

ECLEGOEC013'13 013

AUDIT COMMITTEE FOR ERIE COUNTY

2012 ANNUAL REPORT

AUDIT COMMITTEE FOR ERIE COUNTY

Contents

Concerns of the Committee	4
Internal Control Assessment/Fraud Prevention.....	4
Network Monitoring	4
Journal Entry Policy.....	4
Bank Reconciliations.....	4
Accounts Payable Procedures	5
Economic Environment	5
User Charges and Fees	5
Succession Planning.....	5
Committee Responsibilities.....	6
Independent Auditors' Opinion Letters.....	7
Exhibit One – The 2012 Management Representation Letter	8
Exhibit Two – The 2012 Management Letter	16
Exhibit Three – Status of the Audit Contracts	22

AUDIT COMMITTEE FOR ERIE COUNTY

Daniel Tirone, CPA – Chairman
Joshua P. Helm, Vice – Chairman
John P. Ford, Esq.
Hon. Lynn M. Marinelli
Hon. John J. Mills
David S. Kinda, Acting Secretary

October 8, 2013

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

Ladies and Gentlemen:

The Audit Committee for Erie County (Committee) is pleased to present its Annual Report for Erie County's (County) fiscal year ended December 31, 2012.

The Committee was established pursuant to Section 2617 of the Erie County Charter (Charter). The establishment of this committee was approved by the citizens of the 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 audits of the County and Erie Community College (ECC). Evaluate responses and make a recommendation to the Erie County Legislature (Legislature) for the selection of an accounting firm for the County's independent annual audit.
- Review the annual audits with the 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 controls 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 representations 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.

AUDIT COMMITTEE FOR ERIE COUNTY

Concerns of the Committee

Internal Control Assessment/Fraud Prevention

The County has not performed an enterprise-wide assessment of risks facing the County, including the risk of fraud. Drescher & Malecki (D & M) noted this in the prior year and in fact this same suggestion has appeared in the 2005 through 2010 Management Letters as well. In February of 2008 Erie County issued a Request for Proposals 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.

The Comptroller appreciates Drescher & Malecki's analysis of our situation as to management oversight, professional advisors, internal audit staff and the County's independent Audit Committee and the roles each play in assessing the County's internal controls. The Comptroller has taken this under consideration and will discuss with all stakeholders to determine the best course of action for the County.

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.

Network Monitoring

Our external auditors noted that Erie County's Division of Information & Support Services (DISS) should regularly monitor attempts to access the network and web filter logs. They found that the County does not regularly review web filter logs, nor the logs of successful and unsuccessful attempts at accessing the County's network.

Michael Breeden, Chief information Officer, has informed us that DISS will create a policy and procedure to effectively monitor all network and web access logs. They "will have this in place by the end of the 4th quarter".

Journal Entry Policy

The auditors found that the County's draft of the journal entry policy has not yet been incorporated into the Accounting Policies Manual for the year ended December 31, 2012.

The Comptroller has adopted and implemented the formal journal entry policy effective September 2013.

Bank Reconciliations

D & M noted that one Agency Fund bank account where the December 31, 2012 bank reconciliation was not completed until May 2013. In addition, once completed the reconciling items were not posted to the general ledger.

AUDIT COMMITTEE FOR ERIE COUNTY

The Comptroller responded that his Office is committed to the timely preparation and resolution of bank reconciliations. He is pleased to report that the majority of the 2013 monthly bank reconciliations through June 30, 2013 were completed by the end of July.

Accounts Payable Procedures

The auditors have suggested that the County implement a procedure to assist employees to better identify and account for year-end accruals.

The Comptroller agrees and will implement a procedure that includes more detailed instructions to the employees responsible for goods receipts, invoices and year-end accruals.

Economic Environment

The external auditors previously mentioned that the events within the overall economy have resulted in many challenges that have affected municipalities. Rising costs and lost revenues have contributed to the environment in which municipalities are facing both current and future economic difficulties.

Acknowledging that there are certain areas where the County has no control and cannot be proactive such as sales tax and mandates, D & M recommended that the County continue to identify areas where options may be available and costs may be reduced.

User Charges and Fees

The auditors have stated that the County may want to consider expanding the utilization of user charges and fees.

