Audit Committee Meeting
Erie County Fiscal Stability Authority
March 26, 2007

Director Keysa: “When we arrived here this afternoon, Director Goodell questioned “Who is the chair of the committee?” I said “I thought you were.” He said: “I thought you were.”

Director Goodell: “I would have a conflict of interest [serving as chair] because I am the chair of the finance committee and would look bad if I was the chair of the audit committee as well. Director Johnson is also a member of the finance committee and that would be a conflict of interest, so that leaves you.”

Director Keysa: “Well, then I will serve as chair of the audit committee. We will need to notify the Chairman that he will need to appoint a new chair. For lack of another candidate, for now, I will take on the responsibility.”

Chairman Keysa: “It is now 1:34 p.m. on Monday, March 26, 2007. This is an audit committee meeting of the Erie County Fiscal Stability Authority. Present are Directors John Johnson, Joseph Goodell and myself.

“With that, one of the things that we have here before us, which I present from my other hat as the Secretary of the board, are the edited minutes that were originally prepared last year by Lee Van Riper. Those have been submitted to you via e-mail. Hopefully you have all had an opportunity to take a look. Do we have a motion to approve the minutes of the June 23, 2006 audit committee meeting?”

Director Goodell moved to approve the minutes as presented and Director Johnson seconded. Without further discussion, the board voted unanimously to approve the minutes of the June 23, 2006 audit committee meting.

Chairman Keysa: “The next item that we have is the presentation of the audited financial statements for the past fiscal year by Joseph Klimek from Toski, Schafer and Co, PC. Mr. Klimek if you would, please take the microphone.”

Joseph Klimek: “Thank you gentleman and good afternoon.”

"The first report which I have handed out today is a "Report to the Audit Committee." The financial statements of the ECFSA are the representation of management, governed by the rules and policies of the board of Directors. The board of Directors has hired us to audit the management's financial statements. This is our report of how that went."

Chairman Keysa: "This is for fiscal year ending December 31, 2006?"

Joseph Klimek: "Yes. What is our responsibility? Our responsibility as auditors is to audit the manager's financial statements. We are here to express an opinion whether or not your financial statements are in accordance with generally accepted accounting principles which in this case are governed by the Accounting Standards Board. To carry out this assignment, we examine on a test basis the evidence supporting the transactions in the financial statements and the disclosures in the financial statements. We also have designed a program to determine whether fraudulent activities exist and/or fraudulent exposure exists to the Authority. If we find anything along those lines we must report them to the board. In this case, I am happy to say, there is nothing along those lines in terms of fraudulent activity that I need to report to the board."

"As part of our audit, we also consider internal controls of the Authority. Such considerations are determined by our audit procedure and that is to provide any assurance concerning internal control. You did not hire us to audit your internal control. You hired us to audit your financial statements. Internal controls are so important that we need to assess it when we are doing our audit. We do have a letter in the audit report regarding internal controls.

Significant accounting policies have been consistent from year to year. Some of the most controversial GASB pronouncements such as statement # 45 which has to do with accrual and reporting of post retirement benefits for retirees are very important but for the most part does not affect the Authority. The Authority does not have a policy in place where they will need to pay health insurance for retirees. That is very significant. It does affect the County but it dos not effect the Authority."

"<u>Management Judgment in Accounting Estimates</u>. The Authority statements have a few estimates and one of them is the accrual for compensated absences. We looked at your calculations of that and determined it to be reasonable in light of audit circumstances. Audit adjustments were routine and did not bring out anything to determine that there was any fraudulent activity. They were routine year-end accounting adjustments that could be performed by management. Other Information and Documents Containing Audit Financial Statements; if you do prepare and publish these statements with our audit opinion, we will need to provide those statements to the public to make sure they are the same statements that we audited."

"Disagreements with management, there were none."

Chairman Keysa: "I would note that it is policy, a State requirement, that the audit must be published on the website within a reasonable time period. If you could provide it in a format that we can post to the website, that would be great."

Joseph Klimek: "Sure. Consultation With Other Accountants; There was nothing along those lines. In auditing the accounting procedures, we found no problem in the procedure. I would like to extend thanks to Darren Kempner who helped us immensely in preparing the Management Discussion And Analysis. His expertise was very helpful and moved the audit process along in a timely fashion."

"The next item on the agenda is that Draft Financial Statements which is the larger package; a 15 page item. Page 1 is the Independent Auditors' Report."

