

MANAGEMENT LETTER

October 14, 2020

The Audit Committee, Board of Education,
and Management
Board of Education, City of Buffalo, New York

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the remaining fund information of Board of Education, City of Buffalo, New York (the Board) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

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.

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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we became aware of opportunities for strengthening internal controls and operating efficiency. The points included herein summarize our comments and suggestions.

OBSERVATIONS

Interest allocated to reserves

Cash balances include cash restricted to finance future costs as authorized under General Municipal and Education Law. Each reserve fund should recognize its pro rata share of interest earned on the total cash balance. Most of the Board's cash in the general fund is held by the City of Buffalo, and therefore, subject to City approval for earning interest. Currently, the Board is allocated interest on its stabilization reserve and certain assigned fund balances relative to other postemployment benefits. We recommend that the Board continue to work with the City to determine whether an allocation can be made for earned interest relative to all reserves.

Extraclassroom activity accounts

During our audit, we noted instances of incomplete documentation within the student club records. Exceptions included missing signatures on receipt and disbursement forms, unavailable receipt details, and unavailable student ledgers. While we understand that some of the unavailable student ledgers and missing documentation are likely a result of the COVID-19 pandemic and related school closures in March 2020, we encourage Board employees with oversight responsibilities for extraclassroom clubs to continually ensure all documentation is retained and necessary approvals are obtained prior to issuing checks.

Additionally, we performed an overview of general extraclassroom club activity and noted accounts that did not appear to include direct student involvement. All disbursement transactions within the extraclassroom activity funds must include involvement of a student activity treasurer in addition to the central treasurer. We understand that management has taken corrective action on these accounts over the past few years. We encourage the Board and all schools to continue with this improvement process and make necessary adjustments or transfers.

Internal control matters

During the audit we noted a few areas to improve internal controls:

- Certain payroll register certifications selected for testing were not easily located and some were completed later than normal. This was likely amplified by the COVID-19 pandemic as employees were working from home between mid-March and June 2020. All payroll certifications were ultimately provided, and management has indicated that the payroll register certifications are now completed electronically.
- There is not a formal process to review vendors on a recurring basis. Over time, vendor lists tend to grow and typically contain duplicate listings as well as vendors that have not been used for years or that no longer exist. We recommend that the Board establish a procedure to periodically review and update the vendor list.

INFORMATIONAL POINTS – ACCOUNTING STANDARDS UPDATES

The following points are for informational purposes only and we do not consider it necessary for management to include a response within the Board's corrective action plan:

- GASB Statement No. 84, *Fiduciary Activities*, is effective for the Board's year ending June 30, 2021 due to the postponement provided by GASB 95. This statement establishes criteria for identifying fiduciary activities and generally focuses on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. This statement describes four fiduciary funds that should be reported, if applicable, and requires presentation of a statement of fiduciary net position and a statement of changes in fiduciary net position for each. It will impact the Board's accounting for payroll liabilities, scholarships, and extraclassroom activities.
- GASB Statement No. 87, *Leases*, was also affected by GASB 95 and is now effective for the Board's year ending June 30, 2022. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and that recognized income or expenditures, based on the payment provisions of the contract. Under this statement, a lessee is required to recognize a lease as a 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.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for the Board's year ending June 30, 2023. This statement generally requires a government to recognize a right-to-use subscription asset and a corresponding subscription liability that is measured at the present value of the subscription payments expected to be paid during the subscription term.

We have discussed these comments with Board personnel and would be pleased to discuss them in further detail, perform any additional studies, or assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Board's management, Audit Committee, and Board of Education; others within the Board; the NYS Education Department Office of Audit Services; and the Office of the NYS Comptroller, Division of Local Government and School Accountability. It is not intended to be, and should not be, used by anyone other than these specified parties.

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