COUNTY OF ERIE

STEFAN I. MYCHAJLIW
ERIE COUNTY COMPTROLLER

PRESS RELEASE
January 21st, 2013
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Review of Comptroller's Office Complete

Thorough review identifies internal inefficiencies, offers cost saving solutions to best serve taxpayers, and takes corrective action to improve the office of Erie County Comptroller

(Buffalo) – Erie County Comptroller Stefan I. Mychajliw has completed a top to bottom, internal review of the Office of Erie County Comptroller. The goal of the review was to identify inefficiencies, provide cost saving improvements, and take immediate action to better serve taxpayers. The review was conducted on the two divisions of the department: Audit and Accounting/Fiscal.

"I am going to root out inefficiency, waste, and abuse across Erie County government. We took the high road and are leading by example by scrutinizing at our own office first. The Office of Comptroller needs to set the bar high for other departments. There is no better way to show leadership than to review my own office first," said Erie County Comptroller Stefan I. Mychajliw.

Numerous concerns were identified within the Audit Division going back many years. Corrective action has already taken place in some instances. Some of the identified concerns in the Audit Division:

- A Certified Public Accountant (CPA) has not served as Deputy Comptroller for Audit since 2006
- The last documented Annual Audit Plan took place in 1988
- Decreased number of audits and reviews
- Lack of performance evaluations and required continuing education
- Decades long depletion of audit staff
- Lack of written policies and procedures and outdated audit manual

"Taxpayers hired me to clean up Erie County government. I'm working hard to do that, starting with my own office. Our current staff did their best under tough circumstances. Keep in mind, there was no Erie County Comptroller for two months last year, and no Deputy Comptroller for Audit for four months."

"Without an organized Annual Audit Plan, staff had no idea what they were working on for the year. Auditors were given no benchmarks on when work needed to be done in a timely and efficient manner. Staff told us they were marched into the office, handed an assignment to audit, and that was it," added Comptroller Mychajliw, who hired a CPA to lead the Audit Division for the first time since 2006.

To address the lack of a CPA leading the audit division for many years, Ms. Teresa (Terry) Fraas was hired as Deputy Comptroller for Audit. She is a private sector CPA with a 30-year auditing and accounting career. Ms. Fraas is the first woman to ever serve as Deputy Comptroller for Audit.

She previously worked as a Director for Internal Audit Services, Internal Audit Manager, Internal Audit Director of Compliance, Audit Compliance Officer, and Controller. The University at Buffalo graduate earned a Bachelor of Science in Accounting, is a member of the Institute of Internal Auditors (IIA) and Health Care Compliance Association (HCCA), and is a CPA.

Deputy Comptroller Fraas has completed a 2013 Audit Plan. She calculated the number of audit hours available for the entire year based on staffing levels, right down to the month. Auditors will now have clear expectations of what is being audited and when audits and reviews should be completed. Accountability benchmarks and timetables were placed into the 2013 Audit Plan. In addition, Ms. Fraas will create written departmental policies and procedures.

The three audits conducted for all of 2012 were completed at the end of the year. Two audits were finished on New Year's Eve, December 31st, 2012. One audit was completed three days earlier on December 28th, 2012.

Year	Audits	Reviews	Combined Total	Year	Audits	Reviews	Combined Total
2006	4	5	9	2010	2	7	9
2007	5	4	9	2011	2	8	10
2008	6	5	11	2012	3	3	6
2009	4	6	10				

Going back 25 years, the number of audit staff members was 23 in 1987 compared to 7 in 2013. Currently there are two vacant audit positions. Results of the most recent civil service exam could allow the Office of Comptroller to fill those two positions with candidates from that list by May of 2013.

Overall, there were a total of 74 Comptroller's Office staff members in 1987 compared to 34 in 2013.

