

SINGLE AUDIT REPORT

CITY OF NIAGARA FALLS

DECEMBER 31, 2019

CITY OF NIAGARA FALLS, NEW YORK
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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

The Honorable Members of City Council
City of Niagara Falls, New York

Report on Compliance for Each Major Federal Program

We have audited the City of Niagara Falls, New York's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2019. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinions on CFDA #14.218 CDBG Entitlement Grants Cluster, CFDA #14.871 Housing Voucher Cluster, and CFDA #14.239 Home Investment Partnership Program

As described in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding *CFDA #14.218 CDBG Entitlement Grants Cluster, CFDA #14.239 Home Investment Partnership Program, and CFDA #14.871 Housing Voucher Cluster, as described in finding number 2019-001 for Allowable Costs*. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to each of the programs.

Qualified Opinions on CFDA #14.218 CDBG Entitlement Grants Cluster, CFDA #14.871 Housing Voucher Cluster, and CFDA #14.239 Home Investment Partnership Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on *CFDA #14.218 CDBG Entitlement Grants Cluster, CFDA #14.871 Housing Voucher Cluster, and CFDA #14.239 Home Investment Partnership Program* for the year ended December 31, 2019.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items *2019-003, 2019-004, 2019-005, 2019-007 and 2019-008*. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over compliance that we consider to be a significant deficiency.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items *2019-001, 2009-002, 2009-003, 2019-004, 2019-005, 2019-006, 2019-007 and 2019-008* that we consider to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the City as of and for the year ended December 31, 2019, and have issued our report thereon dated July 23, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as whole.

Freed Maxick CPAs, P.C.

Buffalo, New York
November 3, 2020

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Pass-Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
<i>Direct Programs:</i>				
<i>CDBG - Entitlement Grants Cluster</i>				
Community Development Block Grants/Entitlement Grants	14.218	N/A	\$ 745,471	\$ 2,385,484
<i>Total CDBG - Entitlement Grants Cluster</i>			<u>745,471</u>	<u>2,385,484</u>
Emergency Solutions Grant Program	14.231	N/A	109,452	129,519
Home Investment Partnerships Program	14.239	N/A	128,338	250,386
<i>Section 8 Project-Based Cluster</i>				
Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	14.856	N/A	-	53,054
<i>Total Section 8 Project-Based Cluster</i>			<u>-</u>	<u>53,054</u>
<i>Housing Voucher Cluster</i>				
Section 8 Housing Choice Vouchers	14.871	N/A	-	3,635,073
<i>Total Housing Voucher Cluster</i>			<u>-</u>	<u>3,635,073</u>
Total U.S. Department of Housing and Urban Development			<u>983,261</u>	<u>6,453,516</u>
<u>U.S. Department of Transportation</u>				
<i>Passed through New York State Department of Transportation:</i>				
<i>Highway Planning and Construction Cluster</i>				
Highway Planning and Construction	20.205	D024729	-	3,800
Highway Planning and Construction	20.205	D035642	-	2,401,210
Highway Planning and Construction	20.205	D035807	-	2,696
Highway Planning and Construction	20.205	D035712	-	6,880
Highway Planning and Construction	20.205	D035999	-	24,277
Highway Planning and Construction	20.205	D036278	-	67,100
Highway Planning and Construction	20.205	D035964	-	444,636
<i>Total Highway Planning and Construction Cluster</i>			<u>-</u>	<u>2,950,599</u>
Total U.S. Department of Transportation			<u>-</u>	<u>2,950,599</u>
Total Expenditures of Federal Awards			\$ <u>983,261</u>	\$ <u>9,404,115</u>

See notes to schedule of expenditures of federal awards.

**CITY OF NIAGARA FALLS, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes federal award activity of the City under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The amounts reported as federal expenditures were obtained from the City's financial reporting system, which is the source of the City's basic financial statements.

NOTE 3 - INDIRECT COST RATE

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to the financial statements noted?

 Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report(s) issued on compliance for major federal programs:

Qualified - all major federal programs

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X Yes No

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	CDBG - Entitlement Grants Cluster
14.239	Home Investment Partnerships Program
14.871	Housing Voucher Cluster

Dollar threshold used to distinguish between Type A and Type B Programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 X Yes No

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

II. FINANCIAL STATEMENT FINDINGS

There were no financial statement findings noted in the current year.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-001 Allowable Costs - Time and Effort

CFDA No. 14.218 – CDBG Entitlement Grants Cluster

14.239 – Home Investment Partnership Program

14.871 – Housing Voucher Cluster

Direct Award for the Year Ended December 31, 2019

Federal Agency: U.S. Department of Housing and Urban Development

Criteria: The City is required to establish and maintain effective internal controls that comply with cost principles identified by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Subpart D; Section 200.303 *Internal Controls* and Subpart E; Sections 200.430, 200.430(a) and 200.430(i) *Standards for Documentation of Personnel Expenses*.

