

MANAGEMENT LETTER

January 15, 2020

The Common Council and Management
City of Lockport, New York

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lockport, New York (the City) as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance and includes the following:

1. Financial accounting and external reporting

Management requests our assistance with the annual financial statements and notes, including adjustments relative to new accounting standards. Although we do not believe that our assistance impacts our overall independence, professional auditing standards do require that we inform the Common Council and management of our involvement in this process. Given the limited number of personnel within the City's accounting office, it is not practical nor fiscally prudent to expect an implementation strategy that would avoid this comment in future audits.

2. Bank reconciliations

At the inception of our audit, we found that the police department's bank accounts had not been reconciled since 2017. The completion of bank reconciliations is an important internal control to ensure that cash balances are accurate and discrepancies are investigated and resolved timely. Prior to completion of our audit, all accounts had been appropriately reconciled. We recommend that all bank accounts are reconciled monthly and are reviewed timely by management.

3. Accounting office staffing

At the start of our audit, we noted various accounts and balances that had not yet been reviewed and adjusted, resulting in delays in receiving accurate information and performing audit procedures. General ledger accounts should be reconciled throughout the year and year end adjustments made prior to the start of the audit. We recommend that management review the staffing of the accounting office to determine if additional personnel is required to complete these tasks timely.

OTHER MATTERS

4. Internal control related matters

We recognize that internal controls are predicated on a delicate cost-benefit relationship. We also recognize that ideal duty segregation is not always attainable, given the size of the accounting staff and limited resources. However, we offer the following as suggestions to enhance the City's internal controls:

- The Treasurer and Deputy Treasurer have access to initiate and process wire transfers. Currently there is no required second approval of the transaction, either through online authorization or a call back from the bank. We recommend that an approval process is implemented, whereby an employee who does not have access to initiate transfers is responsible for approving them.
- Purchase orders are completed and approved at the department level, with a second approval by the Director of Finance. There are instances when purchase orders are completed and approved after the purchase has occurred. We recommend that a purchase order is completed and approved prior to each purchase, as stipulated in the City's procurement policy.

5. Capital assets

At the time of the audit, management began maintaining its capital asset listing in Excel. The conversion from the predecessor auditor's software system resulted in a delay in receiving the listing for the audit, including information regarding additions and disposals. We recommend that management research capital asset software programs and consider use of such a system to reduce the risk of calculation errors, calculate depreciation, and more easily monitor additions and deletions. In addition, someone within the accounting office should be responsible for updating the database throughout the year.

ACCOUNTING STANDARDS UPDATES

6. GASB Statement No. 84

GASB Statement No. 84, *Fiduciary Activities*, is effective for the City's year ending December 31, 2019. This statement establishes criteria for identifying fiduciary activities and generally focuses on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. This statement describes four fiduciary funds that should be reported, if applicable, and requires presentation of a statement of fiduciary net position and a statement of changes in fiduciary net position for each.

7. **GASB Statement No. 87**

GASB Statement No. 87, *Leases*, is effective for the year ending December 31, 2020. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Under this statement, a lessee is required to recognize a lease as a 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.

We have discussed these comments with City personnel and would be pleased to discuss them in further detail, perform any additional studies, or assist in implementing the recommendations.

This communication is intended solely for the information and use of the City's management and Common Council. It is not intended to be, and should not be, used by anyone other than these specified parties.

Lumaden & McCormick, LLP