




## ERIE COUNTY WATER AUTHORITY INTEROFFICE MEMORANDUM

March 12, 2019

To: Terrence D. McCracken, Secretary to the Authority

From: Robert J. Lichtenthal, Jr., Deputy Director 

Subject: Audit Committee Staff Report Item on March 26, 2019

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Attached to this memo is a package of information regarding the annual Internal Controls Assessment.


Please include this item as a Staff Report Item for the Board of Commissioners Audit Committee meeting of March 26, 2019.



**ERIE COUNTY WATER AUTHORITY**  
**INTEROFFICE MEMORANDUM**

March 8, 2019

To: Audit Committee-Commissioners Schad, Carney and Jones

From: Robert J. Lichtenthal, Jr., Deputy Director 

Subject: Internal Controls Assessment

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Attached to this memo is a copy of the ECWA Internal Controls Assessment for 2018 that was completed. I have also enclosed a copy of the meeting minutes that will be kept in the files.



## Erie County Water Authority

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March 8, 2019

### MANAGEMENT'S ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL CONTROL STRUCTURE AND PROCEDURES

The Authority's internal control over operations and financial reporting includes policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and disposition of assets; (b) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of the Executive Director, Deputy Director and Members of the Authority; and, (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Authority assets that could have a material effect on the Authority's operations, financial statements and reports.

Because of its inherent limitations, internal control over operations and financial reporting may not prevent or detect misstatements. Projections of any evaluation of the effectiveness of internal controls to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As of December 31, 2018, management conducted an assessment of the effectiveness of the Authority's internal control over operations and financial reporting and has determined that the controls are adequate. The assessment was made through testing, inquiry and observation.

Respectfully Submitted,

A handwritten signature in black ink, reading "Robert J. Lichtenthal, Jr." in a cursive style.

Robert J. Lichtenthal, Jr., Deputy Director  
Chief Financial Officer





# ECWA Internal Controls Assessment – 2018

## Meeting Minutes

March 1, 2019

On March 1, 2019, a meeting to review and assess the effectiveness of the Internal Controls of the Erie County Water Authority was held in the Accounting & Finance Dept. at the Ellicott Square Building, Buffalo, NY.

In attendance was Robert J. Lichtenthal, Jr., Deputy Director, Karen A. Prendergast, Comptroller, Susan L. Rinaldo, Cash Manager, Steven V. D'Amico, Business Office Manager and Joyce A. Tomaka, Manager of Accounting Services.

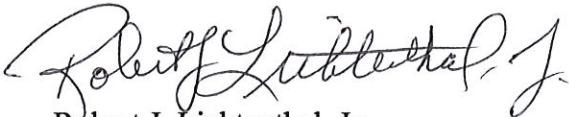
The assessment tool that was used was taken from the Office of State Comptroller's Local Government Management Guide. Each of the questions was reviewed and answered, with discussion on various topics held among the group. All areas of internal control were deemed to be adequate and sufficient. All areas which had been identified in the past as candidates for further improvement have been or are being addressed.

An issue that came up during 2018 was discussed. During the year issues regarding the decentralized purchasing processes of the Authority were identified. Certain accepted practices may be in conflict with the written procedures. A complete review of the needs of the Authority, written procedures, staff structure and proper control structures has begun and will need to be completed during 2019. Consensus is that the review and implementation will also require staff retraining and reminders to review policy and procedure should any questions arise.

No resolution to an item for review from prior years regarding the internal controls assessment tool that the Authority is employing has been reached. The current tool was developed by the NYS Comptroller's Office and is nearly ten years old. During a previous review it came to the groups attention that there is no section of the tool regarding IT issues and cyber security issues. During 2017 the Authority completed a separate cyber security vulnerability assessment and review which is sufficient with respect to internal control issues. The Authority will continue to investigate potential updated assessment tools to possibly employ in the future. It was discussed that it might be necessary for the Authority to develop its own tool.