Condition: The City allocates payroll by employee to specific grant programs at the time of hire and/or during the annual budget process, using the expectations of what program the employee will be assigned to. However, the City does not perform monitoring activities over the actual time worked towards a specific federal program in order to ensure appropriate allocations of time worked are claimed against each applicable federal program.

Cause: The City has a process in place for employees to complete timecards for overall hours worked, however these timecards do not indicate the allocation of time spent on individual federal programs. There is no process in place to provide monitoring related to the payroll allocations of time worked by employees on each federal program in order to determine the allocation of time and effort to each federal programs was appropriate and updated in a timely manner.

Effect or potential effect: The City allocates an employee to specific federal programs at the time of hire and/or during the annual budget process, however there are no monitoring activities being performed over the actual time worked towards a specific federal program. As a result, we were unable to determine if payroll expenditures under the major federal programs noted above were appropriately charged and allowable in order to be deemed in compliance with the Uniform Guidance. Failure to ensure compliance with the Uniform Guidance could have funding implications in the future.

Questioned costs: Questioned costs cannot be reasonably determined.

Context: This finding was identified through inquiries of newly appointed management and audit testing related to allowable cost activities for the major federal programs noted above. There was significant turnover in the City's Department of Community Development, who administered the major programs noted above, during the 2019 fiscal year.

Recommendation: We recommend that the City review and establish written control procedures related to their standards of documentation of personnel expenditures to ensure that the City is in compliance with the requirements of the Uniform Guidance. In particular, we recommend the City establish monitoring procedures over their time and effort certifications to confirm they are being completed and maintained in a timely manner, and to verify all time and effort is being appropriately charged to the related federal programs.

Views of Responsible Officials: The City agrees with this finding and going forward all Community Development Department and Section 8 Leased Housing employees will account on their respective time sheets the number of hours per day they work on each of the respective grant awards received by their office. An internal procedure will be created whereby these hours are accounted for by the respective employees within their respective HUD program (Community Planning & Development or Housing Choice Voucher Program). On an annual basis the percentage of time allocated to each grant will be updated within the payroll system for each employee to better reflect the time and effort spent administering each grant award. The CD Finance Manager will track all hours and adjustments will be recorded within the Payroll system to more accurately reflect the percentage of time spent on each grant at least on an annual basis. This process will begin no later than January 1, 2021.

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

2019-002 Program Income

*CFDA No. 14.218 – CDBG Entitlement Grants Cluster
14.239 – Home Investment Partnership Program
Direct Award for the Year Ended December 31, 2019
Federal Agency: U.S. Department of Housing and Urban Development*

Criteria: The City is required to establish and maintain effective internal controls that comply with program income requirements Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Subpart D; Section 200.307 *Program Income* and Subpart D; Section 200.303 *Internal Controls*.

Condition: The City's Department of Community Development receives program income continuously throughout the year as a result of federal program activity. Upon receipt of program income a departmental collection report is prepared and submitted for review, a journal entry is recorded to account for the activity within the City's general ledger and the program income is recorded into the required Integrated Disbursement and Information System (IDIS) maintained by the U.S. Department of Housing and Urban Development (HUD). During our testing we obtained and reviewed a sample of the departmental collection reports and related journal entries and noted there was no supervisory review performed over this activity.

Cause: The City has established procedures over program income, however the City is not currently following those procedures as there is no supervisory review taking place.

Effect or potential effect: The City could record and report program income in error under a federal program if controls are not established and operating effectively, which could result in noncompliance with program requirements and could have funding implications in the future.

Questioned costs: No questioned costs identified.

Context: This finding was identified through inquiries of newly appointed management and test of controls over the City's receipt, recording and reporting of program income for the major federal programs noted above. There was significant turnover in the City's Department of Community Development, who administered the major programs noted above, during the 2019 fiscal year.

Recommendation: We recommend the City's Department of Community Development implement and adhere to a control process over the receipt, recording and reporting of program income that is documented and can be verified. We recommend that an individual independent of the receipt, recording and reporting of program income denote their review by initialing and dating the receipt upon completion of their review.

