

AUDIT COMMITTEE FOR ERIE COUNTY

ANNUAL REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2013

AUDIT COMMITTEE FOR ERIE COUNTY

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AUDIT COMMITTEE FOR ERIE COUNTY

Daniel Tirone, CPA – Chairman
Joshua P. Heim, Vice – Chairman
John P. Ford, Esq.
Hon. John J. Mills
Hon. Betty Jean Grant
David S. Kinda, Acting Secretary

October 14, 2014

Honorable Members of the County
Legislature and the 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, 2013.

The Committee was established in 1985 pursuant to Section 2517 of the Erie County Charter (Charter). The establishment of this committee was approved by the citizen's 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 the 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.

County 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 the internal controls over financial reporting; and procedures designed to ensure compliance with accounting standards and applicable laws and regulations. Our Committee has oversight responsibilities only and our role is not meant to be as experts in accounting and auditing. We rely without independent verification on the information provided to us and on the representations made by management regarding the effectiveness of internal control over financial reporting, that the 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 controls over financial reporting.

AUDIT COMMITTEE FOR ERIE COUNTY

Concerns of the Committee

1. Classification of Leases

The County does not have a formalized plan for the evaluation of leases as to whether amounts should be classified as operating or capital. Drescher & Malecki (D & M), the independent auditors, recommended that the County review the specified criteria for capital leases contained in GASB and develop a policy to ensure leases are appropriately evaluated prior to their inception.

The Comptroller's office will be adopting a Special Application Accounting policy to require that new leases be evaluated and classified in accordance with Government Accounting Standards Board (GASB) standards.

2. Succession Planning

Because certain key accountants will soon be eligible to retire, the County faces the challenge of ensuring continuity and consistency of service delivery due to employee turnover. The auditor's recommended that the County develop strategies concerning succession planning as recommended by the Government Finance Officers Association.

The Comptroller's office is aware of their accountants turnover potential. Civil Service exams are periodically given for accounting positions. Active Civil Service lists are available for accountants. It is expected that a Civil Service test will be given in early 2015 for their accounting positions that will make a Civil Service list available. Policies and procedures are in place in the Comptroller's office for all accounting tasks.

3. Asset Inventory

While there are established policies and procedures in place to track and document departmental inventory, the County did not adequately update and maintain some inventory schedules. Recommendations by D & M included taking steps to ensure compliance with the redistributed policies and procedures and the performance of periodic surprise inventory counts.

The County will follow-up with any departments not returning the required annual physical inventory and certification to emphasize the importance of compliance with the established policy and procedure. Periodic surprise inventory counts will be conducted to verify their inventories are complete and correct.

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4. Due Diligence on Bank and Treasury Management Providers

The County has the fiduciary duty to protect and safeguard the public funds entrusted to them, one of which is the proper selection of, and ongoing oversight of, bank depositories and treasury management service providers. County management should review the quarterly Call Reports of key counterparty banks and establish a working knowledge of those financial standards and risk based ratios as part of ongoing due diligence and management of banking relationships.

The Comptroller's Office recently completed a RFP process for all banking services. They are in the process of changing banks for certain services. As part of that process all of the reports noted were reviewed for all banks that participated in the RFP process. The Comptroller's office has put in place the on-going review process as suggested.

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 the regulations of the Securities and Exchange Commission, or any similar laws, rules, or regulations. The Committee performed only those limited functions as are described in this report.

The Committee reviewed and discussed with management limited aspects of year-end results contained in the financial statements and reports.

As stated on page 2 of this report, the Committee has limited responsibilities and relies on the representations of 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 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*.

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 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 government unit involved with

AUDIT COMMITTEE FOR ERIE COUNTY

the preparation of the financial statements should certify the accuracy, correctness, and completeness of the financial statements relating to his/her respective units.

The Committee selects the County's external auditors per Section 2517 of the Erie County Charter. The initial three year term for D & M expired December 31, 2013. The contract provides for the extension of the contract through the years 2014 and 2015. We recommend that the County extend the contract with Drescher & Malecki for the year ending December 31, 2014.

New Reporting Requirements

The County of Erie has implemented the following GASB Statements for the year ended December 31, 2013. GASB Statements No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, and No. 66, *Technical Correction—2012—an amendment of GASB Statements No. 10 and No. 62*.

GASB Statement No. 61 clarifies the manner in determining whether or not an organization should be included as a component unit, and GASB Statement No. 66 improves accounting and financial reporting for a government entity.

These GASB Statements, No. 61 and No. 66, did not have a material impact on the County's financial position or results from operation.

