Yonkers Downtown Waterfront Development Corporation

Independent Auditors' Report on Communication of
Internal Control Matters Identified in the Audit

December 31, 2010

O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Independent Auditors Report on Communication of Internal Control Matters Identified in the Audit

To The Board of Directors of
Yonkers Downtown Waterfront Development Corporation
City of Yonkers
City Hall - Suite 414
Yonkers, New York 10701

In planning and performing our audit of the financial statements of the Yonkers Downtown Waterfront Development Corporation (a nonprofit organization) (the "Corporation) as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporations internal control over financial reporting as a basis for designing our auditing procedures 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 Corporations internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporations internal control.

We have included in this letter a summary of communications with the Board of Directors as required by generally accepted auditing standards. We are also required to communicate any control deficiencies we identified during the audit and determined to be significant deficiencies or material weaknesses. This communication is a requirement of the Statement on Auditing Standards (SAS) 115: Communicating Internal Control Related Matters Identified in an Audit.

Our consideration of internal control was for the limited purpose of conducting your Corporations audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did identify certain other deficiencies that we consider to be control deficiencies that are defined and discussed below. We did not identify any deficiencies in internal control that we consider to be material weakness.

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 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. 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.

However, as indicated in the attached Addendum A, we identified certain deficiencies in internal control that we consider to be control deficiencies as well as other comments and recommendations identified in Addendum B that are opportunities for strengthening internal controls and operating efficiency.

It is important to note that control deficiencies are not necessarily issues the Corporation will choose to address; however, control deficiencies may represent potential risks. Our responsibility as your auditor is to ensure that the Board is aware of these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks.

These reports, addendums and summary of communications are intended for the information and use of management and the Board. However, this report is a matter of public record and its distribution is not limited. We will be pleased to discuss these comments in further detail at your convenience, or to assist you in implementing the recommendations.

O'Connor Davies Munns & Dobbins, LLP

Harrison, New York
May 15, 2011

Yonkers Downtown Waterfront Development Corporation

Summary of Communications

- Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America

  - Unqualified opinion on financial statements
  - No change in scope of the audit
  - No material errors
  - No fraud or illegal acts identified
  - No instances/suspicion or allegations of fraud were noted during conduct of audit

- Internal Accounting Controls

  - Reviewed to extent necessary to render our opinion on the financial statements
  - No material weaknesses noted

- Significant Accounting Policies

  - Accounting policies appears appropriate
  - Significant accounting policies included in Note 1 to the financial statements
  - No changes in accounting policies during the year

- Management's Judgments and Accounting Estimates

  - Estimates used deemed adequate

- Audit Adjustments

  - No significant unrecorded adjustments

- Disagreements with Management

  - None

- Unresolved Difficulties Encountered in Performing the Audit

  - None

Yonkers Downtown Waterfront Development Corporation

Summary of Communications
(Concluded)

- Consultation by Management with Other Accountants
    - None of which we were made aware
- Management Consulting Services
    - None
- Independence
    - O'Connor Davies Munns & Dobbins, LLP is independent in all respects
- Irregularities or Illegal Acts
    - Nothing to report

Yonkers Downtown Waterfront Development Corporation

Addendum A

- **Grants**

Matching Principle

The various funding received by the Corporation through the City of Yonkers Community Development Fund programs and the amounts reimbursable under the Empire State Development Corporation are cost reimbursement type programs. As such, the accounting treatment should be the matching of revenues with the corresponding expenditures. Any excess of revenues over expenditures should be recorded as deferred revenues while any shortfall of revenues compared to expenditures should be recorded as a receivable. Our audit revealed that this procedure is not being followed as it pertains to the Empire State Development Corporation.

Recommendation

While the necessary adjustment is made upon audit, we suggest that these procedures be implemented on a monthly basis and, specifically, at year end. We suggest that the Corporation establish procedures to effectuate this change.

- **Journal Entries**

In addition to the numerous cash receipts and disbursements that get posted each year to the accounting records, a number of journal entries are also processed by accounting personnel. These journal entries, or adjustments, can range from minor to material amounts. During our audit, it was noted that journal entries do not appear to be signed off and approved by supervisory personnel or have attached documentation.

Recommendation

We recommend that procedures be implemented whereby all journal entries evidence the fact of supervisory approval and every effort is made to attach supporting documentation.

Addendum B

- **Segregation of Duties**

An effective system of internal control provides for the distribution of duties among available personnel, so that no one employee controls all phases of a transaction without some independent verification by another employee. During the course of our audit, we noted that one individual prepares the deposits, maintains the deposit slips and writes checks. While a lack of an adequate segregation of duties is very common with smaller organizations, the performance of incompatible duties can pose a risk to these organizations. Many organizations are willing to accept the risk, as developing alternatives and segregating incompatible duties is often viewed as inefficient or troublesome.

Recommendation

We encourage management and the board of directors to periodically review the areas where segregation of duties is less than ideal and recommend that some of the incompatible duties he handled by two or more persons.

- **Proper Internal Controls**

As a result of the current economic climate, public entities as well as governmental entities have been reducing workforce through attrition or layoffs. During these times of downsizing, entities like the Corporation must assess the control structure of their fiscal operations to ensure that proper controls remain in place despite a reduction in staff and changes in management.

Recommendation

We recommend that the Corporation regularly monitor the staffing requirements to determine where controls may or may not be affected due to reductions in workforce and management personnel. We suggest that the Corporation continue to develop additional policies or amend current policies and procedures to ensure that effective internal controls remain in place.