Views of Responsible Officials: The City agrees with this finding and the Compliance Officer will create an internal procedure segregating the duties involved with the receipt, recording, and reporting of program income. It is anticipated that a formal procedure will be created no later than January 1, 2021.

2019-003 Period of Performance – Timeliness

*CFDA No. 14.218 – CDBG Entitlement Grants Cluster
Direct Award for the Year Ended December 31, 2019
Federal Agency: U.S. Department of Housing and Urban Development*

Criteria: The City is required to establish and maintain an effective control environment, and monitor compliance with the period of performance requirement of this federal award, per Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards* (Uniform Guidance), Subpart D; Section 200.303 *Internal Controls* and under the provisions of 24 CFR 570.902 of the CDBG regulations. A grantee is considered to meet period of performance and be timely, if 60 days prior to the end of the grantee's program year, the balance in its line-of-credit does not exceed 1.5 times the annual grant.

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

To determine whether entitlement grantees meet timely performance, HUD calculates the ratio of unexpended funds to the annual grant award 60 days prior to the end of the program year. To do this HUD sums the amount of program income the grantee has on hand with the amount of funds remaining in the CDBG line of credit and divides by the amount of the annual grant award. If the ratio is less than or equal to 1.5, then the grantee has met the timely performance requirement. This requirement is monitored using the IDIS CDBG Timeliness Report (PR56 report).

Condition: The City's Department of Community Development did not have an established internal control process to appropriately monitor the timeliness requirement and ensure compliance. The City exceeded the allowable balance in its line-of-credit with a ratio of greater than 1.5, resulting in noncompliance with this period of performance requirement.

Cause: The City did not have an established control process in place to appropriately monitor and ensure compliance with these requirements.

Effect or potential effect: The City is not in compliance with the federal program's period of performance requirement. Noncompliance could have funding implications in the future.

Questioned costs: No questioned costs identified.

Context: This finding was identified through inquiries of newly appointed management and review of the IDIS CDBG Timeliness Report. There was significant turnover in the City's Department of Community Development, who administered the major program noted above, during the 2019 fiscal year.

Recommendation: We recommend the City's Department of Community Development contact HUD to develop a plan for expending CDBG funds in order to reduce the amount of unexpended funds to a level that will fall within the required parameters. In addition, we recommend implementing a monitoring process over spending of CDBG grant funds to ensure funding is used within the specified time requirements and in compliance with the period of performance requirement.

Views of Responsible Officials: The City acknowledges its lack of an internal control over monitoring the timeliness requirement per CDBG regulations. Over each of the past three (3) fiscal years the City has not been in compliance with this regulation, however under new leadership of the department the City has begun to make improvements to its timeliness ratio. The City has also been working with our local HUD representatives in an effort to improve our timeliness ratio so that it is in compliance with the regulation. The City has already approved in July 2020 the reallocation of previous year's unspent CDBG grant awards in the amount of \$1,209,882. Additionally, various projects previously awarded were ones that took multiple years to complete, resulting in the City failing the timeliness requirement. Going forward, the City may consider the timing aspect of projects (i.e. estimated start date and estimated completion date) when determining the allocation of CDBG grant awards.

2019-004 Reporting – Financial and Performance Reporting

*CFDA No. 14.218 – CDBG Entitlement Grants Cluster
Direct Award for the Year Ended December 31, 2019
Federal Agency: U.S. Department of Housing and Urban Development*

Criteria: The City is required to establish and maintain an effective control environment and complete timely financial and performance reports per Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Subpart D; Section 200.303 *Internal Controls* to ensure compliance with reporting requirements of the federal award. The City is required to submit a Consolidated Annual Performance and Evaluation Report (CAPER) and the HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons* (OMB No. 2529-0043). These reports are required to be submitted 90 days after the end of a grantee's program year.

Condition: The City's Department of Community Development did not establish a control environment over the preparation and submission of the CAPER and the Section 3 Summary Report. The City did not submit the CAPER and Section 3 Summary Reports within the established timeframe required by the federal agency, resulting in noncompliance with the reporting requirements.

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Cause: The City did not have an established control process in place to appropriately monitor and ensure compliance with these requirements.

Effect or potential effect: The City is not in compliance with the reporting requirements of the federal program. Noncompliance could have funding implications in the future.

Questioned costs: No questioned costs identified.

