

2009-10 INTERNAL CONTROL SUMMARY & CERTIFICATION

The Internal Control Summary and Certification Form provides supporting justification for an agency's or authority's level of compliance with the requirements of the Internal Control Act as outlined below.

This form requests information regarding specific actions taken, or needed to be taken, by agencies/authorities to comply with each of the Act's requirements as described in Budget Policy and Reporting Manual (BPRM) Item B-350.

A completed and signed Internal Control Summary and Certification Form should be submitted by **April 30, 2010**, via e-mail as an attached PDF file to the Division of the Budget's internal control reporting mailbox at dob.sm.icreporting@budget.state.ny.us.

Buffalo Fiscal Stability Authority April 30, 2010 Michael P. Kelly, ICO (716)853-0907

Agency Name	Date	Completed by (Name)	Phone
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A. Establish and maintain guidelines for a system of internal controls for the agency or authority. Internal control guidelines communicate an organization's management and programmatic objectives to its employees and provide the methods and procedures used to assess the effectiveness of its internal controls in supporting those objectives. Internal control guidelines should:

1. State the agency head's support of internal controls to provide staff with an understanding of the benefits of effective controls;
2. Identify the agency's primary responsibilities and the objectives;
3. Explain how internal controls are organized and managed;
4. Define responsibilities of agency management and supervisors and agency staff;
5. Acknowledge that internal controls adhere to accepted standards; and,
6. Describe the organization's process for evaluating internal controls.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

The Buffalo Fiscal Stability Authority ("BFSA" or "Authority") is fully compliant with establishing and maintaining guidelines for a system of internal controls for the authority as outlined in A. above.

The major components of the BFSA's internal control guidelines include the Internal Controls Manual, the Internal Control Program Handbook, the Employee Handbook and the Code of Ethics. The BFSA Internal Control Manual contains the following core components:

- 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; and
- Control objectives and creating an electronic template for assessment or quality review of those control objectives.

BFSA's staff leader holds the position of Executive Director. In BFSA's Internal Control Manual, the Executive Director's message sets the tone for incorporating sound internal control within the Authority. BFSA's Message from the Executive Director is as follows:

"Everyone has experience with internal controls, both in his or her daily business activities and in their personal lives, yet it is a subject that is very often misunderstood, ignored or undervalued. Internal control helps bring order, direction and consistency to our lives and our organizations. So, how can a subject of such importance be so unappreciated? The answer may lie in the need to better define internal control and what it does. This manual is intended to explain to BFSA employees how internal control plays an important part in their daily work activities, and an integral role in helping BFSA to achieve its goals and objectives.

In any organization, an effective system of internal control can give managers the means to provide accountability for their programs, as well as the means to obtain reasonable assurance that the programs they direct meet established goals and objectives. However, all the people in an organization – not just managers – have a part in and a responsibility for internal control.

This handbook establishes the foundation for BFSA's internal control framework. The handbook outlines the activities, attitudes and efforts required on the part of all members of the organization regarding internal controls. Specific internal control guidelines and policies governing BFSA's most high-risk activities are appended to this handbook."

At the BFSA the Executive Director clearly places an emphasis on the importance of internal controls, while providing staff with an understanding of the benefits of effective controls. The BFSA underwent a full scale reengineering of its internal controls program during the 2007-08 fiscal year, and with that, BFSA's Executive Director issued a new agency message on internal controls. The message clearly states both the Executive Director's and the agencies' support of BFSA's internal controls, as well as demonstrates a thorough understanding of the benefits of effective internal controls and the role that all staff members play in the agency's internal controls. The reengineering 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.

BFSA's primary responsibilities and objectives include financial oversight of the City of Buffalo and related Covered Organizations, which include the Buffalo School District, the Buffalo Urban Renewal Agency, the Buffalo Municipal Housing Authority and the Joint Schools Construction Board. The BFSA requires the annual development of a

four-year financial plan for the City and the Covered Organizations. The BFSA is also vested with the power to ensure compliance with the plan. The Authority previously had powers to provide assistance in the form of deficit financing to the City and the covered organizations over a four-year period. The BFSA established the legal basis for creation of a highly rated borrowing structure to reduce City borrowing costs and provide short-term budgetary assistance and has responsibility to impose financial control mechanisms if the City and its covered organizations are unable to adopt a balanced financial plan and/or operate in accordance therewith.

