



Town of East Hampton

Agreed-Upon Procedures on Local TV, Inc.

May 2016

Table of Contents

Executive Summary.....	Page 1
Scope of Engagement.....	Page 2
Work Performed.....	Page 3
Summary of Observations/Recommendations.....	Page 4
Statement of Limiting Conditions.....	Page 11

Executive Summary

Pursuant to the request of the Town of East Hampton (“the Town”) we analyzed various business and financial records maintained by Local TV, Inc. (“LTV”). The focus of our analysis was LTV’s income and expenses reported during the calendar years 2010 through 2014. Based upon our work performed in respect to the scope of the engagement, we did not identify misappropriation of funds. However, we identified a number of internal control deficiencies within a number of business processes. We have summarized our observations in this regard below:

- Cash Receipts - Although documentation related to collections were properly maintained, internal controls over cash receipts was limited as recordkeeping errors were noted within the accounting system.
- Purchasing & Related Expenditures - Although documentation related to expense reporting was maintained, LTV had limited procurement controls as the former Executive Director did not adhere to the purchasing lines of authority established by the LTV Board and the Town Board.

LTV had limited segregation of duties in the area of expenditures, expense reimbursements, and credit card charges as the former Executive Director was solely responsible for reviewing expenses, approving expenses, and both preparing and signing checks.

- Fixed Asset & Equipment Purchases - Although LTV maintains detailed equipment records, LTV does not maintain fixed asset inventory records to verify the existence of fixed assets.
- Credit Card Expenditures – The LTV Board was not involved in reviewing and/or approving the former Executive Director’s credit card charges made on behalf of LTV.

***Town of East Hampton
Agreed-Upon Procedures on Local TV, Inc.
May 2016***

- Payroll - LTV had limited internal controls over payroll as changes in salary and wage rates were not formally documented to support employment status changes. LTV did not maintain time and attendance records for the former Executive Director to verify that payments for accrual leave balances were in accordance with contractual provisions.
- Bank Reconciliations - Bank reconciliations were not prepared within 30 days of receipt of bank statements to detect accounting and banking errors in a timely fashion. The former Executive Director did not document his review of the bank reconciliations to ensure the timeliness of bank reconciliations, their accuracy, and to authorize any corrections necessary.
- New York State Revitalization Act - LTV did not comply with the New York State Revitalization Act (NYSRA) of 2013 as the LTV Board did not develop adequate oversight controls of audit reports, related party transactions, segregation of duties between the organization's CEO and Board Chairperson, or policies pertaining to conflict of interests, whistleblower, and compensation.

Current LTV Board and LTV Management are aware of the need to develop policies and implement accounting and reporting procedures to address the internal control deficiencies noted in this report. Subsequent to our review, LTV Management commenced action to address the recommendations noted within the "Summary of Observations/Recommendations" section of this report.

Scope of Engagement

We have performed certain procedures to address Town of East Hampton (the "Town") concerns over certain financial activities carried out by the former Executive Director at Local TV, Inc. ("LTV") for the period covering calendar years 2010 through 2014. Generally, the scope of services included:

- Interview of key personnel, former and current.
- Analyze purchasing and related disbursements in respect to policies, procedures and appropriateness.
- Analyze payroll and attendance records for accuracy and appropriateness for the former Executive Director.
- Analyze expense reimbursements for select employees.
- Analyze credit card expenditures.
- Analyze bank reconciliations and reporting to the Town of East Hampton.
- Perform IT related analysis.
- Prepare internal control recommendations.

The purpose of this report is to communicate the results of our work to the Town. Our findings and observations expressed herein are based upon our work performed to date. We reserve the right to supplement, update, or otherwise modify this report at a later date at such time that additional information comes to our attention.

Town of East Hampton
Agreed-Upon Procedures on Local TV, Inc.
May 2016

Worked Performed

Our analysis consisted of the following:

1. Obtained and analyzed the following documents provided by the Town and LTV, including but not limited to:
 - Various correspondence from LTV’s Board of Directors in respect to Mr. Seth Redlus’ salary during calendar years 2008 through 2014.
 - Payment of accrued benefits and consultation agreement entered into by LTV and Mr. Redlus dated July 18, 2015.
 - Revised LTV bylaws approved by LTV’s Board of Directors dated April 18, 2011.
 - Franchise renewal agreement entered into between the Town and Cablevision dated December 19, 2011.
 - Agreement entered into between the Town and LTV dated August 14, 2013.
 - Financial statements for LTV for calendar years 2010 through 2014.
 - Accountant's copies of LTV's QuickBooks files for the period of January 2010 through August 2015.
 - Credit card statements and applicable supporting documentation during calendar years 2010 through 2014.
 - Bank statements and applicable bank reconciliation schedules for calendar years 2010 through 2014.
 - Copy images of Local TV, Inc.’s server as of August 2015.
 - Copy images of the hard drives used by the former Executive Director as of August 2015.
 - LTV staff member handbook.
 - LTV Internal Audit Report prepared by the Town for the period of January 2010 through December 2010.
 - List of broadcast equipment utilized by LTV as of January 2014 and January 2015.
 - Lease agreement entered into between the Town and East Hampton Studios dated April 23, 2004.
 - Franchise agreement entered into between the Town and LTV dated September 26, 2001.

