



BUFFALO FISCAL STABILITY AUTHORITY

Dr. Joseph V. Stefko
Deputy Director

March 31, 2007

Mr. Thomas Lukacs
Division of the Budget
State Capitol
Albany, NY 12224

Dear Mr. Lukacs:

Attached please find the Buffalo Fiscal Stability Authority's (BFSA) 2006-07 Internal Control Summary and Internal Control Certification as required by Budget Policy and Reporting Manual (BPRM) Item B-350. If you have any questions, please feel free to contact me at (716) 853-0907.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Stefko", written over a horizontal line.

Joseph V. Stefko, Ph.D.
Deputy Director

Encl.

Market Arcade Building, 617 Main Street, Suite 400
Buffalo, New York 14203
(716) 853-0907 / (716) 853-9052 (fax)
www.bfsa.state.ny.us

INSTRUCTIONS FOR PREPARING 2006-07 INTERNAL CONTROL SUMMARY

This Internal Control Summary, to be submitted to the Division of the Budget by March 31, 2007, provides background on the internal control certifications made by agencies and authorities for 2006-07. The summary also requests information regarding specific actions already taken by agencies to implement recommendations included in the Internal Control Task Force report, *"The New York State Internal Control Act Implementation Guide: Strengthening Compliance with the Act and Standards."*

AGENCY	DATE	COMPLETED BY
Buffalo Fiscal Stability Authority (BFSA)	March 31, 2007	Joseph Stefko, Ph.D. Deputy Director

1. Describe the review process used during 2006-07 to assure that internal controls were evaluated regularly.

BFSA maintained an Internal Controls Officer throughout 2006-07 – first the Chief Counsel, and upon the Chief Counsel's departure for another employer, the Deputy Director. The Internal Controls Officer reviewed internal control policies and procedures on a quarterly basis and regularly met with BFSA staff to ensure both the efficacy of internal control processes and that internal control performance improvement recommendations were being implemented. An Internal Management Committee, consisting of BFSA senior staff including the Executive Director, Deputy Director and Chief Financial Officer, periodically reviews BFSA's Internal Controls policies and methodologies to evaluate how risks related to BFSA's operations are managed and to determine what steps, if any, are necessary to enhance security against those risks. Further, the Chief Financial Officer works closely with BFSA's independent outside auditor, which also makes recommendations on internal controls that are carefully reviewed and considered by the Internal Management Committee.

BFSA closely follows its Internal Controls Manual. The manual is provided to all staff, and contains information, policies and guidelines covering internal control and audit; procurement; local purchasing and reimbursement; operations; travel and purchase cards; and BFSA investments. It also contains a copy of BFSA's office technology and facilities management handbook. The separate Employee Handbook informs employees about policies governing office security, computer/technology usage and the use of BFSA equipment and facilities.

BFSA's Internal Controls Manual is modified as needed and the policies are reviewed annually as required by law.

2. List all high-risk activities and indicate which were reviewed during 2006-07.

The most high-risk activity remains BFSA's receipt and disbursement of state aid and sales tax revenue on a monthly basis. BFSA also invests available cash and enters the bond market to borrow on behalf of the City of Buffalo. BFSA's revenues and debt transactions are handled through trustee accounts. Pursuant to Section 3871 of the Public Authorities Law, BFSA has an annual independent audit completed by an independent certified public accountant, conducted in accordance with generally accepted accounting standards. This audit included a review of BFSA's

internal controls and financial transactions. For the 2005-06 fiscal year, BFSA received an unqualified audit opinion on its financial statements and the independent auditor identified no material weaknesses in BFSA's internal controls.

3. Identify the significant deficiencies revealed through the agency's 2006-07 review process. Outline the actions taken, or planned, to eliminate the deficiencies. Highlight the most important internal control improvements made during the year.

