DIVISION OF LOCAL GOVERNMENT AND SCHOOL ACCOUNTABILITY

REPORT OF EXAMINATION | 2021M-85

Cheektowaga Economic Development Corporation

Revolving Loan Program

NOVEMBER 2021

OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller

Contents

Report Highlights

Cheektowaga Economic Development Corporation

Audit Objective

Determine whether the Cheektowaga Economic Development Corporation (CEDC) Board properly managed and monitored the revolving loan fund program.

Key Findings

The CEDC Board did not properly manage or monitor the revolving loan fund program and was unaware inadequate accounting records were maintained.

- In 2019, CEDC wrote off two loans with balances totaling approximately $563,000 because the loans were not properly secured and the recipients had insufficient assets to satisfy the outstanding balances.
- Accounting records were not complete, accurate or up to date.
- Loan repayments were not properly accounted for or deposited in a timely manner.
- Late fees were not always properly assessed and collected.
- Program performance goals were not properly monitored or always achieved.

Key Recommendations

- Maintain complete, accurate and up-to-date accounting records.
- Ensure loan repayments are properly accounted for, received and deposited in a timely manner and late fees are properly assessed and collected.
- Monitor active loans at least quarterly to ensure they are meeting job goals.

CEDC officials generally agreed with our findings and recommendations and indicated they planned to initiate corrective action.

Background

CEDC is an independent non-for-profit local development corporation located in Erie County. CEDC was established in July 1983 to carry out economic development activities in the Town of Cheektowaga (Town) and promote job growth.

CEDC is governed by a ten-member Board. The Board is responsible for CEDC's general management and financial affairs. Prior to June 2020, Board members were appointed by the Town Board, but now new members are selected and appointed by current sitting CEDC Board members.

A part-time community development aide (Aide) employed by the Town is responsible for managing and conducting CEDC's daily operations under the Board's direction.

The CEDC Board contracts with a financial consulting firm (consultant) to assist the Board with evaluating loan applicants and an accounting firm (firm) to assist the Aide with maintaining accounting records and recording loan fund activity.

Quick Facts

Loans During Audit Period	
Issued, Outstanding or Paid Off	10
Approved Amounts	$2.26 million

Audit Period

April 1, 2016 – March 31, 2021

Revolving Loan Program

The Town receives federal grant funds from the U.S. Department of Housing and Urban Development's Community Development Block Grant Program (CDBG). The CDBG program provides funding to revitalize neighborhoods, expand affordable housing and promote economic development.

CEDC is a sub-recipient of a portion of the Town's CDBG program funds and is responsible for managing a revolving loan program (program) on the Town's behalf. The program was initially funded by the Town but receives continual funding in the form of loan repayments and other program income such as interest and fees. CEDC and the program's primary function is providing low-interest loans to eligible businesses in order to create employment opportunities for low- to moderate-income individuals residing in the Town.

How Should the Board Manage and Monitor Program Activities?

The Board is responsible for managing and overseeing the program in accordance with all CDBG statutory and regulatory requirements and the sub-recipient agreement (agreement). The agreement defines the nature of activities to be carried out by CEDC, the way CDBG funds may be used, the timeframe for completing activities, and the records or reports CEDC must submit to the Town to demonstrate compliance.

The Board is responsible for evaluating and approving loan applications which will achieve the program's performance goals. The agreement establishes the program's annual performance goal as the creation of one to 10 low- to moderate-income jobs annually. It is essential for the Board to monitor the program to ensure each loan recipient's performance goals are achieved and that the program's overall goal is achieved each year. Additionally, the Board must ensure sufficient loan collateral is obtained to reduce the financial risk associated with each CDBG-funded loan and the program's overall loan portfolio.