Several of BFSA's objectives include:

- Ensure a balanced City budget and four-year financial plan (also for the covered organizations)
- Secure services to City residents
- Enhance fiscal discipline
- Encourage work productivity and management effectiveness
- Restore investor confidence
- Increase transparency
- Enable establishment of reserves

The BFSA's internal controls are organized into major components. The major components of the internal control guidelines include the Internal Control Manual, the Internal Control Program Handbook, the Employee Handbook and the Code of Ethics.

The Employee Handbook provides a broad overview of the Authority's internal controls including: The message from the Executive Director, a definition of internal controls, purposes of internal controls, internal controls components and standards and an enterprise risk management module. The emphasis to date has centered around revising the Internal Control Program Handbook to solidify the foundation for the 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 BFSA manages internal controls in a number of ways. The BFSA's governing body, a Board of Directors, which is made up of nine members and has both an Audit, Finance and Budget Committee and a Governance Committee. The Governance Committee regularly reviews Authority internal control policies and receives periodic updates from BFSA's Executive Director. The BFSA's Executive Director, as well as the BFSA's Internal Controls Officer, regularly review internal controls matters and delineates information to Authority staff as appropriate. The Authority regularly reviews internal controls for assessment, testing and improvements. Typically, during the course of a year, several internal controls topics are selected to be tested and the internal controls officer conducts the tests with the assistance of staff.

Additionally, pursuant to Section 3871 of the Public Authorities' Law, the BFSA has an annual independent audit completed by an independent certified public accountant, Lumsden & McCormick, LLP, which is conducted in accordance with generally accepted auditing standards. Historically, the BFSA has relied on its independent auditors for assistance in preparing the financial statements because of the small size of BFSA's staff.

As noted above, the Authority's Internal Controls Officer, Executive Director and Comptroller are all actively involved in organization internal controls. The Comptroller is a past Internal Control Officers of the Authority, and the Executive Director has been involved in Authority internal controls since her employment began with the Authority. Remaining staff are encouraged to actively participate in Authority internal controls matters.

The Internal Controls Officer works closely with the Executive Director and Comptroller on internal controls responsibilities. The Executive Director has a broad level of experience with internal controls and provides direction to the Internal Controls Officer on matters such as testing and assessing controls. The officer typically handles testing and assessment and reports back to the Executive Director and staff about findings and areas of weakness needing improvement. 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 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.

The BFSA's Executive Director 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 New York State Internal Controls Association (NYSICA) Conference, the Government Finance Officers Association (GFOA) Conference (local and statewide), and OFT training in addition to utilizing relevant web sites for job related information.

The BFSA is confident that the Authority's internal controls are in adherence with acceptable standards. The reengineering of the BFSA's internal controls framework that took place during the 2007-08 fiscal year was done in part to better capture the requirements of the NYS Office of Budget, BRPM B-350 and B-1177, as well as to reflect the major tenets and principles of the Committee of Sponsoring Organizations (COSO) model.

The Authority evaluates internal controls based on risk level. During the Authority's 2007-08 reengineering, a template for independent assessment, or quality control, of the control objectives was created for the major risk areas of Authority 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 the matter to management for discussion and resolution. This is the strategy for addressing corrective actions

although there have been only minor deficiencies identified to date that required corrective actions.

Additionally, the ICO evaluates controls as an ongoing process during testing. For example, as the process over the accounts payable recording and processing is tested, such processes are also evaluated and any identified weaknesses are reported to the Authority Executive Director and strategies for improving controls are discussed and adopted as necessary. A similar process is employed during testing of other internal control subject areas Authority wide.

