employees also have permission in the accounting system to print checks. Furthermore the Deputy Treasurer is an authorized check signer, prepares monthly bank reconciliations and can enter journal entries in the system to make erroneous transactions more difficult to detect which are conflicting duties. It should be noted that the Deputy Treasurer does not typically print checks as part of her routine responsibilities and the Treasurer reviews all bank reconciliations along with cancelled checks. These factors may mitigate potential fraud to some extent.

We recommend that the check stock be moved to a more secure location accessible only to the clerk responsible for printing checks.

Budget Transfers and Journal Entries

The Village has a practice in place by which the Board reviews and approves all budget transfers presented by the Deputy Treasurer. Similarly the Treasurer reviews journal entries posted by accounting staff from a hand written log book which he initials monthly.

During our audit we noted that the once budget transfers are approved by the Board they are entered into the accounting system by the Deputy Treasurer there is no reconciliation of approved transfers to actual transfer made in the system. Similarly the approved entries in the log book are not compared to the entries in the accounting program to ensure only approved entries were made.

We recommend that the Board appoint an individual to review approved transfers and entries to those recorded in the accounting system on a routine basis to ensure no unapproved transactions are being entered.