The Accounting/Fiscal division was also reviewed. Some of the identified concerns are:

- Lower level clerical employees engaging in work that should be completed by professional accountants
- Numerous accounting and clerical positions are funded but remain empty and were never filled
- Short staffing levels
- Lack of succession planning to maintain the long-term integrity of the office
- Accounts Payable (AP) unit drowning in paper

According to the review of the Office of Comptroller, a total of 12 positions requiring accounting degrees have been eliminated over the past nine years. Currently there are five vacant or soon to be vacant positions in the accounting division, creating an unfortunate reliance on lower level clerical positions to do accounting work.

Of the eleven accounting positions/titles in the Office of Comptroller, nine of those employees will reach the age of retirement eligibility within five years. Deputy Comptroller for Accounting/Fiscal Gregory G. Gach will develop a formal, written succession plan and develop written policies and procedures to train and prepare lower level accounting workers to step right into upper level positions.

"There's no back-up bench in the office. None. It is downright scary to think what will happen if there are mass retirements or people leave. I asked to review the office succession plan and there wasn't one. I have to protect taxpayers by solidifying the long-term integrity of the office. We found there is no roadmap in place to manage the office if workers go elsewhere," said Comptroller Mychajliw.

To address the issue of lower-level clerical workers doing the job of higher-level accountants, the Office of Comptroller created an "Office Efficiency Plan" and will submit proposed personnel changes to the Erie County Legislature for approval. Five vacant clerical positions will be eliminated and the Accounting/Fiscal division will be strengthened with the addition of four accounting positions and one dedicated Information Technology (IT) position.

The personnel changes through the "Office Efficiency Plan" will increase the number of accountants and actually save taxpayers approximately $4,254.

The Accounts Payable (AP) section of the division utilizes the county's SAP system to pay bills, which is heavily dependent on paper. There is also a large amount of paper documents in that area of the office.

Lack of an internal IT person with knowledge of the county's SAP system forces the Office of Comptroller to rely on outside consultants or the Division of Information and Support Services (DISS). A dedicated IT professional can create custom reports, trouble shoot issues concerning SAP, and transfer paper documents to an electronic form.

"Families in this tough economy are being asked to tighten their belts and do more with less. The Office of Comptroller will do the same. Our recommendations are not 'revenue neutral.' There are budget savings through the efficiencies. We are strengthening our staff and reducing the cost of doing business," concluded Comptroller Mychajliw.

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JANUARY 2013

REVIEW OF THE ERIE COUNTY OFFICE OF COMPTROLLER ACCOUNTING / FISCAL DIVSION

January 18, 2013

Hon. Stefan I. Mychajliw
Comptroller
County of Erie
95 Franklin Street
Buffalo, New York 14202

Dear Hon. Mychajliw:

I have completed a review of the Accounting/Fiscal Division of the Office of the Comptroller. The review consisted of determining the duties that must be performed, the staff available, how those duties are being done, identify any issues and what opportunities exist to improve the performance of the Division.

DUTIES OF THE ACCOUNTING/FISCAL DIVISION

The Erie County Comptroller is the independently elected official responsible under Article 18 of the Erie County Charter and Article 12 of the Administrative Code for performing the accounting, auditing, financial reporting and fiscal functions of the County. The Comptroller is the Chief Accounting and Reporting Officer, Chief Auditing Officer and Chief Fiscal Officer.

Accounting, Reporting and Collections: Under the direction of the Comptroller, the County's official accounting records are maintained and analyzed for propriety, consistency and compliance with legal requirements, policies, procedures and Generally Accepted Accounting Principles (GAAP) applicable to governmental entities. Reports are provided to the Legislature, County Executive and taxpayers regarding the fiscal condition of the County and the adequacy of and compliance with the County's system of internal accounting controls.

As the Chief Accounting and Reporting Officer, the Comptroller's responsibilities include maintaining the County's computerized general ledger, records of appropriations, encumbrances, expenditures and revenues, and preparing interim quarterly financial statements, annual financial statements and the Countywide Cost Allocation Plan. The Erie County Charter requires that the Comptroller prescribe accounting procedures to departments in accordance with GAAP.