Recent Accounting Pronouncements and Uniform Guidance

In late 2013, the U.S. Office of Management and Budget (OMB) published guidance in the Federal Register entitled *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* with the intent to streamline the federal grant-making and monitoring process, to ease administrative burden for grant applicants and recipients, and to reduce the risk of waste, fraud and abuse. The County should comply with the provisions of the OMB's Uniform Guidance.

We have been informed that the County will communicate the relevant provisions of the new OMB Guidance related to Federal Awards, including the effective date of the fiscal year ending December 31, 2015, to all County departments.

Further, the Government Accounting Standards Board (GASB) has adopted several new pronouncements which may have a future impact upon the County. Effective for the year ending December 31, 2014, the County is required to implement GASB Statement No. 67 (*Financial Reporting for Pension Plans*); GASB Statement No. 69 (*Government Combinations and Disposals of Government Operations*); and GASB Statement No. 70 (*Accounting and Financial Reporting for Nonexchange Financial Guarantees*). Then effective for the fiscal year ending December 31, 2015, the County is required to

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implement GASB No. 68 (*Accounting and financial Reporting for Pensions*) and GASB No.71 (*Pension Transition for Contributions Made Subsequent to the Measurement Date*).

Internal Control

An audit of financial statements includes consideration of 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 entity's internal control over financial reporting. As part of their audit D & M considered the internal control of the County solely for the purpose of determining their audit procedures and not to provide any assurance concerning such internal control. Accordingly, D & M did not express an opinion on the effectiveness of the County's internal control over financial reporting.

Auditor's Opinion

Drescher & Malecki have rendered an opinion that the financial statements of the County of Erie for the year ended December 31, 2013 present fairly, in all material respects, the respective 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 of the County.

The Audit Committee for Erie County 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 regarding the contents of this report, please contact me at 674-2665 Ext. 101 or David Kinda at 858-8068.

Respectfully submitted,

AUDIT COMMITTEE FOR ERIE COUNTY



Daniel Tirone, CPA
Chairman

AUDIT COMMITTEE FOR ERIE COUNTY

Exhibit One – Representation Letter



COUNTY OF ERIE STEFAN I. MYCHAJLIW COMPTROLLER

June 12, 2014
Drescher & Malecki LLP
3083 William Street, Suite 5
Cheektowaga, New York 14227

Dear Thomas P. Malecki:

This representation letter is provided 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 December 31, 2013 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of the County in conformity with accounting principles generally accepted for governments in the United States of America ("U.S. GAAP").

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 the light of surrounding circumstances, make 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 that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of June 12, 2014.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated November 7, 2013, for the preparation and fair presentation of the financial statements of the various opinion units 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 design, implementation, and maintenance of internal control to prevent and detect fraud.

- 1 -

ERIE COUNTY OFFICE BUILDING • 95 FRANKLIN STREET • ROOM 1100 • BUFFALO, NEW YORK • 14202-3972
TELEPHONE: (716) 858-8400 • FAX: (716) 858-6195 • INTERNET: www.erie.gov

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- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 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.
- The effects of any uncorrected misstatements during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.

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- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regards to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have 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 audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

AUDIT COMMITTEE FOR ERIE COUNTY

- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The County has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which the County is contingently liable.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

AUDIT COMMITTEE FOR ERIE COUNTY

- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - Unasserted claims or assessments that our lawyers have advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
- The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- We agree with the findings 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 the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

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

With respect to federal and state awards, we represent the following to you:

- We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.
- We acknowledge our responsibility for presenting the schedule of expenditures of federal awards ("SEFA") in accordance with the requirements of OMB Circular A-133 Section 310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 Section 310.b. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
- We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and included in the SEFA made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated

AUDIT COMMITTEE FOR ERIE COUNTY

surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

- We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you 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 major program.
- We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- We have received no requests from a federal agency to audit one or more specific programs as a major program.
- We have complied with the direct and material compliance requirements, including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement, relating to federal awards and have identified and disclosed to you all amounts questioned an all known noncompliance with the requirements of federal awards.
- We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

AUDIT COMMITTEE FOR ERIE COUNTY

- We have made available to you all documentation related to compliance with the direct material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), subsequent to the date as of which compliance was audited.
- Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
- We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipient's auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.
- We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- We have charged costs to federal awards in accordance with applicable cost principles.
- We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- We are responsible for and have accurately prepared the audit section of the Data Collection Form as required by OMB Circular A-133.