2. Interviewed the former and current Executive Director and Accountant to review documents and direct inquiries regarding transactional records, supporting documents, and timely reporting. The purpose of these interviews was to obtain knowledge as to each individual’s job duties and involvement as they pertain to the income and expense reporting process, day-to-day responsibilities, who they report to and who they supervise.

3. Conducted and attended meetings as follows:

Date	Description of Event
08/07/15	Nawrocki Smith engaged by the Town
August 2015	Interviews with LTV current/former Board Members & Employees
08/12/15	Nawrocki Smith commenced fieldwork at LTV and secured hard copies and scanned documents made available
11/06/15	Nawrocki Smith completed initial phase of fieldwork

*Town of East Hampton
Agreed-Upon Procedures on Local TV, Inc.
May 2016*

Date	Description of Event
11/10/15	Status meeting with Town Management
12/11/15	Meeting with the LTV Accountant
12/16/15	Status meeting with the Suffolk County District Attorney's Office
03/01/16	Executive session meeting with Town Board
03/21/16	Meeting with LTV Board and LTV Management
03/23/16- 04/14/16	LTV Management provided Nawrocki Smith with additional documents that were previously not located nor made available by LTV during our 08/12/15 visit
05/03/16	Executive session meeting with Town Board

4. Assessed possible improvements pertaining to the internal control environment of LTV. Such recommendations are presented within the applicable sections of this report.
5. Preparation of analysis and report.

Summary of Observations/Recommendations

Based upon our analysis of the documents provided to us, we have summarized our objectives and associated observations/recommendations as follows:

Collections & Cash Receipts

Objective

- ❖ Analyzed cash receipts and internal controls pertaining to collections for accuracy and appropriateness.

Observations

- Cash receipts were made timely.
- Cash receipts/accounts receivables were not reconciled to the records of the Town or the Village of East Hampton (the "Village").
- Conduit and underwriting income and expenses were not recorded in the financial accounting system in a consistent manner. LTV discontinued the practice of entering into written or verbal conduit agreements as of August 2015.
- LTV does not document the terms and conditions of underwriting agreements with underwriters and producers.

*Town of East Hampton
Agreed-Upon Procedures on Local TV, Inc.
May 2016*

Recommendations

- 1. All cash receipts, especially from the Town and Village, should be confirmed and reconciled on a quarterly basis. In this manner, interim and annual financial reporting may be enhanced.*
- 2. The LTV Board should memorialize in writing the terms and conditions of production underwriting income and related expenses as well as internally document the accounting treatment similarly.*

Purchasing & Related Disbursements

Objective

- ❖ Analyzed whether purchases were properly solicited or broken into smaller partial payments under the former Executive Director's policy limitations.

Observations

- LTV did not adhere to its purchasing policy whereby LTV should have received approval from the LTV Board or Town Board for equipment purchases in excess of \$5,000 and \$10,000, respectively.
- Purchases, for purposes other than equipment, were not solicited in a consistent manner.
- Approximately ninety-nine (99.69%) of the payment transactions tested were supported by quotes or invoices.
- Related party transactions were made by the former Executive Director for building repairs, furniture purchases and snow removal services. To our knowledge these purchases were not documented or disclosed to the LTV Board prior to incurring such costs (approximately \$19,840).
- Accounts payable checks were both prepared and signed by the former Executive Director which created a weak internal control environment (segregation of duties issue).

Recommendations

- 3. LTV Management should adhere to its purchasing policy and obtain approval from the LTV Board or the Town Board for equipment purchases in excess of \$5,000 and \$10,000, respectively. Furthermore, the LTV Board of Directors should develop written purchasing guidelines and procedures in a form deemed to be satisfactory to the Town Board to ensure that major expenditures, other than equipment, receive the best price available.*
- 4. The Executive Director should maintain and update annually an approved vendor list. The list should be forwarded to the LTV Board for review and approval. The approval process should include date and sign off. A copy of the approved vendor list should be forwarded to the "Accounts Payable Clerk" for comparison purposes when invoices are submitted for payment.*
- 5. The LTV Board and the Executive Director should disclose all related party transactions to the Town Board regardless of frequency and amount. LTV Board minutes should also disclose related party transactions.*

*Town of East Hampton
Agreed-Upon Procedures on Local TV, Inc.
May 2016*

6. All purchases should follow proper approval and authorization process including:

- *Verify that all purchases include backup such as invoices, quotes and contract rates prior to signing checks.*
- *Ensure that expenses pertain to LTV purposes and that equipment repair, building repair and utility expenses pertain to LTV facilities.*
- *Compare invoices with service contracts.*
- *Ensure that reimbursements are based on itemized receipts or expense reports.*

Fixed Asset & Equipment Purchases

Objective

- ❖ Analyzed whether payments for equipment had proper support.