"The first paragraph describes the scope of our work. We looked at 2006 and also looked at 2005. These are management's financial statements. It is our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with professional standards and government auditing standards which are a little higher than standards that are required when we are working in the private arena."

The fourth paragraph is our opinion. The statements referred to and in all material respect the financial position and activities of government and general fund of the Authority as of December 31, 2006 and 2005. Any respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. [This is] a clean opinion."

"Paragraph four describes and references another auditing report that is required by the Government Auditing Standards. We will address that later on in this presentation."

"Page two contains a disclaimer on the Management Discussion & Analysis. We do not audit the Management Discussion And Analysis part; it is required supplemental information. We do make sure the numbers agree with the financial statements. It is management's discussion and analysis."

"On pages 3, 4, 5 and 6 is Management's discussion and analysis. financial highlights are included here. You can read these at your leisure. I would really like to turn to the Audited financial statements. This begins on page 7."

"Statement Of Net Assets For The General Fund: you can see cash, where we are at the end of the year. Our total assets include a large receivable from New York State from sales tax receivable of $42,037,113. Our liabilities which include a large payable due to Erie County for those sales tax revenues in the amount of $41,563,102. Our total unrestricted net assets, which are our equity, basically, under government auditing standards, unrestricted net assets are $392,651 from the prior year. Cash and cash equivalents of $466,707 are fully insured or collateralized are required by the General Municipal Law.

On page 8, the Statement of Activities and Changes in Net Assets in the General Fund show our expenses are $484,894 for the year ended December 31, 2006 compared to $1,115,998 compared to the year 2005 which is significant difference from the current year. The major difference between the two years is the fact that in 2005 the Authority hired PFM contractors and that was a large expense in 2005. This year consulting fees are much less."

"Payroll represents a full year, same number of staff. This number represents a full year of $260,564. Consulting fees include the Authority's financial advisors, Capital Market Advisors of $21,402 for bonding and debt work that they were doing on your behalf. Legal fees are down. The fees incurred this year had to deal with the lawsuits filed by the Authority and the County. Rent; we have a full years rent at $20,409; $1,623 is your monthly rental charge. Office supplies were down from the prior year. In 2005. there were initial start up fees do the expenses are lower in 2006. Meeting expense for Board meeting including this type of meeting was up slightly from the prior year and most of the meetings are covered in the $11,937, Travel expense is down substantially in 2006. There is no travel from the former Chairman. Travel is down substantially."

"General revenue for the year ended 2006 consists of $355,002,107 for sales tax revenue which comes from New York State. It passes through this Authority under its legislation to Erie County. This year you paid Erie County $355,383,774 in total pass-through money. Interest earned income is from two sources. The first source is while the State holds the sales tax revenue in an account they pay out monthly, that revenue is set aside in a trust agent account that earns interest. That is then sent to the Authority. That interest-earned-on-sales-tax-transfers last year was $596,717. Additionally through the Authority's investments, there is $626,964 in interest-income-earned in its investment account during the year. The State revenue was $596,717 and earnings on your investments were $626,964."

Director Goodell: "Would you go through again how the interest income is generated?"

Joseph Klimek: "Sure. It is generated in two areas. It is sent to you monthly in a check from the State. They identify interest income on the amount that is on the deposit slip that is paid to you monthly. That money is earning interest on the behalf of the County to the Authority."

Director Goodell: "So these are the funds of the County that are passed through. It is the interest on that?"

Joseph Klimek: "Correct."

Director Goodell: "That is really short term. Is that correct?"

Joseph Klimek: "That's correct, $596,000 on sale tax interest last year and $151,000 in the general fund. The County breaks out this interest income on their financial statement that way. They record the interest income that is generated by New York State separately from the sales tax revenue. So we want to be consistent. The Authority's financial statements are included in the financial statements of Erie County."

Chairman Keysa: "It does surprise me that there is that amount of interest on the local activities. It is my understanding that the money comes in and goes out on essentially the same day."

Director Goodell: "He states that it occurs at the State level."

Chairman Keysa: "Well there are two things, the State level which is roughly $596,000 and the local is $626,000, is that correct?"

Joseph Klimek: "Yes that is correct."

Executive Director Vetter: "There is an additional component that is related to this. It is interest income from a RAN account that is withheld to payback a RAN under the legislation. So that is part of the reason for the additional earned interest income."

