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ERIE COUNTY COMPTROLLER

HON. STEFAN I. MYCHAJLIW

September 29, 2016

The Erie County Legislature
92 Franklin Street
Buffalo, New York 14202

Honorable Mark C. Poloncarz
Erie County Executive
95 Franklin Street
Buffalo, New York 14202

Dear Honorable Members and County Executive Poloncarz:

Enclosed is a copy of the external auditor's (Drescher & Malecki LLP) Management Letter (M/L) for Erie County for the year ended December 31, 2015.

Please be advised that although the M/L is dated June 21, 2016, this represents the date that the external auditors completed their audit and field work for the 2015 audit. The letter was actually issued September 26, 2016 by Drescher & Malecki.

If you have any questions regarding the 2015 M/L, please contact me at 858-8400.

Very truly yours,

Stefan I. Mychajliw
Erie County Comptroller

SIM/cm
Enclosure
c: Robert W. Keating, Director, Budget and Management
Erie County Audit Committee Members
Drescher & Malecki LLP (without Enclosure)

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Drescher & Malecki LLP
3083 William Street, Suite 5
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Telephone: 716.565.2299
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Certified Public Accountants

June 21, 2016

Honorable County Legislature,
County Executive, County Comptroller and Audit Committee
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, 2015, 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 audit procedures that are appropriate in the circumstances 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.

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 21, 2016 on the financial statements of the County. We will review the status of these comments during our next audit engagement. Our comments and recommendations, which have been discussed with the appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. Our comments are summarized in Exhibit I.

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 21, 2016

Succession Planning

In instances where key employees are becoming eligible to retire, there is a concern that not enough qualified or available workers will be prepared to replace them.

The Government Finance Officers Association ("GFOA") encourages governments to address the following key issues and develop strategies concerning succession planning.

- ***Develop an integrated approach to succession management***—Organizations with an integrated, rather than "just-in-time," approach to succession management experience higher retention rates, increased employee morale, and an environment that stimulates innovation and organizational change. There are some positions in an organization that are more critical than others. A successful succession plan should place a high priority on planning for a smooth change in such positions. It is a benefit to hire and train replacements prior to the separation of current employees. Key components of an integrated succession management approach include: workforce planning, succession planning, knowledge management practices, and recruitment and retention practices.

- ***Continually assess potential employee turnover***—Making career planning discussions a part of a regular and ongoing performance review process assists in assessing potential turnover. Department heads are a good resource in helping to identify employees that may be planning to leave.

- ***Provide a formal, written succession plan as a framework for succession initiatives***—Without a formal plan, workforce/succession planning tends to take place in a haphazard fashion. A formal plan identifies risks and strategies, thereby providing a guiding framework for specific succession initiatives, including how employees are eligible to participate and what being part of the succession plan means. Plans that have been thoughtfully articulated and communicated to the organization are more likely to be successful. Additionally, having a formal plan indicates organization and leadership commitment to succession management, which is critical for success and for sustaining successful planning across political and leadership transitions.

- ***Develop written policies and procedures to facilitate knowledge transfer***—Knowledge transfer is a critical component of succession management. There should be written procedures in place to formalize the knowledge transfer. A meeting should be held with departing staff to document job responsibilities.

- ***Design of better recruitment and retention practices may aid in the succession process***—Many organizations will focus more on recruiting the new employee and less on orienting the person to the position and the ongoing development of the employee. Making sure pay levels are competitive with the market place is one means of retaining employees. Providing career advancement opportunities for employees is another means of retention.

Tax Cap Override

New York State has implemented a tax cap for certain local municipalities, including the County of Erie. While we salute the objective of the tax cap and its attempt to ensure a prudent use of tax payer resources, we encourage municipalities to consider the potential effect on the services provided to citizens.

Taxpayer revenue is derived through the budget process from several factors that are not directly tied to the value of services received by individual taxpayers. A vehicle such as the tax cap that focuses on only a part of the budget equation could create dangerous constraints that threaten the level of service a community is accustomed to.

Through democratic process the public has entrusted representatives to serve the practical needs of taxpayers. The budget of a governmental entity serves as an expression of public policy outlining the objectives and priorities for a community. Any constraint, such as a tax cap, placed on the budget of a local municipality impedes the government's ability to meet expectations of its residents.

In serving the practical needs of a jurisdiction, local governmental entities are obligated to invest in non-revenue-producing capital assets such as buildings, roads, bridges, and sidewalks. Governments have an implicit commitment to bear the expenditures associated with maintaining their infrastructure, whether or not they are used directly to produce revenues. As a result, the objectives and priorities associated with non-revenue-producing capital assets are often altered, suspended, and ignored when the resources provided within a budget are limited.

