

2010-11 INTERNAL CONTROL SUMMARY & CERTIFICATION FORM

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 New York Public Authorities Law section 2930-32 and Budget Policy and Reporting Manual (BPRM) Item B-350.

<u>ALBANY PORT DISTRICT COMMISSION</u>	<u>5/27/11</u>	<u>T. OWENS, Counsel</u>	<u>518-463-8763</u>
Agency Name	Date	Completed by (Name)	Phone

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.

Internal controls are found throughout a multitude of APDC policies and procedures, almost all of which have been reviewed/modified during 2010 and revised to better comply with requirements of the Public Authorities Law, Comptroller regulations, and other legal requirements.

2010 was the first year for the existence of an "APDC Internal Controls Program," based on guidance from the Budget Office/Authority Budget Office, adopted by the Board in early 2010. Pursuant to this policy, periodic meetings occur with the relevant APDC management staff (and others as required) with the singular focus of internal controls. During each such Internal Control meeting, a particular area/process is selected for an internal audit – during the next meeting, results of such internal audit, along with suggested corrective actions, are discussed. When first started in 2010, these meetings were meant to be monthly – this proved to be inappropriate as often reviews of processes and the time required to develop corrective actions, combined with the workload/size of the staff, made the monthly periodicity too frequent. During the remainder of 2011, it is anticipated that these single-focus IC meetings will occur bi-monthly and the schedule will be adjusted. Additionally, during 2010, bi-weekly (approximately) staff meetings continued to occur in which internal controls was consistently discussed with all-hands

at each meeting. During such staff meetings, management has stated the importance/necessity of proper internal controls in order for the APDC to be successful at its mission. The APDC Compliance Schedule, which was first developed/instituted in 2008 (and which continues to be modified on an on-going basis as needed) has significantly improved the organizational approach to internal controls, as well to various compliance requirements.

Additionally, the APDC did conduct an off-site meeting to discuss the adoption of a Mission Statement and related performance objectives in February 2011.

The APDC believes that it made additional progress towards “Fully Compliant” during 2010; however, the following areas have been identified for further improvement in 2010:

- Formal job descriptions, to include internal control functions, still need to be developed for the various positions at the APDC. (#4). Note that during this reporting period, the process to develop/implement job descriptions started, and draft job descriptions have been completed. During 2010, these position descriptions were drafted, but still need to be completed and adopted in the APDC Personnel Policies and Procedures. It is intended that these job descriptions become finalized/adopted during the remaining portion of 2011.

- 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.
A more continual process and attitude has been fostered and implemented among the staff re: internal controls. All staff are encouraged to question processes and procedures if such practices seem to be based on past practice without an authoritative (e.g. statute, regulation, etc.) foundation. Additionally, the APDC's policies and procedures are periodically reviewed by both staff and the Board for compliance with the latest guidance from the ABO, OSC, statutory modifications, etc. From these reviews, deficiencies are identified, corrective actions developed and implemented via policy/procedure changes, and employee training conducted on such internal control revisions/modifications, etc. Additionally, resources

provided by the Authority Budget Office (e.g. training, website, etc.) are utilized to identify policies/procedures that needed to be adopted/modified, etc.

As part of the APDC's annual financial statement audit, the APDC's independent auditor evaluated internal controls. The results of this internal control evaluation were shared with APDC management and any recommendations provided to improve internal controls were immediately (in writing) responded to by the General Manager and discussed with the Board. It should be noted that the independent auditor's management comment letter only pointed out two (2) areas for internal control improvement, segregation of duties and account reconciliation – a marked improvement from prior years.

2. List all high-risk activities and indicate which were reviewed during 2009-10.

The following high-risk activities were reviewed during this reporting period:

- Overall Compliance Schedule
- Procurement (Procurement request forms modified)
- PARIS Reporting
- Record Retention
- Property Disposition
- Petty Cash
- Personnel Handbook
- Accounting Procedures
- Travel Expense Reimbursement
- Mission Statement Development

One challenge is that nearly all activities continue to be viewed as “high-risk” – especially from a reputational perspective. During 2010, the APDC ensured that major compliance activities and reporting deadlines were placed, and are now tracked, on the APDC Compliance Calendar – during 2011, the APDC will consider whether it is feasible to develop an internal audit calendar for other self-driven audits or whether it is more advantageous to not establish a set periodicity.