The Office of Budget and Management has responded that they understand and have noted the auditor's comments for the above two areas. "However, the comments involve normative and policy areas that require future, hypothetical policy decisions and actions by the executive and legislature. Many such decisions would involve policy and certainly political dynamics, many of which are outside of the control of the executive". As such, they cannot comment further on either of these auditor's comments at this time.

Succession Planning

D & M stated that they have concerns with respect to the challenge of ensuring continuity and consistency of service delivery due to employee turnover because certain key accountants will soon be eligible to retire. The auditors commented about the need to develop strategies concerning succession planning recommended by the Government Finance Officers Association.

AUDIT COMMITTEE FOR ERIE COUNTY

The Comptroller performed a review of the Accounting staff and recognizes the need for succession planning. A reorganization of the Office replaced several clerical positions with accounting positions.

This change was also impacted due to the fact that the vast majority of senior accounting staff is eligible to retire within three-five years. The new positions form a nucleus of replacement staff when retirements begin. In addition to the new staff, an effort has begun to document every aspect of the accounting operations in this Office. Cross-training of all accounting staff has begun. Specifically, a plan is in place to rotate all accounting staff between the major sections of the accounting division on an annual basis. This will assure adequate coverage in case of absences and retirements by making knowledge transfer a high priority. Annual reviews of staff performance have been implemented. This Office will continue to monitor the situation and believes it has laid the foundation for a successful succession plan when senior staff begins to retire to assure continuity.

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 (SOX), the rules and regulations of the Securities and Exchange Commission (SEC), 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 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 the County's financial statements have been performed 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 (SAS) No.114, *The Auditor's Communication With Those Charged With Governance* which supersedes No. SAS 61, *Communication with Audit Committees*.

Although the Sarbanes Oxley Act applies primarily to publically traded companies, and not to government entities, we have recommended and continue to recommend that all component units of County government review the provisions of this and similar laws, rules, and procedures regulating governance matters generally and take action to implement any provisions of such governance laws, rules, and/or procedures. As a minimum, both the CEO and CFO of each government unit 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.

AUDIT COMMITTEE FOR ERIE COUNTY

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. The Committee finds no issue with the independence of the auditors.

Independent Auditors' Opinion Letters

Management of the County of Erie and the independent auditors have rendered their opinion that the financial statements of the County, the New York State Department of Transportation (NYSDOT) and ECC are in compliance with generally accepted accounting principles in the United States of America.

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 the comments or content of this report, please call David Kinda at 716-858-8068.

Faithfully submitted,
AUDIT COMMITTEE FOR ERIE COUNTY

Daniel Tirone, CPA
Chairman



AUDIT COMMITTEE FOR ERIE COUNTY

Exhibit One – The 2012 Management Representation Letter



COUNTY OF ERIE
STEFAN I. MYCHAJLIW
COMPTROLLER

June 25, 2013

Drescher & Malecki LLP
3083 William Street, Suite 5
Cheektowaga, New York 14227

This representation letter is provided in connection with your audit of the basic financial statements of the County of Erie, New York (the "County"), as of and for the year ended December 31, 2012, and the related notes to the 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 and results of operations or changes in fund balances of the organization in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm that, to the best of our knowledge and belief, having made such inquiries as we consider necessary for the purpose of appropriately informing ourselves as of June 25, 2013.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated October 31, 2012, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the fair presentation of the required supplementary information, including Management's Discussion and Analysis and supplemental schedules.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

- Other than those considered trivial, there are no uncorrected misstatements.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- The following have been properly recorded and/or disclosed in the financial statements:
 - Related-party relationships and transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing agreements, and guarantees, all of which have been recorded in accordance with economic substance of the transaction.
 - Interfund transactions, including repayment terms.
 - Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
 - All off-balance-sheet derivative financial instruments (e.g. futures, options, swaps), including outstanding commitments to purchase or sell securities under forward placement and standby commitments.
 - All other liens or encumbrances on assets and all other pledges of assets.
 - Financial instruments with significant individual or group concentration of credit risk.
 - Loans that have been restructured to provide a reduction or deferral of interest or principal payments because of borrower financial difficulties.
 - The reporting entity description of the County.
 - Recently issued GASB pronouncements and the effects, if evaluated.

Information Provided

- 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. Additional information that you requested from us for the purpose of the audit: and, unrestricted access to persons within the entity from whom you determined it necessary to obtain evidence.
- Minutes of the meetings of the County Legislature, and committees thereof, or summaries of actions of recent meetings for which minutes have not yet been prepared.

- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
- There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Fraud involving County management or employees who have significant roles in internal control, and
 - Fraud involving others that could have a material effect on the financial statements.
- We have disclosed to you the results of our assessment of risk, and we have no knowledge of any allegations of fraud, or suspected fraud, affecting the County's financial statements communicated by employees, former employees, analysts, regulators, or others.
- We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- The County has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- The following, to the extent applicable, have been appropriately identified and properly recorded and disclosed in the financial statements.
 - Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - Guarantees whether written or oral, under which the County is contingently liable.
 - Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosures of Certain Significant Risks and Uncertainties*.
- There have been no:
 - 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.
 - There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Accounting Standards Codification ("ASC") 450, *Contingencies*.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC 450, *Contingencies*.

- 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.
- The County has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. We are responsible for making the accounting estimates. The County has disclosed in the financial statements all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
- We agree with the work of specialists in evaluating the liabilities for workers' compensation insurance liability, judgments and claims liability, and other postemployment benefits and have adequately considered the qualifications of the specialists 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 specialists with respect to value or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the specialist.

Compliance with OMB Circular A-133 and Draft Part 43 of NYCRR

- 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. In addition, we have accurately completed the appropriate sections of the data collection form.
- 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 controls over revenues, obligations, expenditures, assets, and liabilities.

- We have:
 - 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. The types of requirements identified include: activities allowed or unallowed; allowable costs/cost principles; cash management; Davis-Bacon Act; eligibility; equipment and real property management; matching, level of effort, earmarking; period of availability of federal funds; procurement, suspension and debarment; program income; real property acquisition/relocation assistance; reporting; subrecipient monitoring; and special tests and provisions.
 - Complied, in all material respects, with the requirements identified above in connection with federal awards.
 - 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.
 - Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations.
 - 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.
 - Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records.
 - 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.
- We are responsible for follow-up on all prior year's audit findings.
- The Schedule of Expenditures of New York Department of Transportation Assistance was prepared in accordance with the requirements of Draft part 43 of the "New York State Codification of Rules and Regulations."

Other Specific Representations


- The County is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, interfund receivables, and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

- The County's labor agreements provide for sick leave, vacations, and miscellaneous other paid absences. The County's policy is to pay employees for unused vacation, compensatory time, and sick time based on the union agreements when there is separation from service. For governmental activities, the amount is accrued in the government-wide statement of net position as long-term liabilities. For business-type activities, the full liability is recognized in both the governmental-wide statement of net position and the proprietary fund financial statements. Estimated sick leave and compensatory time accumulated by governmental fund type employees has been recorded. Payment of sick leave and compensatory time is dependent upon many factors; therefore, timing of future payments is not readily determinable. The value recorded in the government-wide financial statements at December 31, 2012 for primary government is \$27,647,218 of which \$22,692,977 has been recorded within governmental activities as a non-current liability, and \$4,954,241 for business-type activities. Management believes that sufficient resources will be made available for the payments of sick leave and compensatory time when such payments become due.
- The County reports nonspendable, restricted, assigned and unassigned fund balances. The County has nonspendable balances of \$12,681,190, restricted balances of \$111,177,576, assigned balances of \$53,697,530 and an unassigned balance of \$87,823,184 within its governmental funds for the year ended December 31, 2012.
- The governmental activities reported a total net deficit of \$14,401,000 at December 31, 2012 resulting from ETASC's net deficit of \$279,944,763 that is caused by its recognition of bonds payable with no offsetting capital assets. This deficit is planned to be remedied through scheduled payments on the outstanding debt. Tobacco settlement bonds are payable only from the assets of ETASC and are not legal obligations of the County.
- Management has evaluated subsequent events through June 25, 2013, which is the date the financial statements are available for issuance, and have determined with the exception of the items noted below, there are no subsequent events that require disclosure under generally accepted accounting principles.

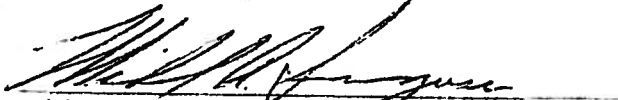
The ECFSA issued bonds in the amount of \$25,635,000 on April 4, 2013, with interest rates of 2.726% to 5.000% and a final maturity of March 15, 2024. On the same date, the County issued mirror bonds in the amount of \$25,635,000 to the ECFSA.

