AUDIT COMMITTEE FOR ERIE COUNTY

ANNUAL REPORT

ON THE YEAR ENDED

DECEMBER 31, 2010

Contents

Courtland R. LaVallee Esq. – Chairman
Daniel Tirone, CPA – Vice-Chairman
Hon. Christina W. Bove
Hon. John Mills
Michael R. Szukala, Secretary

January 31, 2012

Honorable Members of the County
Legislature and County Executive
County of Erie, New York

Ladies and Gentlemen:

The Audit Committee for Erie County (the "Committee" or "We") is pleased to present its Annual Report for the County's fiscal year ended December 31, 2010.

The Committee is established pursuant to Section 2617 of the Erie County Charter. The establishment of this committee was approved by the citizens of Erie County in the November 1984 general election. The major functions of the Committee are described in the charter as follows:

- Prepare requests for proposals for the audits of Erie County ("the County") and Erie Community College ("ECC"). Evaluate responses and make a recommendation to the Erie County Legislature for the selection of an accounting firm.

- Review the annual audits with independent accountants.

- Prepare and submit an annual report to the County Executive and Legislature. The annual report is to contain findings, comments, and recommendations with respect to each audit of financial statements.

- Monitor implementation of the recommendations contained in the Management Letter.

Management is responsible for the financial reporting process, the preparation of basic financial statements in accordance with accounting principles generally accepted in the United States of America, the system of internal controls, including internal control over financial reporting, and procedures designed to ensure compliance with accounting standards and applicable laws and regulations. The Committee relies without independent verification, on the information provided to it and on the representation made by management regarding the effectiveness of internal control over financial reporting, that the financial statements have been prepared with integrity and objectivity and that such financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Committee also relies on the opinions of the independent auditors on the basic financial statements and the effectiveness of internal control over financial reporting.

CONCERNS OF THE COMMITTEE

Citizens Salary Review Commission

A "Citizens Salary Review Commission" was established in 2004 to debate salary increases for the Erie County Executive, Legislators, the Sheriff, Comptroller and the County Clerk. The Commission recommended 50% salary increases for the Sheriff, Comptroller and County Clerk and an increase to the County Executive of 40%. Erie County Legislators were recommended for a 12% salary increase. These recommendations were never adopted; as a result, the last pay raise for these positions was in 1996.

The Committee believes that it is time for the salaries for Erie County Executive, Legislators, the Sheriff, Comptroller and the County Clerk to be examined by a Citizens Salary Review Commission.

Overall Risk Assessment

The external auditors have suggested that Erie County perform an enterprise-wide risk assessment of risks facing the County. This suggestion has appeared in the 2005 through 2010 Management letters. In response, Management has reviewed insurance-related risks facing the County. That was a good first step – an assessment of fraud related risks as the auditors suggest is the next logical step. Such an examination should include a review of financial controls throughout the County, including ECC. The County's SAP` accounting system should also be examined, especially password security. This assessment would complement the 2004 recommendation made by this Committee on a review of internal controls relating to SAP. In February of 2008, Erie County issued a Request for Proposal ("RFP") for an outside firm to perform a County-wide risk assessment. However, no funding was made available for a Risk Assessment in the 2007 through 2012 Erie County Budget. Additionally, the Erie County Fiscal Stability Authority has indicated that funding for a Risk Assessment will not be provided.

It is the opinion of the Audit Committee that a Risk Assessment, including a Fraud Risk Assessment should be performed and funding for this purpose should be provided.

Evidence of Changes to Vendor Master File

Deloitte and Touche discovered that the County no longer retains documentation evidencing review and approval of additions or edits to the vendor master file within SAP.

It is the opinion of the external auditors, and the Audit Committee agrees, that the County maintain a system to evidence that review and approval of edits to the vendor master file has occurred in accordance with the County's internal control procedures.

Classification of Book Overdrafts

The external auditors discovered on December 31, 2010, that the County had negative cash balances ("book overdrafts") in total with two banking institutions. These negative cash balances were a result of outstanding checks written on accounts with those banks.

