

City of Middletown Industrial Development Agency

Communication of Internal Control Matters Identified in the Audit to
Those Charged with Governance and Management

December 31, 2016

**Communication of Internal Control Matters Identified in the Audit to
Those Charged with Governance and Management**

**The Board of Trustees of the
City of Middletown Industrial Development Agency**

Auditors' Communication on Internal Control

In planning and performing our audit of the financial statements of the City of Middletown Industrial Development Agency, New York ("Agency") (a component unit of the City of Middletown, New York) as of and for the year ended December 31, 2016, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

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 Agency's financial statements will not be prevented, or detected and corrected, on a timely basis

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, as indicated in the attached Addendum A, we share for your consideration other matters about the internal control and operations.

This communication and addenda are intended solely for the information and use of management and the Board of Trustees and are not intended to be and should not be used by anyone other than these specified parties. We will be pleased to discuss these communications and comments in further detail at your convenience, or to assist you in implementing the recommendations.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP

Harrison, New York

March 24, 2017

City of Middletown Industrial Development Agency

Addendum A

Other Matters

- **Bank Reconciliations**

Stale Checks Greater Than One Year Old

Our audit indicated that one bank account reconciliation had approximately \$500 in outstanding checks that were greater than one year old.

Recommendation

We suggest that the Agency investigate and resolve all outstanding checks greater than one year.

Deposit in Transit Greater Than One Year Old

Our audit indicated that one bank account's reconciliation had approximately \$59 in outstanding deposits in transit that were greater than one year old.

Recommendation

We suggest that the Agency investigate and resolve items that have been outstanding in excess of one year.

City of Middletown Industrial Development Agency

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We have audited the financial statements of the City of Middletown Industrial Development Agency ("Agency") a component unit of the City of Middletown, New York as of and for the year ended December 31, 2016, and have issued our report thereon dated March 24, 2017. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated January 10, 2017. This letter provides additional required communications related to our audit.

Our responsibility under professional standards

Our responsibility is to form and express an opinion about whether the financial statements, which are the responsibility of management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Those individuals charged with governance of the Agency are responsible for the oversight of the financial reporting process, and our audit does not relieve management and those charged with governance of their respective responsibilities.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statement. The schedules of Payments in Lieu of Taxes and Full Time Equivalents (FTE) Jobs Created and Retained are presented for purposes of additional analysis and are not a required part of the financial statements and are the responsibility of management. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

In connection with our audit we performed tests of the Agency compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned scope and timing of the audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Qualitative aspects of significant accounting practices

Significant accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency are described in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements. No matters have come to our attention that would require us to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

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Qualitative aspects of significant accounting practices (Continued)

Significant accounting estimates

Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.

Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

Financial statement disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to:

- Net position

The financial statement disclosures are consistent and clear.

Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and corrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. There were no such financial statement misstatements that remain uncorrected.

We are required to communicate to you misstatements that remain uncorrected, including any related to prior periods, and the effect, if any, that they may have on the opinion in our report, and request their correction.

In addition, we are required to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no adjusting journal entries proposed.

Disagreements with management

For purposes of this letter, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.

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Representations requested from management

We have requested certain written representations from management in a separate letter dated March 24, 2017.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other matters discussed with management

We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Agency, and plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

We have provided our comments regarding deficiencies and other matters noted during our audit in the attached addenda.

Auditor independence

We affirm that PKF O'Connor Davies, LLP is independent with respect to the Agency in accordance with professional standards.

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