



June 29, 2015

Mayor and Members of the City Council
City of Rye, New York
1051 Boston Post Road
Rye, New York 10580

Dear Honorable Mayor and Council Members:

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of the City of Rye, New York (City) for the year ended December 31 2014. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the City's practices and procedures.

1. Deposits

Observation: At December 31, 2014, the City's General Fund held approximately \$700,000 in deposits for various activities (tree guarantees, street openings, etc.). While some of these deposits were made during fiscal 2014, a significant portion pertains to prior fiscal years, which have not been claimed by the depositor.

Suggestion: We suggest that the City develop policies and procedures that detail good faith efforts to return deposits to the depositor within a finite period of time, including advertisement on the City's website and local newspapers. Deposits or other abandoned property for which the City has tried in good faith to return to depositors during the fixed period of time, should be transferred to the City's general fund balance.

2. Compensated Absences - Fire Department

Observation: During our audit procedures, we noted internal discrepancies in the calculation of compensated absences for Fire Department employees. Currently, using guidance from the most recent Fire Department contract, the Payroll Department calculates compensated absences by anniversary date of individual employees. However, the Fire Department calculates compensated absences using January 1st as an anniversary date for all employees. As a result, internal balances of accrued compensated absences differed between Departments.

Suggestion: We suggest management review the calculation of compensated absences between departments to obtain a consistent method for determining the estimated accrual for compensated absences at year end.

3. Compensated Absences

Observation: City employees are entitled to compensated absences (entitlement leave) in accordance with their respective union agreement or employment contract. With few exceptions, employees are not permitted to take personal time during the first year of employment. After completion of an employee's first anniversary date, the predetermined entitlement leave is credited to the employee. After reviewing various employee's accrued compensated absences, we noted a discrepancy between amounts reported on employee's paystubs versus amounts accrued as of December 31, 2014. This discrepancy is attributed to the partial year calculation of accrued compensated absences from the employee's most recent anniversary date to December 31, 2014, which is not included on the employee's paystub.

We note through discussion with City management, amounts paid out for accrued compensated absences upon employee termination or retirement is the sum of the balance earned through the most recent anniversary date, plus the amount earned from the anniversary date to the date of termination/retirement, less any time taken through the date of termination/retirement. Accordingly, payments made agree directly to the amounts accrued by the City's Comptroller office.

Suggestion: Management should review the functionality of the payroll software and determine if compensated absences can be tracked via each payroll cycle, which is consistent with their accounting and payment practices. Accruing compensated absences as of each payroll cycle and reporting the balance on the respective pay stubs will provide employees with a more timely position of their earned balance. Additionally, the automation of the compensated absences accrual will alleviate a manually prepared calculation, which can be time consuming.

4. Receivables and Payables

Observation: During our review of various general ledger accounts we noted the following:

- a) The General Fund has an accounts receivable balance greater than 120 days of \$27,251. The receivables composing this balance date as far back as August of 2010.
- b) The Golf Club Fund has total deposits of \$20,216, of which \$14,874 were made prior to 2014. The balance is largely comprised of unused gift cards.
- c) The Golf Club Fund also has \$9,467 in accounts receivable balances that are greater than 90 days.

Suggestion: Management should review the above receivable balances for collectability on a regular basis. Amounts determined to be uncollectible should either be fully reserved for, or written off subject to City Council approval. Management may consider the use of collection specialist in recouping receivable balances.

Similar to the above General Fund deposit's comment, management should consider the establishment of an expiration date for the unused gift cards. After a good faith effort reminding golf club patrons of the unused gift card balances and adherence to the expiration date, management should remove (write-off) the gift card obligation.

5. Vendor List

Observation: During our audit testing, we noted numerous vendors that were duplicated within the City's accounting system.

Suggestion: The City should develop and implement a vendor maintenance procedure that includes the review, inactivation, archiving, and/or purging of vendor master records at predetermined intervals. This should include potential communication with vendors for missing information, cleansing of old or duplicate entries, and a review of the City's procedures for vendor additions and deletions. The exercise to clean up the vendor database will improve data quality and reduce the potential risk of multiple and/or unjustified payments to vendors.

6. Property, Plant, and Equipment Inventory

Observation: During our audit, we noted that the City has not recently performed physical inventory of its capital assets, with an emphasis on non-infrastructure related assets.

Suggestion: We suggest the City perform a physical inventory of all non-infrastructure related property and equipment. The physical inventory should then be reconciled to the schedule of property, plant, and equipment maintained by the City. The inventory should also be compared to the City's insurance policy to ensure adequate coverage. The comparison may also identify situations where insurance coverage may be more than is needed.

7. Restricted Fund Balances

Observation: The City has reported a number of restrictions within fund balance, specifically the General Fund. Under accounting principles generally accepted in the United States of America for governmental organizations, fund balance should be reported as restricted when either of the following criteria exist:

- a) Externally imposed restrictions by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b) Imposed by law through constitutional provisions or enabling legislation.

While the City's restrictions were consistent with prior years, the City did not maintain any documentation supporting the specific restrictions, such as Board resolutions authorizing the reserve under General Municipal Law.

Suggestion: As a matter of public record, and to demonstrate compliance with the aforementioned financial reporting requirements, we recommend the following:

- a) For non-externally imposed restrictions such as compensated absences, parks, recreation programs, etc., the City should identify the appropriate reserve category under General Municipal Law, and pass resolutions approve the reserves.

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- b) For externally imposed restrictions, such as donations, the City should prepare documentation approved minimally by the City Manager that outlines the restriction and purpose of the reserve funds.
- c) The records supporting restricted funds should be maintained by the City Comptroller and reviewed/updated as needed, but minimally on an annual basis.

This letter is solely for the information and use of the Honorable Mayor, Council Members, management, and others within the City and is not intended to be and should not be used by anyone other than the specified parties. We appreciate serving the City of Rye, New York and would be happy to assist you in addressing and implementing any of the comments and suggestions in this letter.

Very truly yours,

SaxBST LLP

A handwritten signature in black ink, appearing to read "Jeffrey P. Roude", with a horizontal line underneath it.

Jeffrey P. Roude, Partner

JPR/dmc