On April 4, 2013, the ECFSA issued bonds in the amount of \$31,135,000 to advance refund \$31,975,000 of outstanding 2003B, 2004A, 2004C and 2005A public improvement bonds of the County maturing in the years 2023, 2015, 2024 and 2020, respectively. The interest rates on the refunding bonds are 2.00% to 5.00% and have a final maturity of January 15, 2024. On the same date, the County issued mirror bonds in the amount of \$31,135,000 to the ECFSA.

- In addition to the audit services, Drescher & Malecki LLP has assisted the County in compiling the federal financial assistance schedules for the year ended December 31, 2012. In conjunction with the compilation of the financial statements the County has performed the following functions:
 - Made all management decisions and perform all management functions.
 - Designated James Dziekan, Director of Accounting Services, whom we believe has suitable skill, knowledge and/or experience who has overseen this service.
 - Evaluated the adequacy and results of the services performed.
 - Accepted responsibility for the results of the services.
- County management understands that Drescher & Malecki LLP has not performed any management functions or made management decisions on behalf of the County. Any nonattest services were performed in accordance with applicable professional standards issued by the American Institute of Certified Public Accountants.


Mark C. Poloncarz, Esq., County Executive


Stefan I. Mychajliw, County Comptroller


Michael A. Siragusa, Esq., County Attorney

AUDIT COMMITTEE FOR ERIE COUNTY

Exhibit Two – The 2012 Management Letter

Drescher & Malecki LLP
3083 William Street, Suite 5
Cheektowaga, New York 14227
Telephone: 716.565.2299
Fax: 716.565.2201



Certified Public Accountants

June 25, 2013

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

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, 2012, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the County's internal control over financial reporting ("internal control") 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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 a 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.

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 material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, during our audit we identified certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated June 25, 2013 on the financial statements of the County. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience or perform any additional study of these matters. Our comments are summarized in Exhibit I.

We also summarized new reporting requirements in Appendix A. These should be evaluated to determine the extent the County will be impacted in the future years.

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Drescher & Malecki LLP

June 25, 2013

Network Monitoring

Erie County's Division of Information & Support Services ("DISS") should regularly monitor attempts to access the network and web filter logs. While discussing monitoring activities with DISS, it was noted that the County does not regularly review web filter logs, nor the logs of successful and unsuccessful attempts at accessing the County's network.

The web filter reduces the amount of websites network users can access. In addition, reviewing the logs routinely will help DISS monitor how well users are complying with the computer use policy and possibly suggest other websites to block. Although the County has an annual intrusion detection test performed, routinely reviewing the log of user access to the network would allow for increased awareness of user logs at unusual times or if there are numerous logged error messages, which could indicate a problem or an attempted attack by an intruder.

Journal Entry Policy

A formal journal entry policy aids in the day to day operations of the County and will ensure consistency is maintained in the event of a change in personnel or the types of transactions that occur. During our testing of controls surrounding journal entries, we noted that the County has drafted a formal policy detailing the procedures for the preparation and recording of journal entries; however, this policy was not yet incorporated in their Accounting Policies Manual for the year ended December 31, 2012.

We recommend that the County adopt and implement their drafted formal journal entry policy.

Bank Reconciliations

During our audit we noted one Agency Fund bank account for which the December 31, 2012 bank reconciliation was not completed until May 2013. However, once completed, no operating statement or fund balance accounts were affected. In addition, we noted reconciling items that had not been posted to SAP to adjust the 2012 cash control balances. The County should make an effort to perform bank reconciliations on a monthly basis and address, investigate and resolve all reconciling items in a timely manner.

We recommend that all bank accounts be reconciled monthly to the general ledger and that all reconciling items be promptly investigated and resolved.

Accounts Payable Procedures

The County should review its year-end accounts payable procedures to ensure accurate reporting of expenses to the appropriate fiscal year. During our testing of subsequent disbursements, we noted several instances where goods and/or services purchased in 2012 were not properly accrued at December 31, 2012.

We recommend the County implement a procedure that assists employees to better identify and account for year-end accruals.

Internal Control Assessment/ Fraud Prevention

Similar to prior year, 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 continued to review insurance-related risks facing the County. Additionally, the County Comptroller's Office maintains an internal audit function, which assists in mitigating risk related to the absence of an overall risk assessment by ensuring appropriate and effective controls are established throughout the County's accounting cycles. The County also has an independent audit committee charged with oversight of the County's audit and control functions. County management has demonstrated a tone at the top that establishes expectations and provides a working environment which promotes quality and integrity in their performance.