- Add Additional Pages if Needed -

B. Establish and maintain a system of internal controls and a program of internal control review for the agency or authority. The system of internal control should be developed using the COSO (Committee of Sponsoring Organizations of the Treadway Commission) conceptual framework adopted in the *Standards for Internal Controls in New York State Government*, and should incorporate COSO's five basic components of internal control: control environment, risk assessment, control activities, information and communication and monitoring.

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.

Organizations can adopt a system of internal control review tailored to their needs, size and degree of centralization. The procedures for evaluating the adequacy of that system also vary, but at a minimum should:

1. Identify and clearly document the primary operating responsibilities (functions) of the agency or authority;
2. Define the objectives of these functions so they are easily understood by staff accountable for carrying out the functions;
3. Identify/document the policies and procedures used to execute functions;
4. Identify the major functions of each of the agency's assessable units;
5. Develop a process or cycle to assess risk and test controls for major functions;
6. Assess the risks and consequences associated with controls failing to promote the objectives of major functions;
7. Test controls to ensure they are working as intended (see the "Manager's Testing Guide" which can be downloaded from BPRM Item B-350);
8. Institute a centrally monitored process to document, monitor and report deficiencies and corrective actions.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement and specifically address the following points:

1. Describe the process used to review the authority's internal controls.

In large part, the process used to review the Authority's internal controls took place during the 2007-08 fiscal year, and while this process is ongoing, the reengineered internal controls system implemented previously achieved such objectives.

In 2009 the BFSA reviewed its previously conducted two tiered approach for evaluating internal controls. First, the Authority reviewed significant governance and operating policies by the Board of Directors' Governance Committee 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 the BFSA also reviewed the previously initiated reengineering of the Internal Control Manual and related framework. Previously, 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 guidelines include the Internal Control Manual, 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 the 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 2009-10.

The BFSA has identified thirteen operational activities as major areas of operations which the Authority considers high-risk, as follows:

- Accounts Payable Recording and Processing
- Asset Purchase, Inventory and Control
- BFSA Budget Preparation and Approval
- Bond/Note Issuance Initialization and Monitoring
- Business Expenditures, Authorization and Payment
- Document Retention and Storage
- Hardware Purchase and Physical Security
- Investment Initialization and Monitoring
- Payroll Recording and Processing
- Personnel Hiring, Training and Evaluation
- Physical Security and Disaster Recovery
- Revenue Recognition and Transfer
- Software Purchase and Access Security

The BFSA reviewed Budget Preparation and Approval, Business Expenditures, Authorization and Payment and Accounts Payable Recording and Processing during 2009-10. The BFSA will begin a new round of reviews for high-risk activities during the next fiscal year.

3. Identify the significant deficiencies revealed during the 2009-10 review process. Outline the actions taken, or planned, to eliminate deficiencies, highlighting the most important improvements made during the year.

As a result of our reviews over the three identified operational areas, no significant deficiencies were noted. However, certain observations and recommendations were noted, several of which relate to consistency, as follows:

- a. For budget preparation and approval, quarterly reports were not consistently completed
- b. For budget preparation and approval, a monthly budget-to-actual report will be implemented
- c. For business expenditures, preapprovals were not consistently documented
- d. Shipping slips were not always attached to receipts to confirm that items received were the same as items ordered
- e. Approvals were not clearly documented on accounts payable records and processing documents

As a result of our control testing, the BFSAs has already implemented changes to improve our control system. The Manager of Administration and Technology has also begun to require that approval stamps and signatures are included and visibly obvious on all accounts payable records and process documents. Moreover, the ICO along with the Manager of Administration and Technology has begun attaching shipping slips to receipts to make sure all items purchased are accounted for and that items and purchases match up, as well as purchase prices.

4. Describe the monitoring system installed by the agency to verify that corrective actions are taken. Discuss the extent to which IT systems are used to track corrective actions.

The template created, consisting of an Excel spreadsheet for each risk enabler, lists the control objectives related to the respective process. If a control objective is deemed deficient, it is noted on the spreadsheet by the ICO who has assessed the objective and elevated to management for discussion and resolution. This is the strategy for addressing corrective actions and as mentioned above, some minor concerns have already been addressed. The situation will be monitored going forward to ensure that the corrective actions are permanently implemented.

