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April 6, 2010

CONFIDENTIAL

The Board of Directors
Niagara Falls Water Board
5815 Buffalo Avenue
Niagara Falls, New York 14304

Dear Board Members:

We have completed our audit of the financial statements of the Niagara Falls Water Board (the Board) for the year ended December 31, 2009. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose. We now present for your consideration our comments and recommendations based upon observations made during our audit.

This report is intended solely for the information and use of the Board, management and others within the Niagara Falls Water Board.

Accounting System

During the performance of the 2009 audit procedures, we noted that the New World Accounting System did not provide accurate "trial balance listing" and "budget performance" reports that could be used to prepare an overall balanced trial balance. Furthermore, we noted that the billing module of the software was misposting overpayments throughout the year which resulted in discrepancies in various accounts, including cash, receivables and fund balance. The accounting software should be set-up and maintained to ensure that financial transactions are being accurately recorded in the general ledger and that reports are complete and proper. In order to improve the financial reporting system of the Board, we recommend that the accounting software be evaluated and tested for overall accuracy on a routine basis in order to identify and resolve any potential problems in a timely manner.

Status of Prior Recommendations

We reviewed the disposition of recommendations included in our letter dated March 20, 2009. The following is a summary of the actions taken by the Board with regard to our recommendations:

Reconciliation of Bank Accounts - In 2008, we noted that several bank accounts were not reconciled timely during the last quarter of the year. This occurred due to employee turnover, the lack of an adequate review process and time constraints related to the Board assuming responsibility for utility billing. In order to improve internal control over cash, we recommended that bank reconciliations be prepared on a timely basis.

Status - We noted that only one bank account had not been reconciled timely as of December 31, 2009. This was due to a computer error in the billing module and the general ledger. All other bank accounts had been reconciled timely.

Perform Assessment of the Effectiveness of Internal Controls - In 2008, we noted that Board had not conducted a formal, documented process to assess the effectiveness of its internal control structure and procedures, indicated whether or not the internal controls are adequate, and prepared a statement that it has done so. Section 2800 (1)(a)(9) and Section 2800 (2)(a)(8) of the Public Authorities Law require that all public authorities complete an annual assessment of the effectiveness of their internal control structures and procedures. The internal control assessment is an annual evaluation performed by management to determine the effectiveness of its internal control system. The New York State Authority Budget Office has identified five major components of an internal control assessment, as follows:

1. Determination of the Board's major business functions.
2. Determination of the risks associated with its operations.
3. Identification of the internal control systems in place.
4. Assessment of the extent to which the internal control system is effective.
5. Taking corrective action.

Status - To date, the Board has not performed this formal, documented process. We again recommend that management perform the specified annual assessment of the effectiveness of internal controls.

Payroll Documentation - In 2008, the Board began processing its own payroll. The payroll was previously processed by the City of Niagara Falls. Our review of employee files noted missing Federal forms W-4, I-9 and documentation of employees step and pay grades.

Status - In 2009, we noted that the Board obtained all of the necessary documentation from the City to complete the employee files.

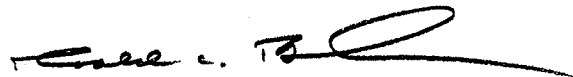
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We take this opportunity to thank the staff of the Niagara Falls Water Board for the courtesy and cooperation extended to us during our audit. If you have any questions regarding the foregoing comments or wish any assistance in their implementation, please contact us at your convenience.

Very truly yours,

TOSKI, SCHAEFER & CO., P.C.

A handwritten signature in black ink, appearing to read "Ronald C. Toski", written over a horizontal line.

Ronald C. Toski, CPA
Managing Director