As the Chief Fiscal Officer, the Comptroller oversees the fiscal affairs of the County. Primary functions include the receipt and investment of County funds, disbursement of funds, structure and sale of notes to meet the short-term cash needs of the County, and structure and sale of bonds for approved capital projects. The Comptroller also provides investment services to several County officials who are responsible for maintaining their own bank accounts. The Comptroller serves as the financial advisor and chief accountant to the Buffalo and Erie County Public Library, which is a separate legal corporation. The Comptroller is responsible for payment of all debt service and maintaining an agency fund and, as part of such responsibilities, serves as the banker for state, county, and city courts.

See Appendix A for a listing of the duties and powers of the Comptroller Accounting/Fiscal Division as detailed in the Erie County Charter, section 1802.

STAFF AVAILABLE & HOW DUTIES ARE BEING DONE

In order to perform the above duties the Office of the Comptroller's Accounting/Fiscal Division has five sections: Trust; Accounts Payable; Accounting; Cash Management and Fiscal and currently has a staff of twenty four headed by a Deputy Comptroller. Of these twenty-four half require an accounting degree the balance are clerical titles. In addition for the past seven years a Staff Auditor has been working in the Accounting Division. Over the past nine years a total of twelve positions requiring accounting degrees have been eliminated, necessitating the reliance on clerical positions to do accounting work.

Since 2004 the following Accounting/IT positions have been eliminated from the Accounting/Fiscal Division:

- Associate Deputy Comptroller
- Director of Investment & Cash Management
- Application Systems Specialist
- Senior Accounting Analyst
- Accounting Analyst
- Accountant
- Accountant
- Accountant
- Accountant
- Accountant
- Accountant
- Accountant
- Junior Accountant

While the clerical staff has performed adequately they do not have the expertise or training to do more than basic entry level duties. Also the lack of an in-house IT person has made the Office of the Comptroller dependent on outside consultants and/or staff available from the County's Division of Information and

Support Services or its own staff to trouble shoot issues and/or create custom reports as issues come up with the SAP system or Audit Division.

At present there are five (5) vacant or soon to be vacant positions in the Accounting Division. The vacancies all occurred in 2011 and are affecting the efficient running of the Division.

2 Account Clerk Typist
1 Billing Collections Specialist
1 Principal Clerk
1 Junior Accountant

An additional complicating factor is that the accounting staff averages twenty-five years with the County. All but two are within five years of full retirement. The latest Management letter issued by the County's outside auditor, Drescher & Malecki LLP, noted the following:

"Succession Planning

The County faces the challenge of ensuring continuity and consistency of service delivery due to employee turnover. Certain key accountants will soon be eligible to retire. In order to ensure that there are enough qualified or available workers the County should consider the following key issues and develop strategies concerning succession planning recommended by the Government Finance Officers Association:

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

The last Management Letters did not identify any deficiencies with the Accounting Division, except the Succession Plan noted above. It did make the observation of the lack of documentation of the Journal Entry Policy. In addition I noted lack of documentation of the year-end and month-end processes. While the processes work the lack of formal written policies and procedures is troubling. Especially in light of the age of the senior accounting staff and the possibility that their knowledge could walk out the door soon. See Appendix B for the complete Management Letter.

The Accounts Payable, "AP", section utilizes the SAP system to pay the County's bills. However, the process is heavily dependent on paper. Paper invoices have to be signed and sent to AP in order to confirm various purchasing documents that are in the system. There are various software solutions available that could scan the paper invoice and capture the information necessary to effectuate payment. However, the lack of time and an IT person to oversee the conversion has resulted in this not being pursued.