The meeting was adjourned after agreeing to review the subject areas identified above.

Respectfully Submitted,



Robert J. Lichtenthal, Jr.  
Deputy Director

ECWA Internal Control Assessment - 2018

Bob L., Karen P.  
Sue R., Joycet.  
Steve D.

**Questionnaires:**

Internal control questionnaires have been provided for the following key areas: accounting records, cash receipts, cash disbursements, cash management, purchasing and personnel.

**Accounting Records: Segregation of Duties**

It is important to spread certain duties among several officers or employees to reduce the risk of fraudulent activities. Where duties are not required to be segregated, or cannot be segregated, it is important to have increased supervisory review of activities.

Question	Yes	No
Are the functions of maintaining the accounting records, physical custody of assets, maintaining subsidiary records and reconciling subsidiary records to control accounts spread among different people?	X	
List the names of the individuals responsible for each of the above functions: <i>ASST. MGR ACCT. SVC.</i> Maintaining Accounting Records: <i>COMPTROLLER, MGR ACCT SERV, CASH MGR.</i> Physical Custody of Assets (May be several individuals): <i>DECENTRALIZED CONTROL AMONG DEPT.</i> Maintaining Subsidiary Accounts (May be several individuals): <i>ACCOUNT CLERKS</i> Reconciling Controls to Subsidiaries: <i>ACCOUNT CLERKS, COMPTROLLER, ASST. MGR ACCT., CASH MGR</i>		
For computerized accounting records, are there controls to limit access to computers, programs, and input? In a mainframe environment, access to the computer should be limited and programmers should not be running the programs they develop. For a PC environment, access to individual computers should be controlled by passwords, access to specific programs should be limited to certain individuals either through passwords or with "read only access," and input controls should limit who is authorized to use application programs to enter data. <i>ACCESS CONTROL SYSTEM</i>	X	
Where duties are not segregated among different people, indicate the supervisory review (of activities) in place to limit risk:  <i>N/A</i>		
What additional steps are planned to address weaknesses indicated by a lack of segregation of duties?  <i>N/A</i>		

## Accounting Records: Timeliness and Usefulness

Accounting records provide information needed to manage the finances of the local government. In order for this information to be useful, it must provide needed information that helps managers identify potential problems within a timeframe that allows for corrective action before any problems worsen.

Question	Yes	No
<p>Are the accounting records up-to-date? This means that receipts and disbursements are recorded daily; that ledger accounts are posted either simultaneously with other records (as in most computer operations) or within a day or two of the end of the month, that controls and subsidiaries are reconciled monthly, and that errors are identified and corrected immediately.</p>	X	
<p>Are timely reports issued? If the accounting records are properly designed, reports should flow easily from them. Annual reports ideally should be completed within a month of the completion of the fiscal year; budgetary reports should be available within days of the completion of the month. Where this is not possible, causes for delays should be identified and corrected.</p>	X	
<p>What accounting records are <b>not</b> up to date? <i>N/A - none</i></p> <p>What reports are <b>not</b> issued in a timely fashion? <i>N/A - none</i></p>		
<p>What additional steps are planned to address weaknesses indicated by the <b>lack of timely accounting records and useful reports?</b></p> <p style="text-align: center;"><i>N/A - none</i></p>		



### Cash Receipts: Segregation of Duties

It is important to spread certain duties among several employees to reduce the risk of fraudulent activities. Where duties are not required by law to be segregated, or cannot be segregated, it is important to have increased supervisory review of activities.

