



NEW YORK STATE BRIDGE AUTHORITY

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MEMORANDUM

To: Joe Ruggiero
From: Brian Bushek
Date: March 11, 2013
Subject: 2012 INTERNAL AUDITORS' REPORT

In 2011, the Authority contracted the firm Tronconi, Segarra & Associates to assist in compliance with the requirements of Public Authorities Law associated with internal controls. In March 2011, the requirement to file form New York State Budget Policy & Reporting Manual B-350 was eliminated for Public Authorities. The Authority is required to complete an annual assessment of the effectiveness of the internal control structures and procedures. The assessment must be posted on the Authority's website for a period of two years.

The attached annual assessment report prepared by Tronconi, Segarra & Associates is presented to the Audit Committee for information purposes only. No action by the Board is required.

The report covers the four areas that were outlined in the previously provided 3 year audit program. Specifically: Toll Collection & Revenues (TCR), Fixed Asset Acquisition, Inventory, and Disposal (FA), Personnel, Payroll and Benefits (PP), and Cash Management and Investments (CM).

I am pleased to note that for these four areas the Auditor identified only two recommendations to strengthen the Authority's controls, risks identified were relatively minor and implementation of measures to address each of these items has been or will be quickly and easily implemented.

The individual recommendations and action are detailed below.

Toll Collection and Revenues (TCR)

TCR1 – A signature on the deposit slip verifying the amount of the deposit was not present for 10 out of 25 days selected for testing. This finding was policy related and was not considered material as the Authority has in places additional procedures to provide a secondary review of deposits. This issue was identified as an inconsistency between deposit processes at each facility. The Authority will add to the responsibility of the Toll Audit Manager the requirement to bi-annually perform an on-site review of the deposit process for each bridge. Action will be handled by the Acting Toll Audit Manager.

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Fixed Asset Acquisition, Inventory, and Disposal (FA)

FA1 – A review and approval of fixed asset life assignment does not appear to be occurring on a regularly scheduled basis. The Authority has defined criteria for the office assistant to assign the useful life based on category of asset. This assignment is made at the time of acquisition. The recommendation is to require a review of the useful life assigned to all fixed assets periodically. The Authority will add to the responsibility of the Director of Administration to review and sign off on all useful lives assignments of fixed assets on a monthly basis during the closing process.

The Authority will review all remediation efforts and report back to the Audit Committee by June 2013.

New York State Bridge Authority

**Risk Assessment
Recommendations and Findings
For 2012**

New York State Bridge Authority
*Risk Assessment,
Recommendations and Findings
For 2012*

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Mr. Francis Vecillio
Audit Committee Chairman
New York State Bridge Authority
Mid-Hudson Bridge Toll Plaza – State Routes 44/55
P.O. Box 1010
Highland, New York 12528

Dear Mr. Vecillio,

We are pleased to report on our annual assessment of the internal controls of the New York State Bridge Authority (the “Authority”). The purpose of our engagement was to assist the Authority in achieving compliance with the applicable provisions of the *Public Authorities Accountability Act of 2005* as amended by the *Public Authorities Reform Act of 2009* (the “Act”). Among other requirements, Public Authorities Law requires all public authorities to complete an annual assessment of the effectiveness of their internal control structure and procedures within ninety (90) days after the end of its fiscal year. Additionally, State authorities with a majority of the members appointed by the Governor must establish and maintain a system of internal control and a program of internal control review.

The importance of an adequate system of internal control is to promote effective and efficient operations so as to help the Authority carry out its mission; to provide reasonable, but not absolute, assurance that assets are safeguarded against inappropriate or unauthorized use; to promote the accuracy and reliability of accounting data and financial reporting to ensure transactions are executed in accordance with management’s authorization and recorded properly in accounting records; to encourage adherence to management’s policies and procedures for conducting programs and operations; and to ensure compliance with applicable laws and regulations. Furthermore, a successful system of internal control includes performing an annual assessment to identify potential weaknesses in policies and procedures and to implement corrective actions.

This report contains the results of our procedures performed on the following major business functions (cycles):

- Toll Collection & Revenues
- Fixed Asset Acquisition, Inventory, and Disposal
- Personnel, Payroll, and Benefits
- Cash Management and Investments

Internal control testing was performed through tailored procedures designed based on our understanding of the Authority’s relevant policies and procedures in effect for the aforementioned cycles between January 1, 2012 and December 31, 2012.

