



March 29, 2012

To the Board of Directors
Steuben County Industrial Development Agency

In planning and performing our audit of the financial statements of Steuben County Industrial Development Agency as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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.

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 and correct 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies noted on the attached pages to be control deficiencies in internal control.

The Agency's written response to the control deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization and is not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

EFP Rotenberg, LLP

EFP Rotenberg, LLP

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Steuben County Industrial Development Agency
Control Deficiencies
December 31, 2011

Control Deficiency: Segregation of Duties - Although the small size of the Agency's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Recommendation: One of the most critical areas of separation is cash. It was noted that a single individual is charged with duties including opening mail, processing incoming checks, deposit slip preparation, bank deposits, posting receipts, and receiving and reconciling the monthly bank statement. We recommend that the Agency implement one or more of the following recommendations to increase the controls related to segregation of duties.

- We recommend that a member of the Board directly receive the unopened bank statements and review cancelled checks before turning them over for the preparation of the bank reconciliation. Also, we recommend documenting the review and approval of the bank reconciliation once it has been prepared.
- We recommend that the Agency consider not allowing management to sign checks. We would suggest that authorized check signors only be members of the Board.
- We recommend that the Agency consider engaging an external accountant to perform a review of the general ledger and bank reconciliations prior to the audit start date to ensure transactions are properly recorded in accordance with accounting principles generally accepted in the United States of America.

Management Response: *Board accessibility makes it difficult to assign additional responsibilities for the review of bank statements and check signing however the Agency will review its current policies to determine whether there is additional areas where the Agency can segregate these functions. The Agency is also working towards engaging an external financial consultant to review transactions on a monthly basis to ensure transactions are properly recorded.*

Control Deficiency: Backdated Checks - During our audit procedures, it was noted that checks produced in January 2012 were backdated using a December 2011 date. These checks were then included in the list of December 31, 2011 outstanding check as if they had been cut in December, yielding inaccurate financial results.

Recommendation: We recommend that all check disbursements be dated in sequence using the date the check is actually produced in order to achieve proper cutoff.

Management Response: *This issue was a result of transitioning from a cash to an accrual base budgeting method. In the transition certain payments were dated inappropriately. This has been rectified and all checks are now being dated in sequence using the date the check is actually produced.*

Control Deficiency: Petty Cash - We noted during our audit procedures that petty cash is not being reconciled when replenished. Additionally, the replenishment of these funds are not being recorded to the expense accounts for which the funds were disbursed.

Recommendation: We recommend that when the petty cash fund becomes low, the receipts for items previously purchased using the funds be gathered and a check request is generated to replenish the fund for the exact amount of the receipts. Additionally, these expenses should be recorded to the proper accounts.

Management Response: *Auditor recommendations for reconciliation and replenishment of petty cash will be implemented.*

**Steuben County Industrial Development Agency
Control Deficiencies
December 31, 2011**

Control Deficiency: Capitalization Policy - Currently, no formal capitalization policy exists for the Agency. This creates a situation whereby fixed asset purchases may be expensed rather than properly recorded to the schedule of fixed assets and depreciated over their estimated useful lives. Conversely, immaterial purchases may be considered a purchase of fixed assets and included on the schedule of fixed assets.

Recommendation: We suggest that the Agency implement a written policy requiring all assets purchased over an established dollar threshold, such as \$1,000, be capitalized and depreciated over the assets' useful lives.

Management Response: *Management will recommend the audit committee develop and adopt a formal capitalization policy on all assets purchased over an established threshold.*

Control Deficiency: Approval of Expense Reimbursements - During the audit, we noted that the Executive Director signed reimbursement checks for all employees, including his own reimbursement checks.

Recommendation: While there was adequate supporting documentation to support the reimbursement checks, we recommend that an authorized Board member sign all checks written to the Executive Director. Support for any checks made payable to the Executive Director should be provided to the Board member for review.

Management Response: *A member of the audit committee currently reviews all vouchers for payment and supporting documentation, including expense reimbursements on a monthly basis to assure proper control.*