

**Riverhead Industrial Development Agency  
Internal Control Certification  
December 31, 2010**

This statement certifies that management has documented and assessed the internal control structure and procedure of the Riverhead Industrial Development Agency for the year ending December 31, 2010. This assessment found the authority's internal controls to be adequate, and to the extent that deficiencies were identified, the authority has developed corrective action plans to reduce any corresponding risk.

Riverhead Industrial Development Agency  
Assessment of the Effectiveness of Internal Controls  
December 31, 2010

**Objectives:** The importance of an adequate system of internal control is to: (a) promote effective and efficient operations so as to help the authority carry out its mission; (b) provide reasonable, but not absolute, assurance that assets are safeguarded against inappropriate or unauthorized use; (c) promote the accuracy and reliability of accounting data and financial reporting to ensure transactions are executed in accordance with management's authorization and recorded properly in accounting records; (d) encourage adherence to management's policies and procedures for conducting programs and operations; and (e) ensure compliance with applicable laws and regulations. Furthermore, a successful system of internal control includes performing an annual assessment to identify potential weaknesses in policies or procedures and to implement corrective actions.

The internal control structure and procedures of the Agency are discussed with the external auditor on an annual basis as well as continuously reviewed by the Chief Fiscal Officer. As a result the current internal controls provide an effective and accurate means to report financial matters.

Please refer to the report dated March 4, 2011 from our independent auditor for an assessment of our internal control structure and procedures.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of the  
Riverhead Industrial Development Agency  
Riverhead, New York

We have audited the financial statements of the Riverhead Industrial Development Agency (the Agency), a component unit of the Town of Riverhead, New York, as of and for the years ended December 31, 2010 and 2009, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

*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 a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings, item 2007-2, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to the Board of Directors, Audit Committee and management of the Riverhead Industrial Development Agency, in a separate letter dated March 4, 2011.

The Agency's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, Audit Committee, management and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

*Markowitz Fenelon & Bank LLP*

Markowitz, Fenelon & Bank, LLP  
Southampton, New York

March 4, 2011

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

Summary Schedule of Prior Findings

December 31, 2010

**Significant Deficiencies**

**2007-2: Segregation of Duties**

**Criteria:** Internal controls should be implemented which provide for segregation of duties in the cash receipts, cash disbursements, and accounting functions.

**Condition:** The Interim Chief Financial Officer is responsible for most aspects of the accounting function, including recording cash receipts and disbursements, transferring funds to other accounts and all payroll functions. This person also has access to all aspects of the computer software system including creating and posting journal entries, cash disbursements and cash receipts.

**Cause:** Because of the limited size of the Agency, the Agency feels that it is both inefficient and cost defective to have additional employees in order to properly segregate the accounting functions.

**Effect:** Due to the lack of segregation of duties, errors or irregularities could go undetected.

**Recommendation:** The Agency should implement procedures requiring segregation of these incompatible duties.

**Current Status:** Due to the size of the Agency, they are unable to segregate these duties.

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

Schedule of Findings

December 31, 2010

**Significant Deficiencies**

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**Effect:** Due to the lack of segregation of duties, errors or irregularities could go undetected.

**Recommendation:** The Agency should implement procedures requiring segregation of these incompatible duties.

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
**Corrective Action Plan**  
**December 31, 2010**

**The Agency will provide its Corrective Action Plan for the year ended December 31, 2010 as part of a separate report.**