RSM US LLP

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*

Independent Auditor's Report

Board of Directors
Nassau County Interim Finance Authority

We have audited, 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 (*Government Auditing Standards*), the financial statements of the governmental activities and each major fund of the Nassau County Interim Finance Authority (the Authority), a component unit of the County of Nassau, New York, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 22, 2023. Our report contained an emphasis of matter paragraph related to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2022-001.

The Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

New York, New York
May 22, 2023

Schedule of Findings and Responses

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? __X__ yes ______ no
- Significant deficiency(ies) identified? ______ yes __X__ none reported

Noncompliance material to financial statements noted? __X___ yes ______ no

I. Internal Control Over Financial Reporting

2022-001
Noncompliance with Investment Guidelines

Criteria:
The Authority's Investment Guidelines are re-adopted each year as required by Section 2925 of the New York Public Authorities Law. Section 4.1 of the Authority's Investment Guidelines, re-adopted May 31, 2022, includes a list of permissible investments. It states that the Authority may invest in any and all of the permissible investments listed, if and to the extent permitted by statutes, regulations and bond resolutions applicable at the time of investment of such Investment Funds.

Section 3657(4) of the Nassau County Interim Finance Authority Act (NIFA Act) requires that all deposits of Authority money be secured by obligations of the United States, New York State or Nassau County.

Section 505 of the Indenture between the Authority and the United States Trust Company of New York, as Trustee (the Indenture), dated October 1, 2000, requires that funds may be invested by the Trustee in eligible investments maturing or redeemable at the option of the holder at or before the time when such money is expected to be needed and shall be invested pursuant to the written direction of the Authority. Section 102 of the Indenture defines eligible investments as being direct obligations of, or obligations guaranteed as to timely payment of principal and interest by the federal government, among others.

Section 5.8 of the Authority's Investment Guidelines requires that the Authority's financial interest in its investments be fully secured or collateralized at all times in an amount not less than the original amount invested plus accrued, unpaid interest thereon.

Condition:
During 2022, Authority cash balances were collateralized with securities that are not permissible under the NIFA Act. Further, the Authority invested in Federal Home Loan Bank (FHLB) securities during 2022. FHLB securities are not eligible in accordance with the criteria stated above as they are not explicitly guaranteed by the U.S. government. Therefore, they are not permissible investments under the Investment Guidelines because they are not allowed under the Indenture. $8.4 million of the Authority's total $16.9 million of investments as of December 31, 2022 were in FHLB securities.

The Authority's investment balance of $16.9 million was not collateralized as of December 31, 2022, although $8.5 million of such amount was invested in U.S. government securities and not subject to credit risk.

Cause:
The Authority's Investment Guidelines were reviewed in approving the investments made by the Authority. However, the NIFA Act and the Indenture are referred to from the Authority's Investment Guidelines and contain language that is more restricting than Section 4.1 of the Authority's Investment Guidelines. The Authority did not recognize that FHLB securities are not guaranteed by the federal government at the time the investments were approved.

Investments were not collateralized because management believed the holdings were guaranteed by the federal government.

Effect or potential effect:
The potential effect could have been loss in the Authority's cash and investment accounts; however, there was no loss to the Authority as a result of this matter. The noncompliance resulted in expanded footnote disclosure in the basic financial statements and required reporting by the Authority to the State of New York.

Recommendation:
We recommend that the Investment Guidelines be evaluated and revised as necessary to better align with the NIFA Act and the Indenture and to better align with the intent of the Authority's investment strategy.

View of responsible officials: and Planned Corrective Action

Management has undertaken the following corrective actions (or plans to do so, where indicated) to address the identified noncompliance.

Immediately upon making the determination that collateral was not compliant with the NIFA act, we amended our tri-party custodian agreement with Bank of America and Bank of New York Mellon to limit collateral (currently U.S. Treasuries only) to those that are eligible under the NIFA Act. Further, as of May 15, 2023, all our investments of debt service set asides in FHLB securities have matured at full and unimpaired value and we no longer invest in such securities.

As recommended above, we have amended our Investment Guidelines to clarify that acceptance of collateral is subject to applicable law (e.g., the NIFA act); and, we expect to amend them to clarify that funds dedicated to the payment of NIFA debt and related amounts are not subject to the Guidelines (including the requirement to collateralize investments). This change will result in such amounts being treated in the same manner as NIFA bond proceeds, which are excluded from the Guidelines but which are subject to the separate investment provisions in the Indenture. We also expect to clarify in the Guidelines that investments issued or guaranteed by the U.S. government do not require collateralization.

Additionally, we have reported the noncompliance with the NIFA act, the Indenture and the Guidelines in NIFA's Annual Authority Report on Investments.

We have consulted with NIFA's bond counsel regarding the investment of set asides for debt service who advised that they did not view the technical non-compliance with investment requirements under the Indenture, which was promptly corrected upon discovery and which had no adverse financial effect, as a material event requiring notice under NIFA's continuing disclosure obligations.

Neither NIFA, Nassau County nor NIFA's bondholders have suffered any negative financial impact resulting from the unauthorized investments, the absence of collateral on investments, or acceptance of unauthorized collateral for funds on deposit.

II. Compliance and Other Matters

See 2022-001.