The external auditors recommend, and the Audit Committee agrees, that during the monthly bank reconciliation process the County identify the total book balances of cash at each individual banking institution and, in any instances in which the total balance at a bank is negative, appropriately categorize that amount as a current liability.

Updating Library Accounts Receivable Estimates

During Deloitte and Touche's audit testing, they identified certain accounts receivable estimates recorded at year-end within the Library component unit which were not appropriately revised based on readily available information subsequent to year-end.

The external auditors recommend, and the Audit Committee agrees, that as part of the year-end closing process for the Library component unit, the County identify estimated accounts receivables for which actual information regarding those estimates will be readily available within a reasonable time subsequent to year-end. That actual information should be used in adjusting those estimated receivables to ensure these amounts are accurately recorded in the County's basic financial statements.

Matching Buffalo Sewer Authority Expenditures to the Appropriate Period

During Deloitte and Touche's audit testing, they identified recorded expenditures related to the County's contract with the Buffalo Sewer Authority which were not appropriately matched to the correct accounting period. The contract with the Buffalo Sewer Authority covers annual periods that do not directly coincide with the County's fiscal year.

The external auditors recommend, and the Audit Committee agrees, that a thorough review of maintenance and service agreements, such as the contract with the Buffalo Sewer Authority, be performed at year-end to ensure the contractual services are recorded in the correct accounting period.

Govern System Controls

During the period under audit, the external auditors discovered the County lacked sufficient formal policy related to access and monitoring controls of the Govern Real Property Tax database ("Govern System").

The external auditors recommend, and the Audit Committee agrees, that formal controls should be designed and implemented to ensure that the appropriate level of access to the

Govern System is granted to the appropriate individuals, and that this access is routinely reviewed to ensure that property tax records within the Govern System can only be accessed and edited by the appropriate individuals.

This recommendation mirrors a recommendation in the Erie County Comptroller's February 2010 internal audit report on the "Payment in Lieu of Tax PILOT Process" for the period January 1, 2006 through December 31, 2008.

COMMITTEE RESPONSIBILITIES

The Committee did not act or perform the functions of the type of an Audit Committee required under the Sarbanes Oxley Act of 2002, the rules and regulations of the Securities and Exchange Commission, or any similar law, rules or regulations. The Committee performed only those limited functions as are described in this report.

The Committee reviewed and discussed with management and the County's independent auditors limited aspects of year-end results contained in the, financial statements and reports. The Committee also met with a representative of the Erie County Fiscal Stability Authority and the County's internal auditors.

The Committee has very limited responsibilities and we are not acting as experts in accounting or auditing. The Committee relied without independent verification on the information provided to it and on the representations made by management and the independent auditors. Accordingly, the Committee does not provide an independent basis to determine that the County's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America or that the audit of the County's financial statements by the independent auditors has been carried out in accordance with auditing standards generally accepted in the United States of America.

Management has represented that the County's financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The Committee is in accordance with the requirements established by the Statement on Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance* which supersedes SAS 61, *Communication with Audit Committees.*

Although the Sarbanes Oxley Act applies primarily to publicly traded companies and not to government entities, we have recommended and continue to recommend that all component units of Erie County government review the provisions of this and similar laws, rules and procedures regulating governance matters generally, and take action to implement any appropriate provisions of such governance laws, rules and/or procedures. As a minimum, both the CEO and CFO of each unit of government involved with the preparation of the financial statements should certify the accuracy, correctness and completeness of the financial statements relating to his/her respective units.

We did review with the independent auditors and did consider amongst ourselves the issue of their independence from the County, including whether their performance of non-audit services is compatible with maintaining their independence. We find no issue with the independence of the auditors.

We did meet with the independent auditors and discussed the scope of their overall audit at the Audit Committee's meeting on December 17th, 2010.

