

*Certified Public Accountants*

September 22, 2017

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, 2017, 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 over financial reporting.

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 considered 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 22, 2017 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.

A rectangular stamp containing a handwritten signature in black ink. The signature reads "Drescher & Malecki LLP". The background of the stamp is a light gray grid pattern.

September 22, 2017

### **Subrecipient 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 subrecipients 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.

### **Collateral**

At June 30, 2017, the cash balances of the Agency were under collateralized by \$18,416. We recommend that the Agency work with their banking institutions to monitor collateral balances throughout the year and at year-end.

### **Inactive Funds**

During the year ended June 30, 2017 we found that certain funds recorded no activity. If the purpose of these funds has been met and no further program activity is anticipated, the Agency should consider taking the steps to appropriately close the fund. Further, we recommend that the Agency perform a regular review of its funds to determine if any are inactive. This review should be performed at least on an annual basis.

### Capital Asset Monitoring

During the audit, we found a capital asset that was being depreciated over a useful life that was inconsistent with Agency's capital asset policy. The Agency should review its capital asset listing on an annual basis to ensure that all capital assets are being depreciated according to the Agency's policies.

### Interfund Transactions

During the audit, we found that interfund balances are not paid in full within a current year and recorded once a new loan occurs. Instead, they are adjusted for the current period's activity. In addition, interfund balances within each fund are netted together. While the overall balances reconcile, the interfund balances are not being appropriately reflected within interfund activity. Finally, there were multiple non-major funds that had outstanding interfund loans that exceeded one year. We recommend the Agency regularly reconcile interfund balances to assess the loans.

### New Reporting Requirements

The Governmental Accounting Standards Board ("GASB") has adopted several new pronouncements, which may have a future impact upon the Agency:

**GASB Statement No. 75**—The Agency is required to implement GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*, effective for the fiscal year ending June 30, 2018. This Statement replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*, and will require more extensive note disclosures and required supplementary information about their OPEB liabilities.

**GASB Statement No. 81**—The Agency is required to implement GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the year ending June 30, 2018. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situation in which a government is a beneficiary.

**GASB Statement No. 82**—The Agency is required to implement GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the year ending June 30, 2018. This Statement addresses the issues raised during implementation of Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

**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. 85***—The Agency is required to implement GASB Statement No. 85, *Omnibus 2017*, effective for the fiscal year ending June 30, 2018. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements.

***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.