Observations

- LTV does not maintain a “fixed asset” listing internally. As of the December 31, 2014 financial statements, fixed assets represented approximately 49% of LTV’s total assets.
- We verified that LTV maintains inventory schedules for equipment indicating the asset descriptions, manufacturer, model, location, value, purchasing vendor, purchase amount, and date of purchase.
- All equipment purchases tested had proper support and were properly recorded within the accounting system.

Recommendations

- 7. The LTV Board should consider the cost benefit of having an appraisal company perform a fixed asset appraisal and develop and maintain a fixed asset inventory database that will be updated throughout the year with purchases and disposals.*

Expense Reimbursements

Objective

- ❖ Analyzed whether payments for expense reimbursements had proper support.

Observations

- Employee expense reimbursements were supported by itemized receipts and invoices and were reviewed/approved by the former Executive Director.
- Reimbursements applicable to the former Executive Director do not appear to have been reviewed or approved by the LTV Board (segregation of duties issue).

*Town of East Hampton
Agreed-Upon Procedures on Local TV, Inc.
May 2016*

Recommendations

8. *All expense reimbursements applicable to the Executive Director should be reviewed and approved by the LTV Board.*

Payments to Cash

Objective

- ❖ Analyzed whether payments made to cash were appropriate.

Observations

- Payments to cash were properly limited to petty cash and for minor production supplies.

No recommendations at this time.

Credit Card Expenditures

Objective

- ❖ Analyzed whether the LTV Board maintained oversight over credit card purchases.

Observations

- Although supporting backup was available to verify the purpose of credit card charges, credit cards were accessible and used by the former Executive Director with limited LTV Board oversight.

Recommendations

9. *All credit card purchases made by the Executive Director should be reviewed and signed off by the LTV Board. Additionally, the LTV Board should review the annual credit card charge statements and summaries on an annual basis for appropriateness. This control will ensure that LTV follows its purchasing policy and a proper approval and authorization process including verifying that all purchases include backup such as invoices. This will assist LTV to ensure that expenses pertain to LTV purposes.*

Payroll & Attendance

Objective

- ❖ Analyzed whether payroll increases were properly authorized.
- ❖ Analyzed whether the LTV Board maintained oversight over the former Executive Director's attendance.
- ❖ Analyzed whether LTV has controls over authorized salaries and accrued time off.

Observations

- There are limited controls in regard to payroll related data entry and its review process.

*Town of East Hampton
Agreed-Upon Procedures on Local TV, Inc.
May 2016*

- Payroll increases, applicable to the former Executive Director, were documented in the form of various correspondences from individual LTV Board Members to the former Executive Director.
- Attendance records were maintained for the LTV staff with the exception of the former Executive Director.
- The former Executive Director was paid \$8,653.85 (\$1,730.77 * 5) for five (5) weeks of unused vacation, holiday, and sick time in accordance with the payment of accrued benefits and consultation agreement entered into by LTV and the former Executive Director dated July 18, 2015. Based on the limited information provided we are unable, at this time, to determine what records existed in this regard and how the LTV Board determined and calculated the former Executive Director's leave accrual balances.
- LTV did not comply with the Wage Theft Prevention Act (WTPA) that took effect on April 9, 2011. According to the WTPA Act, LTV was required during calendar years 2012 through 2014 to notify and receive written acknowledgement from each employee regarding their rate of pay, allowances, pay day, etc.
- Although LTV has adopted an employee accrued time off policy, LTV did not track accrued time off for each employee.