ISSUES IDENTIFIED

- Lack of Succession plan in Accounting
- Lack of IT support in the Office
- Dependent on Clerical staff to do Accounting
- Five current vacancies in Accounting Division
- Lack of Documentation of various accounting procedures
- Accounts Payable drowning in paper

OPPORTUNITIES IDENTIFIED

An opportunity exists today to answer the management Letter Succession issue and to upgrade the professional staff in the Comptroller's office. Rather than simply filling the vacancies, the vacant positions can be eliminated and their funding used to re-create Accounting/IT positions that have been eliminated in the past. There is adequate funding available in the adopted 2013 budget to create the following positions:

1 Application Systems Specialist
1 Accounting Analyst
3 Accountants

The Application Systems Specialist will allow the Office to have an in-house IT expert to answer the many questions that come up regarding the SAP system, create custom reports and trouble shoot current procedures to stream line the process. The Account Analyst position will allow the Staff Auditor position to be reassigned back to the Audit Division. The three Accountant positions will replace the four clerical positions with professional staff and provide the building blocks for a succession plan in the Accounting Division. These positions will free up existing senior staff to document processes; start knowledge transfer and prepare for the next generation of staff in the Office.

RECOMMENDATIONS

- Prepare a resolution for Legislature approval eliminating the five vacant positions and create five positions as noted above.
- When new staff is recruited, trained and working. Charge the senior staff to prepare written documentation of all current accounting procedures as it relates to year-end and month-end closing.
- Prepare a succession plan for anticipated retirements of senior staff. Including knowledge transfer.
- Charge the new IT person to assist the Audit Division with its report requirements; assist the Accounting Division in stream lining processes and review all procedures in Accounts Payable with an eye to further automating the process.

Sincerely,

Gregory G. Gach
Deputy Comptroller

cc: Erie County Legislature

APPENDIX A

Section 1802. of the Erie County Charter details the Powers and duties of the Comptroller as follows for the Accounting/Fiscal Division:

1. Be the chief fiscal, accounting, reporting and auditing officer of the county, and oversee the fiscal affairs of the county including the sale of all bonds and notes and the investment of proceeds thereof and the investment of agency and trust funds, as well as general and operating fund revenues.
2. Maintain the official accounting records for all receipts and disbursements of the county, including liabilities, fund balances, encumbrances, expenditures, appropriations, revenues and estimated revenues and prescribe approved methods of accounting for county officers and administrative units in accordance with standards and policies prescribed by the New York state comptroller and the governmental accounting standards board.
3. Examine all requisitions for the encumbering of funds for the expenditure of which the county is responsible, and certify as to the availability of funds therefor.
4. Audit and certify for payment all lawful claims, or charges against the county or against funds for which the county is responsible.
5. Procure statements from all depositories of county funds and funds for which the county is responsible, and reconcile such statements with county accountants.
6. Provide such other accounting reports and interpretation thereof to the county executive and legislature as requested on a timely basis.
7. Submit to the county legislature and county executive and the independent auditor hired by the county pursuant to charter section nineteen hundred two, monthly accounting reports of appropriations, encumbrances, expenditures and revenues on an accrual basis from the county's computerized accounting system, monthly statements from all depositories of county funds and funds for which the county is responsible, quarterly financial statements for the first three quarters of each fiscal year and annually a comprehensive financial statement containing a balance sheet and statement of revenues, expenditures and changes in fund balances.
8. Provide all records and reports requested or required by New York State, the independent auditor for the annual audit of the county's financial statements, and other independent auditors under contract with the county of Erie.
9. With the assistance of the county attorney or his or her designee, prepare bond resolutions for approval by the county legislature and secure funds

from the bond market for approved capital projects. Notification of plans to secure both funds shall be provided to the county executive and the legislature fifteen days in advance of borrowing. A report of funds secured shall be provided to the county executive, legislature, finance commissioner, and budget director within fifteen days after funds are secured. This report shall disclose the type of instrument used, all costs associated with the borrowing interest rate, and repayment schedule. In addition, once the Erie county legislature and county executive approve the bond resolution, the comptroller must, as requested, seek financing of said bond resolution. Furthermore, after the required approvals by the Erie county legislature and the county executive, funds approved for capital projects must be released by the comptroller.