5. Summarize specific actions the agency has taken to install a compliance testing program. Describe actions taken during 2009-10 to verify test results and expand the testing program.

Similar to last fiscal year, the BFSAs's small staff presents challenges to annually updating our internal controls system. In 2009-10, we reviewed the BFSAs's prior compliance testing program implementation. During the 2007-08 year, 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. At that time, utilizing this as our foundation assured us that the BFSA established a comprehensive internal control system that allowed for:

- enhancing effectiveness and efficiency of operations
- increasing the reliability of financial reporting, and
- proactively initiating reviews and pursuing 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 the BFSA updates these laws and regulations or as their superseded, the reference notes on the assessment sheet will also be updated.

6. Describe measures instituted to sustain the effectiveness of the internal control program during 2009-10. Include information on reorganizations and other revisions in the program to enhance operations.

In July 2009 BFSA's internal control guidelines were brought before the BFSA's Board of Directors for review and approval. At that time the BFSA's Procurement Policies, Prompt Payment Policies, Property Disposal, Investment Guidelines, Code of Ethics, and Whistleblower Policy were all reviewed and approved. Internal control education and training are formally integrated into the communication stream of the BFSA. The Executive Director and Comptroller (a one time BFSA ICO), along with the current 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 and current ICO are also members of New York Internal Control Association. Employees have access to the Employee Handbook online and the tone at the top communication, "Message from the Executive Director," is on the BFSA's website.

The Governance Committee of the Board regularly schedule internal control policies for review and update to educate the entire Board on recent changes or pronouncements. Policies and procedures that form the internal control framework such as Procurement Guidelines, Code of Ethics, and Property Disposal Guidelines, are regularly scheduled for discussion during Board meetings. These policies and procedures are updated in concert with the BFSA's continuous improvement efforts. Internal control policies were agenda items for review during two Board and Governance Committee meetings held during 2009-10 thus far.

Internal controls are 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 provides updates at staff meetings and BFSA has in the past and plans to do so during calendar year 2010 hold staff training meetings to present updates on internal control. At the BFSA's staff meeting during 2009-10, the ICO discussed the importance of changing computer passwords and PINS, as well as preventive and detective controls, separation of duties and regular internal control behaviors practiced at the BFSA.

Additionally, in 2009 the BFSA adopted NYS software onto our computer systems, that speed up the amount of time computers can sit unattended before a password protected screen requires potential users to log back in. New software was also installed on Authority blackberrys that requires password reentry after just a few moments without active use. These additions to our electronic equipment have enhanced authority controls and continue to be an important part of the BFSA's operations.

7. Describe efforts agency/authority management has taken to coordinate and integrate the documentation and reporting of activities the Office of the State Comptroller's *Standards for Internal Controls in New York State Government* recognize as supporting a good internal control system: evaluation, strategic planning and internal audit.

The BFSA regularly self assesses its internal controls as part of an ongoing evaluation process. This process helps the BFSA determine if the organization is meeting its goals and objectives. Based on the direction provided by BFSA's strategic plan, management has developed plans with a long-range focus for the organization. The plan guides the ICO with developing shorter-range plans for major functions performed across the authority. Again, this helps keep the BFSA focused on meeting our goals and objectives.

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

8. Describe efforts agency/authority management has taken to effectively communicate information within the organization. Information should be communicated to management and other employees who need it in a form and within a time frame that helps them to carry out their responsibilities. Communication is not an isolated internal control component. It affects every aspect of an organization's operations and helps support its system of internal control. The feedback from this communication network can help management evaluate how well the various components of the system of internal control are working.

Similar to what was reported in question number 6, the BFSA's internal control education process and training are formally integrated into the communication's stream of the BFSA. The Executive Director and Comptroller (a one time BFSA ICO), along with the current ICO, are members of the Government Finance Officers' Association and routinely disseminate emails and other correspondence on internal control bulletins, meetings and updates. The Comptroller and current ICO are also members of New York Internal Control Association. Employees have access to the Employee Handbook online and the tone at the top communication, "Message from the Executive Director", is on the BFSA's website.