In order to properly manage and monitor the program, CEDC must have accurate, complete and timely accounting records and generate financial reports in a timely manner. The Board should also develop written policies and procedures governing such things as the process for reviewing and approving loan applications, disbursing funds, depositing loan payments, charging late payment fees, the process for loan defaults and renegotiating loan terms. In addition, CEDC is required to provide semi-annual job creation reports to the Town and submit annual reports required by the New York State Office of the State Comptroller (OSC) to the New York State Authorities Budget Office (ABO) under the Public Authorities Reporting Information System.

The Board Did Not Adequately Manage or Monitor the Program

The Board did not actively oversee or monitor program financial activities and operations, meet on a regular basis or periodically review financial records or reports. Instead, the Board relied on the Aide to manage day-to-day operations without sufficient oversight. In addition, the Board did not develop and adopt written policies and procedures for recording financial activity, financial reporting, or any other day-to-day financial operations such as depositing loan payments, assessing late fees or paying operating expenditures.

During our audit, we noted numerous reporting and recording deficiencies. These included CEDC not providing a job-creation report to the Town on a semi-annual basis as required by the agreement, as well as not filing the required annual report with ABO for fiscal years ending 2019 and 2020. Furthermore, the annual reports filed with ABO for fiscal years ending 2017 and 2018 were incomplete and did not include all loans outstanding or issued in those years. The failure to file accurate and complete annual reports leaves CEDC without a means to demonstrate its financial standing to the Town, OSC and any other interested parties.

The Board took a passive role and yielded most of its management and monitoring duties to its consultant and the Aide. For example, the Board relied on the consultant to review loan applications and make recommendations regarding loan approval. However, CEDC also had an established loan review committee (committee) made up of four Board members which was also responsible for reviewing loan applications and making recommendations to the Board. Multiple committee members told us that they reviewed the consultant's loan review summary and performed their own reviews, but they could not identify the factors or criteria they considered when making their recommendation to the Board to approve the loans. In addition, neither the Board or the committee documented their review process, loan related discussions or decisions in writing or meeting minutes.

The Board took a passive role and yielded most of its management and monitoring duties to the consultant and the Aide.

When we discussed financial oversight with Board members, several board members told us that they were volunteers and did not have the time to actively oversee or monitor CEDC's financial operations. If a Board member feels they cannot adequately fulfill the responsibilities of serving on the Board, they should give consideration to allowing the other Board members to recruit individuals that could adequately perform the responsibilities.

The Board's lack of involvement in some cases, and lack of information and ineffectual monitoring in other cases, puts program funds at risk and may have allowed funds to be loaned to parties that did not create jobs or achieve the program's goals.

Loans Were Not Adequately Collateralized and the Program Lost Revenue and Funds Were Wasted

The Board approved four loans between April 1, 2016 and October 31, 2020 totaling nearly $990,000. While all four loans were provided for eligible activities and were collateralized with the applicant's assets, the loan collateral was insufficient to fully cover the loan amounts. The loan collateral amounts were insufficient because CEDC's security interest was subordinate to other creditors. Consequently, CEDC would have a high risk of losing money if businesses defaulted on the loans because other creditors would be given preference when seizing assets.

While all four loans were provided for eligible activities … the loan collateral was insufficient to fully cover the loan amounts.

While it was not documented in the Board's meeting minutes or the loan records, CEDC officials told us the Board was aware of the risks and felt the collateral was sufficient to cover the two loans. Therefore, the loans with outstanding balances totaling $563,000 were not properly secured and in 2019, the CEDC wrote them off because the loan recipients were not making payments and had insufficient assets to satisfy the debt. CEDC's failure to take appropriate action to secure the loans deprived the program of revenue (loan repayments of principal and interest) Moreover, CEDC's failure to take appropriate action to secure the loans it made is a form of wasteful spending.

While one of the loans had been made to a business that created 13 jobs prior to defaulting on its $200,000 loan, the business ultimately closed, and all jobs were lost. CEDC approved the loan in September 2016, but the business stopped making loan repayments after making five interest only payments of $83.33.

