
Certified Public Accountants

August 16, 2016

Honorable Supervisor and Town Board
Town of Lewiston, New York:

In planning and performing our audit of the basic financial statements of the Town of Lewiston, New York (the "Town"), as of and for the year ended December 31, 2015, 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 Town'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 Town's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We communicated a material weakness and significant deficiencies identified during our audit in a separate communication dated August 16, 2016.

Additionally, 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 August 16, 2016 on the financial statements of the Town. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. Our comments are summarized in Exhibit I.

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

August 16, 2016

Level of Fund Balance Policy

Fund balance, also referred to as reserves, provides the Town with the ability to respond to unexpected issues and to ensure stable tax rates. Fund balance provides the necessary resources to respond to unexpected issues – weather related disasters, infrastructure breakdowns, other emergency expenditures, revenue shortfalls, etc. It also provides for cash flow needs until major revenues are received. Real property taxes are not due until thirty days after year end and the receipt of other revenues such as billed water and sewer charges; state aid and sales tax have substantial lag factors. Possessing adequate cash reserves reduces or eliminates the need for cash flow borrowing.

Reserves are usually viewed favorably by investors, rating agencies, and local banks with which the Town does business. However, opposing pressures often come from unions, elected officials and taxpayer groups. The level of fund balance is and will continue to be a critical component of the Town's future.

Budgeting practices should strive to estimate the amount of revenues and expenditures to be earned and expended in order to adequately sustain the financial operations. Increasing expenses and declining revenues has resulted in the Town utilizing fund balance as a method to fund the budget gap. This practice has had an adverse effect on the Town's General Fund unassigned fund balance.

As a means to keep municipalities more focused on providing structural balance in their operations, with less dependence on one-time reserves, and to minimize political considerations of adequate reserve levels, many, including the Government Finance Officers Association (the "GFOA") recommend that governments establish a formal policy on the level fund balance that should be maintained in the Town's funds. The GFOA recommends a minimum of 16.67 percent of expenditures be used as a threshold.

The GFOA recommends that risk factors such as the predictability of future revenues, the volatility of expenditures, exposure to significant one-time outlays (disasters, immediate capital needs, and state budget cuts), legal claims and liquidity concerns need to be considered when developing such a policy.

As noted above, calculating a reserve requires estimating highly uncertain events like natural disasters and economic downturns. To develop an adequate response the GFOA incorporates the "Triple A" ⁽¹⁾ approach. That approach utilizes the following guidance:

- **Accept.** First, the Town must accept that they are subject to uncertainty, including events that they haven't even imagined.
- **Assess.** Next, the Town must assess the potential impact of uncertainty. Historical reference cases are a useful baseline.
- **Augment.** The range of uncertainty the Town really faces will almost always be greater than they assess it to be, so they should augment that range. Historical reference cases provide a baseline, but that baseline may not be adequate to account for all future possibilities.

We recommend that the Town revisit its current fund balance policies. The Town should consider the current GFOA's recommendations to formally assess its financial risks and cash flow needs, analyze and quantify those risks and needs, and incorporate its findings into its formal policy.

Departments - Procedures

Town Clerk

The Town Clerk should have adequate procedures to ensure cash receipts are handled appropriately. We observed Town Clerk cash receipts and petty cash are kept in the same lock box creating the opportunity for petty cash amounts to be improperly deposited within the Town Clerk's bank account. In addition, we noted that documented reviews of bank reconciliations, petty cash reconciliations and deposit slips are not being completed.

We recommend that the Town Clerk's Department reconciles the total amount of cash received daily to the amount of cash collected and verify the petty cash balance prior to deposit. Any differences should be investigated immediately and a review should be completed for each deposit and reconciliation for both bank and petty cash.

Town Receiver

While reviewing the Town's Tax Receiver Department, we found that cash receipts collected are kept in an unlocked drawer that is left unattended throughout the day. Further, multiple Town employees utilize this drawer throughout a typical day.

We recommend that all cash receipts collected are kept in a locked drawer. Further, access to this drawer should be limited to those necessary employees, and a reconciliation should be performed when the custody of the cash changes from one employee to another.

Town Justice

During our testing of the Town Justice Department we noted that the Town Justice maintains a combined bank account for fines/fees and bail for each Justice.

