

MANAGEMENT LETTER

October 21, 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, 2019, 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 deficiencies in internal control 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 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. Bank reconciliations

At the inception of our audit, we found that the police department's bank accounts had not been reconciled in 2019. 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.

2. 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.

3. Community development loans

It was noted during the audit that the community development loan schedules included loans and mortgages that had been previously paid or discharged. We recommend that these schedules are reviewed and updated throughout the year to ensure that loan and mortgage balances are accurate.

OTHER MATTERS

4. Approval of purchase orders

Purchase orders are completed and approved at the department level, with a second approval by the Director of Finance. We noted instances of purchase orders completed and approved after the purchase had 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

Management is maintaining its capital asset listing in Excel after converting the listing from the predecessor auditor's software system in 2019. 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.

INFORMATIONAL POINTS - ACCOUNTING STANDARDS UPDATES

6. GASB Statement No. 84

GASB Statement No. 84, *Fiduciary Activities*, was originally effective for the City's year ended December 31, 2019. Due to the COVID-19 pandemic, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed implementation until December 31, 2020. 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*, was originally effective for the year ending December 31, 2020 but was postponed by GASB Statement No. 95 to December 31, 2022. 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.

8. GASB Statement No. 88

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, was also originally effective for the City's year ended December 31, 2019 but was postponed by GASB Statement No. 95 until December 31, 2020. It requires disclosure in the footnotes for additional information related to debt, including unused lines of credit, assets pledged as collateral, and terms specified in debt agreements related to significant events of default, termination events with finance-related consequences, and significant acceleration clauses.

9. GASB Statement No. 96

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for the City's year ending December 31, 2023. This statement generally requires a government to recognize a right-to-use subscription asset and a corresponding subscription liability that is measured at the present value of the subscription payments expected to be paid during the subscription term.

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.

A handwritten signature in blue ink that reads "Lyman & McCormick, LLP". The signature is written in a cursive, flowing style.