ANNUAL REPORT ON
INTERNAL CONTROLS
March 31, 2019
**Background**

The Central New York Regional Transportation Authority (CNYRTA) was created in 1970 and is a public authority of the State of New York constituting a public benefit corporation created by and having the powers and functions as set forth pursuant to Sections 1325-1348 of the Public Authorities Law of the State of New York.

The Mission of the CNYRTA is to be responsive to the transportation needs of the Central New York community by providing services which are safe, convenient, reliable, and environmentally responsible with a goal of maximizing the taxpayers’ return on investment.

The CNYRTA provides public bus transportation with related services within a four-county area in Central New York. The functions of the Authority are performed via subsidiary operating corporations: CNY Centro, Inc., Centro of Cayuga, Inc., Centro of Oswego, Inc., Centro of Oneida, Inc., Centro Call-A-Bus, Inc., and Centro Parking, Inc. It also operates the William F. Walsh Regional Transportation Center, combining inter-city passenger rail and bus services with its own regional bus services.

Community service offerings include:

- Inter-city service connecting Syracuse and Onondaga County with the cities of Oswego, Fulton, Auburn and various communities in between.
- Daily service connecting residential areas with the region’s most significant employment districts, shopping locations, educational and medical facilities, and entertainment venues, within the cities of Syracuse, Oswego, Fulton, Auburn, Rome and Utica.
- Paratransit Services for the elderly and people with disabilities who meet ADA requirements.
- Transportation for qualified Onondaga County seniors through its “Onondaga Senior Call-A-Ride (OSCAR) Program.”

Between 20% and 25% of the Authority's operating costs (net depreciation and OPEB) are supported by revenues received from passengers, institutional contracts and other operational activities. Federal, State and local operating assistance, and mortgage recording tax revenues make up the remaining revenues. As a governmental entity, CNYRTA is exempt from all sales, property and excise taxes.

The CNYRTA’s current membership includes the counties of Cayuga, Oneida, Onondaga and Oswego. The counties of Cortland, Jefferson, and Madison may elect to join CNYRTA by vote of legislature.

The CNYRTA and its subsidiaries are governed by a Board of Members, comprising twelve positions plus one non-voting member representing collective bargaining units. Recommended members are submitted by local legislative bodies (County or City of Syracuse) to the Governor, who appoints them, by and with the consent of the Senate.

**The Nature of Internal Controls**

Internal Control in both government and private sectors is defined as a process, affected by an entity’s governing board, management and other personnel, designed to provide reasonable assurance regarding the achievement of management’s objectives including the effectiveness and efficiency of operations, reliability of reporting, and compliance with applicable laws and regulations.
Management achieves these objectives and meets its responsibilities by establishing a framework of internal controls that consists of five (5) components further segmented into seventeen (17) related principles each including various focus points, and two (2) supporting activities.

The Five Components with 17 Principles of Internal Control

1. **Control Environment** - The control environment sets the tone of an organization and is commonly referred to as the “tone-at-the-top”. It is the foundation for all other components of internal control, providing discipline and structure, and is viewed as the most important of the five elements as the effectiveness of the other four elements depends upon it. Factors include the integrity, ethical values, and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and the attention and direction provided by the Board of Directors.
   1. Demonstrates commitment to integrity and ethical values
   2. Exercises oversight responsibility
   3. Establishes structure, authority and responsibility
   4. Demonstrates commitment to competence
   5. Enforces accountability

2. **Risk Assessment** - Every entity faces a variety of risks from external and internal sources. Effective identification and assessment of risks (potential obstacles to achieving management’s objectives) must be an ongoing process at all levels of the organization to address such risks on a timely basis and determine how the risks should be managed.
   6. Specifies suitable objectives
   7. Identifies and analyzes risk
   8. Assesses fraud risk
   9. Manages risk during change

3. **Control Activities** - Control policies and procedures are established to mitigate the various risks identified by management and occur throughout the organization, at all levels and in all functions. Written authorizations and supervisory approvals, reviews of operating performance, security over assets, and timely preparation of financial statements are some examples of control policies and procedures.
   10. Selects and develops control activities
   11. Selects and develops general controls over technology
   12. Deploys controls through policies and procedures

4. **Information and Communication** - Information and communication are pervasive characteristics that affect all aspects of the internal control framework and enable people to carry out their responsibilities to run and control the organization. It is therefore essential that current, accurate, and appropriate information be made available on a timely basis to those who need it. This includes communication to external regulatory agencies and governing boards. Internally, communication should be multi-directional within the organization.
   13. Uses relevant information
   14. Communicates internally
   15. Communicates externally
5. **Monitoring** - Monitoring is the ongoing evaluation process by which management ensures that established internal control systems are continuing to function properly, as designed. This includes control monitoring activities and separate evaluations.