Recommendations

- 10. All hiring, termination, resignation and salary increase approvals should be documented within the LTV Board minutes.*
- 11. Although the Department of Labor in the State of New York does not require employers to provide annual salary statements for their existing employees effective December 29, 2014, employers are still required under the Wage Theft Prevention Act (WTPA) to notify newly hired employees of certain information at the time of hire. As such, LTV should provide written notice of wage rates to each new hire including the following:*
 - *Rate or rates of pay, including overtime rate of pay (if applicable).*
 - *How the employee is paid: by the hour, shift, day, week, commission, etc.*
 - *Regular payday.*
 - *Official name of the employer and any other names used for business ("DBA").*
 - *Address and phone number of the employer's main office or principal location.*
 - *Allowances taken as part of minimum wage (tips, meals and lodging deductions).*
- 12. LTV should adhere to its employee accrued time off policy and track such time for each employee.*

*Town of East Hampton
Agreed-Upon Procedures on Local TV, Inc.
May 2016*

Bank Reconciliations & Reporting to the LTV Board & Town

Objective

- ❖ Analyzed whether the reporting by LTV Management to the LTV Board was complete and accurate.

Observations

- Although bank reconciliations are performed, they were not always performed within 30 days of the bank statement date. The lack of timely bank reconciliations may cause banking transactions to go unnoticed for a significant period of time.
During the course of our review we noted that bank reconciliations were performed by LTV's accountant. Per discussion with the accountant, LTV management agreed to assume all responsibility over the prepared bank reconciliations.
- There was no documented evidence of the review and oversight of bank reconciliations by the former Executive Director or by the LTV Board therefore possibly impacting the accountant's independence with respect to the year-end annual audit.
- During 2010 through 2014, LTV's bank deposits were in excess of the federally insured deposit limits of \$250,000 (Custodial Credit Risk).

Recommendations

- 13. The LTV Board of Directors should designate an employee (or outside accountant) to perform the bank reconciliations and also designate a Board member to review and approve bank reconciliations. This will assist LTV in implementing segregation of duties within the bank reconciliation area.***
- 14. A consistent flow of relevant information should be presented to the LTV Board each month. A standardized monthly "Board Packet" should be developed and issued to the LTV Board on an ongoing basis.***
- 15. The Executive Director should perform, at a minimum, quarterly actual and budgetary variance analysis for materials, equipment, lease equipment, service contracting, and attendance and present to the LTV Board in its "Board Packet".***
- 16. The LTV Board should consider developing a cash management and investment policy to secure deposits that are in excess of the federally insured limit.***

*Town of East Hampton
Agreed-Upon Procedures on Local TV, Inc.
May 2016*

New York State Revitalization Act

Objective

- ❖ Analyzed whether LTV was in compliance with the New York Revitalization Act.

Observations

- LTV did not comply with the New York State Revitalization Act (NYSRA) of 2013 that took effect on July 1, 2014. According to the NYSRA Act, LTV was required to perform the following:
 - Evidence that the Executive Director’s compensation and benefits was presented and voted upon during a Board meeting.
 - Evidence that transactions involving family members of the Executive Director were presented and voted upon during a Board meeting.
 - Evidence that LTV required each Board member and employee to fill out a conflict-of-interest disclosure form.
 - LTV did not establish an Audit Committee.
 - LTV did not establish and implement a Whistleblower Policy.
 - LTV does not maintain adequate documentation regarding its Board minutes.
 - LTV did not establish a disaster recovery plan.
 - LTV does not have their accounting policies and procedures documented in a manual for guidance and use by employees.

Recommendations

- 17. In accordance with the New York State Revitalization Act (NYSRA) of 2013, the LTV Board should develop oversight controls of audit reports, related party transactions, segregation of duties between the organization’s CEO and Board Chairperson, and develop policies pertaining to conflict of interests, whistleblower, and compensation.***

Financial Statement Issues

Objective

- ❖ Analyzed whether LTV financial statements were in compliance with U.S. Generally Accepted Accounting Principles (“GAAP”).

Observations

- As of December 31, 2014, Accounts Receivables were overstated by approximately \$43,000. The balance as certified in the financial statements was approximately \$54,000 and should have been approximately \$11,000.
- The financial statements include a supplementary expense schedule; however, the report does not make reference to such schedule. In addition, there is \$19,695 categorized as “Program expenses” for which it is unclear as to what these expenses represent.

*Town of East Hampton
Agreed-Upon Procedures on Local TV, Inc.
May 2016*

Recommendations

- 18. The LTV Board should consider restating its accounts receivable as of the 2014 financial statements to reflect the amounts reported by the Town.*
- 19. LTV Management should improve its categorization of expenses for budgeting and financial statement representation purposes.*

Statement of Limiting Conditions

The above procedures do not constitute an examination made in accordance with generally accepted auditing standards. This report relates only to the elements specified above and does not extend to any financial statements or income tax returns of LTV. This report is intended solely for the information and use of the Town Board and management of the Town and is not intended to be and should not be used by anyone other than this specified party.

The preceding analysis is based upon the information made available by LTV. We reserve the right to revise our analysis based upon any future events and circumstances, which may occur or become known to us.

Please contact our Melville, New York office @ (631) 756-9500 if you have any questions in this regard.