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*Certified Public Accountants*

September 14, 2018

Honorable Mayor and Members of the Common Council  
City of Salamanca, New York

In planning and performing our audit of the basic financial statements of the City of Salamanca, New York, as of and for the year ended March 31, 2018, 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 City'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 City'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 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 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 September 14, 2018 on the financial statements of the City. 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 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  
September 14, 2018

***New York State Casino Revenues and Fund Balance***

The City is located almost entirely upon the Seneca Nation of Indians Reservation. The Seneca Nation completed construction of a casino in the City in 2004 which engages in Class III Gaming pursuant to authority contained in the Seneca Nation/New York State Gaming Compact (the “Compact”). The Compact provides the Seneca Nation with the exclusive right to engage in Class III Gaming throughout all of Western New York in exchange for the Seneca Nation paying an exclusivity fee to New York State. Pursuant to the provisions of Section 99-h of the State Finance Law, a portion of that exclusivity fee is paid by New York State to those municipalities in which the Seneca gaming facilities are located in order to offset the impact of the casino on those hosting municipalities.

During the year ended March 31, 2017, the Seneca Nation officials notified State officials that they would be making their final casino revenue sharing payment under the compact. For the City’s adopted 2018 budget, casino revenue sharing under the Compact comprises approximately 58 percent of the total anticipated revenues to be received during the year. Due to the uncertainty surrounding this revenue stream, during the budget development process for the City’s 2019 budget the City appropriated fund balance of \$4,815,473 to cover the loss of this funding.

At March 31, 2018, the City’s unassigned fund balance totaled \$8,628,697 or 8.9 times the City’s annual tax levy and 94.5 percent of the 2017-18 budgeted appropriations, as compared to the City’s unassigned fund balance at March 31, 2017, which totaled \$16,893,806 or 17.5 times the City’s annual tax levy and more than 178 percent of the 2017-18 budgeted appropriations.

Further, the City has not adopted a formal comprehensive fund balance policy governing the accumulation and use of fund balance or a formal plan directing the use of the available fund balance to offset the lost casino revenue.

The City should continue to analyze the potential impact of the loss of the casino revenue in relation to its current level of fund balance. Further, we recommend that the City formally assess its financial risks and cash flow needs considering the potential impact of the loss of revenue and analyze and prioritize those risks and needs into a long-term financial plan. Further, we recommend that the City incorporate these findings into a formalized fund balance policy that outlines the level of unrestricted fund balance that should be maintained by the General Fund.

***Grant Revenues***

During the year ended March 31, 2018, the City did not perform regular budget monitoring procedures. As a result, a New York State grant revenue item included within the budget for the Consolidated Local Street and Highway Improvement Program was not requested and grant funds were not received.

We recommend that the City regularly review its performance of revenues to expectations outlined by the budget to ensure that all grant monies are appropriately requested.

***Formalized Policies and Procedures***

Although the City uses certain procedures that allow for operational efficiencies and effective internal control, these procedures have not been developed into comprehensive, formalized policies. Formalized procedures allow for the continuation of operations should there being staffing changes, can help heighten employee awareness, and improve the overall strength of the City's control environment. We recommend that the City Common Council review the following areas and formalize the current procedures into Council-adopted policies:

***Journal Entry Policy***

During the year we noted that due to staffing changes, certain journal entries were not reviewed by someone other than the preparer. The City does not have a formal policy for the preparation, posting and review of non-recurring journal entries. A formal journal entry policy allows for consistent accounting treatment and ensures appropriate controls surround the posting of journal entries to the general ledger.

We recommend that the City adopt a formal policy regarding the preparation, posting and review and approval of journal entries. This policy should outline what review, and by whom, should occur before entries are entered into the system.

***Bank Reconciliation Policy***

The City does not have a policy in place to document the review of bank reconciliations. Additionally, we found that there are no formalized procedures regarding outdated outstanding checks maintained on bank reconciliations.

We recommend that the City adopt a formal policy regarding bank reconciliations including a sign off by the person performing the review and for the review of outdated checks.

***Information Technology***

The City's current information technology ("IT") policy does not address the following items:

- Comprehensive organization chart
- Back-ups and data recovery procedures
- Password history and password expiration
- Inactivity logout procedures
- Physical security, including storing backups at a secured, offsite location
- Disaster recovery plan
- Personal use

We recommend that the City review its existing IT policy and make updates to address the aforementioned items.

