

CITY OF CORTLAND, NEW YORK

**Communication of Matters Related to Internal Control
Over Financial Reporting and Other Matters
August 7, 2012**

Bonadio & Co., LLP
Certified Public Accountants

August 7, 2012

To the Mayor and Members of the
Common Council of the
City of Cortland, 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 Cortland, New York (the City) as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

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.

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

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CITY OF CORTLAND, NEW YORK

COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS AUGUST 7, 2012

OTHER MATTERS FOR THE CONSIDERATION OF MANAGEMENT

1. ACTUARIAL ASSUMPTIONS

Observation

The City obtains an actuarial report to value the liability for its postretirement health care benefits plan in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In this report, the actuary assumed 4.0% for the discount rate. The discount rate is intended to represent the average or expected rate that the City is earning on its investments. At December 31, 2011, the liability for the postretirement health care benefits was approximately \$10 million, or 30% of the City's total liabilities.

Recommendation

Given the current economic climate, we recommend that the City confer with its actuary about the reasonableness of the current discount rate assumption. A change in this assumption which would be more in line with the current earnings rate could significantly affect the valuation of the liability, which is considerable for the City. However, we do understand that the discount rate is intended to be a long-term measure of the earnings.

2. CREDIT CARD POLICY AND PROCEDURES

Observation

The use of credit cards for purchases is common and is often necessary. The controls over these cards; however, are different than the normal expense policy, because approvals and documentation frequently occur after the purchases are made. Although it is apparent that the management of the City takes the controls over these cards seriously, we observed that there is no formally documented credit card policy currently in place at the City.

Recommendation

While we did not encounter any improprieties with regard to credit card spending during our audit process, we recommend that the City document and formalize a credit card policy. This policy should spell out what transactions are appropriate for credit card use and the process for how credit card expenses are approved.