The Audit Committee selects the County's external auditor as per Section 2617 of the Erie County Charter. A new external auditor, the firm of Drescher and Malecki, LLP, will assume the responsibilities of the County's external auditor for the period January 1, 2011 through December 2013 with an option for the County to extend the contract for the years 2014 and 2015. The details of contract are provided in Exhibit Three.

THE EXTERNAL AUDITORS

Significant Audit Areas

The independent auditors did list out significant audit areas for 2010. Those areas were:

- Revenue recognition
  - Performed certain fraud procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*
  - Performed substantive analytical procedures leveraging budgetary information
- Journal Entry Testing
  - Involved data quality and integrity (DQI) firm specialists in external audit testing process
  - Ensured the journal entry population reconciled to the trial balance
  - Profiled journal entries for areas of audit interest
  - Tested a sample of journal entries to endure they were supported, reviewed, and had appropriate rationale and business purpose
- Capital Assets
  - Rolled forward the capital assets balance from the previous years' balance
  - Tested additions, disposals, and depreciation expense
  - Reconciled transfers out of the Capital Improvement Plan
  - Tested management's consideration of impairment indicators under GASB ("Governmental Accounting Standards Board") Statement No. 42
- Postretirement Benefit Obligations (GASB Statements No. 45)
  - Involved Human Capital specialists to audit the assumptions and methodologies used to calculation the County's obligations
  - Tested the accuracy and completeness of underlying detail
- Workers' Compensation Self-Insurance Reserves
  - Involved Human Capital specialists to audit the assumptions and methodologies used to calculate the County's obligations
  - Tested the accuracy and completeness of underlying detail
- General Liability Self-Insurance Reserves

- Confirmed general liability cases with both internal and external legal counsel
- Assessed management's conclusions regarding the likelihood of the County's incurring a loss as a result of such cases was probable and estimable for accrual purposes
- Assessed the magnitude of cases for which there was a reasonable possibility for the County's incurring a loss.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events.

Significant accounting estimates reflected in the County's 2010 basic financial statements include:

- Postretirement benefit obligation
- Worker's compensation self-insurance reserves
- General liability reserves
- Allowance for doubtful accounts receivable
- Pollution mediation obligations
- Depreciation and useful life of capital assets

For the year ended December 31, 2010, the external auditors are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

Uncorrected misstatements and material corrected misstatements

The external auditors informed the Committee that the audit of the basic financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no uncorrected misstatements or disclosure items identified during the 2010 audit.

Other Information in the Comprehensive Annual Financial Report (CAFR)

When audited financial statements are included in documents containing other information, such as the County's CAFR, the external auditors read such information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the basic financial statements they audited. The external auditors have read the other information in the County's CAFR and have inquired as to the method of measurement and presentation of such information. The external auditors did not note any material inconsistencies or obtain knowledge of a material misstatement of fact in the other information.

Disagreements with management

The Committee has spoken with the external auditors and there are no disagreements with management related to matters that are material to the County's 2010 basic financial statements.

Significant issues discussed with management

The Committee has spoken with the external auditors and throughout the year, routine discussions were held, or were the subject of correspondence, between management and the external auditors regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that were contemplated, or reassessment of current circumstances. In the judgment of the external auditors, such discussions or correspondence were not held in connection with their retention as auditors and did not involve significant issues requiring communication with the Audit Committee.

Significant difficulties encountered in performing the audit

The Audit Committee inquired, and the external auditors responded that in their judgment, they received the full cooperation of the County's management and staff and had unrestricted access to its senior management in the performance of the 2010 audit.

Management representations

The external auditors made specific inquiries of the County's management about the representations embodied in the basic financial statements. Additionally, the external auditors requested that management provide to them the written representations the County is required to provide to its independent auditors under generally accepted auditing standards. The Audit Committee has attached to this document a copy of the representation letter the external auditors obtained from management as Exhibit One.

Independent Auditors Opinion Letters

Management of the County of Erie and the independent auditors has rendered their opinion that the financial statements of the County and ECC are in compliance with generally accepted accounting principles in the United States of America.