Joseph Klimek: "So our net increase in our total of net assets and we started with $35,531 and net assets at the end of the year or $392,651."

Chairman Keysa: "I am assuming those funds are kept for cash in flow purposes."

Executive Director Vetter: "Again for whatever residual funds and would make sure there is an amount there for cash flow for pay roll, consulting fees and that is all held aside from the sales tax funds."

Director Johnson: "Are those dollars kept separate from the general revenue accounts of the County?"

Executive Director Vetter: "Yes they are separate from the County accounts. The Authority has a separate account."

Joseph Klimek: "I have one more report which is the Management letter."

Executive Director Vetter: "Excuse me Mr. Klimek but I would like to point out, on the financial statements, with regard to actual spending in 2006 versus budget, that the total budget was $1.8 million and total spending for the year was just under $485,000, so the total spending for the year was less than 1/3 of what was budgeted."

Director Goodell: "That's about 31%. I have a question for Mr. Klimek. Do you verify at the State level the amounts that the State sends to the Authority? Do you check at the State level?"

Joseph Klimek: "Yes we conform all of the cash monies that the State sent to the Authority. We have 100% confirmation on that."

Director Goodell: "Then do you confirm also at the County level what monies they have received?"

Joseph Klimek: "Yes, we spent a considerable amount of time this year with the County including telephone calls and e-mails to make sure that what we received is what they received and we confirmed that with them also."

Joseph Klimek: "On page 13 and 14 is our required report on Government Auditing Standards for the year ended December 31, 2006. There are two sections; one is regarding internal control of financial reporting. This describes what we do in our audit. We are not hired to give an opinion on your internal control but we design our tests around your internal control system. We have to design our tests around your internal control system. We have standards that came out the basically describe certain things. I would like to read the last paragraph on page 13. "Our consideration of internal control over financial reporting for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal controls over financial reporting that we consider to be material weaknesses, as defined above." So the financial reporting process is fine. We did not consider any of the topics discussed in our Management letter to be significant deficiencies or material weaknesses."

"On page 14 is the other section of the Government Auditing Standards Report regarding compliance and other audit matters. We attained reasonable assurances that the Authority's statements are free of material misstatement; we performed tests of its compliance with certain provisions of laws like the Public Authority law for your cash investments. Regulations, contracts, etc. which non-compliance-with would effect the determination of the financial statement amounts. We do not provide an opinion on that; however our tests disclose no instances of non-compliance on other matters that are required to be reported under these Government Audit Standards. That is good. We noticed certain matters that we reported in the management letter on a separate letter dated March 9, 2007 which we will go through next."

Chairman Keysa: "Are there any other questions for Mr. Klimek?"

Director Johnson: "Use of State funds, are there any observations that the outside auditors would make to improve the Authority's management?"

Joseph Klimek: "Yes, that is our next letter here. Certain items that we discovered during our audit to improve your internal controls and financial reporting."

"The first item is monthly accounting of revenues and expenses. Under the enabling legislation that created the Authority, Section 3965, it requires the Authority prepare and provide a detailed report including all revenues, payments and debts paid of services set aside as attributable to the County on a monthly basis. There is a monthly accounting requirement under the Act that must include these four bullet points listed below. One of the requirements of the Act states that any balance of excess revenue should be paid to the County by the Authority as soon as applicable. It is not really defined what is as soon as practicable means. Significant net assets at the end of the year are payable to the County. In order to be in compliance to this law we recommend that Authority begin reporting its revenues and expenses to the County on a monthly basis. That is just to comply with the law. What is provided the County now is a report of just the sales tax received and submitted. Your expenses are not being put in there. We therefore make a recommendation to provide this information."

Executive Director Vetter: "Mr. Chair would you like me to respond on each issue as they arise."

Chairman Keysa: "Sure, I suppose we could do that."

Executive Director Vetter: "On this issue, Darren Kempner is a CPA and has worked closely with Mr. Klimek on what we have done. Mr. Kempner has the responsibility to address this monthly report to go to Erie County for 2007 and that has been addressed."

Chairman Keysa: "I would like to look at this item with my other hat, as chair of the governance committee. I would like to have you prepare, in the near future, perhaps by the next meeting or two, suggested changes in the By-Laws specifically as they relate to the administration such that we would formalize the recommendations that are being made here, at least those that are being accepted by the committee. With that could we please proceed with the other items on the Management letter?"

