



# **BUFFALO FISCAL STABILITY AUTHORITY**

April 28, 2008

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) 2007-08 Internal Control Summary and Internal Control Certification as required by Budget Policy and Reporting Manual (BPRM) B-350 and B-1177. If you have any questions, please feel free to contact me at (716) 853-0907.

Sincerely,

**/S/ Margreta D. Mobley**

Margreta D. Mobley,  
Internal Control Officer

## INSTRUCTIONS FOR PREPARING 2007-08 INTERNAL CONTROL SUMMARY

This Internal Control Summary, to be submitted to the Division of the Budget by April 30, 2008, provides background on the internal control certifications made by agencies and authorities for 2007-08. 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."*

---

<b>AGENCY</b>	<b>DATE</b>	<b>COMPLETED BY</b>
Buffalo Fiscal Stability Authority	April 28, 2008	Margreta D. Mobley, ICO

---

1. Describe the review process used during 2007-08 to assure that internal controls were evaluated regularly.

BFSA conducted a two tiered approach for evaluating internal controls during the 2007-08 timeframe. First, there were reviews of significant governance and operating policies by the Board of Directors' Audit, Finance and Budget and Governance committees to ensure the accuracy and effectiveness of these policies. Specific policies reviewed included, but were not limited to, the Procurement Guidelines, Contract Approval Process, Property Disposal Guidelines, Prompt Payment Policy and the Code of Ethics.

The internal control officer (ICO) for BFSA also initiated a major reengineering of the Internal Control Manual and related framework. This effort was undertaken to enhance and strengthen the internal control environment in light of more stringent compliance standards required by B-350 "Budget Policy and Reporting Manual, Governmental Internal Control and Internal Audit Requirements" issued August 30, 2007 and B-1177 "Budget Bulletin, 2007-08 Internal Control Certification and Reporting" issued February 13, 2008. The major components of the Internal Control Manual are the Internal Control Program Handbook, the Employee Handbook and the Code of Ethics. The emphasis to date has centered around revising the Internal Control Program Handbook to solidify the foundation for BFSA's internal control framework, the comprehensive set of activities, plans, attitudes and policies designed to ensure a system of accountability for and oversight of its mission and operation. The effort involved a review and revision of the

- Message from Executive Director (tone at the top)
- definition of internal control and delineation of internal control system components
- risk areas related to functions/operations
- control objectives and creating an electronic template for assessment or quality review of those control objectives.

2. List all high-risk activities and indicate which were reviewed during 2007-08.

BFSA identified three major area of operations, financial, technology/security, and administrative/managerial, and then further detailed those operations to pinpoint the risks associated with the tasks of performing them. The most high risk functions are financial and administrative/managerial responsibilities. The most critical tasks within the financial function

are revenue recognition and transfer and investment initialization and monitoring. BFSA's revenues and debt transactions are handled through trustee accounts and governed by the Investment Guidelines policy. This policy was reviewed at the BOD Audit, Finance and Budget Committee meeting of June 5, 2007.

The other high risk or critical operation is under the administrative/managerial category, the purchasing or procurement task. The risk of not properly carrying out this task is twofold in that there is a potential loss of cash and a threat to the integrity of the organization if vendors are not paid properly and in a timely fashion. There is also the possibility of failing to safeguard physical assets if procedures are not followed. The Procurement Policy governing this task was reviewed by the BOD Audit, Finance and Budget Committee on June 5, 2007 and the Prompt Payment Policy was reviewed on September 24, 2007.

The ICO is currently developing control objectives and the quality review templates for all of the operations, including those identified as high risk. This effort will be completed by June 30, 2007.

3. Identify the significant deficiencies revealed through the agency's 2007-08 review process. Outline the actions taken, or planned, to eliminate the deficiencies. Highlight the most important internal control improvements made during the year.

BFSA has a staff that fluctuates between five and seven employees as a result of employee retirements and normal turnover. Pursuant to Section 3871 of the Public Authorities' Law, BFSA has an annual independent audit completed by an independent certified public accountant, Lumsden & McCormick, LLP, conducted in accordance with generally accepted accounting standards. Historically, BFSA has relied on its independent auditors' for assistance in preparing select schedules during the audit of the annual financial statements because of the size of BFSA's staff. The Management Letter dated September 17, 2007 that accompanied Lumsden and McCormick's audit of the 2006-07 financial statements cited one significant deficiency for financial accounting and external reporting. The Management Letter reads "informative monthly financial reports are prepared by management for the Board to use in monitoring operations. As part of its due diligence, management proactively communicates with us to ensure it understands and applies new accounting pronouncements when they become effective. Historically, management has requested that we provide feedback and assistance with closing entries identified in the audit process, as well as adjustments required by GASB 34, and in drafting the annual financial statements and footnote disclosures. While this is typical of an organization of the Authority's size, an auditor cannot technically be part of an entity's system of internal control."