Independent Auditors Management Letters

At the conclusion of the 2010 audit of the County, the independent auditors noted certain matters involving the internal control and other accounting, administrative, and operating matters. These matters were referred to management in a report commonly referred to as a Management Letter.

The Management Letter is attached to this report as Exhibit Two.

Items Incorporated Into This Report by Reference

As they may relate to matters affecting financial reporting, internal controls and management responsibility, we incorporate by reference into this report, and we thereby reiterate all of the comments, recommendations contained in the audits, reports and letters issued from June 1, 2006 to the present, by the following:

1) Erie County Comptroller Mark C. Poloncarz
2) Deloitte & Touche LLP
3) NYS Comptroller Thomas DiNapoli

The Committee is not responsible for any matters relating to the budget preparation and approval. Accordingly, we make no comment regarding the budget.

Should you have any questions pertaining to comments or the contents of this report, please call the Audit Committee Secretary, Michael Szukala, at 716-858-8430.

Faithfully submitted,

AUDIT COMMITTEE FOR ERIE COUNTY

Courtland R. LaVallee

Courtland R. LaVallee Esq.
Chairman

EXHIBIT ONE

The 2010 Management Representation Letter

County of Erie
MARK C. POLONCARZ
COMPTROLLER

June 30, 2011

Deloitte & Touche LLP
Sheridan Meadows Corporate Park North
6500 Sheridan Drive, Suite 216
Williamsville, NY 14221

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Erie, New York (the "County"), as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows of the County in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The fair presentation in the basic financial statements of financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, in conformity with GAAP

b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and supplemental schedules accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements

c. The design, implementation, and maintenance of programs and controls to prevent and detect fraud, including fraud related to federal awards

d. Establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:

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a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

b. The financial statements properly classify all funds and activities, including special and extraordinary items.

c. All funds that meet the quantitative criteria in Statement No. 34 and Statement No. 37 of the Governmental Accounting Standards Board (GASB) for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

d. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

e. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

f. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

g. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

h. Deposits and investment securities are properly classified in the category of custodial credit risk.

i. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

j. Required supplementary information is measured and presented within prescribed guidelines.

k. Applicable laws and regulations are followed in adopting, approving, and amending budgets.

l. Federal awards expenditures have been charged in accordance with applicable cost principles.

2. The County has provided to you all relevant information and access as agreed in the terms of the audit engagement letter, including:

a. Summaries of actions of the County Legislature.

b. Financial records and related data for all financial transactions of the County and for all funds administered by the County. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the County and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

3. There has been no:

   a. Action taken by County management that contravenes the provisions of federal laws and New York State laws and regulations, or of contracts and grants applicable to the County

   b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.

5. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year, are immaterial, both individually and in the aggregate, to the financial statements for the year ended December 31. 2009 taken as a whole.

6. The County has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the County involving:

   a. Management.

   b. Employees who have significant roles in internal control over financial reporting.

   c. Others if the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the County received in communications from employees, former employees, analysts, regulators, or others.

9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*, except for those described in Note XV to the County's basic financial statements.

10. Significant assumptions used by us in making accounting estimates are reasonable.

11. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. We have also properly identified subrecipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.

12. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the County's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The County is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

13. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.

14. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.

15. We have:

    a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated June 2010

    b. Complied, in all material respects, with the requirements identified above in connection with federal awards

    c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations

    d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable

    e. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133

    f. Taken appropriate corrective action on a timely basis after receipt of a subrecipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements

    g. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records

h. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit

i. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities

j. Provided to you our views on the reported findings, conclusions, and recommendations for your report.

16. We are responsible for follow-up on all prior-year findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.

17. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

18. We have adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of Statement No. 14, *The Financial Reporting County*. We believe that we have properly identified and reported as a component unit of the County each organization that meets the criteria established in GASB Statement No. 39.

19. During the year ended December 31, 2010, the County adopted the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which had no effect on the County's financial positions or results of operations. The County also adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This pronouncement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The effects of GASB 53 are disclosed in Note I-N and XII-B to the basic financial statements.

