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Drescher & Malecki
Certified Public Accountants

June 14, 2024

Honorable County Executive
Honorable County Comptroller
Honorable Members of the County Legislature 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, 2023, 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 over financial reporting, 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 defined as follows:

- *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 over financial reporting 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 future reporting requirements that are presented for your consideration. This letter does not affect our report dated June 14, 2024 on the financial statements of the County. 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 County's 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

June 14, 2024

Department of Real Property Tax Services

Although the County's Department of Real Property Tax Services (the "Department") has begun the process of developing a set of procedures, it does not have a complete comprehensive set of procedures for their accounting processes and systems. Specifically, the Department has not formalized procedures surrounding reconciling the records of the Govern tax management system ("Govern") and the SAP accounting software. The absence of such procedures heightens the risk that errors could go undetected within the Department's reporting of tax bills, payment in lieu of taxes receipts and other key functions of the Department. The existence of these deficiencies creates an opportunity of fraud.

We recommend the Department continue to develop their comprehensive set of procedures for the Department's accounting processes and systems, including their procedures surrounding reconciling Govern and SAP. Additionally, we recommend the Department continue to evaluate the Govern system and determine if upgrading to a new system would be beneficial to the County.

County's Response: Subsequent to December 31, 2023, the Department has implemented finalized instructions implementing procedures for reconciling the records of the Govern tax management system and the SAP accounting software. Further, the County is undertaking a plan to modernize its ERP system, including an evaluation of the efficiencies of the Govern tax management system and the SAP accounting software.

Sheriff's Office

The Sheriff's Office should improve their proper controls surrounding bookkeeping, journal entries, and bank reconciliation process. Currently, the cash receipts and disbursements are compiled at month end and inputted into the SAP system while the review of the bank statement is performed rather than as transactions occur. This results in large lags in time between when the receipt/disbursement is deposited/spent versus when it is reflected in the accounting software. Additionally, we found no evidence of a formal review of the bank reconciliations each month and no formal review of journal entries. The existence of these deficiencies creates an opportunity of fraud.

We recommend that the Sheriff's Office develop a comprehensive procedures manual for their processes and procedures, including cash receipts, cash disbursements, journal entries and bank reconciliations. These should include who is responsible for preparing journal entries and bank reconciliations, when they should be performed and who is reviewing them. Additionally, the Office should be recording receipts/disbursements daily to reflect the activity within the Office.

County's Response: The Erie County Sheriff's Office is in the process of reorganizing our Administrative Services Division. As we undergo this process, we are taking all suggestions into serious consideration.

SAP Accounting Software Support and Training

Currently, the County uses accounting software for the general ledger (the "System") that has been adapted to conform to the County's specific fund and account structure. As a result, the System support that is required is specific to the County and if support for this version of the System were discontinued, the continuity of accounting operations could be threatened. Further, due to the uniqueness of the customized System a generic training platform is not accessible and, therefore, the training provided to the County must come from individuals from the System provider that are familiar with adaptions made. As a result, the sustainability of the available training is dependent on individuals familiar with the System as it is adapted for the County.

We recommend the County implement a plan to ensure that System support and training are in place to ensure continuity of the accounting operations for the County.

County's Response: The County is working to develop a plan to ensure that adequate System support and training are in place. As noted above, the County is undertaking a plan to modernize its ERP system, including an evaluation of the efficiencies of the SAP accounting software.

American Rescue Plan Act ("ARPA") Spending

As of December 31, 2023, the County has received its total allocation of $178.5 million of ARPA funds and has recognized using a total of $98.6 million in revenues. Recognizing that the remaining $79.9 million funds must be committed by December 31, 2024 and spent by December 31, 2026, we recommend the County stay diligent with its existing detail plans to use the funds under the allowable uses including 1) Revenue Replacement, 2) Responding to the Public Health Emergency/Negative Economic Impacts, 3) Premium Pay, 4) Water, Sewer, and Broadband Infrastructure, and (5) Negative Economic Impacts (such as housing assistance to affected communities).

County's Response: The County is aware of the deadlines and has a plan in place to obligate the funds by the December 31, 2024 deadline.

Loan Repayment Agreement

At December 31, 2023, the County's Utilities Aggregation Fund reports a receivable due from Erie County Medical Center Corporation ("ECMCC") approximating $12,706,000, which is due to the County's General Fund. A portion of the General Fund balance, $9,066,000, is considered a long-term receivable by the County, which governmental generally accepted accounting principles considers nonspendable fund balance. Although a portion of this has been repaid subsequent to year-end and the balance has been acknowledged by ECMCC, the County and ECMCC have not entered into a written agreement for the remaining loan outstanding.

While improvements in communication between the County and ECMCC have been made, we recommend that the County formalize a process with ECMCC to ensure that ECMCC acknowledge the payments outstanding each year to ensure that the County and ECMCC are in agreement on the amounts owed and the plan to repay each year.

County's Response: Although a formal agreement between the County and ECMCC does not exist, management from both entities are in regular communication regarding the cash flows between the entities.

Succession Planning

Many governments face the challenge of ensuring continuity and consistency of service delivery due to employee turnover. In instances where several long-tenured government employees are 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 (the "GFOA") encourages governments to address the following key issues and develop strategies concerning succession planning, including:

- **Continually assess potential employee turnover.** Making career planning discussions as 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.

- **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 and meetings should be held with departing staff to document job responsibilities.

- **Encourage personal professional development.** Personal professional development benefits the organization over the long term by helping employees gain the skills they need to assume increased responsibilities.

- **Consider non-traditional hiring strategies.** Options such as part-time work, job-sharing, flexible schedules and flexible-place arrangements are providing mechanisms to both meet the needs of the organization and employees.

County's Response: The County acknowledges the challenges from succession planning and is working on ways to address the risks involved in employee turnover and recruitment.

Future Reporting Requirements

The Governmental Accounting Standards Board ("GASB") has adopted new pronouncements, which may have a future impact upon the County. These should be evaluated to determine the extent the County will be impacted in future years.

GASB Statement No. 99— The County is required to implement the remainder of GASB Statement No. 99, *Omnibus 2022*, effective for the fiscal year ending December 31, 2024. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

GASB Statement No. 100—The County is required to implement GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62,* effective for the fiscal year ending December 31, 2024. The objective of this Statement is to improve financial reporting requirements for accounting changes and error corrections.

GASB Statement No. 101—The County is required to implement GASB Statement No. 101, *Compensated Absences*, effective for the fiscal year ending December 31, 2024. The objective of this Statement is to improve financial reporting by addressing issues related to the recognition and measurement for compensated absences.

GASB Statement No. 102—The County is required to implement GASB Statement No. 102, *Certain Risk Disclosures*, effective for the fiscal year ending December 31, 2025. The objective of this Statement is to improve financial reporting by providing users of financial statements with essential information that currently is not often provided. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information with which to understand and anticipate certain risks to a government's financial condition.

GASB Statement No. 103—The County is required to implement GASB Statement No. 103, *Financial Reporting Model Improvements*, effective for the fiscal year ending December 31, 2026. The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.