The Authority’s risks are the risks that an action or event will adversely affect the Authority’s ability to successfully achieve its objectives. The Risk Assessment section of the report analyzes the significant risk findings that were identified during our assessment.

For purposes of complying with the Act, an internal control assessment is an annual evaluation performed by management (or its designee) to determine the effectiveness of the Authority's internal control system. We have evaluated the Authority's current internal controls within the cycles listed above and have provided our risk assessment and a set of recommendations for strengthening controls and reducing identified risks.

As previously discussed, the purpose of our engagement was to assist the Authority in achieving compliance with the Act through the performance of an annual assessment of the effectiveness of its internal control structure and procedures. However, it is ultimately management's responsibility to assess the adequacy of the Authority's internal control structure and the adequacy of its procedures. In performing our assessment, we relied on the accuracy and reliability of information provided by Authority personnel. We have not audited, examined, or reviewed the information, and express no assurance thereon.

The accompanying comments and recommendations are intended solely for the information and use of the Authority, its department heads, and others within the Authority, and should not be used for any other purpose.

We appreciate the opportunity to serve you and thank the employees of the Authority for their cooperation. We have already discussed many of these comments and suggestions with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience. Through our ongoing involvement with you as a client and our knowledge of your processes, we would be pleased to perform any additional studies of these matters, or to assist you in implementing the recommendations.

Tronconi Segona & Associates LLP

January 25, 2013

Risk Assessment

New York State Bridge Authority

Risk Assessment

Overview

The Authority's risks are the risks that an action or event will adversely affect the Authority's ability to successfully achieve its objectives. During our engagement we became aware of various sources of risk that impact the Authority. We evaluated these risks by using two distinct assessments of impact and likelihood. A simple rating scale has been developed for this purpose. The rating scale ranges from minor to significant impact, and low to high likelihood, using a 3-point scale.

Impact refers to the extent of the consequences or implications if the risk does occur. To assess impact, we have determined how much of an impact the risk has if it does occur:

- A minor impact suggests that the risk would not have important implications to the Authority.
- A moderate impact suggests that the risk could have implications affecting the Authority's ability to succeed.
- A significant impact suggests that the risk would have important implications to the Authority.

Likelihood refers to the probability that the risk may occur given the current context of the Authority. To assess likelihood, we have determined how likely it is that the risk will occur in the future, given what is currently done to manage said risk:

- A low likelihood suggests that the risk is unlikely to occur, given its nature and current risk management practices in place.
- A medium likelihood of occurrence suggests that the risk has a moderate probability of occurrence.
- A high likelihood of occurrence suggests that the risk is likely to occur, despite the current risk management practices in place.

The Risk Management Tolerance Model and the Risk Assessment Matrix that follows summarizes these risks and assesses their impact and likelihood.

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Risk Assessment (continued)

Cycles plotted in the red sections of the model are considered to be high risk and, as such, the related deficiencies should be given urgent attention in terms of priority. Cycles plotted in the yellow sections are considered to have moderate risk, are considered to be important, and should be given second priority after the high risk cycles. Cycles plotted in the green section of the model are considered least risky and remediation efforts to address deficiencies in these cycles would be expected to be addressed during routine operations of the Authority.

We have developed the risk assessment around significant transaction cycles as a means by which the associated risks can be easily understood and managed. The Internal Control Recommendations section of this report presents recommendations with more detail information regarding criticality and implementation timeliness. The cycles or areas that have been evaluated are:

- Toll Collection & Revenues (TCR)
- Fixed Asset Acquisition, Inventory, and Disposal (FA)
- Personnel, Payroll, and Benefits (PP)
- Cash Management and Investments (CM)

New York State Bridge Authority
Risk Assessment (continued)

Risk Management Tolerance Model

Impact	Significant			
	Moderate	FA, TCR		
	Minor	PP, CM		
		Low	Medium	High
		Likelihood		

New York State Bridge Authority
Risk Assessment (continued)

Risk Assessment Matrix

<u>Cycle</u>	<u>Risk Assessment Based on Procedures Performed</u>	<u>Impact*</u>	<u>Likelihood*</u>
TCR	We noted minor overall risk in the Toll Collection & Revenues cycle. Controls over the cash count procedures should be strengthened.	Moderate	Low
FA	We noted minor overall risk in the Fixed Asset Acquisition, Inventory, and Disposal cycle. Review over the assignment of fixed asset lives should be performed.	Moderate	Low
PP	We noted minor overall risk in the Payroll, Personnel, and Benefits cycle. There were no control deficiencies noted at the time of our analysis.	Minor	Low
CM	We noted minor overall risk in the Cash Management cycle. There were no control deficiencies noted at the time of our analysis.	Minor	Low

*The impact and likelihood noted above relates to the overall risk of the cycles and does not correlate to specific findings noted on the following pages.

