Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

Cyclorama Building | 369 Franklin Street | Buffalo, NY 14202
p: 716.856.3300 | f: 716.856.2524 | www.LumsdenCPA.com

# MANAGEMENT LETTER

March 22, 2017

The Board of Directors and Management
Buffalo Niagara Convention Center Management Corporation

In planning and performing our audit of the financial statements of Buffalo Niagara Convention Center Management Corporation (the Center) as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Center'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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. 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. 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.

## OTHER COMMENTS AND RECOMMENDATIONS

### Internal Controls

Segregation of duties requires that no one employee have access to both physical assets and the related accounting records or to all phases of a transaction. The small size of the Center's staff limits its ability to fully establish proper segregation of duties, and we recognize that the hiring of additional personnel to achieve full separation of duties is not cost effective. Although we noted mitigating controls such as documented approvals of payroll, a dual signature requirement on all checks, receipt of the unopened bank statements and review by the Facility Manager, and Board and management oversight, our professional standards require that we advise you of this matter. Therefore, we continue to recommend the Center evaluate and implement segregation of duties to the extent possible.

**Cash Receipts**

In the prior year, we recommended several procedures to enhance controls over cash receipts. We are pleased to report that several of these recommendations have been implemented. Additionally, the Center purchased a new POS system in December 2016 which will improve internal controls in this area.

However, the Controller's involvement in the cash receipts process, which includes access to cash as well as recording transactions and journal entries in the general ledger, results in a lack of segregation of duties in internal controls. We recommend a review of the cash receipts procedures to segregate these functions to enhance controls over cash receipts and offer the following recommendations:

- After prelisting by the Administrative Assistant, receipts should be forwarded to someone other than the Controller to prepare and make the bank deposit. After the deposit is prepared, all receipts documentation should be forwarded to the Controller to record in the general ledger. The Controller should reconcile the bank deposit to the prelist and cash control form, and review forms for completeness. Any differences from the original cashier count and/or the Manager recount should be discussed with the employee.
- After the cash registers are closed at the end of an event, cash should be simultaneously counted by the cashier and the Food and Beverage Manager or Banquet Manager. These counts should be reconciled to the cash register tape and forwarded to accounting.

**Local Authority**

On January 23, 2013 the Center received notification from the State of New York Authorities Budget Office (ABO) that the organization meets the definition of a local authority pursuant to the Public Authorities Law. Accordingly, the Center is now required to comply with regulations established by the Public Authorities Accountability Act (PAAA).

Although the Center has complied with certain aspects of PAAA, it has been notified by the ABO that it is not in full compliance. Management has advised us that resolution of this matter is pending certain actions to be taken by the Center's Members, the County of Erie and the City of Buffalo. Since the ABO has the authority to take enforcement action, including recommending removal of the board or management of non-compliant agencies or issuing subpoenas for the required reports, we recommend the Center's Members take the necessary actions to be in full compliance with PAAA.

**Excess Cash**

The Center currently maintains essentially all cash in its operating account. Since excess cash can be significant at various times throughout the year, we recommend the Center consider conservatively investing excess cash, in accordance with its recently adopted investment policy. We understand management is evaluating cash management opportunities with the bank.

## AWARENESS MATTERS

**FASB Issues Accounting Standard Update on Financial Reporting of Nonprofit Organizations**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*. The issuance of the ASU completes phase one of FASB's Presentation of Financial Statements of Not-for-Profit Entities project. The following are the major changes to financial reporting under the new ASU:

- Two net asset classifications - net assets with donor restrictions and net assets without donor restrictions - will become the standard compared to the three classes currently used. Disclosures regarding the nature and amounts of donor restrictions and the purposes of board designated net assets will be presented.
- Expenses will be reported by nature as well as function, including an analysis showing the relationship between functional and natural classifications of all expenses. The methods used to allocate costs among program and support will be required to be disclosed.
- Entities that use an operating measure which includes board designations, appropriations and similar actions within that measure will be required to disaggregate those items and disclose them by type if not provided on the face of the financial statements.
- Organizations can elect to present the statement of cash flows using the direct or indirect method.
- Organizations will be required to provide qualitative information on how liquid resources are managed to meet cash needs within one year of the balance sheet date. Additionally, quantitative information communicating the availability of an entity's financial assets to meet cash flow needs for general expenditures will be included in the financial statements.

The ASU is effective for years beginning after December 15, 2017, which is the Center's December 31, 2018 year end.

**FASB Issues ASU Update on Leases**

In February 2016, the FASB issued ASU 2016-02 *Leases*. The ASU will require organizations to recognize on the balance sheet the assets and liabilities for the rights and obligations created by certain leases. The ASU applies to all types of organizations who lease property and equipment. The ASU is effective for years beginning after December 15, 2019, which is the Center's December 31, 2020 year end.

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We have discussed these comments with Center personnel and would be pleased to discuss them in further detail, perform any additional study of these matters, or assist in implementing the recommendations.

This communication is intended solely for the information and use of the Board of Directors and management of the Center. It is not intended to be, and should not be, used by anyone other than these specified parties.

Lumsden & McCormick, LLP