10. Prepare annual cash flow statements, monitor cash flow, and when necessary, secure short term funds. Notification of plans to secure short term funds shall be provided to the county executive and the legislature fifteen days in advance of borrowing. A report of funds secured shall be provided to the county executive, legislature, finance commissioner, and budget director within fifteen days after funds are secured. This report shall disclose the type of instrument used, all costs associated with the borrowing, interest rate, and repayment schedule.
11. Issue and certify any official statement necessary for the county to issue bonds or notes, provided such statement must have been approved as to content by the county executive and as to form by the county attorney or his or her designee.
12. Provide the director of budget and management, the finance commissioner, and the county executive with complete debt service information for the annual budget, information on the monthly cash flow statements, and other reports as required, in accordance with time guidelines established by the budget director.
13. On or before the 15th of October, review all revenue projections to be used in the proposed tentative budget prepared by the county executive and submit to the Legislature in writing a report indicating whether or not the projections are suitable estimates for the ensuing year. Should the comptroller determine that the revenue projections are not suitable for the ensuing fiscal year, the Legislature, upon notice from the comptroller may revise such projections downward upon a two-thirds majority vote. The Legislature shall not revise such revenue projections upward.
14. Be responsible for the collection and recovery of accounts receivable due the county provided , however, that the hiring of legal counsel to collect and recover accounts receivable shall be subject to the provisions set forth in Section 6.02 of the administrative code.
15. Perform such additional and related duties as may be prescribed by local law.

16. As a part of the budget process, provide the county executive with an annual plan of investment and interest earnings.
17. Have custody of all accounts.
18. Be responsible for the provision of all accounting services to all county departments, offices and units as part of a centralized accounting system.

APPENDIX B

Certified Public Accountants
June 27, 2012

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, 2011, on which we have issued our report dated June 27, 2012 (which report refers to other auditors), in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control. 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 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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we considered to be material weaknesses, as defined above. We outlined certain observations and developed the recommendations included in Exhibit I on other accounting, administrative, and operating matters. 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. This communication is intended solely for the information and use of management, the County Legislature, and others within the County and is not intended to be and should not be used by anyone other than these specified parties.
We will be pleased to further discuss these recommendations with you.

Yours truly,

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

EXHIBIT I

Economic Environment

The events within the overall economy have resulted in many challenges that have affected municipalities. Rising costs and lost revenues have contributed to an environment in which municipalities are facing both current and future economic difficulties. Some of these economic events include:

Ø Medicaid and Medicare—Uncertainty in the Medicaid and Medicare reimbursement formulas.

Ø Decreasing interest rates—Interest rates have fallen drastically over the last few years, resulting in significantly lower interest revenue.

Ø Sales tax—While the County has met its budget goal, the County has potential for declines should the economy go into a recession.

Ø Health insurance—Rates for health insurance have significantly increased, as a result of increased healthcare costs.

Ø General insurance—Rates for general insurance have significantly increased as a result of the poor economy.

Ø Retirement system—The New York State Retirement System has significantly increased employer contributions.

Ø General wage increases—Personnel expenditures account for a significant portion of total expenditures. Raises provided to employees will result in an overall increase in personal expenditures, and will impact certain employee benefits as well. While there are certain areas noted above where the County has no control and cannot be proactive to address the situation (i.e., reimbursement rates, sales tax, mandates, etc.), we recommend the County to continue identifying areas where options may be available and costs may be reduced, such as: consolidation of services, elimination of services, utilization of user fees, and wage concessions.

Succession Planning

The County faces the challenge of ensuring continuity and consistency of service delivery due to employee turnover. Certain key accountants will soon be eligible to retire. In order to ensure that there are enough qualified or available workers the County should consider the following key issues and develop strategies concerning succession planning recommended by the Government Finance Officers Association:

Ø Develop an integrated approach to succession management.

Ø Continually assess potential employee turnover.

Ø Provide a formal, written succession plan as a framework for succession initiatives.

Ø Develop written policies and procedures to facilitate knowledge transfer.

Ø Development of leadership skills should be a key component of any succession planning initiative.

Ø Encouragement of personal professional development activities should be a key part of the succession planning effort.

Ø Design of better recruitment and retention practices may aid in the succession process.