Internal controls are 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 provides updates at staff meetings and the BFSA has in the past and plans to do so during calendar year 2010 hold staff training meetings to present updates on internal control.

During the 2009-10 fiscal year, the BFSA implemented a biannual internal control bulletin for staff. The bulletin is distributed each June and December and discussed at a regular weekly staff meeting. The bulleting contains useful information about authority internal controls, as well as multiple choice questions and thought provoking exercises designed to keep staff thinking about internal controls in their day-to-day work lives.

- Add Additional Pages if Needed -

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 along with detailed policies and procedures the employees are expected to adhere to in completing their work. The statement should set the tone at the top. It should be issued periodically and emphasize the importance of effective internal controls to the agency or authority and the responsibility of each officer and employee for effective internal controls.

Managerial policies and procedures for the performance of specific functions are articulated in administrative manuals, employee handbooks, job descriptions and applicable policy and procedure manuals. While it is not necessary for all employees to possess all manuals, employees should be provided with, or have access to, applicable policies and procedures for their position.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

The BFSA maintains a Code of Ethics, which provides all directors and employees a clear statement of expectations with respect to standards that each individual is to adhere to. The Code of Ethics is reviewed annually by management, and updated as applicable. The Code of Ethics is distributed on an annual basis to the Governance Committee for review and recommendation to the full Board for approval. The Board of Directors approved the Code of Ethics at the July 29, 2009 board meeting. This document is available at the BFSA's website, which provides a mechanism for all interested parties to easily access the most current document. In addition, the BFSA's Bylaws (updated in February 2010), the Board of Director's duties and responsibilities, and the Mission Statement of the BFSA are also available on the website.

The Employee Handbook, and all other managerial policies and procedures, such as the Internal Controls Manual, are maintained on the shared drive of the BFSA's computer system, allowing for access by all employees as needed. As previously noted, the staff at the BFSA is small and currently consists of five individuals. This small size allows for a significant amount of interaction among all employees, and questions or issues as they arise are able to be immediately addressed.

It is noted that the BFSA's policies include a requirement that all employees receive a manual copy of the Employee Handbook when hired, and indicate that they have read and understood such policies in a signed certification statement.

D. Designate an Internal Control Officer (ICO), who shall report to the head of the agency or authority or to their designee within the executive office, to implement and review the internal control responsibilities established pursuant to this Item. The designation of the ICO should be communicated to all employees.

The ICO works with appropriate personnel within the agency or authority to coordinate the internal control activities and to help ensure that the internal control program meets the requirements established by BPRM Item B-350. Although the ICO evaluates the adequacy of the internal control reviews performed by agency or authority staff, program and line managers are primarily responsible for conducting reviews to assure adherence to controls and analyzing and improving control systems. The ICO should be an individual with sufficient authority to act on behalf of the agency head in implementing and reviewing the agency's internal control program. This individual should have a broad knowledge of agency operations, personnel and policy objectives.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

The BFSA's Internal Controls Officer works independently but also in conjunction with the Authority's Executive Director and Comptroller on control matters. The ICO has sufficient authority to act on internal control matters meriting attention. The ICO runs testing, makes recommendations for control improvements, follows up on the implementation of control improvements, disseminates information to staff, attends training, completes necessary reports and follows through on any additional matters pertinent to Authority internal controls. The BFSA's ICO has and continues to make sure the Authority's control program meets the requirements established by BPRM Item B-350. With the BFSA's small staff, and the nature of employees handling multiple jobs and responsibilities, BFSA's ICO is from time to time challenged with fulfilling and proactively managing the authority's internal controls system. However, because BFSA places a premium on effective internal controls, the BFSA continues to have a comprehensive system in place to ensure proper controls.

Michael Kelly, Principal Analyst, is currently appointed as the BFSA's Internal Controls Officer (ICO). Mr. Kelly has held this position since being appointed and approved as the BFSA Internal Controls Officer in May of 2008 by the BFSA Board of Directors.

E. Implement education and training efforts to ensure that officers and employees have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.