Although the Board declared the business in default in April 2017 and pursued all available legal remedies, CEDC was not able to recoup its investment because the loan was not sufficiently collateralized as other creditors had liens on all existing assets.

The second loan that was written off was made more than 20 years ago and the loan recipient never made a single principal or interest payment. The loan recipient was a joint-venture partnership consisting of CEDC and a local real estate developer. The joint venture had no assets and according to the loan agreement, no obligation to create jobs.

According to CEDC officials, the loan was made to promote economic development and was provided funds to finance planning reviews and studies concerning the impact of development of the area; however, the project did not continue after the local developer exhausted the loan proceeds totaling $130,000. With accrued interest, the total outstanding balance at the time of the loan write-off was approximately $363,000. CEDC's failure to require the loan recipient to repay any amount from the loan is a form of wasteful spending.

CEDC officials told us that the program's primary goal was to provide loans to businesses that would not be likely to obtain financing from traditional lending institutions; therefore, the Board was willing to accept more risk when providing loans to these businesses. However, we found no evidence that the Board set established criteria for acceptable levels of risk for each loan or the loan portfolio. Additionally, the Board's approval to write off these loans was not documented in the meeting minutes and officials could not provide us with written documentation demonstrating that the Board had approved either loan write-off.

Writing off unpaid loan amounts without Board approval increases the risk that write-offs could be used to conceal shortages in the loan program or other irregularities.

As of March 2021, accounting records and loan balances had not been updated since April 2019.

Accounting Records Were Not Accurate or Complete

The accounting records were not complete, accurate or up to date. As of March 2021, accounting records and loan balances had not been updated since April 2019. Without accurate and complete accounting records, the Board cannot make informed financial decisions or properly manage the program.

The Board hired an accounting firm (firm) to assist the Aide with maintaining accounting records and recording revolving loan fund activity. However, neither the Aide nor the firm maintained accounting records or recorded loan fund activity for the period April 1, 2019 through March 31, 2021. The Aide told us that he maintained logs of the payments received and had provided the firm with the logs and bank statements monthly, but the firm did not update the accounting records. A representative from the firm told us that the records were not being updated because there had been turnover at the firm. Subsequently, we found that the firm did not bill CEDC for the period after March 2019.

…[W]e found that four businesses routinely made their loan repayments late, but late fees were not always applied or collected.

Because the Board did not periodically request or review important financial information or records, the Board was unaware of the inadequate condition of the accounting records. Had the Board periodically requested or reviewed financial reports then it would have been aware of the condition of the program's accounting records and could have taken appropriate action to address and correct the issues.

Late Fees Were Not Always Charged or Collected

During the period of April 1, 2016 through March 31, 2021, we found that four businesses routinely made their loan repayments late, but late fees were not always applied or collected. This included 16 instances totaling approximately $1,100 in late fees where the Aide had not charged or collected a late fee in accordance with the loan agreements.

For example, a loan payment of $8,439 was due on April 1, 2020, but was not received until April 22. The loan agreement stipulated that a late charge of 2 percent of the amount of the payment ($168.78) would be charged for any monthly payment made more than 15 days after the due date, but no late fee was charged or collected. The Aide told us that he did not always apply late charges because he did not think late fees should be applied when payments were due on a weekend or holiday. However, in the example above the due date fell on a weekday, and a late fee was not applied.

Additionally, when the Aide did assess late fees, he did not do so correctly. Instead of using the loan amortization schedule in the loan agreements and collecting an additional payment from the businesses who made late payments, he would add late fees to the loan's outstanding balances. Because of the lack of accounting records and the Aide's method of accruing late fees, current outstanding loan balances could not be verified and were not readily available.

Loan Payments Were Not Deposited in a Timely Manner and Cash Disbursements Were Not Always Supported

During the period April 1, 2016 through October 31, 2020, loan payments were not deposited in a timely manner and cash disbursements were not always supported by sufficient documentation. We found that on average, loan payments were not deposited until 31 days after being received.