20. The County has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 59, *Financial Instruments Omnibus*, which are effective for the year ending December 31, 2011; GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are effective for the year ending December 31, 2012, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, which is effective for the year ending December 31, 2013. The County is therefore unable to disclose the impact that adopting GASB Statements No. 54, 57, 59, 60, 61 and 62 will have on its financial position and results of operations when such statements are adopted.

Except where otherwise stated below, matters less than $100,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the financial statements.

21. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

22. The County has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

23. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral)

    b. Guarantees, whether written or oral, under which the County is contingently liable.

24. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events

    b. The effect of the change would be material to the financial statements.

25. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

26. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency

    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*, except for those described in Note XV to the County's basic financial statements.

27. The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

28. The County has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

29. No department or agency of the County has reported a material instance of noncompliance to us.

30. The County has identified all derivative instruments as defined by GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Statement No. 53.

31. We have identified the significant assumptions affecting derivatives which are disclosed in Note XII to the County's basic financial statements. The assumptions are reflective of management's intent and ability to carry out specific courses of action and the significant assumptions used are consistent with the Company's plans and past experience.

32. Other than those described in Note XVIII to the financial statements, no events have occurred after December 31, 2010, but before June 30, 2011, the date the financial statements were issued that require consideration as adjustments to or disclosures in the financial statements.

33. Management has disclosed whether, subsequent to December 31, 2010, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.

34. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, we believe that:

    a. The measurement methods, including the related assumptions, used in determining fair value were appropriate, consistent with market participant assumptions where available without undue cost and effort, and were consistently applied

    b. The completeness and adequacy of the disclosures related to fair values are in conformity with GAAP

    c. No events have occurred after December 31, 2010, but before June 30, 2011, the date the financial statements were issued that require adjustment to the fair value measurements and disclosures included in the financial statements.

35. The County has determined whether a capital asset has been impaired in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. In making this determination, the County considered the following factors:

    a. The magnitude of the decline in service utility is significant

    b. The decline in service utility is unexpected.

36. The County has properly identified and accounted for all pollution remediation activities in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution*

Remediation Activities. In performing this assessment, we considered whether one of the five obligating events had occurred and whether a recognition benchmark had been met. There are currently no other activities that meet the criteria in the standard for recognition of an expenditure.

37. We agree with the findings of management's expert in evaluating the actuarial valuations of post-employment health care benefits and workers' compensation and have adequately considered the qualifications of management's expert in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to management's expert with respect to values or amounts derived in an attempt to bias his or her work, and we are not aware of any matters that have affected the independence or objectivity of management's expert.

38. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.

39. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.

40. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

41. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

42. All impaired loans receivables have been properly recorded and disclosed in the financial statements.

43. The County has properly classified the exchange of an interest in expected future cash flows receivables for immediate cash payments as a sale in accordance with GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*

44. We believe that all expenditures that have been deferred to future periods are recoverable.

45. Under New York State statues, permanent bonding of general County improvements must take place within five years of the date of initial financing. The County has permanently refinanced all significant indebtedness subject to this permanent financing statute.

46. The amounts and classifications of the claims and judgments recorded in the basic financial statements are based upon information and opinions from the County Attorney.

47. No accrual has been recorded for claims for which there is a reasonable possibility of future loss. Although the outcome of these suits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material effect on the County's financial condition or results of operations.

48. The State of New York periodically audits its distribution of sales tax revenues to counties throughout the State. We believe subsequent revisions to revenues recorded as of December 31, 2010, if any, are not expected to be material.

49. At December 31, 2010, ECMCC, a component unit of the County, has recorded $23,077,000 as an accrued liability for probable third-party payor settlements. The amount of any other expenditures that may be disallowed cannot be determined at this time, although ECMCC expects such amounts to be immaterial.

50. Management has disclosed all contracts or other agreements with the County's service organizations.

51. There were no communications from the County's third-party service organizations relating to noncompliance with the County's operations at that service organization.