Local legislative bodies are granted broad powers to adopt local laws in order to carry out their governmental responsibilities (New York Constitution, Article IX, § 1(a)). The "Home Rule", found within Article IX of the New York State Constitution, provides the constitutional and statutory powers of a local government to carry out the functions and activities of local government without undue infringement by the State. The government's primary obligation is to promote the general welfare of all its citizens by upholding the prevailing objectives and priorities of the people notwithstanding undue infringement by State legislation.

We recommend that the County thoroughly evaluates the implications of the New York State tax cap on the services it provides. Should the County find it necessary to override the New York State tax cap to serve the practical needs of its residents, it should communicate to the public the reasoning for the override and consider creating a local law utilizing the aforementioned "Home Rule" to self-impose its own spending cap. A self-imposed spending cap would be established by first, identifying the practical needs of the County and second, establishing minimum cost criteria to meet those needs.

Capital Assets

The County should require that each department reviews its construction in progress ("CIP") at year end and appropriately transfer completed CIP projects to their applicable asset category. Further, the County should review purchases within the equipment and capital outlay object codes to ensure all purchases that qualify as a capital asset are added to the capital assets listing during the year of purchase.

We found that certain items were not transferred from CIP to the appropriate capital asset category during the proper accounting period. Further, certain items were added to the County's capital asset listing which were below the County's established threshold for that category.

Although the effect to the financial statements is inconsequential, it is important to emphasize timely review and communication by departments surrounding capital assets. We recommend that the County establish and communicaté universal procedures for closing out CIP projects and adding capital asset purchases. In addition, we recommend that the County revisit their capitalization thresholds and determine whether those thresholds should be revised.

Subrecipient Determination and Monitoring

The County should communicate and monitor specific criteria to appropriately distinguish and document their relationships between the County and pass-through entities involved in Federal grants as subrecipient or contractor in accordance with the Uniform Guidance.

The Uniform Guidance § 200.330 states that, "the non-Federal entity may concurrently receive Federal awards as a recipient, a subrecipient, and a contractor, depending on the substance of its agreements with Federal awarding agencies and pass-through entities. Therefore, a pass-through entity must make case-by-case determinations whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor." Per review of the criteria as stated in the Uniform Guidance § 200.330, characteristics which support the classification of a subrecipient include when the entity:

1. Determines who is eligible to receive what Federal assistance;
2. Has its performance measured in relation to whether objectives of a Federal program were met;
3. Has responsibility for programmatic decision making;
4. Is responsible for adherence to applicable Federal program requirements specified in the Federal award; and
5. In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.

During our testing of the County's Federal grant activity, it was noted that employees did not have an understanding of the determination for a subrecipient based on this criteria. Although no findings were identified as the result of our procedures, it is essential that County employees responsible for handling Federal awards have a thorough understanding of the criteria and the compliance requirements in the event pass-through funds confirm a subrecipient relationship with the County. We recommend that the County communicate this section of the Uniform Guidance to the departments handling Federal awards and document procedures to justify their determined relationships.

Cash Reconciling Items

We noted there are several accounts with reconciling items, including stale dated checks, cancellation errors, returns and other minor adjustments. In addition, the County was unable to provide us a reconciliation of cash transactions between the Agency and General funds. Lastly, bank reconciliations are not being reviewed in a timely manner.

We recommend that reconciling items be investigated and all discrepancies between general ledger and bank balances be resolved on a timely basis. Further, we recommend that an individual with a full understanding of the bank reconciliation process be responsible for reviewing the bank reconciliations for any unusual items and ensure reconciling items are being corrected on a timely basis. Additionally, the County should require the individual responsible for reviewing bank reconciliations to initial and date the form upon timely completion.

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. 72***—The County is required to implement GASB Statement No. 72, *Fair Value Measurement and Application,* effective for the fiscal year ending December 31, 2016. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurements of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

- ***GASB Statement No. 73***—The County is required to implement GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68,* effective for fiscal year ending December 31, 2017. The requirements of this Statement establish new reporting requirements for those pensions and pension plans that are not administered through a trust meeting the requirements of GASB Statements No. 67 and No. 68.

- ***GASB Statement No. 74***—The County is required to implement GASB Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans*, effective for the fiscal year ending December 31, 2017. The requirements of this Statement address the financial reports of defined benefit OPEB plans that are administered through trusts that meet certain criteria. This Statement replaces GASB Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans.*

- ***GASB Statement No. 75***—The County is required to implement GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*, effective for the fiscal year ending December 31, 2018. This Statement replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*, and will require more extensive note disclosures and required supplementary information about their OPEB liabilities.

- ***GASB Statement No. 76***—The County is required to implement GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments—an amendment of GASB Statement No. 55,* effective for the fiscal year ending December 31, 2016. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

- ***GASB Statement No. 77***—The County is required to implement GASB Statement No. 77, *Tax Abatement Disclosures*, effective for the fiscal year ending December 31, 2016. This Statement requires the disclosure of information about the nature and magnitude of tax abatements and will make these transactions more transparent to financial statement users.

