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Certified Public Accountants

September 17, 2019

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, 2019, 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 Agency'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 entity'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 over financial reporting, 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.

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, 2019 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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Formalized Loan Write-Off Procedures

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 formal loan write-off procedures 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 procedures 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 procedures should cite the appropriate method for writing-off the receivable amounts when they are considered uncollectible.

Federal Cost Allowability Determination & Cash Management Policy

The Agency lacks written procedures surrounding federal cash management as required by 2 CFR 200.305, as well as procedures for determining allowability of costs in accordance with 2 CFR Subpart E–Cost Principles and 2 CFR 200.302 (b) (7).

We recommend that the Agency create written procedures regarding these matters. Written procedures surrounding federal cash management should include:

- How the entity minimizes the time elapsing between the transfer of funds and disbursement as a condition for advance payments
- Procedures to make timely payment to contractors in accordance with the contract provisions
- Advance payments must be limited to the minimum amounts needed and be timed in accordance with the actual, immediate cash requirements of the entity
- Maintain advance payments in interest bearing accounts unless certain exceptions are met, also noting that interest over $500 will be returned to the federal agency unless other specified by the federal awarding agency

Furthermore, cost allowability determination procedures should include:

- Role/title of individual responsible for determining whether a cost/activity is allowable
- Reference to factors determining allowability

Human Resources

Currently the Agency does not have an updated set of policies and procedures outlining key human resource functions, such as onboarding, training, continuing education expectations, background checks and employment separations.

We recommend that the Agency expand and define its formal human resource policies and procedures to outline the duties and responsibilities for key human resources functions to encourage consistent practices.

Financial Accounting System Capabilities

The Agency's procedures for monitoring its receivables related to reimbursable expenditures includes the tracking of such receivables through a subsidiary ledger outside of its financial accounting system.

We recommend that the Agency explore the feasibility of tracking receivables within the financial accounting system to alleviate the process and provide a real-time tracking of the receivables balance.

Subrecipient Monitoring

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."

We recognize that the Agency has procedures in place regarding the monitoring of its subreceipients for programmatic requirements on an annual basis, adhering to minimum requirements to the Uniform Guidance. However, we recommend that the Agency adopt formalized subrecipient monitoring procedures to adhere to consistent procedures on an annual basis.

New Reporting Requirements

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

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. 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. 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.

GASB Statement No. 91—The Agency is required to implement GASB Statement No. 91, *Conduit Debt Obligations*, effective for the fiscal year ending June 30, 2022. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related noted disclosures.