Question	Yes	No
Are the functions of collecting cash, recording cash receipts in the accounting records, verifying daily receipt accountability, and reconciling bank accounts spread among different people?	X	
List the names of the individuals responsible for each of the above functions: Collecting Cash <i>ACCT. CLERKS, COST. SERV REPS, BUSINESS OFFICE + SVC CENTER</i> Recording Cash Receipts in Accounting Records <i>CHIEF ACCT. CLERK, AUTOMATION</i> Verifying Daily Receipt Accountability <i>CASH MGR.</i> Reconciling Bank Accounts <i>ACCT CLERKS IN ACCOUNTING DEPT.</i>		
Where duties are <b>not</b> segregated among different people, indicate the supervisory review (of activities) in place to limit risk: <div style="text-align: center;"><i>N/A</i></div>		
What additional steps are planned to address weaknesses indicated by a <b>lack of segregation of duties</b> ? <div style="text-align: center;"><i>N/A</i></div>		

### Cash Receipts: Accountability

Individuals collecting cash should be held accountable for the transactions they handle. It should be possible to determine the amount of cash for which each person is responsible at any point in time.

Question	Yes	No
Does each person that collects cash have his own cash box that is counted at the end of the day by a supervisor?		X
<p>If the answer to the above question is 'no,' how is individual accountability determined for daily collections?</p> <p><i>Box A - MAIN PERSON RESPONSIBLE</i>  <i>Box B - Relief / Fill IN PERSON</i>  <i>BOTH BOXES ARE COUNTED DAILY &amp; RECONCILED</i></p>		
<p>What additional steps are necessary to adequately assign accountability to employees for cash collections?</p> <p><i>CASH MANAGER REVIEWS DAILY CASH REPORT (SYSTEM RUN)</i>  <i>BANK RECONCILIATION IS THE FINAL CONTROL</i></p>		



## Cash Receipts: Verifiability

It should be possible to verify the amounts each person is responsible for collecting each day. This should be compared to the amounts that are turned in. Amounts by which the collecting official or employee is over or short should be determined. Amounts deposited in the appropriate bank accounts should agree with daily receipts recorded in the accounting records.

Question	Yes	No
Are amounts to be collected verifiable from: <ul style="list-style-type: none"> <li>• Press-numbered licenses or permits? <i>N/A (ONLY FOR B.I.O DEPOSITS)</i></li> <li>• Amounts billed to customers (for user charges)? <i>AND SWC. (CONNECTIONS)</i></li> <li>• Press-numbered duplicate receipts?</li> </ul>	X	
Where amounts are <b>not</b> verifiable from some source, how does the local government determine the amounts for which each person collecting cash is responsible?  <i>N/A</i>		
What additional steps are planned to address weaknesses indicated by an <b>inability to verify</b> amounts for which each person collecting cash is responsible?  <i>N/A</i>		
Question	Yes	No
Are deposits made promptly?	X	
Do deposits include all receipts from the time of the prior deposit?	X	
Do deposit slips include details of all checks deposited?	X	
Depositing receipts promptly reduces risks from loss due to misplacement. Including all receipts from the time of the prior deposit makes it possible to tie amounts deposited to amounts recorded in accounting records. Listing details of checks deposited makes it possible to compare deposits with details of receipts, thereby identifying potential manipulations of cash receipts.  If the answer is 'no' to any of the above three questions, how are the risks associated with those answers controlled?  <i>N/A</i>		
What additional steps are necessary to adequately control <b>verifiability of cash receipts</b> ?  <i>None</i>		

### Cash Disbursements: Segregation of Duties

It is important to spread certain duties among several officers and employees to reduce the risk of fraudulent activities. Where duties are not required by law to be segregated, or cannot be segregated, it is important to have increased supervisory review of activities.

Question	Yes	No
Are the functions of writing checks, recording checks in the accounting records, distributing checks and reconciling bank accounts spread among different people?	X	
List the names of the individuals responsible for each of the above functions: Writing Checks: ACCT CLERKS, CUST. SVC REPS Recording Checks in Accounting Records: AUTOMATED J/E, CHIEF ACCT. CLERK Distributing Checks: ACCT. CLERK - ACCOUNTING DEPT. Reconciling Bank Accounts: DIFFERENT ACCT. CLERK IN ACCOUNTING		
Where duties are <b>not</b> segregated among different people, indicate the supervisory review (of activities) in place to limit risk: <ul style="list-style-type: none"> <li>- DUTIES ARE ROTATED AMONG ACCOUNT CLERKS</li> <li>- CASH MGR REVIEWS BANK RECONCILIATIONS</li> <li>- COMPTROLLER, ASST. MGR ACCT. SVC., TREASURER AND SECRETARY REVIEW CHECKS</li> </ul>		

