

2018-19 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 Budget Policy and Reporting Manual (BPRM) Item B-350.

Hudson River-Black River

Regulating District

06302019

Richard J. Ferrara

661-5535

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;

The Regulating District's Executive Director (ED) formally communicates to District staff the importance of an effective internal controls program. This includes a "standing" monthly agenda item on the District's senior staff meeting to discuss I/C status and activities. Progress of the program certification effort is the primary topic of discussion. To that end, all Senior Staff is involved in the ongoing effectiveness of the program. Internal Controls is discussed during all Board meetings.

2. Identify the agency's primary responsibilities and the objectives;

The mission of the Hudson River-Black River Regulating District is to regulate the flows of the Hudson River and Black River for the purposes of flood protection and flow augmentation.

The Regulating District accomplishes its mission by:

- At Great Sacandaga Lake, providing flood protection and low flow augmentation through reservoir releases in accordance with the [Upper Hudson/Sacandaga Offer of Settlement](#)
- At Indian Lake, Stillwater Reservoir, Old Forge and Sixth Lake, providing storage during periods of high flow and augmenting flows during periods of low flow
- Operating a data-gathering system for precipitation, stream flow, snow depth and flood conditions
- Providing the public with information pertinent to its mission
- Operating and maintaining facilities
- Maintaining a sound financial status for Regulating District operations

- Managing the lands of the State of New York under the Regulating District's jurisdiction
- Promulgating rules and regulations necessary to fulfilling its mission.

3. Explain how internal controls are organized and managed;

IC's are organized and managed around Assessable Units – see attached Visio Flow Chart exhibits

4. Define responsibilities of agency management and supervisors and agency staff;

The Executive Director is the District's Agency Head. The Executive Director carries out the Board's directives. The Chief Fiscal Officer is the District's Internal Controls Officer. The Area Administrator is the responsible supervisor for the watersheds and has primary oversight/responsibilities for many of the Assessable Units and associated functions as defined on the attached documents. Key agency staff at each office play a critical role in the formal process mapping of each function and are the process owners.

5. Acknowledge that internal controls adhere to accepted standards; and,

The District's internal controls are developed around the standards as delineated in the Standards for Internal Controls in New York State Government document. Additionally, the District's Independent Auditor review's the district control programs. Accordingly, internal controls do conform to accepted standards.

6. Describe the organization's process for evaluating internal controls.

The District's process for evaluating internal controls focuses on the mission of the organization, and this mission is kept in mind when evaluating the need and appropriateness of specific internal control practices.

More specifically, the I/C Officer works with the watershed area administrator and process owners in an effort to verify that critical process controls are in place and being followed. This is accomplished by way of interview, documentation review, and audit.

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 District initiated a comprehensive review of all mission related activities by first assessing their inherent risks, determining the existence

of a substantial control, and whether the control was proceduralized and working.

Assessable Units were developed by major organizational area. Each function was identified, described, and assessed for risk level.

Process maps were developed to augment control activities.

- 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;

The District initiated and completed an Internal Control Assessment by Assessable Unit whereby each unit identified their primary functions, inherent risks, control process or procedure, and impact and likelihood.

2. Define the objectives of these functions so they are easily understood by staff accountable for carrying out the functions;

The District initiated and completed an effort to define and assess the objectives of all functions utilizing Function Description and Functional Assessment documents.

3. Identify/document the policies and procedures used to execute functions;

The District initiated and completed an effort to identify and document pertinent policies and procedures used to execute its functions. Where a procedure or process was not in place or poorly

documented, the District utilized a DMAIC approach. The DMAIC project methodology has five phases:

- *Define* the problem, the voice of the customer, and the project goals, specifically.
- *Measure* key aspects of the current process and collect relevant data.
- *Analyze* the data to investigate and verify cause-and-effect relationships. Determine what the relationships are, and attempt to ensure that all factors have been considered. Seek out root cause of the defect under investigation.
- *Improve* or optimize the current process based upon data analysis.
- *Control* the process to ensure that any deviations from target are corrected before they result in defects.

4. Identify the major functions of each of the agency's assessable units;

The District developed Assessable Unit charts which are maintained and updated when necessary.

5. Develop a process or cycle to assess risk and test controls for major functions;

The District's Compliance Officer tests the Black River Area and Hudson River Area operations, and the Administrative office in Albany on a quarterly cycle. The process tests primary controls involving financial assets.

6. Assess the risks and consequences associated with controls failing to promote the objectives of major functions;

The District's IC Officer completed Functional Vulnerability Assessments and Function Descriptions for all primary functions. Part of that exercise included "Significant Risks" associated with each function.

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);

"Major" functions were tested during the past year by utilizing an interview and sampling testing approach. Those included the District's purchasing process.

8. Institute a centrally monitored process to document, monitor and report deficiencies and corrective actions.

District utilizes Function Assessment & Corrective Action Plan document to monitor and identify deficiencies and corrective actions. It documents the Function reviewed, significant risks, adverse effects, likelihood of occurrence, principal control activity,

proposed action to reduce adverse occurrence, responsible person and completion date.