Ø Consideration must be given to collective bargaining agreements and how those agreements fit in with the overall succession plan.
Ø Consider non-traditional hiring strategies.

Internal Control Assessment/ Fraud Prevention

Similar to prior year, the County currently has not performed an enterprise-wide assessment of risks facing the County, including fraud risks. The enterprise risk management framework of the Committee of Sponsoring Organizations of the Treadway Commission includes five interrelated components of internal controls, one of which is risk assessment. A formal risk assessment is the cornerstone to an effective internal control program and provides the framework by which internal controls can be designed, implemented, and evaluated for effectiveness. As part of a risk assessment process, the consideration of the risk of fraud is essential to evaluating whether or not the appropriate controls are in place. We understand that management, along with professional advisors, have continued to review insurance related risks facing the County. Additionally, the County Comptroller's Office maintains an internal audit function, which assists in mitigating risk related to the absence of an overall risk assessment by ensuring appropriate and effective controls are established throughout the County's accounting cycles. The County also has an independent audit committee charged with oversight of the County's audit and control functions. County management has demonstrated a tone at the top that establishes expectations and provides a working environment which promotes quality and integrity in their performance. We recommend that the County further consider formalizing its risk assessment process.

Journal Entry Policy

During our testing of controls surrounding journal entries, we noted that the County currently does not have a formal policy detailing the procedures for the preparation/recording of journal entries. Although, the County's financial software contains underlying controls surrounding the preparation/recording of journal entries, a formal journal entry policy aides in the day to day operations of the County and ensures consistency is maintained in the event of a change in personnel or type of transactions that are made. We recommend that the County adopt and implement a formalized journal entry policy.

Information Technology Risk Assessment, Monitoring and Policies

During testing of the County's Information Technology ("IT") environment, we noted that the County does not regularly perform and document an IT risk assessment. The County may be unaware of potential IT risks, which could potentially harm the financial system. Additionally, the County currently has no formalized disaster recovery plan, backup policy or remote access policy in place. Without a disaster recovery plan, resuming operations after an emergency may not occur as quickly and efficiently as possible. Lack of a remote access policy may allow users to abuse remote access privileges for non county related purposes. Lack of a backup policy could allow for backups to go unperformed or untested, which may cause a loss of information.
We recommend that the County perform an IT risk assessment to identify risky areas that may pose a threat to the operation and physical security of the County's IT. Additionally, we recommend that the County develop and formalize the aforementioned policies. Written policies will make users aware of what steps they should take and what their individual responsibilities are in case of an emergency and of what type of behavior and use of IT assets is appropriate.

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. 57—The County is required to implement GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* for the fiscal year ending December 31, 2012. This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple employer OPEB plan in which it participates.

GASB Statement No. 60—The County is required to implement GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* for the fiscal year ending December 31, 2012. This statement improves financial reporting by addressing issues related to service concession arrangements (SCAs).

GASB Statement No. 61—The County is required to implement GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* for the fiscal year ending December 31, 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62—The County is required to implement GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* for the fiscal year ending December 31, 2012. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

GASB Statement No. 63—The County is required to implement GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* for the fiscal year ending December 31, 2012. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

GASB Statement No. 64**—**The County is required to implement GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53* for the fiscal year ending December 31, 2012. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

GASB Statement No. 65**—**The County is required to implement GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the fiscal year ending December 31, 2013. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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

January 2013

QUALITY ASSURANCE REVIEW
DIVISION OF AUDIT AND CONTROL

TERESA M. FRAAS
ERIE COUNTY DEPUTY - COMPTROLLER
AUDIT AND CONTROL

January 18, 2013

Hon. Stefan I Mychajliw
Erie County Comptroller's Office
92 Franklin Street, 11th Floor
Buffalo, New York 14202

Dear Hon. Mychajliw,

At your request, I have completed a quality assurance review of the Erie County Division of Audit and Control to evaluate the overall effectiveness of the operations and compliance with relevant policies and standards.

Following is a brief outline of my key findings.