For example, CEDC received loan payments from a business on December 7, 2018, January 7, 2019, February 12, 2019, and March 11, 2019, but the payments were not deposited until April 1, 2019. When money collected is not deposited in a timely manner, it increases the risk that funds could be used, lost, misplaced, misused or that funds may be unavailable for checks to clear.

Furthermore, we found that loan application commitment fees totaling $3,400 and a loan principal and interest payment totaling $1,400 were not deposited into CEDC's general operating account but were instead deposited into a separate account maintained for discretionary expenses like the Board's annual meeting and dinner. In addition, we identified three payments from the discretionary account totaling $952 for alcoholic beverages purchased at the Board's annual meeting. Alcoholic beverages are not a permissible use of CDBG funds. The Aide told us that the loan and principal payment had been deposited into the discretionary account in error, but the loan commitment fees were meant to generate program income that would not be subject to CDBG regulations. However, according to the agreement, all revenue generated by the program belongs to the Town and should be used for an eligible CDBG activity.

We also reviewed all 85 non-loan disbursements totaling $325,000 made during the period April 1, 2016 through October 31, 2020. While we found that disbursements were made for legitimate business purposes, adequate supporting documentation such as original invoices were not readily available for 35 disbursements totaling approximately $117,000. Although the Aide was able to eventually locate supporting documentation for all disbursements, supporting documentation should be retained and easily accessible to Board members or other interested parties. Without adequate supporting documentation, the Board would not be able to determine whether payments were being made for appropriate purposes.

These issues occurred because the Aide carried out his financial duties without sufficient oversight. Had the Board actively managed and monitored financial activity then it would have been aware of the deficiencies and could have taken appropriate action to address and correct the issues.

Program Performance Goals Were Not Properly Monitored or Always Achieved

The Board did not adequately monitor the revolving loan fund activity to ensure performance goals were achieved. We reviewed the files and records for the 10 loans outstanding during our audit period totaling $2.26 million (see Appendix A). We found that out of the nine loans with job creation requirements, seven loans did not meet the agreed upon job goals. In addition, the program failed to achieve its annual job creation goals as CEDC created zero jobs in the 2018-19 and 2019-20 fiscal years.

We found that out of the nine loans with job creation requirements, seven loans did not meet the agreed upon job goals.

According to loan agreements, CEDC estimated that its portfolio of loan recipients combined would create 88 low to moderate income jobs three years after the loans were disbursed; however, we found that 69 jobs were created or 19 less than estimated. Two outstanding loans created no jobs as of March 2021. CEDC officials told us these two outstanding loans were newly approved and the businesses have three years to meet the job creation goals.

The Board did not monitor loan recipients' progress in creating jobs as required by the agreement. The agreement requires the Board to monitor job creation on at least a quarterly basis and to provide a job-creation report to the Town on a semi-annual basis. The Aide told us that the Board relied on the consultant to follow up with and monitor loan recipients' progress on quarterly basis and to assess their progress in creating jobs.

Had the Board monitored job creation or oversaw the consultant and the Aide performing this function then it may have been able to promptly initiate corrective action when loan program recipients were not meeting job creation goals.

What Do We Recommend?

The Board should:

1. Take an active role in all significant financial decisions, meet regularly and monitor program financial activities.

2. Review financial records or reports periodically and ensure that annual reports are filed as required.

3. Develop and adopt written policies and procedures for recording financial activity, financial reporting and other key day-to-day financial operations such as depositing loan payments timely, assessing and collecting late fees and paying operating expenditures.

4. Ensure loan applications are properly reviewed by the committee and adequately collateralized prior to approving new loans.

5. Establish criteria for evaluating loan applicants and document the loan review process including discussions and approvals.

