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Certified Public Accountants

September 23, 2020

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

In planning and performing our audit of the basic financial statements of the City of Buffalo Urban Renewal Agency, New York (the "Agency") as of and for the year ended June 30, 2020, 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, 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 below:

- *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 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 future reporting requirements that are presented for your consideration. This letter does not affect our report dated September 23, 2020 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. It is noted for the year ended June 30, 2020, the Agency began going through a loan review process in which each loan will be examined for collectability and their eligibility for forgiveness or being written-off.

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

As noted in prior year, the Agency lacks written procedures surrounding federal cash management 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). During the year ended June 30, 2020, the Agency evaluated its federal programs and concluded that no programs receive federal funds in advance. However, the Agency is in the process of creating an allowability determination and cash management policy in efforts to improve internal controls surrounding its federal awards.

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

Financial Accounting System Capabilities

The Agency's procedures for monitoring its CDBG and HOME receivables related to reimbursable expenditures includes the tracking of such receivables through a subsidiary ledger outside of its financial accounting system. We also noted a lack of review and approval of the annual receivable reconciliation, which is completed subsequent to fiscal year-end.

We recommend that the Agency continue its efforts of tracking receivables within the financial accounting system to alleviate the process and provide a real-time tracking of the receivables balance. In addition, reconciliations should be performed monthly and reviewed by separate individuals to promote accuracy and cross-training procedures.

Disposition of Property

While real estate dispositions during the current year adhered to the Agency's adopted disposition compliance guidelines, the journal entries within the general ledger for such transactions are not standardized.

We recommend that the Agency utilizes a separate gain or loss account that differentiates a disposition between an independent vendor and a transfer to the City of Buffalo. Further, we recommend that the Agency creates and utilizes standardized journal entries for the various property disposition scenarios encountered by the Agency.

Compensated Absences

During testing of the Agency's compensated absences balance, we noted 5 out of a sample of 41 employees whose compensated absence balances maintained by the Payroll and Benefits Manager exceeded the allowable carryover basis, per the applicable union contract as of June 30, 2020. These balances were identified and corrected for exclusion to the compensated balances liability in the June 30, 2020 financial statements.

We recommend that the Agency implement standard policies and procedures for the calculation of the compensated absences liabilitiy. These procedures should heavily leverage the Automatic Data Processing ("ADP") payroll system that the Agency utilizes; and more extensive services were recently added to the Agency's contract with ADP, which includes the capability to automatically maintain up to date compensated balances for individual employees.

Future Reporting Requirements

The Governmental Accounting Standards Board ("GASB") has adopted several new pronouncements, which may have a future impact upon the Agency. These should be evaluated to determine the extent the Agency will be impacted in future years.

> ***GASB Statement No. 84***—The Agency is required to implement GASB Statement No. 84, *Fiduciary Activities*, effective for the fiscal year ending June 30, 2021. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

GASB Statement No. 87—The Agency is required to implement GASB Statement No. 87, *Leases*, effective for the fiscal year ending June 30, 2022. 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 Cost Incurred before the End of a Construction Period*, effective for the fiscal year ending June 30, 2022. 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. 91—The Agency is required to implement GASB Statement No. 91, *Conduit Debt Obligations*, effective for the fiscal year ending June 30, 2023. 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 (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

***GASB Statement No. 92*—**The Agency is required to implement GASB Statement No. 92, *Omnibus 2020*, effective for the fiscal year ending June 30, 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements.

GASB Statement No. 93—The Agency is required to implement GASB Statement No. 93, *Replacement of Interbank Offered Rates*, effective for the fiscal year ending June 30, 2021. The objectives of this Statement are to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate ("IBOR").

***GASB Statement No. 94*—**The Agency is required to implement GASB Statement No. 94, *Public-Public and Public-Private Partnerships and Availability Payment Arrangements*, effective for the fiscal year ending June 30, 2023. The objectives of this Statement are to improve financial reporting by addressing issued related to public-private and public-public partnerships arrangements ("PPPs").

GASB Statement No. 96—The Agency is required to implement GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the fiscal year ending June 30, 2023. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements ("SBITAs") for government end users.

GASB Statement No. 97—The Agency is required to implement GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, effective for the fiscal year ending June 30, 2021. The objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and theprimary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.