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To the Board of Directors and
F. Michael Tucker of the Columbia Economic Development Corporation:

In planning and performing our audit of the basic financial statements of Columbia Economic Development Corporation as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered Columbia Economic Development Corporation's internal control over financial reporting (internal control) 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Columbia Economic Development Corporation's internal control over financial reporting.

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 over financial reporting, 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.
- *Probable*. The future event or events are likely to occur.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose. The observations and recommendations included in the attachment to this letter are control deficiencies that did not raise to the level of significant deficiencies or material weaknesses. Columbia Economic Development Corporation's written responses to the comments identified in the attachment have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

UHY LLP

March 31, 2020
Hudson, New York

ATTACHMENT

Other Matters:

<u>Current Year Observation and Recommendation</u>

1. *Loan Loss Policy:*

   <u>Observation</u>

   The Corporation has a "Loan Policy Manual" that includes its methodology for calculation of its Allowance for Loan Losses. The policy indicates that a reserve percentage should be applied to all loans including those written in the current year or other loans that may not demonstrate issues with collateral and/or collection. In addition, the Policy treats Small Business Administration (SBA) funded loans differently from its internal loan fund.

   <u>Recommendation</u>

   We recommend management amend its "Loan Policy Manual" as it relates to the calculation for the Allowance for Loans Losses. Loans should only be included in the reserve when circumstances indicate there is the probability the loan will not be collected in full (i.e. change to the status of a business, late payments, insufficient collateral, bankruptcy, etc.). A provision for loan loss for loans that are performing would not be appropriate unless current circumstances indicate that the probability of collecting all future loan principal payments and related interest is not probably. In addition, all loans should be evaluated using the same indicators and the percentage used in the reserve should be consistent between SBA loans and the Corporation's internal loans based on the relevant factors. In some cases the standard percentages should be increased when circumstances warrant such increase.

   <u>Management's Response</u>

   CEDC will continue to refine its Loan Policy related to its allowance for loan losses methodology.

<u>Prior Year Observation and Recommendation</u>

1. *Financial Handbook:*

   <u>Observation</u>

   The Corporation does not have written policies and procedures in place for certain aspects of its accounting procedures. Some of the areas that should be documented include: policy for bank transfers, policy for payroll including pay rate change approvals, check processing procedures, IT controls, underwriting procedures, etc., including its allowance for loan loss policy, to ensure it adequately addresses the risk associated with its loan policy and is in accordance with standards.

Recommendation

The Corporation should create a written financial handbook that addresses the items identified above. The financial handbook should be approved by the board of directors.

Management's Updated Response

CEDC will continue to work with its auditors to develop and complete a Financial Procedures Manual by June 30, 2020.