BFSA's Internal Controls Officer, and Internal Management Committee, periodically makes vulnerability assessments over the safeguarding of BFSA's assets. Based upon these assessments in 2006-07, BFSA has identified no significant deficiencies in its internal control processes and policies. Invoices are entered into the accounting system by the Office Manager and verified by the Chief Financial Officer. A new accounting system, which BFSA implemented last fiscal year, also provides an audit trail. Further, the Chief Financial Officer has no disbursement authority. All disbursements require the signature of the Board Treasurer and/or a duly authorized Director of the BFSA Board and/or the Executive Director. The Executive Director has no authority to enter transactions into the accounting system, but does periodically review reports generated from that system.

Also, while not taken to address specific deficiencies, within the past year BFSA adopted both a code of ethics and prompt payment policy. BFSA also transmitted the Authority Budget Office's Policy of Board Member Independence (#07-01) to employees and Directors to ensure compliance with the stipulations contained therein. It is also planned that BFSA will adopt a conflict of interest policy.

4. Describe the monitoring system installed by the agency to verify that corrective actions are, in fact, taken. Discuss the extent to which electronic data processing systems are used to track steps taken to reinforce internal controls.

The Internal Management Committee meets at least quarterly to discuss the progress of any corrective actions taken, as well as to consider whether additional corrective measures are required. The last major action involved the implementation of a new computerized accounting system in July 2005, which provides an audit trail function that fully meets the control and fiscal objectives of BFSA. During 2006-07, slight changes were made to clarify Internal Control policies governing the usage of purchase and reimbursement credit card purchases, as well as processes regulating BFSA bank transfers. In both instances, policies were enhanced to further minimize the potential for errors.

5. Summarize specific actions the agency has taken to install a compliance testing program in accordance with the methods presented in the *Managers Guide: Testing Compliance with Internal Control Requirements*, which can be downloaded from BPRM Item B-350. Describe actions taken during 2006-07 to verify test results and expand the testing program.

BFSA operates with a small staff, which consists of the Executive Director, the Deputy Director, the Chief Financial Officer, two Principal Analysts, an Analyst and an Executive Assistant/Office Manager. With the small staff size and the centralized base of operations, the Internal Control

Officer and Executive Director can readily evaluate adherence to internal procedures and determine the extent of deviations from established procedures, if any. Staff performance is tested and evaluated by the Executive Director and Internal Controls Officer, both on a regular ongoing basis and through the comprehensive annual employee evaluation process. At the current time, all staff members are evaluated annually by either the Executive Director or the Deputy Director (who also serves as the Internal Controls Officer), with the Executive Director evaluated by the Board chair. Any required follow-up on corrective efforts is executed under the guidance of the Internal Management Committee.

6. Discuss the methods used in 2006-07 to provide internal control education and training to keep agency/authority staff aware of the need for internal controls.

Given the size of the organization, the majority of the Authority's communications on internal control policies and procedures, as well as staff expectations on adhering to such policies, is communicated through email announcements/memos and regularly scheduled staff meetings. Those staff meetings cover internal control education and policies as an agenda item. Senior staff members also attend New York State Government Finance Officer's Association conferences and training sessions. BFSA's Executive Director has attended the Public Authority Board Governance Seminar provided by the New York State Commission on Public Authority Reform and the City University of New York School of Professional Studies in March 2006, and the Deputy Director and Chief Financial Officer attended Public Authorities Accountability Act training in March 2007.

The updated New York State Comptroller's Standards for Internal Control in New York State Government has also been made available to all BFSA staff members.

Staff were also provided with an in-service presentation by Ed Meyer of the New York State Inspector General's office in September 2006, on issues relating to ethics, public employee responsibilities and "whistleblower" policies.

Also in 2006, BFSA's Executive Assistant/Office Manager attended training on records retention schedules, provided by the New York State Archives/State Education Department in October; and BFSA's Chief Financial Officer attended the internal controls seminar provided by the New York State Government Finance Officers' Association in November.

7. Describe measures instituted to sustain the effectiveness of the internal control program during 2006-07. Include information on reorganizations and other revisions in the program to enhance operations.