Joseph Klimek: "Cancellation of supporting documentation to prevent duplicate payment. To provide proper cancellation we recommend use of a "paid" stamp on all the vouchers that have been paid for expenditures of the Authority."

Director Goodell: "That seems relatively cheap and reasonable."

Executive Director Vetter: "We have purchased a "paid" stamp to provide reasonable assurance that expense are paid and accounted for appropriately."

Chairman Keysa: "As we look at the specific items in the policies and procedures; we should consider a making a clear distinction on who does what. We should develop a "who does what" recipe that will allow us to utilize to the maximum extent a staff as small as we have can have a division of responsibility."

Executive Director Vetter: "Mr. Chairman, let me distribute to members of the board our established Who does what? matrix. In 2006, three-quarters of the staff turned over and what I did after coming on was put together a delineation of responsibility for staff. This was distributed, discussed and agreed to by staff and revised slightly as we have gone forward. Let me distribute that to the board to provide assurances to you that the realm of responsibilities at that staff level are covered in their appropriate division of there duties."

Joseph Klimek: "Supporting documentation for cash disbursements. We noted a request for office lease payment which did not include an original invoice to support the expenditure. As a result, an additional duplicate lease payment was made during the course of the year in the month of November. In order to improve internal controls on cash disbursements we recommend that checks not be prepared without adequate supporting documentation. We recorded an audit adjustment here where we recorded that due to duplicate payment of rent there is now a prepaid expense that has been taken into account where you are paying your land lord. If that had a proper invoice attached to it, then that duplication would not have been made."

Executive Director Vetter: "Mr. Chairman, the procedure in place is not only for invoices but also a delineation of responsibility between cash disbursements and account reconciliation is in place at this point so that the Director of Administration is responsible for the particular disbursements and the Financial Analyst performs the reconciliation so that there are two people, plus myself and a board member who signs the checks, who are involved in the process and review these reports. We believe these items have been adequately addressed for 2007."

Chairman Keysa: "Thank you Executive Director Vetter for the changes you have made to date."

Joseph Klimek: "Travel reimbursement: we noted a travel reimbursement that was paid to the Executive Director's credit card. First thing we recommend is that disbursements not be made to personal credit cards of individuals or board members; instead, that they be made directly to that person or that the Authority establish its own credit card for those types of purposes. We also make a recommendation that the expense report be completed in accordance to a travel policy that you have adopted in accordance with the new public authorities act."

Executive Director Vetter: "This is the sole trip I made with our Chairman. I handed my credit card to the Director of Administration and with the recommendation that is here, we have worked out an internal forms procedure which is also consistent with State requirements. The Chairman will be approving the travel in writing and that is what has been adequately addressed at the staff level. This item was approved by the Chairman and was the only trip that was made by the two of us to meet with the rating agencies in New York in 2006. We believe that we have adequately addressed this item and can look forward to any board policies that should be put in place in the future."

Joseph Klimek: "Next item was the Review and Approval of Employee Timesheets. We noted employee timesheets that were not signed by the employee or lacked evidence of official approval. This is a small organization, everybody knows where everybody is but in order to improve internal controls we recommend that all timesheets should be reviewed and approved by an official upon the proper completion of the employee. The review is meant to ensure that the correct hours of work and paid time off are accurately calculated and reported."

Executive Director Vetter: "Mr. Chairman, due to change in staff at the administrative level, there has been an upgrade in our capabilities from what was originally there. In 2007, time sheets on a biweekly basis are reviewed and signed to provide reasonable assurances that all calculations are accurate and properly completed."

Director Johnson: "You discuss having appropriate evidence for employees. You mention an authorized official, are you speaking from an administrative side or governance side? "

Joseph Klimek: "Administrative side."

Chairman Keysa: "Basically, that the Executive Director should review all staff timesheets; should the Executive Directors be reviewed by Chair?"

Joseph Klimek: "Or his designee or maybe the chair of the finance committee; someone along those lines."

Chairman Keysa: "Thank you and again, could we have these suggestions updated in the By-Laws?"

Joseph Klimek: "Previous Recommendations. At our last audit engagement, we submitted to recommendations dated May 19, 2006 for the year ended December 31, 2005 for consideration by the Authority. At that time we had two comments. The first one was bank reconciliations being handled by the person who also handled the accounting because of the small staff. During 2006, we basically had the same scenario. We understand that management has with the new addition of a Financial Analyst, a person who is responsible for reviewing and approving the bank reconciliation. So it seems like this issue has been addressed subsequent to year end."