6. Ensure accounting records are complete, accurate and up to date.

7. Establish and document criteria for acceptable levels of risk for each loan and the loan portfolio as a whole and properly approve the write-off of any loans in default.

8. Ensure loan repayments are properly accounted for, received and deposited in a timely manner and late fees are properly assessed and collected.

9. Ensure sufficient documentation is retained for all cash disbursements and funds in the discretionary account are used for eligible activities.

10. Properly monitor all active loans at least quarterly to ensure they are meeting job goals and the program is achieving annual job-creation goals and submit semi-annual job summary reports to the Town as required.

Appendix A: CEDC Loan Portfolio

Figure 1:

Business Type	Outstanding Loan Amount	Issued	Balance[a]	Job Creation Required	Created[b]	Variance
Wholesale Food Distributor	$500,000	9/6/2017	$360,000	15	16	+1
Wholesaler Paper Products	500,000	4/4/2012	8,000	15	12	-3
Wholesaler/ Retailer Home and Seasonal Decors	300,000	2/6/2013	213,000	20	13	-7
Wholesale/ Retail Food	200,000	9/30/2016	0[c]	6	13	+7
Financial Services	200,000	6/6/2013	0[d]	8	2	-6
Wholesale/Retail Food	150,000	7/2/2020	150,000	4	0	-4
Trucking and Logistics	140,000	8/9/2019	140,000	5	0	-5
Real Estate Development[e]	130,000	10/21/1991	0	0	0	0
Retail Packaging and Shipping	80,000	5/23/2012	0[f]	3	2	-1
Manufacturing	60,000	3/31/2009	0[g]	12	11	-1
Totals:	**$2,260,000**		**$871,000**	**88**	**69**	**-19**

a) The outstanding loan balances were from CEDC's last updated accounting records as of March 31, 2019. We did not recalculate to verify the balances.

b) For loans approved/issued after March 2019, the businesses have three years to meet the job creation goals.

c) Loan written-off in March 2019 because the loan recipient defaulted and had insufficient assets to satisfy the outstanding loan amounts.

d) Loan paid in full July 2019.

e) Loan written-off in March 2019 with a total outstanding balance of approximately $363,000 with accrued interest. The loan recipient was a joint-venture partnership with CEDC and a local real estate developer to promote economic development. The joint venture had no assets and according to the loan agreement, no obligation to create jobs.

f) Paid in full April 2019.

g) Paid in full January 2017.

Appendix B: Response From CEDC Officials

Cheektowaga Economic Development Corporation

October 21st, 2021

Office of the State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, NY 14203
Attn: Jeffrey D. Mazula
Chief Examiner of Local Government and School Accountability

Dear Mr. Mazula,

In response to the recent audit examination of the Cheektowaga Economic Development Corporation (CEDC), and upon review of the findings and recommendations, we submit the following comments.

Recommendation 1: *Take an active role in all significant financial decisions, meet regularly, and monitor program financial activities.*

Under new leadership, the Board of Directors has transitioned to meeting on a quarterly basis with regular communication and committee work between meetings of the full board. We have begun a review of the corporation's annual training and onboarding processes for both current and new board members to ensure good governance and oversight.

Recommendation 2: *Review financial records or reports periodically and ensure that annual reports are filed as required.*

Detailed financial reports including profit and loss statements and balance sheet statements are sent to the board members for review in advance of the board meetings. The CEDC's executive committee and staff present to the full board at each quarterly meeting a financial summary report outlining activities for the period. Additionally, the current President in partnership with the CEDC staff, ensure that all required annual reports are filed on a timely basis.

Recommendation 3: *Develop and adopt written policies and procedures for recording financial activity, financial reporting, and other key day-to-day financial operations such as depositing loan payments timely, assessing and collecting late fees, and paying operating expenditures.*

An Internal Operating Procedures overview has been adopted and outlines current processes for recording financial activity and reporting to the Board of Directors. Additionally, the CEDC is in the process of contracting with a new vendor for bookkeeping services and will work closely with them to streamline current processes.