We recommend that the County further consider formalizing its risk assessment process.

Economic Environment

As mentioned in our prior letter, the events within the overall economy have resulted in many challenges that have affected municipalities. Rising costs and lost revenues have contributed to an environment in which municipalities are facing both current and future economic difficulties. Some of these economic events include: Sales tax—while the County has met its budget goal, it has potential for declines, should the economy experience a shrinking period; Retirement system—the New York State Retirement System has doubled employer contributions from a few years ago; General wage increases—personnel expenditures account for a significant portion of total expenditures. Any raises provided to employees will result in an overall increase in personal expenditures, and will impact certain employee benefits as well.

While there are certain areas noted above where the County has no control and cannot be proactive to address the situation (i.e., sales tax, mandates, etc.), we recommend the County to continue identifying areas where options may be available and costs may be reduced, such as: consolidation of services, elimination of services, utilization of user fees, and wage concessions.

User Charges and Fees

The County may want to consider expanding the utilization of user charges and fees. User charges offer several advantages over taxes. One, they potentially provide the same information to public-sector decision makers that prices provide to private-sector producers: what to produce, and for whom to produce it. Two, user charges can lessen the possibility of oversupply or waste of public goods and services. Charges allow the consumer to see the link between the price paid and service provided, a disconnect that exists with taxes. Three, fees and charges represent another source of revenue that is often more accepted than taxes. Four, absent subsidies, users of services are the only ones that must pay for services financed by user charges. Five, charges and fees reduce subsidies to nonresidents and tax-exempt properties. Financing goods and services through general taxation excludes those who do not pay taxes but may utilize certain services.

EXHIBIT I

In order for the County to evaluate the appropriateness of additional user charges, we recommend they implement the following steps:

- Identify services or activities that could be appropriate for user-charge financing.
- For those services and activities identified as candidates for user charges, cost data should be collected.
- A pricing approach should be selected.
- The County should attempt to determine the public's reaction to the imposition and address appropriately.

Succession Planning

The County continues to face the challenge of ensuring continuity and consistency of service delivery due to employee turnover. Certain key accountants will soon be eligible to retire. While we applaud the County's actions to add accountants to the Comptroller's Office, the County should consider the following key issues and develop strategies concerning succession planning recommended by the Government Finance Officers Association:

- Develop an integrated approach to succession management.
- Continually assess potential employee turnover.
- Provide a formal, written succession plan as a framework for succession initiatives.
- Continually develop written policies and procedures to facilitate knowledge transfer.
- Development of leadership skills should be a key component of any succession planning initiative.
- Encouragement of personal professional development activities should be a key part of the succession planning effort.
- Design of better recruitment and retention practices may aid in the succession process.
- Consideration must be given to collective bargaining agreements and civil service requirements and how those agreements fit in with the overall succession plan.
- Consider non-traditional hiring strategies.

NEW REPORTING REQUIREMENTS

The Governmental Accounting Standards Board ("GASB") has adopted several new pronouncements, which may have a future impact upon the County:

GASB Statement No. 61—The County is required to implement GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, effective for the fiscal year ending December 31, 2013. This statement amends Statement No. 14, *The Financial Reporting Entity* and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements.

GASB Statement No. 66—The County is required to implement GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, effective for fiscal year ending December 31, 2013. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GASB Statement No. 67—The County is required to implement GASB Statement No. 67, *Financial Reporting for Pension Plans*, effective for fiscal year ending December 31, 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans.

GASB Statement No. 68—The County is required to implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for fiscal year ending December 31, 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

GASB Statement No. 69—The County is required to implement GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for fiscal year ending December 31, 2014. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations.

GASB Statement No. 70—The County is required to implement GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the fiscal year ending December 31, 2014. The objective of this Statement is to enhance comparability among governments and information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees.

AUDIT COMMITTEE FOR ERIE COUNTY

Exhibit Three – Status of the 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

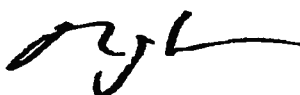
WHEREAS, the response from Drescher & Malecki LLP complied with all aspects of the Audit Committee's RFP.

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