Subsequent discussions and a meeting with Lumsden and McCormick assured BFSA's senior management that this comment was the direct result of more restrictive auditing standards contained in the Government Auditing Standards issued by the Comptroller General of the United States of America. Specific concerns discussed were 1.) outsourcing the preparation of annual financial statements e.g. closing entries, GASB 34 adjustments and footnote disclosure, and 2.) the consequences of continuing to depend on the independent auditors for assistance in preparing the annual financial statements, i.e., escalation of significant deficiency to material weakness.

Our independent auditors' assured us that it is typical, as stated in the Management Letter, for organizations the size of BFSA to rely on them for assistance during the preparation of annual

financial statements and it would be cost prohibitive to outsource these duties and requirements. BFSA's senior management was also informed that if these duties were not outsourced, it would not result in a repeat comment that could escalate to a material weakness.

The most significant improvement in the internal control arena was the complete overhaul of the internal control environment as previously noted. This included a rewrite of the Internal Control Program Handbook, revision of the "Message from the Executive Director" and the definition of internal control. A review of operations resulted identifying fifteen risk enablers. Control objectives related to the processes of performing these operation were developed or are in the process of being developed. A template for independent assessment, or quality control, of the control objectives was also created.

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 template created when the internal control system was reengineered consists of an excel spreadsheet for each risk enabler listing the control objectives related to the process. If a control objective is deemed deficient, it is noted on the spreadsheet by a third party who has assessed the objective and elevated to management for discussion and resolution. This is the strategy for addressing corrective actions although there have been no deficiencies identified to date that require corrective actions.

1. 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 2007-08 to verify test results and expand the testing program.

The main objective of reengineering our internal control framework was to develop an integrated model based on the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) tenets and principles. Utilizing this as our foundation assures that BFSA has established a comprehensive internal control system that

- enhances the effectiveness and efficiency of operations
- increases the reliability of financial reporting, and
- proactively initiates reviews and pursues information to remain compliant with relevant laws and regulations.

The monitoring and assessment phases of the control objective third party review, will list any applicable laws and regulations as reference material to assist in the review. As these laws and regulations are updated or superseded, the reference note on the assessment sheet will also be updated.

6. Discuss the methods used in 2007-08 to provide internal control education and training to keep agency/authority staff aware of the need for internal controls.

Internal control education and training are formally integrated into the communication's stream of BFSA. The Executive Director and Comptroller, who is also the ICO, are members of the Government Financial Officers' Association and routinely disseminate emails and other correspondence on internal control bulletins, meetings and updates. The Comptroller is also a member of New York Internal Control Association and attended the annual conference in October 2007. Employees have access to the Employee Handbook online and the tone at the top communication, "Message from the Executive Director", is on BFSA's website.

The Governance and Audit, Finance and Budget Committees of the Board regularly schedule internal control policies for review and update to educate the entire Board on recent changes or pronouncements. Internal control policies were reviewed during five of the eight Board meetings held in 2007.

Internal controls are routinely discussed among staff members when questions arise on the process of performing a task. The small size of the staff affords the opportunities to respond to this type of informal training as required. The ICO regularly gives updates at staff meetings and as recently as March 2008 called a meeting for a formal presentation and update on internal control.

7. Describe measures instituted to sustain the effectiveness of the internal control program during 2007-08. Include information on reorganizations and other revisions in the program to enhance operations.

Key developments during 2007-08 designed to sustain the effectiveness of the internal control program were:

- BFSA Board committee reviews of key control documents such as the Procurement Policy, Investment Guidelines, Contract Approval Process, and Code of Ethics,
- Communicate enhanced internal control framework design and components to staff members at March 2008 meeting
- Reengineered internal control framework to better capture the requirements NYS Office of Budget, BRPM B-350 and B-1177. and also reflect the major tenets and principles of the COSO model.