As noted, the Internal Management Committee meets at least quarterly to discuss the efficacy of existing Internal Controls processes, the progress of any corrective actions taken, and whether additional corrective measures are required. No major reorganizations or changes were required in the past fiscal year.

8. For those agencies required by BPRM Item B-350 to have an internal audit (IA) function, demonstrate how that function complies with requirements of the Internal Control Act and professional IA standards.

BFSA is not required to have an internal audit function.

9. Outline the specific actions taken to implement recommendations included in the Internal Control Task Force report, *"The New York State Internal Control Act Implementation Guide: Strengthening Compliance with the Act and Standards."*

BFSA has taken, or is in the process of implementing, a series of steps consistent with the recommendations of the Internal Control Task Force report published in September 2006. Those steps include:

- The Internal Management Committee has been provided with copies of the report and has discussed its recommendations in light of BFSA's current Internal Controls policies. The Internal Management Committee has also reviewed BFSA's internal control policies on at least a quarterly basis to ensure they continue to provide sufficient mitigation of risk and full compliance is being achieved.
- A records retention program and schedule was initiated in 2004, and BFSA has maintained a records management officer since that time. At present, the Executive Assistant/Office Manager serves as BFSA's records management officer.
- BFSA established a governance committee in 2006 to comply with the requirements of the Public Authorities Accountability Act and to ensure greater efficiency, openness and accountability, and to monitor corporate governance principles and processes within the organization.
- The BFSA Board reviewed and renewed its procurement policy in 2006, governing the use, awarding, monitoring and reporting of procurement contracts.
- The BFSA Board reviewed and renewed its investment guidelines in 2006, governing the investment and reinvestment of investment funds and the sale and liquidation of investments, as well as the monitoring, maintenance, accounting, reporting and internal controls by and of the BFSA with respect to such investment, sale, reinvestment and liquidation.

INTERNAL CONTROL CERTIFICATION

BUFFALO FISCAL STABILITY AUTHORITY

Agency/Authority Name

DOROTHY A. JOHNSON, EXECUTIVE DIRECTOR

Agency Head/Chairperson Governing Board

617 MAIN STREET, SUITE 400, BUFFALO, NY 14203

Agency/Authority Address

(716) 853-0907

Telephone Number

JOSEPH V. STEFKO, PH.D., 617 MAIN STREET, BUFFALO, NY 1423

Name of Internal Control Officer Address

(716) 853-0907

Telephone Number

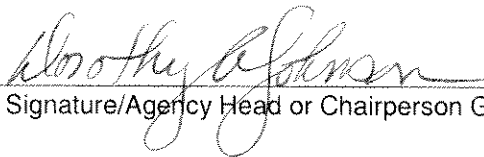
JOSEPH.STEFKO@BFSA.STATE.NY.US

Email Address of Internal Control Officer

I hereby certify that the agency or authority has complied with the following provisions for internal controls.

These provisions are as follows:

- A. Establish and maintain guidelines for a system of internal controls for the agency or authority. Internal control guidelines communicate the management and programmatic objectives of an agency or authority to its employees and provide the methods and procedures used to assess the effectiveness of the agency or authority internal controls in supporting these objectives.
- B. Establish and maintain a system of internal controls and a program of internal control review for the agency or authority. The program of internal control review shall be a structured, continuing and well-documented system designed to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of necessary corrective actions and periodically assess the adequacy of the agency's or authority's internal controls.
- C. Make available to each officer and employee of the agency or authority a clear and concise statement of the generally applicable management policies and standards with which the officer or employee of such agency or authority shall be expected to comply. Such statements shall emphasize the importance of effective internal controls to the agency or authority and the responsibility of each officer and employee for effective internal controls.
- D. Designate an internal control officer, who shall report to the head of the agency or authority or their designee within the executive office, to implement and review the internal control responsibilities established pursuant to this Item.
- E. Implement education and training efforts to ensure that officers and employees within such agency or authority have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.
- F. Periodically evaluate the need for an internal audit function.



Signature/Agency Head or Chairperson Governing Board

3/31/07
Date