Drescher & Malecki LLP
3083 William Street, Suite 5
Buffalo, New York 14227
Telephone: 716.565.2299
Fax: 716.565.2201

Certified Public Accountants

September 28, 2021

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, 2021, 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 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 over financial reporting, other operational matters and future reporting requirements that are presented for your consideration. This letter does not affect our report dated September 28, 2021 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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Financial Accounting System Capabilities

As noted in the prior year, 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.

Formalized Loan Write-Off Procedures

As noted in the prior year, 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, 2021, 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.

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. 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. 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.