

April 21, 2014

To Mayor and Village
Board of the Village of Monticello
Monticello, New York

In planning and performing our audit of the financial statements of the Village of Monticello as of and for the year ended July 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Monticello's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements in accordance with *Government Auditing Standards*, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

The management of the Village of Monticello is responsible for establishing and maintaining an internal control structure. An internal control system consists of five elements: the control environment, risk assessment, information and communication, monitoring, and control activities. Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated April 21, 2014 on the financial statements of the Village of Monticello. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Certain matters involving the internal control structure and its operation, of a more routine nature, have been discussed with the appropriate administrative personnel. Our comments are summarized as follows:

INTERNAL CONTROLS

During our review of the Building Department, we noted several samples of building permits issued in which we could not determine when the funds were deposited into the bank. In addition, we noted several samples in which the cash receipt number related to the payment was not noted in the building permit file. Many of these issues were a result of a lack of reconciliation between the activity in the Building Department and the activity posted by the business office. We recommend that the Building Department provide a monthly report to the business office showing all permits issued in sequential order. The business office should reconcile this report to the actual deposits for the month.

Management's Response – The Building Department and Recreation Department are combined with one department head overseeing both. They have recently moved to a new building with one secretary. All money transaction and permits will be handled by the secretary. Pre-numbered receipts will be issued for all money received and a monthly report will be generated to show all permits issued and money received.

During our review of the transactions in the Recreation Department, we noted several months that did not have a summary sheet detailing the monthly activity. In addition, it does not appear that the summary sheets that were available were provided to the business office so that the collections and deposits could be reconciled. We strongly recommend that the Recreation Department provide a monthly report of activity and provide the report to the business office so that the business office can reconcile the activity with the deposits for the month. In addition, we recommend that pre-numbered receipts be issued for all monies received going forward.

Management's Response – As noted in the previous response, the Building Department and Recreation Department are combined with one department head overseeing both. They have recently moved to a new building with one secretary. All money transaction will be handled by the secretary and pre-numbered receipts will be issued for all money received.

PREVIOUS RECOMMENDATIONS

The financial statement audit and internal control recommendations for the year ended July 31, 2012 were not completed and issued until February 2014. Therefore, many of the findings noted in the previous year are still in existence for the year ended July 31, 2013 and will not be corrected until the year ended July 31, 2014.

During our review of the Village's internal control procedures, we noted that certain duties are being performed by numerous employees. The Village does not have a procedure manual to detail the job duties of the various employees. A detailed manual not only assists in preparing a clear internal control function, but also helps the transition when employees leave the Village and new employees are hired. We recommend that the Village prepare an employee manual that details the job duties for each employee.

Management's Response - The Village recently received an Employee Handbook from its payroll provider Paychex, and will provide it to all of its employees. Additionally, all employees have been provided with a list of responsibilities for their job.

During our review of the Village's accounting function, we noted that bank reconciliations are not being done on a timely basis. Bank reconciliations are an integral part of any internal control system and should be prepared monthly so that any errors or omissions can be corrected on a timely basis. We strongly recommend that the Village begin preparing its bank reconciliations on a timely basis. Additionally, we recommend that someone other than the person preparing the bank reconciliation review and sign off on it.

Management's Response - For the fiscal year ending July 31, 2014, the Village has hired a new Treasurer who will attempt to prepare the bank reconciliations on a monthly basis. Additionally, the Village is deciding which employee would be best to review and sign off on the bank reconciliations.

During our review of the Village's accounting function, we noted that numerous adjusting journal entries are made to the accounting records without a secondary review. Adjusting journal entries are a necessary part of any accounting system in order to post transactions that are not initiated by a cash disbursement or cash receipt. However, we recommend that the Village have a second employee review all of the adjusting journal entries and sign off on them at least monthly.

Management's Response – The Village will attempt to assign an employee with a knowledge of accounting to review the adjusting journal entries.

COMPLIANCE

During our review of the Village's payroll procedures, we noted that the US Department of Justice Form I-9, which is required to verify citizenship of all employees, was not being filled out properly. The form must be certified by a Village representative and it must include detailed information on the documentation that was provided by the employee to verify citizenship. We strongly recommend that the Village begin filling out the forms properly for new employees, and go back through the employee files to properly complete the forms for all current employees.

Management's Response - An audit has been done of all Federal Forms I-9 and we are in the process of correcting all of the forms that were completed incorrectly.

During our review of the Village's debt, we noted that Bond Anticipation Note proceeds were deposited into the Water Fund operating account and expended out of the same account. The activity was properly reported in the Capital Projects Fund through the use of adjusting journal entries before the end of the year. However, debt proceeds cannot be commingled with operating funds. Debt proceeds must be deposited into a separate account and accounted for separately. Several different debt issues may be deposited into a single bank account, as long as the activity related to each is reported separately in the accounting records, usually in the Capital Projects Fund.

Management's Response - When the Village begins the new United States Department of Agriculture loan and grant or the Environmental Facilities Corporation loan, a separate account will be set up for all debt proceeds.

During our review of the Village tax levy, we noted that the tax warrant was not signed by the Village Clerk. We recommend that the Village prepare a formal tax warrant, listing out the various taxes being collected, and signed by the Village Clerk.