Agencies and authorities should identify staff requiring internal control training and the depth and content of that training. Such education and training should be on-going with specific courses directed at line staff, middle managers and executive management. For organizations that have established internal audit functions, training and education should be offered on the appropriate role of the internal auditor within the organization's internal control system.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

The BFSA believes all staff members should receive internal controls training and regular updates on relevant topics. In 2009, BFSA's ICO developed an internal controls memo for the BFSA's staff, which incorporates a training component into the memo. The memo is distributed to staff twice yearly in June and December and discussed during regular staff meetings. Typically, the memo covers a variety of internal control topics to provide learning and reinforce past lessons.

In 2009 BFSA's ICO officer attended a training session entitled, "Taking Responsibility for Internal Controls" at the NYS GFOA conference.

The 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. Internal controls training can be a challenge for an organization of the BFSA's size, but the Authority remains fully committed to proper training for all employee personnel.

The BFSA has held specific meeting to discuss internal controls matters. These meeting were informative and educational, while offering examples for ways employees could better incorporate sound internal controls policies into their everyday work. Going forward, the BFSA expects to hold similar meetings designed to train and educate staff on Authority internal control policies and procedures. BFSA's ICO is on a list serve for NYS internal control professionals that contains useful information and the information is disseminated to staff based on relevance. Furthermore, BFSA's ICO continues to look for on-line training that the BFSA staff can participate in.

- F. Periodically evaluate the need for an internal audit (IA) function. If an IA function exists, it should be maintained in compliance with generally accepted professional auditing standards. Agencies on the Division of the Budget's list of agencies required to establish IA functions – and those choosing to have an IA function – are required to comply with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (see BPRM Item B-350 Section III "IA Responsibilities").**

As outlined in BPRM Item B-350, agencies and authorities are required to periodically evaluate the need to establish, maintain or modify an IA function utilizing the *Internal Audit Evaluation Criteria* (Attachment C).

Agencies concluding that an IA function is warranted should submit their evaluation to DOB as outlined in BPRM Item B-350. Periodically thereafter, agencies with IA functions should review current operations to determine whether the function should be altered or maintained.

Agencies concluding an IA function is not warranted should periodically reevaluate the need for such a function using Attachment C, especially when organizational, operating, fiscal, program, legal or personnel changes occur which affect the agency's exposure to risk or which could otherwise change the results of the initial assessment.

Pursuant to BPRM Item B-350, agencies required to have – and those entities choosing to have – an internal audit unit should comply with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Therefore, IA units should comply with the guidance outlined below regarding organizational placement, independence and reporting.

1. Directors of Internal Audit (DIA) should report functionally to the agency head or audit committee and may report administratively to the designated executive deputy (or equivalent position). If the executive deputy has line or staff duties, the DIA should report directly to the agency head.
2. A current organizational chart should be available that identifies the placement of the IA unit, the individual that has responsibility for overseeing the internal audit activity and other organizations/activities under its purview.
3. The IA function should be independent of the ICO, but should work closely with the ICO. Limitations should be established on IC activities where those duties overlap. Agencies should identify impairments to the independence of the DIA that may be created where the DIA is performing the ICO function. Furthermore, IA units should not assume operating responsibilities, perform management functions, make management decisions or assume other monitoring roles (e.g., Information Security Officer).
4. Internal audit staff should complete an annual independence statement identifying actual/potential impairments to independence and notifying the DIA whenever a new actual/potential impairment arises.

5. At a minimum, DIAs should hold quarterly meetings with agency executive management and the audit committee, where applicable, to report on audit results. Final reports should be distributed to the agency head, executive deputy, auditee, ICO and the audit committee.
6. The DIA should assure that agency audit staff have the skills, knowledge and ability to perform the audit work required and that the size of the audit staff is appropriate given the size and complexity of the organization.
7. IA units should take steps to ensure sufficient audit resources are available given the size and complexity of the organization. This can be accomplished by exploring in-sourcing, outsourcing and sharing audit services.

For this requirement, the agency/authority is:

X Not Applicable – This agency/authority does not have an IA function.

