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September 24, 2010

The Honorable County Legislature,
County Executive, and County Comptroller
County of Erie, New York

Dear Honorable Members, County Executive, and County Comptroller:

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, 2009 (on which we have issued our report dated September 24, 2010), in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, in connection with our audit, we have identified, and included in the attached Appendix, certain matters involving the County's internal control over financial reporting that we consider to be a significant deficiency under standards established by the American Institute of Certified Public Accountants.

We have previously communicated certain matters noted during our audit of the financial statements of the County for the years ended December 31, 2008, 2007 and 2006, which we considered to be a significant deficiency, in our reports to management and those charged with governance dated June 29, 2009, June 27, 2008, and June 27, 2007, respectively. As of the date of this report, we believe the County has not remediated this significant deficiency. We have outlined in the attached Appendix those previously-reported matters which we believe have not yet been remediated.

We have also identified, and included in the attached Appendix, other deficiencies involving the County's internal control over financial reporting and other matters as of December 31, 2009 that we wish to bring to your attention.

The definitions of a control deficiency and a significant deficiency are also set forth in the attached Appendix.

This report is intended solely for the information and use of management, the County Legislature, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Yours truly,

Deloitte & Touche LLP

SECTION I — SIGNIFICANT DEFICIENCIES IDENTIFIED IN A PREVIOUS AUDIT THAT HAVE NOT YET BEEN REMEDIATED

We identified and previously communicated the following deficiency that was concluded to be a significant deficiency in the County's internal control over financial reporting during our audit of the basic financial statements of the County for the years ended December 31, 2008, 2007 and 2006. As of the date of this report, we believe this deficiency has not yet been remediated by the County:

Overall Risk Assessment

Observation — The County currently has not performed an enterprise-wide risk 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 reviewed insurance-related risks facing the County. We also understand that the County initiated a Request-for-Proposal to engage an outside firm to assist with a formally-documented enterprise-wide risk assessment process, but has not secured funds within the budget to move forward with such a project.

Recommendation — We recommend that the County's risk assessment process include formal documentation of the risks related to fraud at the entity level. Implementing this formal process will further assist management in determining whether or not they have designed the appropriate controls related to the areas of the County that are most susceptible to risk, including fraud. This risk assessment process will also provide an objective view of the County's level of controls compared to the level of risk and may provide opportunities for the County to develop a more efficient and effective control structure. It is important that this process specifically address the risks related to fraud in the financial statements to allow the County to assess if controls are in place to effectively mitigate risks related to fraud.

SECTION II — OTHER DEFICIENCIES

We identified the following other deficiencies involving the County's internal control over financial reporting as of December 31, 2009 that we wish to bring to your attention:

ECMCC Transactions

Observation — During our audit testing, a disputed payment for rent made by the County to the Erie County Medical Center Corporation ("ECMCC") was brought to our attention by management. Payment to ECMCC was initially made in December 2009 by the County, and subsequently the County has sought to recoup such payment from ECMCC as the County believes they did not owe this payment. We have identified the following deficiencies in internal controls related to this transaction:

Payment Authorization — The County made an advance payment for standard ECMCC rental invoices prior to receiving final formal authorization from the Office of Budget and Management ("Budget") and the County Health Department. More than five weeks after the payment was made, Budget communicated to the Comptroller's Office and the Health Department that payment was not required. This invoice was one part of the overall reconciliation of items owed to and from ECMCC at 12/31/09.

Recommendation — All payments, regardless of the nature of the requested payment and the relationship with the vendor, should undergo formal authorization procedures as per County policy prior to processing payment. Pertinent information must be shared on a timely basis between the County Administration and the Comptroller's Office to ensure that proper accounting and payment actions occur.

Inconclusive Contractual Requirements — The County and ECMCC have a complex contractual relationship in which each party is obligated to pay the other for certain items under a 2006 judicial consent decree. The aforementioned disputed rental payment was reversed in the County's records as the County's Budget Department informed the County Comptroller's office that 2009 rent was not owed by the County to ECMCC. A formal agreement or other supporting documentation displaying the cancellation of previously agreed-upon rental payments was not available at the time and was subsequently formally negotiated in 2010.

Recommendation — In order to clearly and accurately represent the County's financial operations in the basic financial statements, the County should have timely, conclusive, contractual evidence as supporting documentation for entries booked related to such complex contractual relationships.

Year-End Bank Reconciliation Corrections

Observation — We identified two cash account reconciling items which had not been recorded to the general ledger in the proper year. Such deficiency was caused when the Department of Social Services entered, and the Comptroller's Office approved and posted bank transaction information to the general ledger in January 2010 that had been properly identified on the December 2009 pre-audit bank reconciliations. Failure to record bank activity in the correct year could result in improperly stated cash balance information in the basic financial statements.

Recommendation — The County should review pre-audit bank-to-book reconciliations at year-end and make certain that corrections are made in the proper year and that reconciling items corrected are removed from the final bank reconciliations in order to ensure the general ledger reflects the proper cash balances for financial statement preparation purposes.

Review of Accrued Accounts Receivable

Observation — Certain revenue accruals in Social Services recorded from 2004-2005 were not reversed after the related actual revenue adjustment had indeed been realized in years 2005 and 2006. The error was identified by the Comptroller's office at year-end 2009 as part of the financial closing process. The balances were corrected within the County's 2009 basic financial statements.

Recommendation — The County should routinely review account balances even after receiving departmental certifications of their propriety to ensure the accuracy and completeness of the amounts recorded in the financial statements.

Preparation for the Office of Management and Budget ("OMB") Circular A-133 Single Audit

Observation — During the current year Single Audit, we observed that the County experienced significant timing delays in compiling the appropriate information to be presented in the Schedule of Expenditures of Federal Awards ("SEFA"). The current year single audit included new OMB Circular A-133 compliance requirements specific to program expenditures funded by the American Recovery and Reinvestment Act ("ARRA"). Completion of the audit procedures to address these new compliance requirements were unable to be performed timely due to the aforementioned delays in compiling and providing ARRA figures within the SEFA.

Recommendation — The County should routinely communicate OMB Circular A-133 Single Audit reporting requirements, including new requirements from the previous year, to the all County departments in order to facilitate a more effective and timely accumulation of data and preparation of the SEFA for the OMB Circular A-133 Single Audit.

SECTION III — OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

Department of Internal Audit

Observation — During the course of our auditing procedures as of and for the year ended December 31, 2009, we became aware of planned 2011 budget cuts to the County's Department of Internal Audit. Should the proposed budget be approved, the staffing levels of the Internal Audit department will be substantially reduced. The proposed reductions may limit the County's ability to adequately address the control environment and monitoring components of internal control as outlined by the risk management framework of the Committee of Sponsoring Organizations of the Treadway Commission. Additionally, the Internal Audit department's ability to respond to and investigate allegations or suspicions of fraud or other issues reported to the County's Waste, Fraud and Abuse Tipline may be diminished.

Recommendation — The County should consider benchmarking resources to assist in determining the appropriateness of Internal Audit department staffing levels in relation to the number of County employees and the ability to maintain an adequate framework of internal control.

SECTION IV — DEFINITIONS

The definitions of a deficiency and a significant deficiency that are established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, are as follows:

A *deficiency* in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A *material weakness* is a deficiency, or 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 *significant deficiency* is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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