Sincerely,

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Teresa M. Fraas
Erie County Deputy Comptroller – Division of Audit and Control

cc: Erie County Legislature

BACKGROUND

Because Erie County continues to face fiscal challenges and the Erie County Comptroller's desire to return Erie County to a path of fiscal stability, the Comptroller's priorities will include identifying and eliminating fraud, waste, and abuse by those entrusted with public responsibilities, reforming ineffective and wasteful programs, and taking every opportunity to achieve cost savings. If taxpayers are to obtain the returns they deserve on their tax dollars, programs must be driven by performance and focused on results. All of these actions and more are essential to restoring Erie County to good financial health. To this end, the Division of Audit and Control is responsible with conducting audits and reviews to provide the Executive and Legislative branches, as well as the public, with an independent and objective view of how county government can operate more efficiently and effectively. Audits and reviews also increase transparency and accountability for taxpayer-funded operations and services. To ensure that audits are completed efficiently and are effective, the Comptroller requested the Deputy Comptroller - Audit and Control perform a quality assurance review of the department operations.

EXECUTIVE SUMMARY

I completed a quality assurance review of the Division of Audit and Control department operations to determine the overall effectiveness of the operations and to ensure that we are following the standards set by the Institute of Internal Auditors and the Generally Accepted Government Auditing Standards. My information was obtained through discussions with current audit staff and other employees of the County familiar with past audit activities. I reviewed prior year work papers and audit reports issued by this department. I collected and reviewed all department policies, procedures and manuals. I also considered the recommendations for improvements contained in a peer review report dated December 19th, 2012 issued by Bonadio & Co., LLP and the management letter comments issued June 27th, 2012 by the external auditors Drescher and Malecki. I followed the Administrative Review Checklist included in the Government Auditing Standards. Below is a listing of the key findings. It is not all-inclusive.

KEY FINDINGS

1. **Organizational Responsibilities, Planning and Quality Control**

    a. There is no charter that details the responsibility and authority of the audit department.

    b. The current Audit Manual has not been updated since 2009. It is not comprehensive and does not include key topics such as mission statement, administrative policies and procedures, personnel policies and procedures, all audit policies and procedures and quality control policies and procedures.

    c. There is no system in place for planning and controlling individual assignments.

    d. There is a lack of internal review or periodic internal quality control review to identify ways of achieving more effective, efficient and economical performance or to test audit reports and work papers to ensure compliance with accepted audit standards.

2. **Independence**

    a. Past practices did not allow for audits to be conducted and/or results reported free from interference, control or influence from the entity under audit or other departments of the County.

    b. The audit department did not pursue legal or administrative means to obtain records and documents needed to do an audit.

    c. Current audit organizational practices do not promote the exercise of professional judgment by audit team members.

3. **Qualifications**

    a. We will continue to work collaboratively with the Commissioner of Personnel to determine whether or not current audit staff has the education, experience, ability and skills required to perform professional audits.

    b. The continuing education program does not comply with industry standards.

4. **Performance Evaluations**

    a. Performance and proficiency criteria in the job description are not sufficient to select the best-qualified individuals.

b. There is no formalized employee performance evaluation process and no requirement for periodic evaluation.

5. **Supervision**

a. There are no written policies and procedures regarding the supervision of audit work

b. Current staffing levels include one senior auditor who has not been assigned any supervisory responsibilities.

c. Audit status reports do not exist and time budgets were not established for audit projects.

6. **Evidence and Work papers**

a. There is no written guidance on obtaining and documenting evidence.

b. No written instructions for preparing work papers.

7. **Internal Controls**

a. Audit steps have not been designed to assess the presence, effectiveness or adequacy of internal control procedures or practices.

8. **Legal Compliance**

a. There is no requirement that auditors design program steps and procedures that will provide reasonable assurance that an audited entity adhered to the requirements of law and regulation.

b. Current procedures do not require auditors to assess the risk that abuse and/or illegal acts could occur or require that audit procedures be extended when abuse and/or illegal acts are suspected.

