

2013 INTERNAL CONTROL SUMMARY REVIEW

The Internal Control Summary Review Form provides supporting justification for the APDC's assessment as to whether reasonable and prudent internal control measures are in place and that such measures are effective.

ALBANY PORT DISTRICT COMMISSION	03/14/14	T. OWENS	518-463-8763
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, most of which have been reviewed during 2013 and revised as needed, to better comply with requirements of the Public Authorities Law, Comptroller regulations, and other requirements.

The "APDC Internal Controls Program," based on guidance from the Budget Office/Authority Budget Office, was adopted by the Board in 2010. Pursuant to this policy, meetings occur with the relevant APDC management staff (and others as required) with the focus of internal controls. During each such Internal Control meeting, a particular area/process is selected for an internal audit with the results of such internal audit, along with suggested corrective actions, discussed among the Board, management and staff as appropriate. Following some adjustment on the periodicity, these IC meetings occur at a minimum, quarterly. Additionally, bi-weekly (approximately) staff meetings occur in which internal controls are consistently discussed with all-hands at each meeting. During such staff meetings, management emphasizes 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 at both the Board and staff levels. During late 2013, an APDC Audit Calendar was formulated/adopted with topical/area audits identified to occur in certain calendar quarters during 2014.

The APDC believes that it made continued progress towards becoming “Fully Compliant” during 2013; however, the following areas have been identified for further improvement in 2014:

- An APDC staff performance system was implemented for the first time in 2013. This process followed the establishment of job descriptions during 2011-12. This Performance Evaluation process, with some improvements/modifications made during 2013, will be repeated annually. Implementation during 2013 resulted in an increased focus on the part of APDC staff on their responsibilities and how their performance in meeting such responsibilities is monitored/evaluated. This initiative will require continued attention to ensure it is effectively implemented.
- During 2013, the APDC created two organizational positions: (i) Director of Procurement and Economic Development; and (ii) Operations and Maintenance Manager. The addition of these two positions provides more resources to – and the opportunity to increase the internal control posture of – the APDC. Having more staff does allow more levels of control (e.g. adding another level for procurement approval).
- During 2014, the APDC will fill the new position of Director for APDC Internal Controls and Enterprise Analysis. This position is to be empowered with broad authority to analyze existing APDC business processes and drive improvement to APDC operations, both from an internal control and efficiency/effectiveness perspective.

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 or deliberative thought/evaluative process. 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.

Additionally, as part of the APDC's annual financial statement audit, the APDC's independent auditor evaluated internal controls in order to determine the auditor's audit scope required in order to be able to express an opinion on the financial statements of the APDC.

2. List all high-risk activities and indicate which were reviewed during 2013.

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

- Overall Compliance Schedule (items added/reporting frequency increased)
- Procurement (Guidelines/Procurement Forms)
- MWBE Policy and Utilization Efforts
- Personnel Handbook (Travel)
- Staff Performance Evaluation/Measurement

3. Identify the significant deficiencies revealed during the 2013 review process. Outline the actions taken, or planned, to eliminate deficiencies, highlighting the most important improvements made during the year. (Note the below response does not ONLY identify deficiencies, but also provides information on activities taken during the reporting period designed to improve/further internal controls, whether such actions were in response to any deficiency or not).

2013 APDC Independent Audit was performed one month earlier to provide more time to meet PARIS reporting requirements.

Procurement continues as the most important area, from a risk assessment/cost benefit analysis perspective. Emphasis continues to be placed on this activity. A new staff member was added in 2013 to replace the departed Business Manager and this staff member have a focus on procurement activities.

MWBE Policy/Utilization Efforts – APDC continued to work with ESD/MWBE to correct reporting errors due to inconsistent misinterpretation of exemptions and exceptions. Additionally, M/WBE was added to the APDC Procurement Form to force staff review of compliance prior to authorizing a procurement activity. Additionally, the Procurement Guidelines were amended to allow greater M/WBE activity.

Public Work/Prevailing Wage Compliance – A check was added to the Procurement Form Approval Process to emphasize the need for staff to review compliance of any “Public Work/Prevailing Wage” requirement prior to the authorization of any procurement activity.

Property Disposition – significant auditing time was spent again in 2014 to increase compliance with record maintenance in lease files and correcting deficiencies when possible. Additionally, a Lease database was designed to contain lease information in an easily-accessible on-line database, available to all staff.

Staff performance evaluations – this system was designed and implemented for the first time during 2013.

A revised/computer-based weekly employee time/hour reporting system was implemented during 2014.

An annual review of the APDC Facility Security Plan was satisfactorily completed – the FSP will undergo a complete “re-certification” process during 2014.

Additionally, necessary modifications – either due to unintentional omissions in drafting the policies or new legal requirements/policy guidance – continue to be made to 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 a specific level of competition and use of a “Procurement Request Form” on which open competition must be documented, approvals shown, vendors identified, APDC personnel requesting such good/service identified, etc – such required/documented activities and process controls reduce opportunities for improper procurement practices or 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. Furthermore, once deficiencies are identified in any particular process/operation, follow-up management/staff meetings are held to discuss the corrective actions being taken to address such deficiencies and to ensure such actions are complete/adequate.

Additionally, there are internal control/monitoring systems which are automated/technology/IT-based. Examples of major system 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 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 2013 to verify test results and expand the testing program.

The APDC adopted an Internal Controls Program in 2010. Such program involves APDC management and/or staff, during quarterly management meetings, identifying areas to be self-audited with relevant corrective actions documented in new policies, or modifications to existing policies.

6. Describe measures instituted to sustain the effectiveness of the internal control program during 2012. Include information on reorganizations and other revisions in the program to enhance operations.

See responses to #3, 4, and 5 above concerning changes to staffing organization, compliance schedule, and corrective actions. Additionally, communications to staff concerning internal controls continues to be emphasized.

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/implemented 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 2013. 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 approved in 2012 and in connection with the job descriptions, a newly instituted job performance evaluation system was implemented during 2013.

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 ("ICO"). 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. This Policy was amended in 2012 to specifically identify the ICO.

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/repetitive 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 that 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).

2012 INTERNAL CONTROL REVIEW

Albany Port District Commission

Agency/Authority Name

Robert F. Cross, APDC Chairman

Agency Head/Chairperson Governing Board

106 Smith Boulevard, Albany, New York, 12202

Agency/Authority Address

518-463-8763

Telephone Number

Terrence P. Hurley

Name of Internal Control Officer

518-463-8763

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 meeting the internal control criteria detailed above at A-G.

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.



Chairperson Governing Board

March 31, 2014
Date