***Capital Asset Policy***

The City does not have a formal policy for recording and depreciating capital assets, including ongoing projects included in the construction-in-progress balance. The City outsources the majority of its capital asset reporting to a third-party vendor; however, they maintain their own records of construction-in-progress.

We recommend that the City adopt a formal policy for capital assets which establishes the criteria and guidelines that will facilitate consistent recognition, monitoring and accounting for capital assets. This should include formalizing the capitalization threshold of assets, the useful lives, depreciation method and should also include what constitutes construction-in-progress, and how to identify when that project has been completed and should be moved to a depreciable asset.

***Library Cash Receipts***

The City Comptroller received cash receipts from the Library throughout the year, which can be related to various types of collections include fees, donations, grants, sale of books or other miscellaneous items. When the receipts are turned over to the Comptroller for deposit, the Library does not provide a timely listing to the Comptroller of what each receipt is related to and how it should be classified on the general ledger.

We recommend that the Library include a detail listing of all cash receipts collected upon deposit to ensure that proper controls are in place over the deposit as well as recording it on the general ledger.

***Automation***

The City currently performs several accounting functions using paper records and calculations, including steps within its payroll cycle. We noted that there may be improved efficiencies if the City is able to automate steps in this process.

We recommend that the City explore fully utilizing its accounting and computer software to determine if it is feasible to automate additional accounting processes.

***Segregation of Duties***

While the City has established segregation of duties surrounding the various internal control functions for its normal day to day activities, due to limited staffing, there are no procedures in place to maintain this segregation if an employee is unavailable for an extended period of time.

We recommend that the City ensure appropriate rotation of duties and properly document each employee's responsibilities to ensure consistency if an employee absent for any length of time.

### ***Board of Public Utilities***

Related to the City’s Board of Public Utilities (“BPU”), we identified the following items:

***Inventory Policy***—The BPU maintains inventory on the general ledger, which is periodically counted and reconciled to the general ledger. However, there is no formal policy for procedures for performing the periodic physical inventory counts. We recommend that the Board of Public Utilities develop formal procedures for performing a physical inventory and tracking inventory assets. This should include the process for performing a count, how often the count is to be performed, and how often the reconciliation to the general ledger should occur.

***Capital Asset Policy***—It was noted that the BPU does not have a formal Capital Asset Policy. We recommend that the BPU adopt a Capital Asset Policy, including thresholds for capitalizing assets, depreciation methods, useful lives, procedures surrounding deletions, as well as how to treat assets that are considered to be construction in progress.

***Journal Entry Policy***—The BPU does not have a formalized journal entry policy. We recommend that the BPU formalize a policy regarding the preparation and review of journal entries.

***Bank Reconciliation Policy***—The BPU does not have a formalized bank reconciliation policy. While procedures are in place regarding the performance and review of bank reconciliations, they have not been formalized. We recommend that the BPU formalize these procedures.

### **Future Reporting Requirements**

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

***GASB Statement No. 75***—The City 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 March 31, 2019. 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. 83***—The City is required to implement GASB Statement No. 83, *Certain Asset Retirement Obligations*, effective for the fiscal year ending March 31, 2020. 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 City is required to implement GASB Statement No. 84, *Fiduciary Activities*, effective for the fiscal year ending March 31, 2020. This statement establishes criteria for identifying fiduciary activities of all state and local governments.

***GASB Statement No. 85***—The City is required to implement GASB Statement No. 85, *Omnibus 2017*, effective for the fiscal year ending March 31, 2019. This statement enhances consistency in the application of accounting and financial reporting requirements.

***GASB Statement No. 86***—The City is required to implement GASB Statement No. 86, *Certain Debt Extinguishment Issues*, effective for the fiscal year ending March 31, 2019. 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.

***GASB Statement No. 87***—The City is required to implement GASB Statement No. 87, *Leases*, effective for the fiscal year ending March 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.

***GASB Statement No. 88***—The City is required to implement GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for the fiscal year ending March 31, 2020. The objective of this Statement is to improve the information that is disclosed in noted to government financial statements related to debt, including direct borrowings and direct placements. This Statement also clarifies which liabilities governments should include when disclosing information related to debt.

***GASB Statement No. 89***—The City is required to implement GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the fiscal year ending March 31, 2021. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

***GASB Statement No. 90***—The City is required to implement GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, effective for the fiscal year ending March 31, 2020. The primary objectives of this Statement are not improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.