52. We have disclosed to you all additions or changes to the existing pension and other post-employment benefit plans.

53. We believe that the actuarial assumptions and methods used to measure post-employment liabilities and costs for financial accounting purposes are appropriate in the circumstances. These amounts have been appropriately recognized and displayed as assets, liabilities and, where applicable, net assets and changes in net assets in the entity-wide financial statements in accordance with GASB Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

54. We are unable to determine the possibility of a withdrawal liability in a multiemployer benefit plan.

55. We do not plan to make frequent amendments to our pension or other post-employment benefit plans.

56. We have no intention of withdrawing from any multiemployer plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our multiemployer plans to which we contribute.

Chris Collins

Chris Collins, Erie County Executive

Mark C. Poloncarz

Mark C. Poloncarz, Esq., Erie County Comptroller

APPENDIX A

COUNTY OF ERIE, NEW YORK
SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS
Year Ended December 31, 2010

Business-type Activities	As Reported 2010	Uncorrected Misstatements 2010 Increase (Decrease)		Results if Misstatements Are Corrected
Statement of Net Assets				
Long-term liabilities: Due in more than one year	44,923	$ (2,559)	<A>	42,364
Total net assets (Deficit)	(4,209)	$ 2,559	<A>	(1,650)
Statement of Activities				
Community College Expenses	132,556	$ (2,559)	<A>	129,997
Change in net assets	(3,744)	$ 2,559	<A>	(1,185)

	Increase (Decrease)
<A> Other Post-Employment Benefits (OPEB) Liability	
Factual Misstatement	
1. Overstatement of Erie Community College Net OPEB Obligation – December 31, 2010	
	$ 2,559

EXHIBIT TWO

The 2010 Management Letter

Deloitte.

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June 30, 2011

The Honorable County Legislature
County Executive and County Comptroller
County of Erie, New York

Dear Honorable Members, County Executive, and County Comptroller:

In planning and performing our audit of the basic financial statements of the County of Erie, New York (the "County") as of and for the year ended December 31, 2010 (on which we have issued our report dated June 30, 2011), in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, in connection with our audit, we have identified, and included in the attached Appendix, a matter involving the County's internal control over financial reporting that we consider to be a significant deficiency under standards established by the American Institute of Certified Public Accountants.

We have previously communicated a certain matter noted during our audit of the financial statements of the County for the year ended December 31, 2009, which we considered to be a significant deficiency, in our reports to management and those charged with governance dated September 24, 2010. As of the date of this report, we believe the County has not remediated this significant deficiency. We have outlined in the attached Appendix the previously-reported matter which we believe has not yet been remediated.

We have also identified, and included in the attached Appendix, other deficiencies involving the County's internal control over financial reporting and other matters as of December 31, 2010 that we wish to bring to your attention.

The definitions of a control deficiency and a significant deficiency are also set forth in the attached Appendix.

This report is intended solely for the information and use of management, the County Legislature, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Yours truly,

Deloitte & Touche LLP

SECTION I — SIGNIFICANT DEFICIENCIES IDENTIFIED IN A PREVIOUS AUDIT THAT HAVE NOT YET BEEN REMEDIATED

We identified and previously communicated the following deficiency that was concluded to be a significant deficiency in the County's internal control over financial reporting during our audit of the basic financial statements of the County for the years ended December 31, 2009. As of the date of this report, we believe this deficiency has not yet been remediated by the County:

Overall Risk Assessment

Observation — The County currently has not performed an enterprise-wide assessment of risks facing the County, including fraud risks. The enterprise risk management framework of the Committee of Sponsoring Organizations of the Treadway Commission includes five interrelated components of internal controls, one of which is risk assessment. A formal risk assessment is the cornerstone to an effective internal control program and provides the framework by which internal controls can be designed, implemented, and evaluated for effectiveness. As part of a risk assessment process, the consideration of the risk of fraud is essential to evaluating whether or not the appropriate controls are in place.

