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Certified Public Accountants

September 17, 2018

To the Honorable Comptroller of
the City of Buffalo, New York:

In planning and performing our audit of the basic financial statements of the Buffalo Urban Renewal Agency, New York (the "Agency") as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the County'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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 a 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, during our audit we identified certain matters involving the internal control, other operational matters and new reporting requirements that are presented for your consideration. This letter does not affect our report dated September 17, 2018 on the financial statements of the Agency. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. Our comments are summarized in Exhibit I.

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

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Actuarial Data Submission

In fulfilling the requirements of Governmental Accounting Standards Board ("GASB") Statements No. 68 and No. 75, the Agency prepares and submits data to New York State and third party actuaries. These data submissions are the source information in the actuarial calculations of the Agency's net pension and other postemployment benefits obligation liabilities. The actuaries utilize the Agency's data and apply certain assumptions and methodologies to produce these liability estimates.

We recommend that the Agency review the process for its actuarial data submissions to ensure timeliness, accuracy and integrity of the data inputted. Additionally, the assumptions and methodologies applied in the actuarial calculations should be reviewed to industry standards and peer actuarial studies to determine their reasonableness. The documentation and approval of this process should be formalized into an Agency policy.

Loan Write-Off Policy

The write-off of loans receivable should be performed by an authorized party and with adequate supporting documentation to demonstrate all conditions were satisfied to terminate a given loan. The Agency should develop a loan write-off policy which cites the individuals authorized to process and also the conditional requirements that must be met to complete a write-off. Certain loans administered by the Agency include contract language that provides passage of time, dwelling occupation and inactive repayment requirements, which need to be considered during the write-off process. In addition to applicable contract language, the Agency's policy should include a minimum level (measured by either activity or dollar amounts) for which updates would be provided to the Agency's Board for transparency and approval purposes. Further, for those loans with inadequate documentation, the policy should cite the appropriate method for writing-off the receivable amounts when they are considered uncollectible.

Internal Controls Evaluation

During the year, it was noted that an employee was able to circumvent the prevention internal controls surrounding loan payment collections; however, the Agency's detection controls were successful and identified the instance prior to any known significant adverse effects. We recommend that the Agency implement a regular review of prevention and detection controls surrounding its significant account cycles. The cost of internal controls should not outweigh the benefits; therefore, this review of internal controls should include an evaluation of each cycle to see that the existing controls represent protection to the level of risk the Agency is willing to accept, and that the costs do not exceed the benefits.

Not-for-Profit Donations

The Agency does not maintain a policy for its contributions and donations to 501(c)(3) entities. In the normal course of operations, the Agency is involved in grants and other aid awards that can be distributed to not-for-profit corporations for the administration of certain programs. We recommend that the Agency develop a policy or list of criteria to support any donations made to 501(c)(3) entities. This policy promotes transparency and will provide a basis for Board approval.

Subreceipient Monitoring Under the Uniform Guidance

The U.S. Office of Management and Budget (OMB) published final guidance in the Federal Register entitled *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). The Uniform Guidance is located in Title 2, Part 200 of the *Code of Federal Regulations*. State and local governments need to take appropriate steps to ensure that they comply fully with the new Uniform Guidance, which sometimes differs in subtle, but important, ways from previous guidance.

Uniform Guidance § 200.331 requires that pass-through entities, which the Agency is for the Section 8 Housing Choice Vouchers Program CFDA #14.871, must, “Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

(1) Reviewing financial and programmatic reports required by the pass-through entity.

(2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to Federal award provided to the subrecipient from the pas-through entity detected through audits, on-site reviews, and other means.

(3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as a required by § 200.521.”

While we recognize that the Agency has procedures in place regarding the monitoring of its subreceipients for programmatic requirements, we recommend that the Agency continue monitoring and make an effort to dedicate more thorough procedures in regards to fiscal requirements of their subrecipients. Additionally, the Agency should develop formal procedures for communicating and following up on findings issued within their monitoring reports to ensure information is provided to the affected parties and that any findings are responded to by the subrecipient.

Procurement, Suspension and Debarment

The federal programs of the Agency are governed by the Uniform Guidance. In accordance with the requirements set forth by 2 CFR sections 200.317 through 200.326 of the Uniform Guidance, the Agency must:

- Have written standards covering conflicts of interest with regards to the selection, award, and administration of contracts.
- Ensure that state or local geographical preferences in evaluation of bids do not apply to federally funded programs.
- Ensure procurements provide full and open competition.
- Have evidence that the contractor is not debarred, suspended.

Additionally, among other requirements related to procurement in the Uniform Guidance, two methods of procurement are specifically discussed in the Uniform Guidance are for micro-purchases (purchases with a cost less than $3,500) and small purchases (purchases between $3,500 and $150,000). The grantee must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the grantee considers the price to be reasonable. Procurement by small purchase are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more that the simplified acquisition threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.

Implementation of the procurement standards in 2 CFR sections 200.317 through 200.326 is required for the Agency's fiscal year beginning July 1, 2018.

We recommend that the Agency review the 2 CFR 200.317-.326 of the Uniform Guidance for all compliance requirements and ensure the Agency's procurement policy is in compliance.

New Reporting Requirements

The GASB has adopted several new pronouncements, which may have a future impact upon the Agency:

GASB Statement No. 83— The Agency is required to implement GASB Statement No. 83, *Certain Asset Retirement Obligations*, effective for the fiscal year ending June 30, 2019. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs).

GASB Statement No. 84—The Agency is required to implement GASB Statement No. 84, *Fiduciary Activities*, effective for the fiscal year ending June 30, 2020. This statement establishes criteria for identifying fiduciary activities of all state and local governments.

GASB Statement No. 86—The Agency is required to implement GASB Statement No. 86, *Certain Debt Extinguishment Issues*, effective for the fiscal year ending June 30, 2018. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

GASB Statement No. 87—The Agency is required to implement GASB Statement No. 87, *Leases*, effective for the fiscal year ending June 30, 2021. The objective of this Statement is to better meet the needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease 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, thereby enhancing the relevance and consistency of information about governments' leasing activities.

***GASB Statement No. 88*—**The Agency is required to implement GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for the fiscal year ending June 30, 2019. The objective of this Statement is to improve the information that is disclosed in noted to government financial statements related to debt, including direct borrowings and direct placements. This Statement also clarifies which liabilities governments should include when disclosing information related to debt.

GASB Statement No. 89—The Agency is required to implement GASB Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*, effective for the fiscal year ending June 30, 2021. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs.

GASB Statement No. 90—The Agency is required to implement GASB Statement No. 90, Majority Equity Interests—an amendment to GASB Statements No. 14 and No. 61, effective for the fiscal year ending June 30, 2020. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.