**Cash Management:**

The fundamental principle guiding the deposit and investment of public monies is that an investment program should meet four elements: **legality, safety, liquidity and yield**. Each local government is required to develop policies and procedures that are in compliance with Section 39 of the General Municipal Law, and communicate those policies and procedures to affected staff. The policies and procedures should consider the four elements shown above.

Question	Yes	No
Has the local government adopted an investment policy?	X	
Are procedures governing the investment function set down in writing?	X	
Are those involved in the investment function aware of the policies and procedures?  <b>(This question deals with how well these elements are communicated to employees.)</b>	X	
Are deposits in excess of FDIC coverage secured by a pledge of securities, an eligible surety bond, or an eligible letter of credit in proper amounts?	X	
Are securities pledged to secure deposits covered by security and custodial agreements?	X	
Are cash flow projections used to determine amounts and time periods for investments?	X	



## Purchasing:

Purchasing here covers the decisions and processes involved in obtaining the goods and services necessary for operating the local government. The process generally begins with the initiation of a purchase requisition by an authorized officer or employee who needs the goods or services and ends with the payment for the goods and services received. Controls in purchasing should be concerned with acquiring quality goods and services in the amounts needed to carry on the functions of the government at the best possible price, and in conformance with all pertinent laws and policies.

Purchasing is limited to authorized officers and employees to help ensure that only the goods and services needed are acquired, and that they are used for municipal purposes. Larger local governments may have a centralized purchasing department to enhance the acquisition of goods and services at favorable prices. Routine purchases may not be subject to the same authorization levels as unusual purchases or purchases of more expensive items. A local government's purchasing policy will spell out the authorization requirements for various levels of purchasing.

Larger units of government may also have a central receiving unit to receive goods ordered. This provides for additional segregation of duties.

## Policies and Procedures:

Section 104-b of the General Municipal Law requires local governments to adopt written policies and procedures governing the procurement of goods and services when competitive bidding is not required. This statute also requires local government personnel to document certain purchase related decisions. In addition to provisions to ensure compliance with Section 104-b, the adopted policies and procedures should identify authorization limits, the use of requisitions and purchase orders, and the process to follow in purchasing goods and services. For additional information on Section 104-b and guidance on purchasing goods and services, see our chapter on purchasing.

Question	Yes	No
Has the local government adopted a purchasing policy?	X	
Are procedures governing the purchasing function set down in writing?	X	
Are those involved in the purchasing function aware of the purchasing policies and procedures? <b>(This question deals with how well these elements are communicated to employees.)</b>	X	



## Purchasing: Segregation of Duties

It is important to spread certain duties among several employees to reduce the risk of fraudulent activities. Where duties are not required by law to be segregated, or cannot be segregated, it is important to have increased supervisory review of activities.

Question	Yes	No
Are the functions of requesting goods and services, authorizing purchase orders, receiving goods and approving invoices for payment spread among different individuals?	X	
List the names of the individuals responsible for each of the above functions: Requesting goods and services: <i>Decentralized DEPARTMENT BUYERS</i> Issuing purchase orders: <i>CENTRAL PURCHASING - DEPT. OF ADMINISTRATION DIRECTOR</i> Receiving goods and services: <i>CENTRAL STORES</i> Approving invoices for payment: <i>ACCOUNTING DEPARTMENT</i>		
Where duties are <b>not</b> segregated among different people, indicate the supervisory review (of activities) in place to limit risk:  <div style="text-align: center;"><i>N/A</i></div>		
What additional steps are planned to address weaknesses indicated by a <b>lack of segregation of duties</b> ?  <div style="text-align: center;"><i>N/A</i></div>		

**Purchasing: Verifiability**

The purchasing process should make it possible to verify the orders placed to date, and the amount of orders remaining open at given dates. It should also enable the matching of goods received with purchase orders placed. In municipalities, a good purchasing system should include the verification of available appropriations before orders are placed.