Fully Compliant Partially Compliant Not Compliant

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement by providing the following information:

1. A current organizational chart identifying the placement of the IA unit, the name and title of the IA director, other organizations/activities under the IA function's purview and the name and title of the person to whom the IA director reports.
2. A description of how the internal audit director's credentials, education and experience meets the minimum qualifications established in BPRM Item B-350.
3. A description of how continuing professional education requirements are met by the director and each staff member.
4. A description of how quality assurance review requirements are being met.
5. 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).
6. A copy of your 2009-10 and 2010-11 internal and contract audit plans. (Please note: Dennis Whalen's memo of April 1, 2009 called on internal audit units to include the impact of Federal American Recovery and Reinvestment Act (ARRA) funding in their risk assessment and audit planning. If your agency is receiving ARRA funds, please be sure that your 2010-11 internal audit plan addresses this issue.)

7. Documentation pertaining to the risk-assessment utilized in formulating the 2010-11 audit plans.
8. An indication of which audits in the audit plan for FY 2009-10 were not conducted, and an explanation as to why they were not conducted.
9. An estimate of the cost savings to be achieved by virtue of implementing the recommendations contained in each conducted audit described in the FY 2009-10 audit plans and any audits that were conducted during that time period that were not in the audit plan. If it is not feasible to provide a cost estimate for savings, please identify process improvements, risk mitigation, fraud prevention or cost avoidance measures that result from implementation of such recommendations.
10. Identify the recommendations contained in the audits described in the FY 2009-10 audit plans that were not implemented, if any, and provide a full explanation why they were not implemented.
11. Identify the recommendations contained in final audits issued by the Office of State Comptroller between July 1, 2008 and March 31, 2010 that were not implemented, if any, and provide a full explanation why they were not implemented.

The Governor's Office of Taxpayer Accountability (OTA) and the Division of the Budget (DOB) will be conducting a review of these State agency and authority internal and contract audit plans and audit recommendations to assess (i) whether the audit plans are based on a documented risk assessment which captures areas for review that have the greatest risk exposure, (ii) the percentage of audits identified in each audit plan that were conducted, (iii) whether recommendations contained in audits were implemented, and any reasons for non-implementation, and (iv) cost savings and other benefits attributable to the audits. In addition, the OTA and DOB will assess whether recommendations contained in audits conducted by the Office of the State Comptroller were implemented, and any reasons for non-implementation.

The BFSa does not maintain an internal audit function as it has not been deemed cost effective. The targeted operational purpose of the BFSa, along with the limited transactions and staff size of five employees resulted in the conclusion that such a function is unnecessary.

2009-10 INTERNAL CONTROL CERTIFICATION

Buffalo Fiscal Stability Authority (BFSA)

Agency/Authority Name

Jeanette Mongold, Executive Director / R. Nils Olsen, Jr. , Chair

Agency Head/Chairperson Governing Board

617 Main Street, Suite 400, Market Arcade Building, Buffalo, New York 14203

(716) 853-0907

Agency/Authority Address

Telephone Number

Michael P. Kelly

(716) 853-0907

Name of Internal Control Officer

Telephone Number

Michael.Kelly@bfsa.state.ny.us

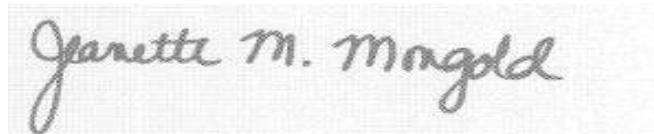
Email Address of Internal Control Officer

I hereby certify the agency or authority is:

- Fully Compliant (Full compliance with all provisions)**
- Partially Compliant (Partial compliance with some or all provisions)**
- Not Compliant (Noncompliance with all provisions)**

With the New York State Governmental Accountability, Audit and Internal Control Act.

This certification is supported with detailed justification of actions taken and/or outlines specific actions needed to address areas of partial compliance or noncompliance as described in the preceding Internal Control Summary.



Signature/Agency Head or Chairperson of Governing Board

April 30, 2010

Date