Context: This finding was identified through inquiries of newly appointed management and testing performed over the preparation and submission of reporting requirements. There was significant turnover in the City's Department of Community Development, who administered the major program noted above, during the 2019 fiscal year.

Recommendation: We recommend the City's Department of Community Development establish a control environment over the preparation of their reporting requirements, and a monitoring process to ensure reporting deadlines are met.

Views of Responsible Officials: The City agrees with this finding and the Compliance Officer will improve our internal control documentation to include additional procedures related to the preparation and submission of the annual CAPER and Section 3 Summary Report. It should be noted that for purposes of the 2019-2020 CAPER submission, an extension to December 31, 2020 has been approved and will be filed by the CD Financial Manager within the extended deadline. It is anticipated that a formal procedure will be created no later than January 1, 2021.

2019-005 Subrecipient Monitoring

CFDA No. 14.239 – Home Investment Partnership Program

Direct Award for the Year Ended December 31, 2019

Federal Agency: U.S. Department of Housing and Urban Development

Criteria: The City is required to establish and maintain an effective control environment over the monitoring and evaluation of subrecipients for risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward, in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Subpart D; Sections 200.331 and 200.331(b), *Requirements for pass-through entities, and Audit Requirements for Federal Awards* (Uniform Guidance), Subpart D; Section 200.303 *Internal Controls*.

Condition: The City's Department of Community Development has not established supervisory controls to ensure performance of risk assessments over subrecipients. We noted there were no ongoing monitoring activities performed, as required, in accordance with the criteria noted above.

Cause: The City did not have established control processes in place to perform risk assessments and ongoing monitoring activities over subrecipients.

Effect or potential effect: The City was not in compliance with subrecipient monitoring requirements per the Uniform Guidance. Noncompliance could have funding implications in the future.

Questioned costs: No questioned costs identified.

Context: This finding was identified through inquiries of newly appointed management and testing performed over the City's subrecipient monitoring and management. There was significant turnover in the City's Department of Community Development, who administered the major program noted above, during the 2019 fiscal year.

Recommendation: We recommend the City's Department of Community Development develop and implement a written process regarding the performance of risk assessments over all subrecipients for use in developing appropriate monitoring activities. In addition, we recommend the review of subrecipient contracts to ensure all monitoring activities stated in the contracts between the City and subrecipient are being performed.

Views of Responsible Officials: The Compliance Officer will review our current internal procedures related to subrecipient monitoring and amend current procedures and/or develop and implement new procedures to address necessary steps in our subrecipient monitoring process. It is anticipated that any formal procedure updates will be completed no later than January 31, 2021.

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

2019-006 Eligibility Determination

*CFDA No. 14.871 – Housing Voucher Cluster
Direct Award for the Year Ended December 31, 2019
Federal Agency: U.S. Department of Housing and Urban Development*

Criteria: The City is required to establish and maintain an effective control environment, per Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), Subpart D; Section 200.303 Internal Controls to ensure compliance with the eligibility requirements of the federal award.

Condition: The City's Department of Community Development has not conducted supervisory reviews over eligibility determinations for those participating in the Housing Voucher grant program.

Cause: The City has not established a control process for supervisory review over eligibility determinations.

Effect or potential effect: The lack of a supervisory review process over eligibility determinations could result in noncompliance with the eligibility requirements under the federal award and unallowable costs being charged to the program.

Questioned costs: No questioned costs identified.

Context: This finding was identified through inquiries of newly appointed management and testing performed over the City's eligibility determinations. There was significant turnover in the City's Department of Community Development, who administered the major program noted above, during the 2019 fiscal year.

Recommendation: We recommend the City's Department of Community Development develop and implement a written process to ensure an individual independent of the eligibility determination is performing a review over the determination, prior to disbursing funds to the grant applicant.

Views of Responsible Officials: The Compliance Officer will create an internal process whereby a supervisory review will be performed at least annually on eligibility determinations provided by staff. It is anticipated that any formal procedure updates will be completed no later than January 31, 2021.

2019-007 Reporting – Financial and Special Reporting

*CFDA No. 14.871 – Housing Voucher Cluster
Direct Award for the Year Ended December 31, 2019
Federal Agency: U.S. Department of Housing and Urban Development*

Criteria: The City is required to establish and maintain effective internal controls surrounding the reporting program requirements provided by the federal agency within the Compliance Supplement, per Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), Subpart D; Section 200.303 Internal Controls. The City is required to submit the HUD52681-B, Voucher for Payment of Annual Contributions and Operating Statement, Financial Reports (Financial Assessment Sub-system, FASS-PH) and the HUD-50058, Family Report. The information within the financial and special reporting requirements is relied upon by HUD for use in funding determinations, monitoring of program activity and for Section 8 Management Assessment Program (SEMAP) related decisions.