We understand that management along with professional advisors have reviewed insurance-related risks facing the County. We also understand that the County initiated a Request-for-Proposal to engage an outside firm to assist with a formally-documented enterprise-wide risk assessment process, but has not secured funds within the budget to move forward with such a project.

Recommendation — We recommend that the County's risk assessment process include formal documentation of the risks related to fraud at the entity level. Implementing this formal process will further assist management in determining whether or not they have designed the appropriate controls related to the areas of the County that are most susceptible to risk, including fraud. This risk assessment process will also provide an objective view of the County's level of controls compared to the level of risk and may provide opportunities for the County to develop a more efficient and effective control structure. It is important that this process specifically address the risks related to fraud in the financial statements to allow the County to assess if controls are in place to effectively mitigate risks related to fraud.

SECTION II — OTHER DEFICIENCIES

We identified the following other deficiencies involving the Company's internal control over financial reporting as of December 31, 2010 that we wish to bring to your attention:

Evidence of Changes to Vendor Master File

Observation — During our audit testing, we identified that the County no longer retains documentation evidencing review and approval of additions or edits to the vendor master file within SAP.

Recommendation — We recommend that the County maintain a system to evidence that review and approval of edits to the vendor master file has occurred in accordance with the County's internal control procedures. While no issues were identified related to improper edits or additions to vendor information within SAP, the validity of such edits or additions cannot be supported without a formal record-keeping system.

Classification of Book Overdrafts

Observation — At December 31, 2010, the County had negative cash balances ("book overdrafts") in total with two banking institutions. These negative cash balances were a result of outstanding checks written on accounts with those banks. While the County had positive cash balances in total when accumulating the total year-end cash balances at all banks, accounting standards require bank overdrafts to be reclassified out of cash and into a current liability. The County initially included these balances within cash, but upon our recommendation appropriately reclassified these amounts to a current liability.

Recommendation — We recommend that during the monthly bank reconciliation process the County identify the total book balances of cash at each individual banking institution and, in any instances in which the total balance at a bank is negative, appropriately categorize that amount as a current liability.

Updating Library Accounts Receivable Estimates

Observation — During our audit testing, we identified certain accounts receivable estimates recorded at year-end within the Library component unit which were not appropriately revised based on readily available information subsequent to year-end. We observed that actual information was available within a reasonable time period subsequent to year-end which suggested a revision to the recorded estimate should have been performed. Although not material to the basic financial statements, we did identify differences that required correction in the financial statements of the Library component unit.

Recommendation — We recommend that as part of the year-end closing process for the Library component unit, the County identify estimated accounts receivables for which actual information regarding those estimates will be readily available within a reasonable time subsequent to year-end. We recommend that actual information be used in adjusting those estimated receivables to ensure these amounts are accurately recorded in the County's basic financial statements.

Matching Buffalo Sewer Authority Expenditures to the Appropriate Period

Observation — During our audit testing, we identified recorded expenditures related to the County's contract with the Buffalo Sewer Authority which were not appropriately matched to the correct accounting period. The contract with the Buffalo Sewer Authority covers annual periods that do not directly coincide with the County's fiscal year. Although not material to the basic financial statements, we did identify differences between the amounts actually recorded in Expenditures as compared to the amounts that were actually incurred as Expenditures on the contract based on the service dates.

Recommendation — We recommend that a thorough review of maintenance and service agreements, such as the contract with the Buffalo Sewer Authority, be performed at year-end to ensure the contractual services are recorded in the correct accounting period.

Govern System Controls

Observation — During the period under audit, the County lacked sufficient formal policy related to access and monitoring controls of the Govern Real Property Tax database ("Govern System").

Recommendation — Although no misstatements were identified in our testing of property taxes, formal controls should be designed and implemented to ensure that the appropriate level of access to the Govern System is granted to the appropriate individuals, and that this access is routinely reviewed to ensure that property tax records within the Govern System can only be accessed and edited by the appropriate individuals.

