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Certified Public Accountants

September 28, 2022

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, 2022, 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 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.

Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We communicated the significant deficiency identified during our audit in a separate communication dated September 28, 2022.

In addition, 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 28, 2022 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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User Access Authorization

Unauthorized user access can result in existing or terminated employees having access to otherwise restricted Agency data, creating increased risk of fraud and misstatements. We noted 4 out of a sample of 4 terminated employees with access to the Agency's accounting software. While individuals are denied access to the virtual private network ("VPN") connection upon termination, the Agency should take the appropriate steps to also remove the accounting software user access.

We recommend that the Agency reviews user authorization access, on an annual basis at a minimum, for proper authorization related to their job function.

Compensated Absences

During testing of the Agency's compensated absences balance, we noted several employees whose compensated absences balance exceeded the allowable carryover basis, per the applicable union contract for the year ended June 30, 2022. These balances were identified and subsequently corrected for exclusion from the compensated balances liability reported in the June 30, 2022 financial statements.

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

Financial Accounting System Capabilities

As noted in prior years, 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 prior years, 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 a loan review process in which each loan is examined for collectability and 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 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. 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").
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> ***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.
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> ***GASB Statement No. 99***—The Agency is required to implement GASB Statement No. 99, *Omnibus 2022*, effective for the fiscal years ending June 30, 2023 and 2024. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

GASB Statement No. 100—The Agency is required to implement GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*, effective for the fiscal year ending June 30, 2024. The objective of this Statement is to improve accounting and financial reporting requirements for accounting changes and error corrections.

GASB Statement No. 101—The Agency is required to implement GASB Statement No. 101, *Compensated Absences*, effective for the fiscal year ending June 30, 2025. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.