Condition: The City's Department of Community Development has not established controls over preparation and submission of the HUD52681-B, Voucher for Payment of Annual Contributions and Operating Statement, Financial Reports (FASS-PH) and the HUD-50058, Family Report. In addition, the City did not submit the annual FASS-PH report for the fiscal year ended December 31, 2019.

Cause: The City did not have an established control process in place to appropriately monitor the preparation and filing of the required reports noted above.

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Effect or potential effect: Without effective internal controls, the City could report inaccurate information to HUD, or neglect to file reports, which could lead to noncompliance under the program requirements. In addition, the City did not submit the FASS-PH for the fiscal year ended December 31, 2019 and is not in compliance with the federal program. Noncompliance could have funding implications in the future.

Questioned costs: No questioned costs identified.

Context: This finding was identified through inquiries of newly appointed management and testing performed over the preparation, review and submission of reporting requirements. There was significant turnover in the City's Department of Community Development, who administered the major program noted above, during the 2019 fiscal year.

Recommendation: We recommend the City's Department of Community Development implement monitoring controls over the preparation and submission of the required reporting.

Views of Responsible Officials: The City will create an internal process whereby a supervisory review will be performed of the various reporting requirements submitted by the City. A calendar of reporting deadlines has already been created and will be reviewed at least monthly to ensure compliance. It is anticipated that any formal procedure updates will be completed no later than January 31, 2021.

2019-008 Special Tests and Provisions – Reasonable Rent, Housing Assistance Payment, Depository Agreements and Rolling Forward Equity Balances

*CFDA No. 14.871 – Housing Voucher Cluster
Direct Award for the Year Ended December 31, 2019
Federal Agency: U.S. Department of Housing and Urban Development*

Criteria: The City is required to establish and maintain an effective control environment, per Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Subpart D; Section 200.303 *Internal Controls* to ensure compliance with the special tests requirements provided by the federal agency. The federal awarding agency has identified additional requirements under this award, per the Code of Federal Regulations (CFR), related to reasonable rent, housing assistance payment, depository agreements and rolling forward of equity balances.

Condition: The City did not establish a review process over the above requirements. In addition, the City was unaware of the depository agreements and rolling forward of equity balances requirements.

Cause: The City did not have an established control process in place to appropriately monitor and ensure compliance with these requirements.

Effect or potential effect: Insufficient internal control processes could result in noncompliance related to the requirements noted above. Specifically, the City was not in compliance with the depository agreements and rolling forward of equity balances requirements.

Questioned costs: No questioned costs identified.

Context: This finding was identified through inquiries of newly appointed management, as well as control and compliance testing over the requirements identified above. There was significant turnover in the City's Department of Community Development, who administered the major program noted above, during the 2019 fiscal year.

Recommendation: We recommend the City's Department of Community Development develop a written control process to ensure these requirements are appropriately monitored through independent review, sufficient documentation retained, and reconciliations performed on a consistent basis to ensure the City's compliance with program requirements.

Views of Responsible Officials: The Compliance Officer will create an internal process whereby a supervisory review will be performed of the various reporting requirements and special tests to ensure compliance with the respective requirement. A calendar of reporting deadlines has been created and will be reviewed at least monthly to ensure compliance with program requirements. Additionally, the City is working with our banking partner to finalize the required depository agreements in accordance with HUD regulations and should have a formal agreement by December 31, 2020.

**CITY OF NIAGARA FALLS, NEW YORK
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

I. FINANCIAL STATEMENT FINDINGS

There were no financial statement findings noted for the fiscal year ended December 31, 2018.

II. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2018-001 Policy Updates for Uniform Guidance

*CFDA No. 14.218 - Community Development Block Grants/Entitlement Grants
Direct Award for the Year Ended December 31, 2018
Federal Agency: U.S. Department of Housing and Urban Development*

Criteria: The City's policies must incorporate federal award activity within the process and procedures followed by the City in accordance with the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Sections 200.112, 200.317-200.326. Under the Uniform Guidance, the procurement requirements were not required to be implemented until January 1, 2018 for federal award recipients, however, the City was required to elect this extension in writing to remain in compliance which had not occurred.