3. Identify the significant deficiencies revealed during the 2010-11 review process. Outline the actions taken, or planned, to eliminate deficiencies, highlighting the most important improvements made during the year.

Procurement is probably the most important area, from a risk assessment/cost benefit analysis perspective. Emphasis continues to be placed on this activity and policy modifications during this reporting period include an additional approval level added (APDC Business Manager) to all procurement requests.

Additionally, now that nearly all policies/procedures are reviewed on an annual basis (commenced in 2008), there were necessary modifications – either due to unintentional omissions when the policies were drafted or new legal requirements – made to nearly all policies/procedures, including further development of the APDC Compliance Calendar which is used to track reporting requirements and establishes the baseline compliance agenda for Board/Committee meetings.

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 majority of internal control monitoring of corrective action completion is in the form of requiring certain actions to occur during certain business processes, e.g. all procurements over \$300 require use of a "Procurement Request Form" on which open competition must be documented, three-level approvals shown, vendors identified, APDC personnel requesting such good/service identified, etc – such required/documented activities and process controls minimize opportunity for improper procurement practices or opportunities for fraud. Deficiencies identified are often addressed by modifying written policies/procedures and conducting appropriate training to ensure that deficiencies noted are corrected in future activities.

Additionally, there are internal control/monitoring systems which are automated/technology/IT-based. Two major system examples of technology-based internal control systems are:

- APDC camera/video monitoring system which have video (live/monitored coverage, and taped/archived for a minimum of 30 days) surveillance capability throughout much of the APDC's 150+ acre real property on both sides of the river, Albany and Rensselaer.
- APDC's badge-controlled access system to secure and/or sensitive areas throughout the APDC property which limits access to authorized personnel and tracks all access approvals/denials.
- Entry to the secure maritime area is limited to those individuals who have a U.S. Transportation Worker Identification Card ("TWIC") or are escorted by someone with a TWIC card in accordance with the APDC Facility Security Plan.

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.

The APDC adopted an Internal Controls Program. Such program involves APDC management, during bi-monthly management meetings, formally identifying areas to be self-audited with such audit results documented.

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.

See response to #5 above – this was a new program adopted in 2010.

Communications to staff concerning internal controls has significantly increased.

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 APDC has a relatively small staff – e.g. 14-15 full-time staff. Coordination and communication, while never easy, is not as complex a challenge as it might be in a larger entity. The 3 major functions identified here – evaluation, strategic

planning and internal audit – are coordinated among the entire staff by the General Manager and Chief Financial Officer, in consultation with the Board of Commissioners.

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.

See response to #7 above re: staff size. Relatively small staff size allows frequent daily informal meetings to be held among GM and all levels of staff, including other managers and non-management personnel.

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 APDC undertook great effort in this area again during 2009. Nearly every APDC written policy was reviewed and modified at the staff/Board level. Additionally, following such policy modifications, or in many cases the issuance of completely new policies, employee training was conducted.

Job descriptions were drafted in 2009-10; this task needs to be completed during 2011.

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 Chief Financial Officer has been formally designated as the Internal Control Officer. This position reports directly to the APDC General Manager. Additionally, all employees know this designation and the identity of the ICO. As discussed, during 2010, a written APDC Internal Controls Program was drafted and approved by the Board.

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.

All APDC employees have been trained (and such training continues periodically) on various internal control measures implemented via APDC work processes and procedures. The relatively small size of the staff easily allows training to occur in group or one-on-one settings. Bi-weekly staff meetings provide consistent opportunities for both management and other staff to discuss internal control measures.

The designated ICO, entire Board, and all management-level staff have attended at least one – several individuals have attended more – Public Authority compliance training sessions.

- 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 has 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:

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).

2010-11 INTERNAL CONTROL CERTIFICATION

Albany Port District Commission
Agency/Authority Name

Robert F. Cross, APDC Chairman
Agency Head/Chairperson Governing Board

106 Smith Boulevard, Albany, New York, 12202 518-463-8763
Agency/Authority Address Telephone Number

Terrence P. Hurley 518-463-8763
Name of Internal Control Officer Telephone Number

thurley@portofalbany.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.

Richard J. Hendrick (For Robert Cross, Chairman, APDC)
Signature/Agency Head or Chairperson Governing Board Date
June 16, 2011