AUDIT COMMITTEE FOR ERIE COUNTY

- We are responsible for preparing and implementing a corrective action plan for each audit finding.
- 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

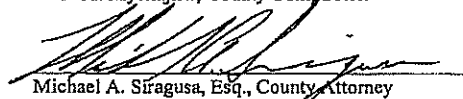
- The County is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, interfund receivables, and accounts receivables, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
- No department or agency of the County has reported a material instance of noncompliance to us.
- 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, 2013 for primary government is \$25,872,663 of which \$21,804,584 has been recorded within governmental activities as a non-current liability, and \$4,068,079 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 \$13,830,753, restricted balances of \$152,998,636, assigned balances of \$52,221,440 and an unassigned balance of \$89,106,541 within its governmental funds for the year ended December 31, 2013.
- The governmental activities reported a total net deficit of \$35,453,000 at December 31, 2013 resulting from ETASC's net deficit of \$284,312,930 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 12, 2014, which is the date the financial statements are available for issuance, and have determined that there are no subsequent events that require disclosure under generally accepted accounting principles.

AUDIT COMMITTEE FOR ERIE COUNTY

- 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, 2013. 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 – 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 12, 2014

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, 2013, 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 opinions 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.

We did identify 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 12, 2014 on the financial statements of the County (which report refers to other auditors). We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. 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 12, 2014

AUDIT COMMITTEE FOR ERIE COUNTY

EXHIBIT 1

Classification of Leases

The County does not have a formalized policy for the evaluation of leases as to whether amounts should be classified as operating or capital. We identified areas in which the County was unable to accurately provide essential information to determine the lease classification. Prior to the inception of a lease, the County should evaluate the specified criteria to determine the proper treatment and classification of such transaction in accordance with Governmental Accounting Standards Board ("GASB"). The County should design and implement procedures to reasonably estimate the economic useful life, present value of the minimum lease payments and fair market value of the lease.

We recommend that the County review the specified criteria for capital leases contained in GASB and develop a policy to ensure leases are appropriately evaluated prior to their inception.

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, prepare written policies and procedures, and perform cross-training of various job responsibilities within 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:

- Continually assess potential employee turnover.
- Develop listing of candidates for key accounting positions.
- 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.

Asset Inventory

The County has established policies and procedures to ensure departmental inventory is periodically tracked and documented; however, while performing tests of controls we noted that the County did not update and maintain some inventory schedules during the 2013 fiscal year.

We recommend that the County redistribute the inventory tracking policy and procedure to applicable County personnel to emphasize its importance and to ensure its compliance. This will help strengthen the safeguarding of assets and reliability of inventory schedules. Further, the County should perform surprise inventory counts to gain confidence that items recorded by the departments are, in fact, available.

Due Diligence on Bank and Treasury Management Providers

The County has the fiduciary duty to protect and safeguard the public funds entrusted to them, one of which is the proper selection of, and ongoing oversight of, bank depositories and treasury management service providers. County cash and near-cash assets are processed and held by banks and their third-party partners; therefore, it is important to carefully choose bank vendors and to

AUDIT COMMITTEE FOR ERIE COUNTY

EXHIBIT I

perform on-going supervision and evaluation of each bank that processes and/or holds government assets. As part of a due diligence program, County management should review the quarterly and annual financial reports of key counterparty banks as well as summary reports retrieved from each bank's regulator. These quarterly summary reports are known as Call Reports. Regulators establish certain key publicly reported financial standards for banks, such as the Total Risk Based Capital Ratio, the Tier 1 Risk Based Capital Ratio or the Leverage Ratio. Banks must maintain sufficient book equity capital to meet the regulatory minimums otherwise the regulator will require that the bank raise new capital.

The Government Finance Officers Association ("GFOA") recommends that government treasury practitioners review the regulated banks and regulated and non-regulated bank partners that process, validate, transfer, disburse and "hold on deposit" cash and near cash assets and apply prudent due diligence throughout the life of the relationship. As part of the ongoing due diligence and prudent management of relationships, the GFOA further recommends that governments evaluate their key bank(s) and issue an internal Bank Review Summary on a quarterly basis. In addition to monitoring and reporting, the government's operating relationship with a bank processor of cash and near cash assets should be managed pro-actively.

Implementing OMB Uniform Guidance

In late 2013, the U.S. Office of Management and Budget ("OMB") published final guidance in the Federal Register entitled *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). The Uniform Guidance supersedes and combines the requirements of eight previous OMB Circulars (including, but not limited to, A-133) with the intent to streamline the federal grant-making and monitoring process, to ease administrative burden for grant applicants and recipients, and to reduce the risk of waste, fraud and abuse. The Uniform Guidance is located in Title 2, Part 200 of the *Code of Federal Regulations*. State and local governments need to take appropriate steps to ensure that they comply fully with the new Uniform Guidance, which sometimes differs in subtle, but important ways from previous guidance.