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 agency's/authority's internal controls.

The Districts ICO reviews all pertinent internal controls by Assessable Unit. More specifically, the District's major functions were identified and assessed for risk and likelihood of occurrence. Where formal procedural documentation was missing, each responsible manager was instructed to perform process mapping efforts to establish control points and improvement opportunities.

2. List all high-risk activities and indicate which were reviewed during 2017-18.

The District's high-risk activities include; Disbursement (Voucher) Processing in both Watershed offices.

HRAO and BRAO Accounts Payable/General Ledger (voucher processing) were reviewed by way of sampling of transactions.

3. Identify the significant deficiencies revealed during the 2017-18 review process. Outline the actions taken, or planned, to eliminate deficiencies, highlighting the most important improvements made during the year.

In the Hudson River Area, no significant deficiencies were reported.

In the Black River Area, no significant deficiencies were reported.

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.

Following the identification of corrective action to be taken, the function requiring corrective action and due date are noted on the applicable Visio chart. At this time, the ICO verifies the implementation of corrective action(s) and the control activity to assure the action remains effective.

The District continues to utilize several Microsoft system software products to assist in the overall tracking and monitoring of IC corrective actions. They include for the most part, Visio, Word, and Excel.

5. Summarize specific actions the agency has taken to install a compliance testing program. Describe actions taken during 2017-18 to verify test results and expand the testing program.

The District completed compliance testing in two high risk transactional processing areas. Verified the timely and accurate processing of vendor vouchers in the Black River Area via sample. Also, verified that the permit system revenue reported in the PS Sub ledger matched the Hudson River Area ledger for the 2018 season.

6. Describe measures instituted to sustain the effectiveness of the internal control program during 2017-18. Include information on reorganizations and other revisions in the program to enhance operations.

Given the “static” nature of the District’s overall mission and operations, efforts to sustain the effectiveness of the I/C program were limited to ongoing senior staff communications. I/C officer continues to meet with key process owners in an effort to heighten the awareness of controls in their respective areas.

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.

With specific regard to the District’s effort to integrate the documentation and reporting of activities recognized as supporting a good internal control system, the District’s ICO assessed controls in each of the three (3) principal offices during 2017-2018 utilizing assessable unit’s documentation.

From a strategic perspective, the District has developed Board approved mission statement, operational plans, and goals that reflect its Statutory mandate.

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.

The lion’s share of I/C communication is disseminated among the District’s Senior Staff, Board, and key process leaders. Information

necessary to advance the District's IC program is disseminated as required to all employees who need it to carry out their responsibilities.

- 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 District makes available to each employee Policies to include; EEO Rights and Responsibilities, Substance Abuse, District Vehicle Usage, Sexual Harassment, Drug and Alcohol, Code of Ethics, Computer Acceptable Use and Technology, and Discrimination Complaint Form.

The District's website is utilized to communicate and serve as the repository of applicable policies and procedures.

- 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 Executive Director designated the District's Chief Fiscal Officer to be the Internal Controls Officer. This action was approved by Board resolution. The Chief Fiscal Officer also services as the District's Secretary Treasurer pursuant to the District's enabling legislation. This person is intimately familiar with the requirements established by BRPM Item B-350 and has full authority to execute and implement all of the requirements for an effective Internal Control Program. He possesses an extensive knowledge of the District's operations, personnel, and policies and procedures. His appointment has been communicated to all employees of the District.

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.

Staff is encouraged to attend NYSICA training events when available.

The Regulating Districts ICO attends many of the NYSICA conferences. Moreover, the ICO is most familiar with the Standards for Internal Controls and has been formerly trained in Six Sigma. The Executive Director has identified the balance of the Senior Staff as the initial staff requiring IC training. That Staff includes all managers of the District's Assessable Units.

The District's ultimate goal is to have all Sr. Staff attend formal IC training. In the intervening time, all staff will continue to familiarize themselves with the Standards.

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). **Completed and attached**

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.

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.

5. 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.
6. 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).
6. A copy of your 2018-19 internal and contract audit plans.

7. Documentation pertaining to the risk-assessment utilized in formulating the 2017-18 audit plans.
8. An indication of which audits in the audit plan for FY 2017-18 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 2017-18 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 2017-18 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 April 1, 2016 and March 31, 2017 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.

- Add additional pages if needed -

2017-18 INTERNAL CONTROL CERTIFICATION

Hudson River-Black River Regulating District
Agency/Authority Name

John M. Hodgson, Sr
Agency Head/Chairperson Governing Board

737 Bunker Hill Road, Mayfield, NY 518-661-5535
Agency/Authority Address Telephone Number

Richard J. Ferrara 518-465-3491
Name of Internal Control Officer Telephone Number

rferrara@hrbrrd.com
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

Date