We recommend that the Justice Department maintain bail collections separate from fines/fees collections. The Justice Department should either maintain individual fines/fees and a joint bail account, or individual fines/fees and individual bail accounts for each Justice.

Information Technology ("IT") Policies

While gaining an understanding of the Town's IT environment, we found that the Town does not have formalized policies and procedures to address internet, email, and personal computer use; use of and access to personal, private, and sensitive information; password security; wireless access security; mobile computing and storage devices; and online banking. While computer policies do not guarantee the safety of the Town's computer system or electronic information, the lack of policies significantly increases the risk that data, hardware, and software systems may be lost or damaged by inappropriate access and use. Without comprehensive policies that explicitly convey the appropriate use of the Town's computer equipment, Town officials cannot ensure that Town employees are aware of their responsibilities and held accountable. In addition, the lack of policies increases the risk of inappropriate computer use (either intentional or accidental) that could potentially expose the Town to virus attacks or compromise computer systems. Without an

information breach notification policy, in the event that private information is compromised, Town officials and employees may not be prepared to notify affected individuals. We recommend that the Town formalize these procedures.

Monthly Reporting

In order to provide an accurate depiction of the Town’s current financial status, monthly status reports should be created and distributed to the Town Board and management personnel. We recommend that the Town work with its accounting software provider to create, at a minimum, budget status reports that can provide a clear financial status for interested parties on a monthly basis. Meaningful monthly reporting would prove invaluable to the Town as timely decisions must be made regarding operations, capital projects and improvements. A timely financial status would assist in streamlining this process and assist the Town in determining its needs.

Long-Term Capital Plan

We noted that the Town does not utilize a formal long-term capital plan to prioritize significant capital purchases and projects. A capital improvement plan is a tool used to help assess the long-term capital project requirements of a governmental entity and to establish funding of high-priority projects in a timely and cost-effective fashion. Capital projects can be funded through a combination of sources including grants, debt and fund balance.

We recommend that the Town develop a formal long-term capital plan. This will allow the Town to analyze the impact that capital expenditures will have on future operations. A capital improvement plan promotes the provision of continuous efficient services. The written plan identifies and describes capital projects, the years in which funding each project is to occur and the method of funding. In addition, the Town should review its restricted capital balances and determine to what extent they can be used in the long-term plan.

Review of Purchasing Process

Policies and procedures should be reviewed periodically to determine whether updates need to be made to the effectiveness or efficiency of procedures. We observed that the current purchasing procedures can be improved to provide a more efficient and effective way to approve and review purchases. The current process, which includes all vendors signing each individual voucher for payment in addition to the invoice the vendor mails is time consuming and does not provide enhanced control over payments for the Town. We recommend that the Town review their current purchasing procedures to ensure effective reviews while considering the cost/benefit of certain process steps.

New Reporting Requirements

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

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

GASB Statement No. 73—The Town is required to implement GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, effective for fiscal year ending December 31, 2017. The requirements of this Statement establish new reporting requirements for those pensions and pension plans that are not administered through a trust meeting the requirements of GASB Statements No. 67 and No. 68.

GASB Statement No. 74—The Town is required to implement GASB Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans*, effective for the fiscal year ending December 31, 2017. The requirements of this Statement address the financial reports of defined benefit OPEB plans that are administered through trusts that meet certain criteria. This Statement replaces GASB Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans*.

GASB Statement No. 75—The Town 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 December 31, 2018. This Statement replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*, and will require more extensive note disclosures and required supplementary information about their OPEB liabilities.

GASB Statement No. 76—The Town is required to implement GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments—an amendment of GASB Statement No. 55*, effective for the fiscal year ending December 31, 2016. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 77—The Town is required to implement GASB Statement No. 77, *Tax Abatement Disclosures*, effective for the fiscal year ending December 31, 2016. This Statement requires the disclosure of information about the nature and magnitude of tax abatements and will make these transactions more transparent to financial statement users.

GASB Statement No. 78—The Town is required to implement GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the fiscal year ending December 31, 2016. This Statement addresses a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

GASB Statement No. 79—The Town is required to implement GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for the fiscal year ending December 31, 2016. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

GASB Statement No. 80—The Town is required to implement GASB Statement No. 80, *Blending Requirements for Certain Component Units*, effective for the fiscal year ending December 31, 2017. The purpose of this Statement is to clarify the financial statement presentation requirements for certain component units.