Internal Control Recommendations

New York State Bridge Authority

Internal Control Recommendations

Overview

Internal control recommendations represent those areas that afford department heads of the Authority the opportunity to improve financial reporting and internal controls, to better safeguard Authority assets, and/or to more efficiently or accurately record, summarize, and report financial transactions and information. They also represent those areas that may improve efficiency of operations and accounting functions, potentially resulting in cost savings.

We have provided a criticality rating and an implementation timeline for each internal control recommendation and business opportunity. Criticality ratings have been categorized as either routine, important, or urgent, and are intended to assist the Authority in determining priority during remediation. The implementation timelines considered were short-term and long-term, reflecting the effort and time required to implement the applicable recommendation while factoring in the criticality assigned thereto.

As a result of our procedures performed, there were 2 total recommendations:

Internal Control Area	Recommendations	Criticality			Timeline	
		Routine	Important	Urgent	Short-Term	Long-Term
Toll Collection & Revenues (TCR)	1	1	-	-	1	-
Personnel, Payroll, and Benefits (PP)	-	-	-	-	-	-
Fixed Asset Acquisition, Inventory, and Disposal (FA)	1	1	-	-	1	-
Cash Management and Investments (CM)	-	-	-	-	-	-
Total	2	2	-	-	2	-

Timeline – each of the detail findings includes a timeline reference of either “short-term” or “long-term.” Short-term refers to a finding that we believe can be corrected within one year. Long-term refers to a finding that may require changes to organization, systems, and/or procedures that may require over one year to effectuate change.

New York State Bridge Authority
Internal Control Recommendations (continued)

Toll Collection & Revenues (TCR)

Recommendation #TCR1

Criticality: Routine

Timeline: Short-Term

Finding: A signature on the deposit slip verifying the amount of the deposit was not present for ten out of the twenty five days selected for testing. Of the ten days missing a verification signature, five were related to the Kingston-Rhinecliff Bridge, four were related to the Rip Van Winkle Bridge, and the remaining one was related to the Newburgh Beacon Bridge. This finding is policy related and did not rise to a material level of significance as there are other procedures in place that provide secondary review of amounts deposited.

Background: Upon completion of the audit of the Collector Shift Report, the Clerk completes a recount of all deposit bags, and then completes a cash receipts form for the prior day for the entire facility. The Clerk then prepares separate deposits slips for cash, coin and check; another individual who did not complete the count will verify the deposit by signing their initials on the deposit slip. Typically the Assistant Bridge Manager or Bridge Manager will verify the deposit, except on the weekend another Collector will perform the verification.

Rationale:

Impact: *Minor* – A secondary review is performed at the Administrative Office at month end, which ensures all bank deposits slips agree to the funds that were deposited.

Likelihood: *Medium* – The process of a secondary review at the bridge office's appears to not be in place at specific bridges.

Recommendation: The policy and process requiring a secondary signature on the daily deposit slip should be communicated to members of management at the various bridges.

Fixed Asset Acquisition, Inventory, and Disposal (FA)

Recommendation #FA1

Criticality: Routine

Timeline: Short-Term

Finding: A review and approval of fixed asset life assignment does not appear to be occurring on a regularly scheduled basis.

New York State Bridge Authority
Internal Control Recommendations (continued)

Background: Standard lives are assigned based on asset type: IT equipment 36 months, maintenance equipment 60 months, and furniture and fixtures 120 months. The assignment is completed by the Office Assistant at the time the asset is entered into Oracle.

Rationale:

Impact: *Minor* – Inappropriate assignment of asset lives will not significantly impact the financial condition of the Authority.

Likelihood: *Medium* – The Authority utilizes standard life assignments predicated upon the asset classification within the Oracle software.

Recommendation: In conjunction with monthly close or quarterly inventory, as deemed necessary, the Director of Administrative Services should review and approve the assignment of asset lives.

Personnel, Payroll, and Benefits (PP)

There were no findings as a result of our procedures.

Cash Management and Investments (CM)

There were no findings as a result of our procedures.