Cheektowaga Economic Development Corporation

Recommendation 4: *Ensure loan applications are properly reviewed by the committee and adequately collateralized prior to approving new loans.*

With respect to process, all CEDC loan applications are thoroughly reviewed by the CEDC's consulting firm, and the status of the review and any credit issues are discussed with the Chair of the CEDC Loan Committee during the review period. Upon conclusion of the review, a detailed written analysis is provided to the CEDC Loan Committee and a presentation is made by the consultant in person to the Committee where questions are answered, and all loan terms and conditions are thoroughly discussed. The Loan Committee then makes a recommendation to the Board of Directors, which is the only entity authorized to approve loans.

The use of Federal Community Development Block Grant funds, which are the only source of capitalization for the CEDC's Revolving Loan Fund, requires that the use of non-Federal funds be maximized in every assisted project, and that requirement is echoed at Section 3.2 of the Program Guidelines which state that the CEDC assistance "must be no greater than the minimum amount necessary to effect the business activity." As a result, CEDC funds are often used in conjunction with institutional lending, where senior mortgages and liens are almost always a requirement of those credits. In the case of the 2016 loan cited in the audit report that subsequently defaulted, the primary loan of $808,000 was made by [redacted] with an SBA guarantee that required a first lien on all borrower assets. As a result, the only available collateral to secure additional lending was a subordinated security interest in those assets. There was no mortgage as the business location was under a 10-year lease from a third party. The CEDC additionally secured its loan with the unlimited joint and several personal guarantees of the business owner and his wife, and as the beneficiary of a life insurance policy on the business owner. In short, the CEDC obtained all of the loan security available to it.

While the loan review for that application acknowledged the risk associated, and the subordinate collateral position, it also cited the owner's extensive experience in owning and operating an iconic area company, his excellent credit rating, and his investment of over $200,000 in cash equity to the project. The loan application was the subject of substantial discussion with the CEDC Loan Committee, which resulted in the terms and conditions that were recommended to and subsequently approved by the Board of Directors. It should also be noted that although the loan has been written off, the CEDC has obtained court-ordered judgments based on the personal guarantees for the full amount of the indebtedness that remain enforceable and that may eventually satisfy all or a portion of the amount owed.

In summary, it is the CEDC's contention that the manner, extent, and depth of its loan application processing is fully appropriate, and that it routinely obtains the maximum amount of security available for its loans, while acknowledging that extensive collateral coverage is often unavailable due to the purpose and intent of its Revolving Loan Fund and the requirements of the CDBG program.

Cheektowaga Economic Development Corporation

Recommendations 5 & 7:

5 - *Establish criteria for evaluating loan applicants and document the review process including discussions and approvals.*

7 - *Establish and document criteria for acceptable levels of risk for each loan and the loan portfolio as a whole and properly approve the write-off of any loans in default.*

The CEDC has adopted written criteria for its loan terms, interest rate, repayment schedules, security, and subordination that it strictly adheres to (Section 4 of its lending guidelines). While all aspects of the credit are fully analyzed during the review process, specific thresholds for debt and collateral coverage have not been established. Projected debt coverage is analyzed consistent with standard commercial lending practices where anything less than 1.2x would raise concerns, and while it is a critical element of the review process, it is only one of many factors considered in assessing risk. Collateral coverage is necessarily less critical in the assessment of risk due to the CEDC's position as a lender of last resort. In making credit available to businesses that either can't access or afford institutional financing in the amount necessary to undertake the proposed project, the CEDC is often in the position of lending based on project feasibility and projected cash flow as opposed to relying on collateral coverage. That's consistent with its role in leveraging projects rather than acting as an asset-based lender. The CEDC Loan Review Committee and its economic development consultant also utilize the CDBG lending guidelines as a framework for evaluating and selecting projects.

