February 27, 2012

Board of Directors
Riverhead Industrial Development Agency
Riverhead, New York

In planning and performing our audit of the financial statements of the Riverhead Industrial Development Agency (Agency), a component unit of the Town of Riverhead, as of and for the years 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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. We consider the following deficiencies in the Agency's internal control to be significant deficiencies.

**SIGNIFICANT DEFICIENCIES**

**Segregation of Duties**

We noted that the Agency was lacking proper segregation of duties. Due to the size of the Agency, one person is currently responsible for all aspects of the accounting function, including receiving and recording cash receipts, cash disbursements, making bank deposits, and payroll functions. This person also has access to creating and posting journal entries and reconciling bank accounts.

Proper internal controls dictate a segregation of these functions. Separating these duties will improve internal controls and reduce the chance of an error or irregularity going undetected.

**OTHER MATTERS**

**Comments from Prior Year - Corrected**

The following comments included in the prior year management letter that were corrected:

**Monitoring Projects**

During the prior year's audit, we noted that there were no documented policies and procedures in place for monitoring project performance.
The Agency created the annual compliance report for the entities that receive tax abatements. The entities must fill out and submit the compliance report and the Agency evaluates the answers for the compliance and progress of the projects.

Checks Payable to Cash

During the prior year's audit, we noted that there was a check made payable to cash to replenish the petty cash fund for expenses paid by a representative of the agency.

The Agency no longer utilizes a petty cash account, which was closed during 2010. The Agency also no longer issues checks made out to cash. Instead, checks are payable to a specific vendor.

Current Year Comments

Deposit Slips

While we were testing the cash receipts, we noted that some deposit slips were missing.

We recommend deposit slips, stamped from the bank, be kept in the files to provide adequate detail to support the amount that was deposited.

Cancellation of invoices

While we were testing the cash disbursements, we noted that the original invoices were not stamped “PAID”. Instead, the purchase orders were cancelled.

Purchase orders and check stubs can at times become detached from paid invoices allowing an invoice to be inadvertently paid a second time. To avoid this possibility, invoices should be cancelled by being stamped “PAID” indicating the date paid and check number. This improvement will aid in the tracking of the paid invoice to the actual payment.

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

Very truly yours,

Markowitz, Fenelon & Bank, LLP
Southampton, New York