
Certified Public Accountants

October 8, 2019

To the Board of Commissioners
Niagara Falls Housing Authority:

In planning and performing our audit of the basic financial statements of the Niagara Falls Housing Authority (the “Authority”) as of and for the year ended March 31, 2019, 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 Authority’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 Authority’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 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 new reporting requirements that are presented for your consideration. This letter does not affect our report dated October 8, 2019 on the financial statements of the Authority. 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

October 8, 2019

Cybersecurity and Information Technology Policies

In lieu of recent cyberattacks targeting government entities, heightened awareness for the risks surrounding cyber security should take high priority in safeguarding Authority data and preventing interruptions to operations. Malware and ransomware attacks often initiate with an accidental user action, resulting in breaches of personal information and financial data, disruptions in the critical operations of the Authority, as well as potential financial exposure for costs to recover stolen data.

Currently, the Authority does not have formalized policies regarding its cybersecurity, disaster recovery, or backup procedures. The lack of formal policies leaves the Authority at risk if individuals who know the informal procedures are unavailable to perform their tasks.

We recommend that the Authority evaluate the aforementioned risks and formalize and communicate policies regarding its cybersecurity, disaster recovery and backup procedures. In addition, we recommend that the Authority refresh employee training programs surrounding cyber security including, but not limited to, recognizing cyberthreats, phishing and suspicious links; and how to react to and report incidents to information technology staffing.

Federal Cash Management Policy

Per the Office of Management and Budget (“OMB”) 2 CFR 200.305, the Authority should maintain written procedures surrounding federal cash management, as well as procedures for determining allowability of costs in accordance with 2 CFR Subpart E–Cost Principles.

We recommend that the Authority create written procedures regarding these matters. Written procedures surrounding federal cash management and determining allowability of costs may 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.

Accounting Policies and Procedures

Bank Reconciliations Policy

Although the Authority currently has a policy in place regarding bank reconciliations, this policy excludes several steps that are performed during the bank reconciliation process. We recommend that the Authority update their policy regarding bank reconciliations to include a dated sign-off by the persons preparing and reviewing the reconciliation, the review of proper insurance and collateralization of bank accounts, and procedures for recording interest on the general ledger.

Journal Entry Policy

The Authority does not have a formal policy for the preparation, posting and review of non-recurring journal entries. As part of the Authority's current accounting policies, we recommend that the Authority adopt a formal policy regarding the preparation, posting and review and approval of journal entries. This policy should outline what review, and by whom, should occur before entries are entered into the system.

New Financial Reporting Standards

The Governmental Accounting Standards Board ("GASB") released Statement No. 87, *Leases* ("GASB 87"), which will impact the Authority's financial statement presentation for the fiscal year ending March 31, 2021.

The objective of GASB 87 is to better meet the needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 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 GASB 87, 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. In preparation for implementation, it is recommended that the Authority compile a list of all current capital and operating leases and evaluate those leases for identified potential exceptions to the GASB.

In addition, GASB has adopted several new pronouncements in addition to GASB 87, which may have a future impact upon the Authority:

- ***GASB Statement No. 83***—The Authority is required to implement GASB Statement No. 83, *Certain Asset Retirement Obligations*, effective for the fiscal year ending March 31, 2020. 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 Authority is required to implement GASB Statement No. 84, *Fiduciary Activities*, effective for the fiscal year ending March 31, 2020. 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. 88***—The Authority is required to implement GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for the fiscal year ending March 31, 2020. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. This Statement also clarifies which liabilities governments should include when disclosing information related to debt.

- ***GASB Statement No. 89***—The Authority 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 March 31, 2021. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.
- ***GASB Statement No. 90***—The Authority is required to implement GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, effective for the fiscal year ending March 31, 2020. The objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.
- ***GASB Statement No. 91***—The Authority is required to implement GASB Statement No. 91, *Conduit Debt Obligations*, effective for the fiscal year ending March 31, 2022. 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.