Going forward, the CEDC will better document the loan review and approval process with detailed minutes of the Loan Committee and Board discussions. The Loan Committee minutes are not made available to the public due to their confidential nature, while the Board discussions will be held in Executive Session.

Recommendation 6: *Ensure accounting records are complete, accurate, and up to date.*

As stated previously, the CEDC will be working with a new vendor for bookkeeping services. Monthly reports to the CEDC executive committee along with quarterly reports to the full board of directors will allow for additional oversight.

Recommendation 8: *Ensure loan repayments are properly accounted for, received and deposited in a timely manner and late fees are properly assessed and collected.*

Under new leadership, the CEDC Treasurer, President, and Executive Officers will continue to work in conjunction with CEDC staff and the Town's Office of Community and Economic Development to ensure timely deposits and recording of all transactions for reporting to the full board of directors.

Recommendation 9: *Ensure sufficient documentation is retained for all cash disbursements and funds in the discretionary account are used for eligible activities.*

Under new leadership, the CEDC executive committee and board of directors regularly reviews and approves all expenditures and disbursements. Further, the Governance committee has been tasked with reviewing all written policies and making any recommendations for adjustment to the board of directors for adoption.

Cheektowaga Economic Development Corporation

Recommendation 10: *Properly monitor all active loans at least quarterly to ensure they are meeting job goals and the program is achieving annual job-creation goals and submit semi-annual job summary reports to the Town as required.*

As stated previously, the CEDC board of directors meets quarterly, and reviews reports from its economic development consulting firm outlining the status of job creation goals for each active loan. The CEDC plans to take a more proactive approach in the future in aiding active loan recipients in meeting agreed upon job creation targets and adjusting agreements as necessary while keeping within CDBG and HUD regulations and guidelines. The CEDC will provide semi-annual job summary reports to the Town's Office of Community and Economic Development Director and will forward those reports to the Town Councilmembers as requested.

On behalf of the Cheektowaga Economic Development Corporation, we thank you for the time spent in conducting the audit examination. Many of the recommendations outlined for the audit period of April 1st, 2016 through March 31st, 2021 had already been acted on at the time of the exit discussion with the audit team as indicated in our above responses. We look forward to continued improvement of the CEDC as we work to foster and promote economic development and the creation and preservation of employment opportunities in the Town of Cheektowaga.

Sincerely,

Kristina Groff
President
Cheektowaga Economic Development Corporation

cc: Rachel Straker, Director of Office of Community Development, Town of Cheektowaga
Jerome Gabryszak, Community Development Aide
CEDC Board of Directors

Appendix C: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Board members, representatives from the financial consultant and accounting firm and Town employees involved in CEDC financial operations. We reviewed the sub-recipient agreement and Board minutes to gain an understanding of the loan approval and monitoring process.
- We reviewed bank statements, canceled checks and invoices for the period April 1, 2016 through March 31, 2021 to identify disbursements for loans and operating or contractual expenditures. We compared loan amounts to loan agreements and annual reports. We requested and reviewed invoices for operating and contractual expenditures to assess whether disbursements were for appropriate expenditures and properly supported.
- We reviewed the job creation summary reports for nine outstanding loans totaling $2.26 million to determine whether these businesses met the agreed upon job goals. One of CEDC's ten outstanding loans did not have a job creation goal therefore there were no job creation reports to review.
- We reviewed payment logs maintained by the Town's Community Development Department documenting loan payments received, loan agreements, bank statements and deposition compositions for the period April 1, 2016 through March 31, 2021 to determine whether loan payments were received and deposited in a timely and accurate manner, late fees were properly assessed and collected and loan payments received were deposited in a timely manner.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the secretary's office.

Appendix D: Resources and Services

Regional Office Directory
www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas
www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems
www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management
www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans
www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders
www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller
www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers
www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics
www.osc.state.ny.us/local-government/academy

Contact

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