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ERIE COUNTY COMPTROLLER
HON. STEFAN I. MYCHAJLIW

July 31, 2018

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, 2017.

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
Dan Hocoy, Ph.D., President, ECC (without Enclosure)
Erie County Audit Committee Members

Comm. 16E-3
1 of 7

Certified Public Accountants

February 14, 2018

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 year ended August 31, 2017, 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 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 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined below:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

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, other operational matters and new reporting requirements that are presented for your consideration. This letter does not affect our report dated February 14, 2018 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 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 College's written response to the matters identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 14, 2018

Succession Planning

As the number of retirements continue to grow in the public sector, the need for strategic succession planning is becoming increasingly important. In recent years, the College has experienced turnover in key management positions such as President, Chief Financial Officer & Senior Vice President of Administration & Finance, Associate Vice President of Finance, and Chief Accountant. The College should identify the risks of turnover within key management positions or departments and evaluate the potential impact. Once the impact is determined, the College should work with identified departments to create contingency plans with the objective of reducing cost inefficiencies and negative effects of transitioning. Often, when transitioning a key position, there may be confusion about who is accountable for particular tasks. This creates the potential for certain areas or functions being overlooked, duplicated tasks, or inefficient procedures.

Per the Government Finance Officers' Association ("GFOA"), the departments responsible for budget and human resources should work together with the affected positions to develop the succession plan. Further, department heads should continually inform the appropriate members of management if an employee intends to leave. Finally, when early retirement incentive programs are offered to current employees, this turnover should be evaluated in conjunction with the succession plan.

We recommend that the College evaluate current job functions and take a proactive look at succession risks and develop contingency plans as needed for future turnover within identified key management positions.

Management's Response—The College is in the process of reviewing its organizational structure to include appropriate staffing models for each employment layer. This review will identify where human resources need to be adjusted for efficiencies, as well as identify gaps in the organizational structure that impede the progress of the institution as well as succession planning. Based on this analysis, the College will move forward with a strategic reorganization to ensure the long-term success and viability of the institution and as part of that reorganization, formalize a succession plan.

Financial Operations

The 2017-18 budget includes the planned use of \$3.67 million of unrestricted fund balance in order to address a budget deficit. The 2016-17 budget included the use of \$1.25 million of unrestricted fund balance. As of August 31, 2017, the College has worked to stabilize enrollment fluctuations due to recent declines in prior periods. While there were more stable enrollment figures during the 2016-17 fiscal year, the College's 2017-18 budget projects a decrease in enrollment of 1.93%.

Persistent and recurring annual budget deficits may be indicative of structurally imbalanced budgets and/or fiscal stress. We recommend that the College continue to carefully monitor operations to stabilize future budgets. 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 continue to stabilize enrollment.

Management's Response—The College is aware of these concerns and continues to make efforts to minimize or eliminate the use of fund balance going forward in the compilation of the 2018-19 budget. Many of the financial operations problems are created by the lack of a dedicated budget function (as noted below) for the last 8 years, as well as the lack of a management position coordinating all financial effort and reporting as existed prior to 4 years ago. The lack of depth and breadth in the financial management layer limits control over and analysis of financial activity as well as hinders the ability to compile meaningful periodic reporting to share with those responsible for providing the daily and strategic governance of the College. When turnover occurred recently in a key financial position, much of the institutional knowledge was lost as there was no succession structure in place to ensure this didn't happen.

Of note, actual results within the budgeted operating funds have improved in the last year. During the fiscal year ended August 31, 2017 the College's operating fund results of operations included an approximate \$3.18 million surplus of revenues over expenses, \$4.43 million better than anticipated in the adopted budget.

Budget Monitoring

The College should evaluate the need for a dedicated Budget Director position due to the additional responsibilities currently placed on existing department heads. It was noted that a Budget Director position has not been funded or included in the adopted budget since 2004. As the position remained vacant, the respective duties were assigned to the College's Associate Vice President of Finance. The Associate Vice President of Finance has remained vacant since October 2014, and has not been included in the adopted budget since 2017. The responsibilities of the Budget Director have been borne previously by the Chief Administrative and Financial Officer and the Chief Accountant out of necessity during these aforementioned vacancies.

A Budget Director would provide the College with an employee responsible for facilitating the initial budget process, continually monitoring the budget by department, and forecasting future budget plans and objectives. In addition, the Budget Director could assist in maintaining a long-term capital plan, which assists in determining the need for funding capital improvements at the College.

The College should analyze the need to fill the Budget Director position to alleviate the additional job functions currently required from other existing positions.

Management's Response—Management concurs with this comment and is working with the Board of Trustees to re-fund the previous Budget Director position that has sat vacant for the previous 8 years in order to relieve the current stress on the existing positions bearing those responsibilities.

Bank Reconciliations

The College should have formal policies and procedures surrounding bank reconciliations, including the preparation of bank reconciliations in a timely manner and a formal review process. Through testing it was noted that bank reconciliations were not completed in a timely manner.

We recommend that the College implement formal policies and procedures surrounding bank reconciliations.

Management's Response—The College started a process during the year to catch-up on open bank reconciliations, creating efficiencies and developing a draft policy, but this policy is yet to be formally adopted. Additionally, employees have been cross-trained and has access to perform necessary bank reconciliations in the absence of the clerk responsible for performing the monthly reconciliations in order to perform more timely reconciliations.

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. 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. 81—The College is required to implement GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the fiscal year ending August 31, 2018. This Statement will improve accounting and financial reporting by establishing recognition and measurement requirements for irrevocable split-interest agreements.

GASB Statement No. 82—The College 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 August 31, 2018. 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.

GASB Statement No. 83—The College is required to implement GASB Statement No. 83, *Certain Asset Retirement Obligations*, effective for the fiscal year ending August 31, 2019. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs).

GASB Statement No. 84—The College is required to implement GASB Statement No. 84, *Fiduciary Activities*, effective for the fiscal year ending August 31, 2020. This Statement establishes criteria for identifying fiduciary activities of all state and local governments.

GASB Statement No. 85—The College is required to implement GASB Statement No. 85, *Omnibus 2017*, effective for the fiscal year ending August 31, 2018. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements.

GASB Statement No. 86—The College is required to implement GASB Statement No. 86, *Certain Debt Extinguishment Issues*, effective for the fiscal year ending August 31, 2018. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

EXHIBIT I

GASB Statement No. 87—The College is required to implement GASB Statement No. 87, *Leases*, effective for the fiscal year ending August 31, 2021. The objective of this Statement is to better meet the needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.