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Drescher & Malecki
Certified Public Accountants

September 28, 2023

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, 2023, 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.

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, 2023 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.

Drescher & Malecki LLP

September 28, 2023

Segregation of Duties

Adequate staffing levels should enable proper segregation of duties over key accounting functions. During the year ended June 30, 2023, the Agency faced challenges surrounding staffing and experienced vacancies in staff level positions. As a result, there were instances in which proper segregation of duties did not occur. While the Agency has a formalized journal entry policy which sets forth the appropriate review process, due to limited staffing and the need to enter and post closing journal entries in a timely manner, there were instances in which posting and review of journal entries was performed by a single staff member.

We recommend that the Agency continue to strive to maintain adequate staffing levels to ensure adequate segregation of duties and to follow the procedures set forth in their formalized journal entry policy.

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 Write-Off Procedures

As noted in prior years, the write-off of loans and accounts 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 in prior years, the Agency began a loan review process in which each loan is examined for collectability and eligibility for forgiveness or being written-off. A similar process should be performed over aging accounts receivable.

The Agency should develop formal loan and accounts receivable 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.

Interfund Loans

During the year ended June 30, 2023, the General Fund advanced cash to the Community Development Block Grant Fund and the Community Development Block Grant – COVID Fund which is to be repaid through the receipt of grant funding reimbursements. Should there be any issues surrounding the claims submission for reimbursement within these programs, the General Fund would be responsible for funding the expenditures. To ensure proper repayment of these loans, we recommend that the Agency continue to review these transactions on a regular basis, continues to submit claims reimbursement requests on a timely basis, and continue to expend consistently based on the compliance requirements set forth by the grants.

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. 99—The Agency is required to implement GASB Statement No. 99, *Omnibus 2022*, effective for the fiscal year ending June 30, 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 remaining portions of GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*, effective for the 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 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.