

August 8, 2014

CONFIDENTIAL

Chairman and Board of Supervisors
County of Saratoga, New York

Dear Chairman and Board Members:

We have completed our audit of the financial statements of the County of Saratoga, New York (the County) as of and for the year ended December 31, 2013. In planning and performing our audit of the financial statements, we considered the County's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal control. We have developed the following comments and recommendations concerning certain matters related to the County's internal control and accounting, administrative and operating matters.

This report is intended solely for the information and use of the Chairman, Board of Supervisors, management and others within the County.

Enterprise Sewer Fund

The County reports the sewer fund as an enterprise fund in its financial statements but does not maintain its accounting records as an enterprise fund. The County classifies this fund as a governmental fund in its annual report to the New York Office of the State Comptroller and in its accounting system. At year end, the full accrual accounting entries are made to prepare the financial statements. This reporting difference presents reconciliation differences that are not readily explainable and makes the year end financial statement preparation process complex, which may lead to the risk of errors in the financial reporting process. We recommend that the County convert its accounting system for the sewer fund to an enterprise fund basis to eliminate the need for the reconciliation between the accounting records and the financial statements. Additionally, as expressed in the next comment, an audit adjustment was required to account for additional contributed capital assets of \$7,150,000. This would have been captured in a full accrual enterprise fund accounting system.

Capital Assets

During our review of capital assets accounting in the sewer fund, we found that there were major additions to the sewer capital assets that were added in the accounting system for contributed items, totaling \$7,150,000. These items were accepted by the County Sewer Commission and added to the accounting records based upon estimates prepared by management at the sewer fund. The accounting entries made were not properly recorded in the sewer fund as contributed capital because there was no formal method to communicate these items between the sewer management and the Treasurer's office. We were able to satisfy ourselves that the contributed assets were accepted by the Sewer Commission, and made the required adjustment to the financial statements.

Bank Reconciliations

We noted that year-end bank reconciliations prepared by the County did not consider material year-end payroll account transactions, and needed further explanation to us to resolve the discrepancy. We recommend that year-end transactions be reviewed and properly recorded on the bank reconciliation.

Self Insurance Accounting

The County became self-insured for health benefits beginning February 1, 2012. The County estimates its costs on a premium equivalent basis and analyzes whether the actual claims being incurred are covered by the premium equivalents charged to the County's departments, its employees and retirees. These actual amounts are accumulated in the Trust and Agency fund by cash being transferred each payroll according to each employee's status. Amounts are paid through a plan administrator directly from the Trust and Agency account. At December 31, 2013, there appears to be excess cash available in the Trust and Agency fund of approximately \$1.7 million that has been accumulated in excess of the amounts paid for claims. The County is self-insured and subjected to risks of unknown claims and should have sufficient cash holdings to address this risk. Maintaining excess funds in the Trust and Agency fund is not the proper accounting for these funds. We recommend that the County determine the proper amount of cash reserves necessary to meet its self-insured obligations and move these funds to the general fund, with proper approval by the Board of Supervisors.

Cash and Investments

We noted that the Bank of America bank balances were undercollateralized by approximately \$3.6 million at December 31, 2013. This situation was corrected by the bank's normal business practices on the very next business day. We also noted that one of the individual collateral schedules was incorrect as it did not have the current bank balance information in the schedule. We recommend that procedures be incorporated to ensure that the County is properly protected against bank failures as required by New York State municipal law.

Previous Recommendations

We reviewed the disposition of recommendations included in our letter dated July 16, 2013. The following is a summary of the action taken by the County with regard to our recommendations.

Disaster Recovery Plan - The County has established and documented a disaster recovery plan.

Fund Balance Policy - The County has established a fund balance policy to address the requirements of GASB Statement No. 54.

Capital Asset Ledger - The County has purchased and has implemented capital asset software to be used for capital asset reporting beginning with the County's 2013 financial statements.

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We wish to take this opportunity to express our appreciation for the courtesy and cooperation extended to us by the County's personnel during our audit. If you have any questions regarding the foregoing comments or wish any assistance in their implementation, please contact us at your convenience.

Very truly yours,

TOSKI & CO., CPAs, P.C.

A handwritten signature in black ink, appearing to read 'D. Zimmerman', with a long horizontal flourish extending to the right.

Douglas E. Zimmerman, CPA
Managing Director