

DRESCHER & MALECKI LLP

2721 Transit Road, Suite 111
Elma, New York 14059
Telephone: 716.565.2299
Fax: 716.389.5178



August 17, 2023

Honorable County Executive and Members of the County Legislature
County of Chautauqua, New York:

In planning and performing our audit of the basic financial statements of the County of Chautauqua, New York (the “County”) as of and for the year ended December 31, 2022, 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 of America, 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 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 below:

- *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 future reporting requirements that are presented for your consideration. This letter does not affect our report dated December 31, 2022 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 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

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Lease Policy

Governmental Accounting Standards Board ("GASB") Statement No. 87, *Leases*, was implemented for the fiscal year ending December 31, 2022. GASB Statement No. 87 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.

Given the future implementation of GASB Statement No. 87, we recommend that the County document their lease policy based on GASB Statement No. 87 guidelines to ensure a consistent application of the guidelines for the reporting of leases.

American Rescue Plan Act ("ARPA") Spending

As of December 31, 2022, the County has received its total allocation of \$24.6 million of ARPA funds, and has recognized using a total of \$5.7 million in revenues. Recognizing that the remaining \$18.9 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.

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.

Level of Fund Balance Policy

As a means to keep municipalities more focused on providing structural balance in their operations 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 of unrestricted fund balance that should be maintained in the General Fund. The GFOA recommends that this formal fund balance policy be set by the appropriate policy body.

The GFOA states that the adequacy of unrestricted fund balance in the General Fund should be assessed based upon the County’s own specific circumstances. Nevertheless, the GFOA recommends, at a minimum, that general-purpose governments, such as the County, maintain an unrestricted fund balance in their General Fund of no less than two months (approximately 16.67%) of regular general fund operating expenditures. In comparison, the County’s current unassigned fund balance is 18.7% of General Fund operating expenditures and transfers out.

Calculating a reserve requires consideration of the County’s risk factors. Therefore, it is necessary to estimate highly uncertain events like natural disasters and economic downturns. Further, the County has a constitutional tax limit on property tax collections that due to being at nearly the maximum allowable level restricts its ability make up for poor performance in any given period. To develop an adequate response the GFOA incorporates the “Triple A” approach. That approach utilizes the following guidance:

- **Accept.** First, the County must accept that we are subject to uncertainty, including events that they haven’t even imagined.
- **Assess.** Next, the County must assess the potential impact of uncertainty. Historical reference cases are a useful baseline.
- **Augment.** The range of uncertainty the County 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 County establish a fund balance policy regarding minimum and maximum levels of unrestricted fund balance that takes into consideration the County’s constitutional tax limit as well as the GFOA’s guidance, develop an analysis and quantification of risks, and establish which individuals have responsibility for assigning fund balance.

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. 94—The County is required to implement GASB Statement No. 94, *Public-Public and Public-Private Partnerships and Availability Payment Arrangements*, effective for the fiscal year ending December 31, 2023. The objectives of this Statement are to improve financial reporting by addressing issues related to public-private and public-public partnerships arrangements (“PPPs”).

GASB Statement No. 96—The County is required to implement GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the fiscal year ending December 31, 2023. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users.

GASB Statement No. 99—The County is required to implement GASB Statement No. 99, *Omnibus 2022*, a portion effective for the fiscal year ending December 31, 2023 and the remaining portion effective for the fiscal year ending December 31, 2024. The objective of this Statement is 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 objectives of this Statement are to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

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 objectives of this Statement are to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.