"As you discussed earlier, establish and implement of a well-defined internal controls and accounting policy and procedure. Regarding Statement of Position and that type of thing, we believe that you should have a well-defined and operational accounting policies and procedures manual. It should be put together and we understand that you are in the process of doing things. It is imperative that the Authority establish its policies and procedures at all levels of management. We believe that all items addressed in the Management Letter can be avoided and addressed in a timely manner if the Authority were to adopt such appropriate policies and procedures. We understand that you are in the process of developing these items."

Chairman Keysa: "Our next formal step would be to accept the items requested by Mr. Klimek and make a formal recommendation to the board."

Director Goodell: "Excuse me, Chairman Keysa, I have one more question. In the audit letter, you talked about the fact that you do not audit the procedures; that you are only auditing the financial statements. It seems implied that you would like us to give you the authority to change procedures."

Joseph Klimek: "Not necessarily. If your intention is to have us give you an opinion on your auditing policies and procedures, it is a separate sort of engagement in our profession. Typically, it is only done to those organizations that handle other people's money, such as banks. However, now under Sarbanes-Oxley, which does not apply to governments, those procedures are now being audited by public accountants who are auditing public companies' financial statements; they are auditing internal control procedures. That is why there is a difference here and what is required by the Sarbanes- Oxley Act."

Director Goodell: “My question is what we need to get an audit performed because it is such a small organization and the thoroughness with which you have pursued it. It seems to me that you have identified places where the procedures are weak and should be corrected. Is there anything else that the board could do?”

Joseph Klimek: “No. In general, you could be preparing monthly financial statements. That is one thing. A monthly financial statement that goes to the board, full disclosures, financial reporting is something that we see more and more governments doing.”

Chairman Keysa: “At the same time, let me clarify that, according to the Public Authorities Act, the independent auditing firm cannot provide those services?”

Joseph Klimek: “That is correct. We have to be independent because we cannot audit our own work.”

Chairman Keysa: “You cannot advise, for example on obtaining bond rating items, etc.?”

Joseph Klimek: “That is correct.”

Chairman Keysa: “Before we vote on this, I think it would be appropriate for the members of the committee to meet with the independent auditor in executive session. If there are any other questions that we can discuss in public forum that would be fine. If not, could I have motion to go to executive session?”

Director Johnson moved to enter into an executive session and Director Goodell seconded. Without further discussion, the committee entered into executive session accompanied only by Joseph Klimek. About ten minutes later, the committee reconvened in open session.

Chairman Keysa: “We have reconvened from executive session after members of the committee met with Mr. Klimek. We had an opportunity to discuss some items in private. No decisions were made in that meeting. We do have as a result of that meeting one question that we want to ask Mr. Klimek in an open session. During the course of the last year, we changed executive directors and at that time there was discussion of doing a special interim audit to determine if there were any problems at that point. Did you in fact do an interim audit at the time of the change of the Executive Directors?

Joseph Klimek: “We did not do an audit at that point but we did do work during our current year audit which included reviewing transactions and found nothing that needed to be disclosed or reported to the board or management.

Chairman Keysa: "So you were looking specifically at that possibility that there was something at that time? Again, in a small organization like this, the Executive Director has significant authority especially at the earlier stages, and you saw nothing in the report that would suggest any problems?"

Director Goodell: "That is correct."

Chairman Keysa: "With that I would like to ask the board members if they are prepared then to recommend to the full board the approval of the Audited Financial Statements.

Director Goodell moved to recommend approval of the Audited Financial Statements to the full board as presented and Director Johnson seconded. Without further discussion, the board voted unanimously to approve the recommendation.

Chairman Keysa: "The recommendation has been made to approve the Audited Financial Statements to the full board. Again, please note that we have asked the Executive Director to prepare for us over the next several weeks a summary of the standard operating procedures now being held internally so that the board can reviews. Secondly, we also asked that he prepare a draft of suggested changes in the By-Laws that can go to the governance committee and reviewed by the governance committee as to any changes in the By-Laws related to the suggestions that have been made by the independent auditors as received. With that, I think we have covered all that items that were to be discussed at the meeting today.

Director Johnson made a motion to adjourn. Director Goodell seconded. Without further discussion the board, voted unanimously to adjourn.

Respectfully submitted,

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Stanley J. Keysa, Secretary
April 19, 2007