The County should take all of the following steps to ensure they fully comply with the provisions of the OMB's Uniform Guidance:

- Communicate to all agencies, departments, and personnel throughout the County that the requirements for federal awards have changed.
- Inform its agencies, departments, and personnel that the Uniform Guidance is first effective for audits for the fiscal year ending December 31, 2015.
- Determine what monitoring activity may be necessary for any recipients that no longer will obtain a Single Audit or a program-specific audit because the Uniform Guidance raised the spending threshold from \$500,000 to \$750,000.
- For subrecipients that will require monitoring, the subaward agreement should include: 1) all of the requirements that must be met by the subrecipient to ensure that the federal award is used in accordance with federal statutes, regulations, and the specific terms and conditions of the federal award; and 2) any additional requirements that the subrecipient must meet for the County to fulfill its own responsibility to the federal awarding agency, including identification of any required financial and performance reports.
- Identify what, if any, specific performance measurement requirements relate to a particular federal award to ensure that the County will be able to comply with them.

AUDIT COMMITTEE FOR ERIE COUNTY

APPENDIX A

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. 67—The County is required to implement GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, effective for the 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—an amendment of GASB Statement No. 27*, effective for the 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 the 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 of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees.

GASB Statement No. 71—The County is required to implement GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The provisions of this Statement should be applied simultaneously with the provisions of Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

AUDIT COMMITTEE FOR ERIE COUNTY

Exhibit Three – Audit Contract

Refer to pages 22 through 27

AUDIT COMMITTEE FOR ERIE COUNTY

THIS AMENDMENT, made this 30th day of NOVEMBER, 2014 by and between

THE COUNTY OF ERIE, a municipal corporation of the State of New York, having its offices and principal place of business at 95 Franklin Street, Buffalo, New York 14202

(hereinafter referred to as the "County"),

and

DRESCHER & MALECKI LLP, a New York limited liability partnership, having its offices and principal place of business at 3083 William Street, Suite 5, Cheektowaga, New York 14227.

(hereinafter referred to as the "Accountant")

WHEREAS, on or about November 10, 2011, the County entered into an agreement, on file with the County Law Department as Doc. No.11-890-Co, with the Accountant pursuant to which the Accountant perform independent audits of the County's Basic Financial Statements and related services (the "Agreement"); and

WHEREAS, the term of the Agreement was for a period of three (3) years, commencing with the fiscal years ending December 31, 2011, 2012 and 2013, with an option, upon mutual agreement, to extend the agreement for the fiscal years ending December 31, 2014 and 2015; and

WHEREAS, the parties would like to exercise the extension option for the fiscal years ending December 31, 2014 and 2015 on the same terms and conditions and at fees stated herein.

NOW, THEREFORE, in consideration of the promises and covenants herein, the parties agree as follows:

1. The Agreement between the County and Accountant is hereby extended for the fiscal years ending December 31, 2014 and 2015.

AUDIT COMMITTEE FOR ERIE COUNTY

2. In consideration for services rendered during the term of this Amendment,

County shall pay the Accountant amounts not to exceed the fees hereinafter stated for services set forth in the Agreement as follows:

<u>Fiscal Year ending 12/31</u>	<u>Audit of Financial Statements</u>	<u>Single Audit</u>
2014	\$93,500	\$59,000
2015	\$95,000	\$59,500

Price of a "Due Diligence" letter will vary from \$5,000 to \$15,000.

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

<u>Fiscal Year ending 12/31</u>	<u>Mental Health</u>	<u>Health Dept.</u>	<u>Other Depts.</u>
2014	\$4,050	\$4,050	\$4,050
2015	\$4,150	\$4,150	\$4,150,

3. Except as otherwise provided herein, all other terms and conditions of the Agreement shall remain in full force and effect.


AUDIT COMMITTEE FOR ERIE COUNTY

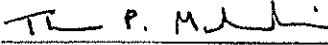
4. This Amendment shall not be enforceable until signed by all parties and approved by the Office of the County Attorney.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment.