Management's Response - This was not a prior practice of the Village and will now be put in place moving forward beginning with the 2014-2015 tax year.

During our review of the water, sewer and sanitation fees re-levied on the subsequent year's tax levy, we were unable to locate the Board resolution to re-levy the amounts. We recommend that the Board review a list of the re-levied charges and pass a formal resolution to include them on the subsequent year's tax levy.

Management's Response - This was not a prior practice of the Village and will now be put in place moving forward beginning with the 2014-2015 tax year.

MONITORING

During our review of the transfers between funds, we noted that amounts were transferred from the Water, Sewer and Sanitation Funds to the General Fund to cover their share of administrative costs. Although it is allowable to transfer funds for this purpose, we recommend that the Village prepare a calculation to indicate how the figures were arrived at, to insure that funds raised in these funds are being used for their specified purpose.

Management's Response - When the fiscal year 2015 budget is prepared, all administrative costs paid by the General Fund will be divided by four and the Water, Sewer and Sanitation Funds will transfer their share of those costs to the General Fund.

During our review of the Village's outstanding property taxes receivable, we noted several properties that had been previously foreclosed and sold at the County auction, that were still included as property taxes receivable. We recommend that the Village remove any properties from the receivable list immediately upon receipt of proceeds related to the County auction. Additionally, the Village should be reviewing the amounts on the list periodically to insure that all properties on the list are actively delinquent on their taxes and have not been resolved.

Management's Response - The Village had not done a foreclosure on property taxes since 2009, which was actually the 2006-2007 tax year. There were no previous records in the Village to show what properties had went to foreclosure or had been auctioned or the amounts they were sold for. In November of 2013 the Village began working with the County to move forward with a foreclosure proceeding for all properties for the tax year of 2011 and back. Once this was started, we were able to receive the correct information from the County and make the proper corrections to the tax program.

During our discussion with the business office, we discussed the proper reports that should be provided to the Board on a monthly basis. We recommend that all Board members receive a Revenue Control Report – Budget to Actual and an Expense Control Report – Budget to Actual on a monthly basis to monitor the activity of the Village. These reports will clearly identify revenues that are coming in less than expected and expenses that are exceeding the budget. Both of these occurrences could have a negative impact on the Villages finances and must be identified and addressed by the Board in a timely fashion. Additionally, we recommend that the

Board receive a balance sheet on a monthly basis to monitor cash balances and increasing payables or receivables that could have a negative effect on the Village's cash flow.

Management's Response - All Board members receive an Expense Control Report - Budget to Actual prior to each meeting. We will continue to research the reports available so that the Board is provided with any additional reports deemed necessary.

During our review of the Village's ongoing capital projects, we noted several projects that were inactive for the past two years. Once a project is complete, any excess fund balance, exclusive of unspent debt proceeds, should be returned to the fund that benefits from the project. If there is a deficit fund balance in a completed project, funds must be transferred from the respective fund to the Capital Projects Fund to properly finance all of the costs of the project. We recommend that the Village monitor its ongoing capital projects and properly close out the activity once a project has been completed.

Management's Response – We have started to clean up all of the old capital projects files and will close out any projects that have been finalized.

OTHER MATTERS

During our review of the Village's Justice Court we noted that the Court Clerk is not preparing a list of outstanding bail on a monthly basis. The detailed list of outstanding bail should be compared to the monthly bank reconciliation to insure that all cash in the bank is accounted for in the form of a specific outstanding bail. We recommend that the Court Clerk begin preparing a monthly detail of outstanding bail to compare to the bank reconciliations.

Management's Response – The bail report was only run when we reconciled from the computer to our manual bail book. The report is now prepared at the time of reconciliation and attached to the bank statement. This has been done since it was recommended by the auditor.

During our review of the Village's Justice Court we noted that restitution amounts were paid to recipients in excess of amounts received for the particular case. We recommend that the restitution amounts be reconciled similar the outstanding bail so that there is a clear record of how much has been collected and is available for payment.

Management's Response – The outstanding restitution has been reconciled and all funds that could be identified have been remitted to the proper parties. These are funds that dated back to before Judge Finn was Justice and took a great deal of research to identify. The Court no longer collects restitution payments from defendants. It is collected by the Probation Department, which was designated by the Court of Administration as the proper agency to track the restitution. This process was switched over approximately 18 months ago.

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While we were in performing the audit, the previous year's audit adjustments had not yet been entered into the accounting records. It is critical to get any year end adjusting journal entries into the accounting records as soon as possible so that management is working with current information. We recommend that the business office request the audit adjustments immediately after the conclusion of the audit and enter them into the accounting records.

Management's Response – The audit adjustments for the fiscal years ended July 31, 2011 and 2012 have been posted into the Village accounting records. In the future, all audit adjustments will be posted into the accounting records immediately upon completion of the audit.

In conclusion, we would like to thank the Staff who assisted us during our examination, and provided us with all the necessary records.

Very truly yours,

A handwritten signature in cursive script that reads "Cooper Arias LLP". The signature is written in black ink and is positioned above a horizontal line.

Cooper Arias, LLP