8. Outline specific actions taken to implement the internal control 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.*" Using the "Compliance Roadmap for Internal Control Officers, Directors of Internal Audit and Other Stakeholders" as a guide, please provide a point-by-point affirmation of compliance with, or gap analysis of, each of the recommendations directed to agencies on pages 2, 3, 9 and 10. Please provide an action plan and related timetable for any instances of non-compliance.

The Compliance Roadmap can be accessed at:

[http://www.osc.state.ny.us/agencies/ictf/docs/roadmap\\_app\\_a.pdf](http://www.osc.state.ny.us/agencies/ictf/docs/roadmap_app_a.pdf).

Our internal control environment was designed to incorporate three guiding industry directives for internal control, the COSO principles, the New York State Department of Budget, Budget

Policy and Reporting Manual's B-350 "Governmental Internal Control and Internal Audit Requirements" and B-1177 "2007-08 Internal Control Certification and Reporting". In 2007-08 BFSA revised the tone at the top communication, "Message from the Executive Director" and added it to our website. Staff members evaluated their respective areas of responsibility and identified the risk enablers, i.e., operations, associated with performing their jobs. Once risk enablers were determined specific control objectives were developed as a tool for tracking the efficiency of the process. The operations were also evaluated in terms of their overall importance to the success of BFSA's strategies and mission and labeled as high, medium or low risk.

The control objective documentation worksheet also provides space for the independent review or assessment of the operation and comments or follow-up if corrective actions are required. Going forward the template will be modified to inform the assessor and staff responsible for the operation of the timeframe assigned for the required periodic review, e.g., annually or biannually.

BFSA's Manager of Administration and Technology oversees the records management and retention area of internal control as the records management officer (RMO). The records retention program and schedule was initiated in 2004 and BFSA has retained a RMO since that time. The RMO and ICO continue to work together to critique and improve internal control parameters for the most recent office technology upgrades.

BFSA's senior management encourages and supports education and participation in conferences and seminars designed to augment employees' knowledge of their responsibilities and professions. Specific training levels are not assigned, as recommended on page A3 of Appendix A of the Compliance Roadmap, due to the relatively small size of the staff. Staff employees have attended the NYSICA Conference, the GFOA Conference (local and statewide), and OFT training in addition to utilizing relevant web sites for job related information.

9. For those agencies required to have an internal audit (IA) function, demonstrate how that function complies with the expanded requirements of BPRM Item B-350's Section III, "Internal Audit Responsibilities," the Internal Control Act and professional IA standards. Provide the following:

- The name and title of the IA director.
- The name and title of the person to whom the IA director reports.
- A description of how the internal audit director's credentials, education and experience meets the minimum qualifications established in B-350.
- A description of how continuing professional education requirements are met by the director and each staff member.
- A description of how quality assurance review requirements are being met.
- A description of how the IA function ensures that it does not compromise its independence if it is also responsible for other functions (i.e., internal control, information security or other duties).

BFSA does not have an internal audit function due to the size of the staff, currently five employees, and the limited scope of operations.

10. In addition to the information outlined above, using the “Compliance Roadmap for Internal Control Officers, Directors of Internal Audit and Other Stakeholders” as a guide, demonstrate how the IA function conducts its operations in accordance with professional IA standards. Provide a point-by-point affirmation of compliance with, or gap analysis of, each of the internal audit recommendations directed to agencies on pages 11, 12 and 13. Please provide an action plan and related timetable for any instances of non-compliance. The Compliance Roadmap can be accessed at:  
[http://www.osc.state.ny.us/agencies/ictf/docs/roadmap\\_app\\_a.pdf](http://www.osc.state.ny.us/agencies/ictf/docs/roadmap_app_a.pdf).

## INTERNAL CONTROL CERTIFICATION

Buffalo Fiscal Stability Authority  
Agency/Authority Name

Bertha Mitchell Executive Director  
Agency Head/Chairperson Governing Board

617 Main Street 716-853-0907  
Agency/Authority Address Telephone Number

Margreta D. Mobley 716-853-0907 ext. 226  
Name of Internal Control Officer Address Telephone Number

Greta.Mobley@bfsa.st.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 and responsibility for effective internal controls.
- D. Designate an internal control officer, who shall report to the head of the agency (or their designee within the executive office) to implement and review the Internal Control Act responsibilities.
- 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. If an internal audit function exists, it shall be maintained in compliance with generally accepted professional auditing standards.

\_\_\_\_\_  
Signature/Agency Head or Chairperson Governing Board

\_\_\_\_\_  
Date