Condition: During the compliance audit for the year ended December 31, 2018, it was noted that the City's code of ethics, conflict of interest and procurement policies had not been properly updated to comply with the requirements in the Uniform Guidance.

Cause: The control environment related to the requirements of the Uniform Guidance were not reviewed and incorporated into the City's control activities through the updating and documentation of the City's policies noted above.

Effect: The City was not in compliance with the requirements of the Uniform Guidance, Section 200.112, *Conflict of Interest* and Sections 200.317-200.326, *Procurement Standards*. This noncompliance could result in a lack of internal controls over the City's activities and monitoring related to these areas and could impact the related federal funding.

Questioned costs: There were no questioned costs identified.

Context: This finding was identified during inquiries of management in regard to the control environment over the requirements of the Uniform Guidance and through the review of the related policies noted above, during the compliance audit for the year ended December 31, 2018.

Status: There was no reoccurrence of this finding noted in the year ended December 31, 2019.

**NEW YORK STATE TRANSPORTATION
ASSISTANCE EXPENDED**



**REPORT ON COMPLIANCE FOR NEW YORK STATE TRANSPORTATION ASSISTANCE
EXPENDED AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH DRAFT PART 43 OF NYCRR**

INDEPENDENT AUDITOR'S REPORT

The Honorable Members of City Council
City of Niagara Falls, New York

Report On Compliance For Each Major State Transportation Assistance Program

We have audited the City of Niagara Falls, New York's, (the City) compliance with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that could have a direct and material effect on the major state transportation assistance program for the year ended December 31, 2019. The City's major program tested is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for New York State Transportation Assistance Expended.

Management's Responsibility

Management is responsible for compliance with requirements of laws, regulations, contracts and grants applicable to its major state transportation assistance program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major state transportation assistance programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the preliminary Draft Part 43 of NYCRR. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state transportation assistance programs tested has occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state transportation assistance program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major State Transportation Assistance Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state transportation assistance programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major state transportation assistance program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state transportation assistance program and to test and report on the internal control over compliance in accordance with the preliminary Draft Part 43 of NYCRR, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a state transportation assistance program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state transportation assistance program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state transportation assistance program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the preliminary Draft Part 43 of NYCRR. Accordingly, this report is not suitable for any other purpose.

Freed Maxick CPAs, P.C.

Buffalo, New York
November 3, 2020

**CITY OF NIAGARA FALLS, NEW YORK
 SCHEDULE OF NEW YORK STATE TRANSPORTATION ASSISTANCE EXPENDED
 FOR THE YEAR ENDED DECEMBER 31, 2019**

Grantor/Program Title	NYS DOT Contract/ Reference Number	NYS DOT Expenditures
NYS Department of Transportation		
Consolidated Local Street and Highway Improvement Program (CHIPS) Aid	542035	\$ 970,045
Extreme Winter Recovery (EWR)	542035	211,837
PAVE NY Program	542035	320,575
Marchiselli Program - Match for Federal Aid Highway Projects:		
10th Street	D024729	11,140
Buffalo Avenue - Rainbow to 24th St.	D036278	12,581
Total Marchiselli Program		<u>23,721</u>
Total State Transportation Assistance Expended		<u><u>\$ 1,526,178</u></u>

**CITY OF NIAGARA FALLS, NEW YORK
NOTES TO THE SCHEDULE OF NEW YORK STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED DECEMBER 31, 2019**

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of New York State Transportation Assistance Expended (the Schedule) by the City of Niagara Falls, New York (the City) an entity as defined in Note 1 to the City's basic financial statements, presents the activity of all financial assistance programs provided by the New York State Department of Transportation.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule is presented using the modified accrual basis of accounting.

**CITY OF NIAGARA FALLS, NEW YORK
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR
 THE NEW YORK STATE TRANSPORTATION ASSISTANCE EXPENDED
 FOR THE YEAR ENDED DECEMBER 31, 2019**

I. SUMMARY OF AUDITOR'S RESULTS

Internal control over New York State Transportation Assistance Expended:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for NYSDOT program(s) tested: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Draft Part 43 of NYCRR? Yes X No

Identification of New York State Transportation Assistance program(s) tested:

Name of New York State Transportation Assistance Program

Consolidated Local Street and Highway Improvement Program (CHIPs)

II. NEW YORK STATE TRANSPORTATION ASSISTANCE FINDINGS AND QUESTIONED COSTS

There were no New York State Transportation Assistance findings or questioned costs noted for the year ended December 31, 2019.