- ***GASB Statement No. 78***—The County is required to implement GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the fiscal year ending December 31, 2016. This Statement addresses a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

- ***GASB Statement No. 79***—The County is required to implement GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for the fiscal year ending December 31, 2016. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

- ***GASB Statement No. 80***—The County is required to implement GASB Statement No. 80, *Blending Requirements for Certain Component Units*, effective for the fiscal year ending December 31, 2017. The purpose of this Statement is to clarify the financial statement presentation requirements for certain component units.

- ***GASB Statement No. 81***—The County is required to implement GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the fiscal year ending December 31, 2017. This Statement will improve accounting and financial reporting by establishing recognition and measurement requirements for irrevocable split-interest agreements.

- ***GASB Statement No. 82***—The County is required to implement GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the fiscal year ending December 31, 2017. This Statement addresses issues regarding (1) the presentation of payroll-related measures in the supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

ERIE COUNTY COMPTROLLER
HON. STEFAN I. MYCHAJLIW

September 29, 2016

The Erie County Legislature
92 Franklin Street
Buffalo, New York 14202

Honorable Mark C. Poloncarz
Erie County Executive
95 Franklin Street
Buffalo, New York 14202

Dear Honorable Members and County Executive Poloncarz:

Enclosed is a copy of Erie County's New York State Department of Transportation (NYSDOT) Single Audit Report for the year ended December 31, 2015. This report is required pursuant to Draft Part 43 of the New York State Codification of Rules and Regulations.

A copy of this report will be filed with the NYSDOT's Contract Audit Bureau.

If you have any questions pertaining to this report, please contact me at 858-8400.

Very truly yours,

Stefan I. Mychajliw
Erie County Comptroller

SIM/nr
Enclosure
c: Robert W. Keating, Director of Budget and Management
John Loffredo, P.E., Commissioner of Public Works
Erie County Audit Committee Members

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COUNTY OF ERIE, NEW YORK

New York State Department of Transportation
Financial Assistance Schedules for the
Year Ended December 31, 2015 and
Independent Auditors' Report

COUNTY OF ERIE, NEW YORK
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Year Ended December 31, 2015

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New York State Department of Transportation Draft Part 43 of NYCRR Schedules and Reports:

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

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR NEW YORK STATE DEPARTMENT OF TRANSPORTATION ASSISTANCE EXPENDED AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH DRAFT PART 43 OF NYCRR

Honorable County Executive
Honorable County Comptroller
Honorable Members of the County Legislature
County of Erie, New York:

Report on Compliance for New York State Transportation Assistance Programs

We have audited the County of Erie, New York's (the "County") compliance with the types of compliance requirements described in Draft Part 43 of the New York State Codification of Rules and Regulations ("NYCRR") that are applicable to each state transportation assistance program tested for the year ended December 31, 2015. The program tested is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the laws, regulations, contracts and grants applicable to its state transportation assistance programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the County's program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Draft Part 43 of NYCRR. Those standards and Draft Part 43 of NYCRR require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a state transportation assistance program tested has occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each state transportation assistance program tested. However, our audit does not provide a legal determination on the County's compliance.

Opinion

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its state transportation assistance programs tested for the year ended December 31, 2015.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Draft Part 43 of NYCRR. This report is for the information and use of the County Legislators, management, the New York State Department of Transportation and the Office of the State Comptroller of the State of New York. Accordingly, this communication is not suitable for any other purpose.

Drescher & Malecki LLP

June 21, 2016

COUNTY OF ERIE, NEW YORK

Schedule of New York State Department of Transportation Assistance Expended
Year Ended December 31, 2015

Program Title/Description	NYSDOT Contract/ Reference Number	NYSDOT Expenditures
Consolidated Highway Improvement Program ("CHIPS")	M530000	$ 9,716,208
Marchiselli Aid	*	309,810
Total New York State Department of Transportation Assistance Expended		$ 10,026,018

* Marchiselli Aid Contract/Grant numbers: D011613, D012333, D012344, D013877, D022084, D033408, D033516, D033955, D034615, D034632, D034658, D034793, D034859, D034880

See notes to Schedule of New York State Department of Transportation Assistance Expended.

Part I. SUMMARY OF AUDITOR'S RESULTS

New York State Department of Transportation Assistance Expended:

Internal control over major programs:

1. Material weakness(es) identified?	____	Yes	✓	No
2. Significant deficiency(ies) identified not considered to be material weakness(es)?	____	Yes	✓	None reported
Type of auditors' report issued on compliance for programs tested:			Unmodified	
3. Any audit findings disclosed that are required to be reported in accordance with Draft Part 43 of NYCRR?	____	Yes	✓	No

4. Identification of State Transportation Assistance Program tested:

Name of Program

Consolidated Highway Improvement Program ("CHIPS")

Part II. COMPLIANCE FINDINGS AND QUESTIONED COSTS

No matters reported.