Question	Yes	No
Are purchase orders used for all purchases?	X	
Are purchase orders pre-numbered?	X	
Is availability of appropriations verified prior to issuing purchase orders?	X	
Are purchase orders written from requisitions from authorized individuals?		
Does someone approve the condition of goods received and compare amounts received with receiving slips?	X	
Are receiving slips signed and sent to the person responsible for approving payment on invoices?	X	
Are receiving slips matched to purchase orders to verify that only goods ordered are received, and that amounts received agree with amounts ordered?	X	
Are receiving slips matched to invoices to verify that only amounts received are being billed?	X	
Are unit prices on an invoice matched to the purchase order to verify that billed amounts agree with purchase orders?	X	
Is the mathematical accuracy of the invoice verified? (Consists of multiplying unit price by number of units received and adding total column)	X	
If there are <b>additional controls</b> over the purchasing function to ensure that purchases are controlled and that claims are only paid for goods and services received for municipal purposes, indicate them here:  <p style="text-align: center;"><i>N/A</i></p>		
What additional steps are planned to address <b>risks involved in the purchasing function</b> ?  <p style="text-align: center;"><i>CURRENTLY UNDERGOING A REVIEW OF WRITTEN PROCEDURES VERSUS NEEDS OF BUYERS AND USERS.</i></p>		

*N/A*

**Personnel:**

Personnel here covers the decisions and processes involved in identifying and hiring the staff necessary for operating the local government. Local governments provide services to constituents and those services require the employment of staff. Controls in this area should deal with identifying staff needs, hiring qualified personnel, supervising work and payment of compensation.

Question	Yes	No
Has the local government adopted a personnel policy?	X	
Has the local government adopted a code of ethics meeting the requirements of Section 806 of the General Municipal Law?	X	
Are all employees provided with a copy of the personnel policy and the code of ethics?	X	

**Segregation of Duties:**

It is important to spread certain duties among several employees to reduce the risk of fraudulent activities. Where duties are not required by law to be segregated, or cannot be segregated, it is important to have increased supervisory review of activities.

Question	Yes	No
Are the functions of hiring staff, approving payroll records, preparing payrolls, preparing payroll checks and distributing payroll checks segregated?	X	
List the names of the individuals responsible for each of the above functions: Hiring Employees: BOARD, SECRETARY'S OFFICE Approving Payroll Input Sheets: UNIT & DEPT. HEADS. Preparing Payrolls: ACCOUNT CLERKS Preparing Payroll Checks: ACCOUNT CLERKS } ACCOUNTING DEPT. Distributing Payroll Checks: ACCOUNT CLERKS }		
Where duties are not segregated among different people, indicate the supervisory review (of activities) in place to limit risk:  N/A		
What additional steps are planned to address weaknesses indicated by a lack of segregation of duties?  N/A		

### Personnel: Verifiability

It is important to be able to determine the employees hired and the amounts paid to those employees for services provided. The payroll function should enable the determination of hours worked, leave used, leave accrued, and salary rates.

Question	Yes	No
Are policies in place for justifying need for staff hired? (This may include budgetary authorization for positions.)	X	
Is employee attendance documented?	X	
Is excessive employee absence investigated?	X	
Is overtime controlled?	X	
Are records maintained of accumulated leave time?	X	
Do time cards or some other form of attendance verification support payrolls?	X	
Are amounts paid employees determined by either properly approved contracts or other approved actions? (This may include approval of the budget and/or the passage of a resolution).	X	
Are the above functions subject to collective bargaining agreements?	X	