THE COUNTY OF ERIE

DRESCHER & MALECKI LLP

By: 
Name: Mark C. Poloncarz/Richard Tobe
Title: County Executive/Deputy County Executive
Date: 10/30/14

By: 
Name: THOMAS P. MALECKI
Title: OFFICE MANAGING PARTNER
Date: 9/11/14

Approved as to content

Electronically Signed

By: _____
Name: Stefan I. Mychajliw
Title: Erie County Comptroller
Date: _____

Approved as to form

Electronically Signed

Assistant County Attorney
Doc. No. _____
Date _____

3 of 3

11-890-Co (Amend. 1)

AUDIT COMMITTEE FOR ERIE COUNTY



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
9/15/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER Edmund D Stevens Inc 374 Delaware Avenue, Suite 308 Buffalo NY 14202-1683	CONTACT William Hobson PHONE (716) 856-3387 FAX (716) 856-5890 E-MAIL Address: whobson@stevensagency.com												
INSURED Drescher & Malecki LLP 3083 William St Suite 5 Cheektowaga NY 14227	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="text-align: left;">INSURER(S) AFFORDING COVERAGE</th> <th style="text-align: left;">NAIC #</th> </tr> <tr> <td>INSURER A General Casualty Co. of WI</td> <td>24414</td> </tr> <tr> <td>INSURER B:</td> <td></td> </tr> <tr> <td>INSURER C:</td> <td></td> </tr> <tr> <td>INSURER D:</td> <td></td> </tr> <tr> <td>INSURER E:</td> <td></td> </tr> </table>	INSURER(S) AFFORDING COVERAGE	NAIC #	INSURER A General Casualty Co. of WI	24414	INSURER B:		INSURER C:		INSURER D:		INSURER E:	
INSURER(S) AFFORDING COVERAGE	NAIC #												
INSURER A General Casualty Co. of WI	24414												
INSURER B:													
INSURER C:													
INSURER D:													
INSURER E:													

COVERAGES CERTIFICATE NUMBER: CL1402101598 REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

POLICY	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECT DATE	POLICY EXPIRATION DATE	LIMITS
A	GENERAL LIABILITY	CC0602066	9/1/2014	9/1/2015	EACH OCCURRENCE \$ 1,000,000
	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY				AGGREGATE PER YEAR \$ 1,000,000
	<input type="checkbox"/> CLAIMS MADE <input checked="" type="checkbox"/> OCCUR				DEDUCTIBLE (Any one policy) \$ 5,000
	GEN'L AGGREGATE LIMIT APPLIES PER				PERSONAL & ADVISORY \$
<input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PRO <input type="checkbox"/> LOC					ANNUAL AGGREGATE \$ 2,000,000
A	AUTOMOBILE LIABILITY	CC0602066	9/1/2014	9/1/2015	COMBINED SINGLE LIMIT (Each auto) \$
	<input type="checkbox"/> ANY AUTO				BODILY INJURY (Per person) \$
	<input type="checkbox"/> ALL OWNED AUTOS				BODILY INJURY (Per accident) \$
	<input type="checkbox"/> HIRED AUTOS				PROPERTY DAMAGE (Per accident) \$
<input type="checkbox"/> SCHEDULED AUTOS					
A	UMBRELLA LIAB	CC0602066	9/1/2014	9/1/2015	EACH OCCURRENCE \$ 5,000,000
	<input checked="" type="checkbox"/> EXCESS LIAB				AGGREGATE \$ 5,000,000
	<input type="checkbox"/> OCCUR				
	<input checked="" type="checkbox"/> CLAIMS MADE				
<input type="checkbox"/> RETENTION \$ 10,000					
A	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY	CC0602066	9/1/2014	9/1/2015	EL EACH ACCIDENT \$ 100,000
	<input type="checkbox"/> ANY PROPRIETOR PARTNER EXECUTIVE				EL DISEASE - EMPLOYEES \$ 100,000
	<input type="checkbox"/> OFF-CERTIFICATE EXCLUDED?				EL DISEASE - POLICY LIMIT \$ 500,000
	<input type="checkbox"/> (Mandatory in NJ)				
YES Describe under DESCRIPTION OF OPERATIONS below					

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
 The general liability includes additional insureds if required by contract. The umbrella coverage is follow form over primary coverage.

CERTIFICATE HOLDER County of Erie 95 Franklin St Buffalo, NY 14202	CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE Peter Stevens/BILL <i>Peter Stevens</i>
--	---

AUDIT COMMITTEE FOR 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:

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

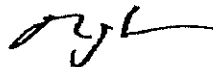
WHEREAS, the response from Drescher & Malecki LLP complied with all aspects of the Audit Committee's RFP.

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

AUDIT COMMITTEE FOR 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