9. **Reporting**

a. Prior audit report findings may not be based on sufficient objective evidence.

b. No written guidance covering how to develop a finding nor on report preparation.

c. No requirement for an independent reviews of the work papers to verify that the report facts and conclusions are supported by the work papers.

CORRECTIVE ACTION PLAN

Because of this thorough review I am developing a corrective action plan to address each of the deficiencies identified above. The plan will include specific tasks and expected results. I will review the status of the completion of each of the items with the Comptroller on a monthly basis. All action plan items will be completed by December 31^{st}, 2013.

Summary of Recommended Action

This resolution seeks your authorization to make various staffing changes in the Office of the Comptroller to provide adequate professional staff to facilitate the duties and responsibilities of the Office. Replacement of vacant clerical titles with Accounting and IT titles will allow the Office to address various needs as identified in a recent review of the operations of the Office and address an issue raised in the Management Letter from the County's outside auditors..

Fiscal Implications of Proposal

Positive. Job count will not change and all changes will result in a savings in the 2013 budget.

Reason for Recommendation

An opportunity existed in the Office of the Comptroller to replace five vacancies in clerical and accounting titles with necessary Accounting and IT titles to improve the operation of the Office as recommended by a recent review of the Office and to provide a succession plan as recommended by Drescher & Malecki LLP, the County's outside auditors, in their Management Letter to the County dated June 27, 2012.

Consequences of Negative Action

The Office will not have a staff succession plan nor adequate IT support and will miss an opportunity to address various needs as recommended by a recent review.

Steps Following Approval of Measure

Filling the newly authorized positions from available Civil Service lists or advertisements for positions that do not have a Civil Service list.

Proposed Resolution

Re: **Reorganization of the Office of the Comptroller's staff.**

WHEREAS, Drescher & Malecki, LLP, the County's outside auditors, in their Management Letter to the County dated June 27, 2012 made an observation about the accounting staff in the Office of the Comptroller and advised the County to institute a succession plan to address anticipated retirements of key accounting staff as well as address formalized accounting policy; and

WHEREAS, a recent review of the operations of the Office of the Comptroller was completed that identified a number of issues: need for IT support; documentation of various accounting policies and procedures; and dependency on paper in the Accounts Payable section; and identified opportunities to improve the operations and efficiency of the office: and

WHEREAS, there are a number of vacancies in clerical and junior accounting positions in the Office of the Comptroller; and

WHEREAS, the opportunity exists to address the issues and provide adequate staff to assure an efficient and cost effective operation; and

WHEREAS, these changes will not change the job count in the Office of the Comptroller and will result in tax payer savings in the 2013 Adopted Budget.

NOW, THEREFORE, BE IT

RESOLVED, the following vacant positions are eliminated in the Office of the Comptroller effective with passage of this resolution:

Billing Collections Specialist Grade X

Junior Accountant Grade IX

Principal Clerk Grade VI

Account Clerk Typist Grade IV

and be it further

RESOLVED, that the following position be eliminated no later than March 31, 2013: Account Clerk Typist Grade IV; and be it further

RESOLVED, that the following positions be established in the Office of the Comptroller:

Application Systems Specialist Grade XIV

Accountant Analyst Grade XI

Accountant Grade IX

Accountant Grade IX

Accountant Grade IX

and be it further

RESOLVED, that certified copies of this resolution be forwarded to the Budget Director, Commissioner of Personnel and the Comptroller.

January 22, 2013

Erie County Legislature
92 Franklin Street – Fourth Floor
Buffalo, New York 14202

Re: Reorganization of the Office of the Comptroller

Dear Honorable Members:

The attached resolution requests authorization to make various staffing changes in the Office of the Comptroller to address recommendations made by a review of my office and the management letter issued to the County by Drescher & Malecki LLP, the County's outside auditors.

Should your Honorable Body require any further information, I and members of my staff are available to answer any of your questions. Thank you for consideration of this matter.

Sincerely,

Stefan I. Mychajliw
Erie County Comptroller