

# **INTERNAL CONTROLS AND FINANCIAL ACCOUNTABILITY**

**As Adopted: March 31, 2008**

Monroe County Airport Authority (the "Authority") constitutes a public benefit corporation of the State of New York. The Authority fulfills a public mission and must comply with the provisions of applicable laws, including the New York Public Authorities Law. Because the Authority's assets are held for the public benefit, the Authority's Members and officers have a fiduciary duty to protect them. The following policy sets forth internal controls for the protection and oversight of the Authority's assets.

The Authority shall maintain policies and procedures so that (1) Members and officers understand their fiduciary responsibilities, (2) assets are managed properly and (3) the public purposes of the Authority are carried out. A failure to meet these obligations is a breach of fiduciary duty and can result in financial and other liability for the Members and the officers. Items (1) and (2) above are addressed respectively, in separate policies entitled "Responsibilities of Members and Officers" and "Annual Statement of Investment Policy" This document establishes internal controls that will help to protect the Authority's assets and assist in their proper management.

## **1. Internal Controls**

Members and officers shall ensure that the Authority is accountable for its programs and finances to its customers, the public and regulators. The Authority shall accomplish through the development and maintenance of internal controls. Accordingly, the Authority shall comply with all applicable laws and ethical standards; adhere to its public mission; create and adhere to conflicts of interest, ethics, personnel and accounting policies; prepare and file annual financial data with appropriate federal and state regulatory authorities; and make its annual financial report available to all Members and any member of the public who requests it.

### **Examples of Internal Controls**

Internal controls are systems of policies and procedures that protect the assets of the Authority, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to communication processes, internally and externally, and include procedures for (1) handling funds received and expended by the Authority, (2) preparing appropriate and timely financial reporting to Members and officers, (3) conducting the annual audit of the Authority's financial statements, (4) evaluating staff and programs, (5) maintaining inventory records of real and personal property and their whereabouts, and (6) implementing personnel, ethics and conflicts of interest policies.

## **2. Implementation and Monitoring of Internal Financial Controls**

### **A. Procedures for Monitoring Assets**

The Authority shall have procedures to monitor and record assets received, held and expended. These financial controls shall be described in an accounting policies and procedures manual. The manual shall be reviewed with and given to all Members and officers. It shall include procedures for:

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- Preparing an annual income and expense budget and periodic reports (at least quarterly) comparing actual receipts and expenditures to the budget with timely variance explanations.
- Writing and signing checks or vouchers and receiving, recording, securing and depositing cash and other receipts. Such procedures should ensure that no single individual is responsible for receiving, recording and depositing funds or writing and signing checks. Checks and balances are essential to make embezzlement more difficult.
- Ensuring that grants and contributions received are properly recorded, accountings required as a condition of any grant are completed and restrictions on the use of such funds, such as contributions given for a restricted purpose (e.g., donated land with use restrictions), are obeyed.
- Requisitioning, authorizing, verifying, recording and monitoring all expenditures, including payment of invoices, petty cash and other expenditures. Such procedures shall ensure that no single individual is permitted to request, authorize, verify and record expenditures. For example, the same person shall not be responsible for cash disbursements and back reconciliations. These functions shall be assigned to different individuals.
- Accessing, inputting and changing electronic data maintained by the Authority. This process includes preserving electronic records, ensuring data compatibility when systems change and creating an appropriate records retention policy.
- Providing for regular oversight by an audit committee.
- Reporting to the audit committee or the Members by employees of allegations of fraud or financial improprieties.
- Ensuring that timely and appropriate financial reports are distributed to all Members and officers and reviewed by them.
- Providing procedures for approving contracts to which the Authority is a party, including securing competitive bids from vendors in accordance with applicable New York State laws.
- Retaining an updated organizational chart that makes clear the responsibilities of all individuals involved with the Authority, including Members, officers and employees.
- Preparing for the annual audit process in a timely manner.
- Developing a prudent investment strategy and providing proper oversight of the investment assets in compliance with New York law.
- Complying with obligations to Members, officers, employees and the public, including their right to a copy of the Authority's annual financial report.

**B. Various Roles Within the Authority**

There shall be periodically updated written job descriptions for Members, officers and employees. The work of the Authority will be more easily accomplished and problems will be avoided if all involved understand what is expected of them and the limits of their authority.

A comprehensive description of the Administrative Director's job shall make clear his or her responsibilities in the day-to-day activities of the Authority and set forth exactly what information is expected by the Members and when it must be communicated. For example, if the Members expect monthly financial reports and bi-monthly programmatic reports, making those expectations clear from the beginning will avoid ambiguity and will clarify the responsibility for accountability to the Members.

Likewise, all other employees shall have written job descriptions and be advised of what is expected of them.

**C. Personnel Policies**

If applicable, the Authority shall furnish to all non-union employees written personnel policies, including vacation and sick leave, health insurance and other benefits, evaluations, ordinary and overtime compensation, conflicts of interest and code of ethics. Such policies shall be furnished prior to commencement of employment, with changes in policies communicated on a regular basis.

The Authority shall furnish to all union employees a copy of the collective bargaining agreement by and between the Authority and the union.

**D. Training**

The Authority shall arrange for appropriate training for all involved, including new members, officers and employees. This training shall include familiarity with the Authority's internal control.

