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ERIE COUNTY COMPTROLLER

HON. STEFAN I. MYCHAJLIW

March 14, 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 are copies of the audited Financial Statements and Management Letter for Erie Community College ("ECC") for the fiscal year ended August 31, 2015.

If you have any questions regarding the enclosed, please contact me at 858-8404.

Very truly yours,

Stefan I. Mychajliw
Erie County Comptroller

SIM/nr
Enclosures
cc: Robert W. Keating, Director, Budget and Management
Jack F. Quinn, Jr., President, ECC (without Enclosure)
Erie County Audit Committee Members

Drescher & Malecki LLP
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Cheektowaga, New York 14227
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Drescher & Malecki

Certified Public Accountants

February 12, 2016

To the Board of Trustees of Erie Community College
and Audit Committee of the County of Erie, New York:

In planning and performing our audit of the basic financial statements of Erie Community College (the "College"), a component unit of the County of Erie, New York, as of and for the years ended August 31, 2015 and 2014, 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 College'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 College'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.

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 February 12, 2016 on the financial statements of the College. 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. 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 College 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

February 12, 2016

Capital Asset Maintenance

In response to prior years' audit recommendations, the College has continued to review its untagged capital assets listing. At August 31, 2015 and 2014, the College recorded untagged capital assets, net of accumulated depreciation, in the amounts of $149,510 and $272,563, respectively. It was noted that during the year ended August 31, 2015, no additions were made to untagged capital assets. Although assets are tracked by the Finance Department in a separate untagged assets listing with cost, useful life and applicable depreciation, they are not included within the College's computerized operating system record of capital assets. Therefore, the potential for misappropriation and/or misstatement of capital assets is increased.

We recommend, in addition to its annual inventory process, the College perform an evaluation of all assets included on the untagged asset listing to appropriately categorize and add these assets to the College's computerized operating system record of capital assets. Upon addition to the computerized operating system, each of these untagged assets should also receive a capital asset tag.

Declining Operations (Fiscal Stress)

The 2015-2016 budget includes the use of $4.0 million of undesignated fund balance in order to address a budget deficit. This amount is the same as the amount included within the 2014-2015 budget. Persistent and recurring annual operating deficits may be indicative of structurally imbalanced budgets and/or fiscal stress. In addition, as a result of increasing expenses and stagnant revenues, the College is experiencing fiscal stress. This stress can be largely attributed to declining student enrollment. The College has experienced decreases in enrollment of 6.3% and 4.1% for the years ended August 31, 2015 and 2014, respectively.

We recommend that the College continue to carefully monitor operations to prevent further fund balance deterioration. The College should develop both a short-term and long-term plan to enhance its future budgets. These plans should pursue potential cost-cutting and/or revenue enhancing options, including strategic tuition increases and marketing and recruitment strategies to stabilize and increase enrollment.

Software Upgrade

It was noted that the College has a significant reliance on manual records and controls, particularly within its human resources, finance and payroll business cycles. This includes the use of manual timecards, redundancy of payroll records, lengthy hiring processes, financial reports that are not user-friendly, contributing to overall operating inefficiencies. In addition to the inefficiencies cited, the manual input of information into the College's systems provides an increased risk for human error. Lastly, it was noted that the Payroll Director is performing duties of which improved payroll software would include in its automated features, such as formatting bank statement data for performance of College bank reconciliations.

We recommend that the College evaluate their current software in the aforementioned business cycles and consider upgrading to an integrated system to incorporate automated controls that would greatly reduce control risk, implement efficiencies, and assist in providing a clear audit trail. The upgraded software should provide the automated groundwork to allow for the most efficient productivity, while at the same time reduce risk attributed to human error.

Accounting Staff

In recent years, the College has experienced turnover in key Finance Department positions. The Associate Vice President of Finance and Chief Accountant positions were vacant as of August 31, 2015 and have not been filled as of the date of this letter. The College is currently relying on a part-time employee to perform several key duties of the vacant roles. This reliance creates the risk that financial records may not be maintained in an accurate and timely manner in the event this individual is no longer available to perform these duties.

We recommend that the College consider a succession plan to document and share the institutional knowledge that the acting accountant retains. This plan would require the hiring and training of qualified individuals to fill the positions, as well as cross-training other personnel within the Finance Department for duties which could be shared during these vacancies. The College has been working diligently, evidenced by their involvement in a second search for the Chief Accountant position as of the date of this letter.

Bidding Procedures

During our testing of bidding procedures performed at the College, it was noted that the College has, in some cases, chosen to "piggyback" off of other agencies contracts. The College currently follows certain internal procedures including (1) subject matter comparison, (2) procurement method, (3) consent of vendor & terms of piggyback, (4) absence of other acceptable established contract alternatives, and (5) pricing justification which are in alliance with the New York State Office of the Comptroller's guidance regarding piggybacking. These procedures, however, are not included in the College's formalized purchasing policy.

We recommend that the College update its procurement policy to formalize the College's internal procedures for when piggybacking procurement procedures are used.

NEW REPORTING REQUIREMENTS

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

GASB Statement No. 72—The College is required to implement GASB Statement No. 72, *Fair Value Measurement and Application*, effective for the fiscal year ending August 31, 2016. The objective of this Statement is to provide guidance for determining the fair value measurement for financial reporting purposes and for disclosures related to all fair value measurements.

GASB Statement No. 73—The College 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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, effective for the fiscal year ending August 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 College 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 August 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 College 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 August 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 College is required to implement GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* effective for the fiscal year ending August 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 College is required to implement GASB Statement No. 77, *Tax Abatement Disclosures*, effective for the fiscal year ending August 31, 2017. 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 College is required to implement GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the fiscal year ending August 31, 2017. 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 College is required to implement GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for the fiscal year ending August 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.