SECTION III — DEFINITIONS

The definitions of a deficiency, a significant deficiency, and a material weakness that are established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, are as follows:

A *deficiency* in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

* * * * * *

EXHIBIT THREE

Status of Audit Contracts

STATE OF NEW YORK

LEGISLATURE OF ERIE COUNTY
CLERK'S OFFICE

BUFFALO, N.Y., July 21, 2011

TO WHOM IT MAY CONCERN:

I HEREBY CERTIFY, *That at the 16th Session of the Legislature of Erie County, held in the Legislative Chambers, in the City of Buffalo, on the* ***Twenty-First*** *day of* ***July, 2011 A.D.***, *a Resolution was adopted, of which the following is a true copy:*

WHEREAS, the contract for the audit of Erie County expires with the completion of the audit for the fiscal year ended December 31, 2010; and

WHEREAS, the Audit Committee for Erie County prepared and forwarded requests for proposal (RFP) to national and regional certified public accounting firms requesting proposals for the audits of the County for fiscal years 2011 through 2013, with an option to continue in year 2014 and 2015; and

WHEREAS, the Audit Committee's RFP and evaluation of the responses was in full compliance with paragraph C. Section 1813 of the Erie County Charter; and

WHEREAS, the winning proposal is as follows:

For the Year Ended December 31	Audit of Financial Statements	Single Audit
2011	\$89,000	\$57,500
2012	\$90,500	\$58,000
2013	\$92,000	\$58,500

Prices of a "Due Diligence" letter will vary from \$5,000 through \$15,000; and

WHEREAS, that the independent accountant will audit the state required reports of the Mental Health and Health Departments at a per-report cost as follows:

For the Year Ended December 31	Mental Health	Health Department	Other Departments
2011	\$3,750	\$3,750	\$3,750
2012	\$3,850	\$3,850	\$3,850
2013	\$3,950	\$3,950	\$3,950

and

WHEREAS, the firm Drescher & Malecki LLP was the lowest responsible bidder; and

WHEREAS, the response from Drescher & Malecki LLP complied with all aspects of the Audit Committee's RFP.

NOW, THEREFORE, BE IT

RESOLVED, that the County Executive is authorized to enter into a contract for the audit of Erie County's financial statements, to include the Federal Single Audit for fiscal years 2011 through 2013; and be it further

RESOLVED, that the contract for the audit of Erie County's financial statements shall be paid from the Comptroller's dues and fees account and will be negotiated to selected the lowest possible cost for each audit each year; and be it further

ATTEST

ROBERT M. GRABER
Clerk of the Legislature of Erie County

STATE OF NEW YORK

LEGISLATURE OF ERIE COUNTY
CLERK'S OFFICE

BUFFALO, N.Y., July 21, 2011

TO WHOM IT MAY CONCERN:

I HEREBY CERTIFY, *That at the 16th Session of the Legislature of Erie County, held in the Legislative Chambers, in the City of Buffalo, on the Twenty-First day of July, 2011 A.D., a Resolution was adopted, of which the following is a true copy:*

RESOLVED, and that such fees will also apply in the event that New York State assigns special reporting requirements to other County Departments; and be it further

RESOLVED, that should the County wish to extend the contract through the years 2014 and 2015, the fees agreed are as follows:

For the Year Ended December 31	Audit of Financial Statements	Single Audit
2014	$93,500	$59,000
2015	$95,000	$59,500

Prices of a "Due Diligence" letter will vary from $5,000 through $15,000; and be it further

RESOLVED, that the independent accountant will audit the state required reports of the Mental Health and Health Departments at a per-report cost as follows:

For the Year Ended December 31	Mental Health	Health Department	Other Departments
2014	$4,050	$4,050	$4,050
2015	$4,150	$4,150	$4,150

and be it further

RESOLVED that certified copies of this resolution be provided to the County Executive, Budget Director, Comptroller and County Attorney.

REFERENCE: COMM. 16E-15 (2011) AS AMENDED

ATTEST

ROBERT M. GRABER
Clerk of the Legislature of Erie County