**E. Conflicts of Interest Policies and Code of Ethics**

The Authority shall adopt a "conflicts of interest policy" to make certain that Members, officers, and employees and others who serve the Authority not have any personal or business interest that may conflict with their responsibilities to the Authority. The policy shall clearly state the procedures to be followed if a person's personal or financial interests may be advanced by an action of the Members. A written policy will be in addition to the provisions of Section 1107 of the New York Public Authorities Law.

The Authority shall also adopt a code of ethics to address integrity in day-to-day conduct by each Member, officer and employee. A written policy will be in addition to the provisions of Section 1107 of the New York Public Authorities Law.

All Members, officers and employees shall be given copies of both policies and sign a statement acknowledging that they have read them.

**F. The Audit Committee**

The Authority shall create an audit committee comprised of Members at least one of whom has familiarity with accounting or financial reporting. The audit committee shall act as a liaison to the Authority's independent external auditor who is certified public accountant ("CPA") or firm of CPAs. The audit committee shall have the following responsibilities as outlined in the Authority's bylaws:

- Make recommendations to the entire group of Members regarding the selection of the independent external auditors, periodic review of their performance, review of the annual fees to be paid for services rendered by them and a review of each proposed audit plan developed by management and the external auditors.
- Review with the independent external auditors the Authority's annual financial statements and reports. Consider whether they are complete and consistent with information understood by the committee members.
- Review and evaluate the management letter received from the independent external auditors and discuss recommendations for any changes necessary to remedy problems identified in the letter.
- Maintain communication between the Members and independent external auditors by meeting on a regularly scheduled basis with an opportunity for the auditors and the audit committee to meet without management present.
- At the completion of the audit, review the audit fieldwork process with the auditors. Obtain an understanding of their evaluation of management and whether they encountered any difficulties or had any disagreements with management during their audit. Review all journal entries proposed by the auditors.

Audits are a factor in providing proper financial management oversight of the Authority. The audit committee shall interact with management to implement and monitor the internal control structure and to take steps that insure that the possible risks of fraud or embezzlement are mitigated. In order for an audit committee to function properly, it shall be made up of people who are independent of the day-to-day management of the organization. For example, no paid executive director, chief financial officer or other employee shall be on the audit committee.

In addition to the audit committee's role in the preparation of the audit, its responsibilities include the following:

- Ensure that proper federal and state tax filings are completed timely, including payroll taxes.
- Understand the Authority's internal controls and have policies in place to update them as needed.
- Periodically review the Authority's insurance coverage and determine its adequacy.

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- Make recommendations necessary to improve the Authority's efficiency and/or remedy problems identified by the committee or others.
- Identify and monitor related party transactions and review the conflict of interest, ethics and related party disclosure policies periodically and update as needed.
- Monitor any legal matters that could impact the financial health and reporting of the Authority.
- Institute and oversee any special investigatory work as needed.

Whatever form the audit committee takes; if at all possible at least one member shall have an understanding of financial matters and be comfortable reviewing financial reports and other financial records. No member of the audit committee shall ever be involved in any conflict of interest transaction, and no member of the audit committee shall be compensated in any manner by the Authority other than standard compensation, if any, paid generally to all Members.

The audit committee shall be familiar with the Authority's internal controls and report to the members as appropriate the adequacy of the internal controls and any concerns raised by the staff or outside auditors.

### **G. Independent Certified Public Accountants**

The Authority shall have procedures in place to ensure that the certified public accountant it engages has a good reputation in the marketplace, is qualified to perform the necessary work, commits to appropriate timeliness and offers a competitive fee. Before engaging an accounting firm, the Authority shall ask for a list of the firm's clients and contact some of them for references. In addition, the Authority shall request a copy of the firm's peer review report.

The Authority's auditors shall be viewed a resource for assistance with concerns about financial and other matters that arise during the year, not just during the audit fieldwork. The Authority shall make sure that its engagement with the audit firm includes an expectation that the firm may be called upon to provide such service.

The audit committee or the Members shall communicate regularly with the firm, making it aware of any problems and/or concerns with regard to the management of the Authority or its assets, whether there are steps that should be taken to ensure compliance with the existing internal control structure, or creation of new controls.

In addition to certifying the financial statements as part of the audit process, the auditors prepare a management letter to be sent to the Members, which discusses internal controls or other issues identified during the audit that concern the financial management of the Authority. Since the management letter is not a comprehensive evaluation and opinion on the internal controls (but rather just a by-product of the audit process), the Members shall decide whether further outside evaluation of the systems and procedures is warranted, and if so, by whom. The members shall also revisit issues arising from prior year's management letters to make sure they have been addressed to the firm's satisfaction.

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Before releasing the opinion on the financial statements, the auditors will request a signed management representation letter (typically signed by both a Member holding office, such as the chair or the treasurer, and the executive director or the chief financial officer). This letter constitutes the Authority's agreement to provide accurate financial information. Before signing the letter, the persons signing shall affirm the accuracy of the representations made therein.

### **H. Review of the Authority's Governance Structure, Procedures and Programs**

The Members shall conduct a periodic review of the Authority's structure, procedures and programs in order to determine what is working well and what practices the Authority might want to change in order to be more efficient, effective and responsible