

# BROWN & COMPANY, LLP

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To the Management and  
Board of Directors of  
Niagara County Brownfield Development Corporation  
6311 Incucon Corporate Drive  
Sanborn, New York 14132

## MANAGEMENT LETTER

In planning and performing our audit, we considered Niagara County Brownfield Development Corporation (the "NCBDC") internal control over financial reporting as a basis for designing our auditing procedures 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 NCBDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NCBDC's internal control over financial reporting.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. Our auditors' "Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards" dated September 8, 2010 contains our communication of significant deficiencies or material weaknesses in internal control. This letter does not affect our report dated September 8, 2010, on the financial statements of Niagara County Brownfield Development Corporation.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Corporation personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

### INTERNAL CONTROLS PROCEDURES

#### *Financial Reporting*

During the year, procedures for the flow of program funds were established in an effort to streamline the program. These procedures are focused on achieving effective and efficient operations. However, the controls over reliable financial reporting contain certain deficiencies. Specifically, a key element of financial reporting is the ability of management to select and apply appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles. During our audit, we detected a material misstatement of posting of expenses resulting from a failure to implement proper cutoff procedures.

We recommend that management establish procedures to ensure that the modified accrual basis of accounting is consistently applied at the fund level and that the accrual basis of accounting is consistently applied to the government-wide information. Under the modified accrual basis of accounting, the focus is on sources, uses, and balances of current financial resources. Expenditures are recognized in governmental funds when the related current liabilities are incurred. Long-term liabilities are reported in the government-wide statement of net asset using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned and expenses are recorded when the obligation is incurred. The accrual basis is required by generally accepted accounting principles since it results in financial statements that reflect the complete effects of the entity's transactions for a period.

*Journal Entries*

The Corporation does not have a formal policy for the review and approval of monthly journal entries. Journal entries can be created and entered into the system by the accounting personnel with no oversight. There is no formal review of the journal entries by another member of management.

We recommend that management of Niagara County Brownfield Development Corporation create a formal policy in which all journal entries are required to be reviewed by another member of management on a monthly basis. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.

*Compliance*

Grantor agency regulations are usually concerned with all of a governmental unit's or nonprofit organization's controls relating to receipt, disbursement, and administration of grant funds. Thus, they are concerned with the design and operating effectiveness of all relevant controls used in ensuring compliance with laws, regulations, and the provisions of contracts or grant agreements relating to federal award programs. Awards received under the American Recovery & Reinvestment Act (ARRA) have an unprecedented level of transparency and accountability. It is clear that the billions of economic stimulus dollars flowing to states and localities will be under a microscope for possible waste and abuse. The ARRA will require significant measures to ensure that local spending complies with federal standards to foster integrity throughout the process. New compliance requirements relate to separate accountability for Recovery Act funding and separate identification on the Schedule of Expenditures of Federal Awards and the Data Collection Form. In addition, recipients have additional requirements to report certain information to the federal awarding agency within 10 days after the end of each quarter.

We are pleased to point out that our inquiries indicate that management is knowledgeable of many of the compliance requirements related to federal awards. We recommend that management review and document the control procedures they have or will implement to ensure compliance with federal award programs and the related compliance and sub recipient monitoring requirements. Documentation should involve identifying the compliance requirement, the procedures used and controls in place to comply with the requirement, the person(s) or position(s) responsible for performing the procedures, any documents generated and could be summarized on a checklist with appropriate approval of review.

Documentation provides an opportunity for persons involved in a process to consider whether there are inadequacies in the process or more effective or efficient ways to perform it. The documentation would be a valuable tool to train other individuals to perform the process should the need arise.

We would like to thank Gary Kelsey, Amy Fisk, and Mike Dudley for their cooperation and aid during our engagement. We were most appreciative of it, and it made our job a pleasant task. If you have any further questions regarding the above matters and would like to discuss them in greater detail or require assistance, please feel free to contact us at your convenience.

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

Yours truly,

*Brown & Company, LLP*

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