   16. Conducts ongoing and/or separate evaluations
   17. Evaluates and communicates deficiencies

**Two Supporting Activities**

1. **Strategic Planning** – Strategic plans are proposed courses of action designed to enable an organization to achieve its objectives and goals. Planning should begin at the top levels of management with a strategic plan that focuses on the long-range direction of the organization. Internal controls need to be tied to specific objectives relating to operating, reporting, or compliance. All objectives should be in writing and provide employees with written organizational and operational objectives along with the mission statement. Management should ensure that employees understand the objectives and how their work helps to achieve them.

2. **Internal Audit** – The Legislature, in passing the Internal Control Act, recognized the internal audit function as a key role in supporting the internal control system. The Division of Budget is responsible for designating which State agencies are required to maintain internal audit units based on the size, nature, and/or complexity of agency operations. Other entities may choose to establish an internal audit function as part of the managing risks and resources.

**FY 2018-19 Internal Control Analysis**

A detailed Internal Control Analysis was performed for FY 2018-19. The CNYRTA was evaluated to determine its applicable “assessable units,” which were then each reviewed against the five components, seventeen principles and corresponding focus points outlined in the 2016 Standards for Internal Control in NYS Government. All units listed below were determined to have either operational, public image, safety or financial risks requiring an assessable unit review. This list is subject to change year over year.

**FY 2018-19 Assessable Units:**

- Human Resources
- Executive Oversight & Corporate Admin
- Revenue Collections
- Grants
- Budget
- Procurement
- Accounting
- Parking
- Customer Service
- Marketing
- Stockroom
- Service Development
- Fleet Maintenance
- Information Technology
- Transit Operations
- Call-A-Bus
- Facilities Maintenance
- Safety & Security
- Centro Oneida
- Centro Cayuga
- Centro Oswego
Control Environment

The control environment at the CNYRTA is robust. Standards of accountability, transparency, and performance are communicated clearly across the organization. The CEO sets the tone and reinforces expectations, leading by example. All new employees are made aware of the Ethics Guide and employee standards during the orientation process. Board Members have completed the required Ethics training and meetings between management and Board Members are consistent. A significant number of employees have served the organization for over five years and have developed strong competencies in their respective roles. Employee turnover is minimal, with few industry wide exceptions.

Risk Assessment

Each assessable unit utilizes a risk assessment. This document serves as a tool to organize and identify individual unit operating, reporting and compliance objectives, the risks associated with each objective, and the action taken to mitigate the risk [implement controls, share, accept or avoid]. Each major high-risk function of the organization is included within the various assessable unit documents. The risk assessment is the basis for the direction and extent of control test work performed. Consistent review of potential risks is performed across the organization.

Control Activities

Through review of the Risk Assessment, over 400 specific control activities were identified and tested in addition to evaluating the units against the principles of the internal control framework. This portion of the review was entitled “Tests of Controls” and was performed using audit techniques, document review, comparative analysis, management and staff interviews, and unannounced observations. Consistent review of control activities and potential improvements is performed across the organization.

Information/Communication

It was noted that information flows freely and multi-directionally both within the organization and externally with the public, regulators and vendors. Throughout the organization there are formal policy manuals in use as well as information bulletin boards located in the functional areas. During the FY, an internal company Intranet was developed and implemented to assist in improving internal communications across all locations. Information is current and made available on a timely basis. External reports are provided timely to regulatory agencies and the Board of Members.

Monitoring

There are multiple levels of internal control monitoring present at the CNYRTA. The newly implemented CNYRTA Internal Control Program holds management responsible for monitoring their internal controls through a number of activities and reviews. This program continues to evolve under the direction of the Internal Control Officer and Internal Control Manager and includes the annual internal control review and analysis, an internal control continuing education program, regular governance meetings, and when needed specific process evaluations and special projects.
External Monitoring

In addition to internal control monitoring, an independent annual financial audit is performed and for FY 2018-19 and approximately ten (10) prior audits, there have been no audit findings or uncorrected misstatements. Several regulatory agencies, federal and state, perform periodic reviews and audits of CNYRTA in areas of investments, operational performance, grants, and other taxpayer subsidies. These have all resulted in full compliance with no deficiencies.

Strategic Plan

Historically, there have been various documents supporting components of a strategic plan. Currently an organization wide strategic plan exists in draft form. This document stands as the basis for a fully functional working tool that will be used to identify and establish the objectives and goals of the organization and develop the strategies that should be followed to achieve them. Due to resource restrictions and efforts on the new Internal Control Standards implementation during FY 2018-19, efforts will be turned toward further enhancement of the strategic plan in the current and upcoming fiscal years.

Internal Audit

Currently the Division of Budget does not require an internal audit function for the CNYRTA. The Board and executive management routinely evaluate the need and the benefit of establishing an Internal Audit Department. Given that the expense associated with starting up an internal audit function that would satisfy the standards outweighs available resources, management determined that the establishment of an Internal Audit function is not cost-effective. As an alternative, the CNYRTA established a dedicated position with the current title of Internal Control Manager, to perform ongoing analysis, assessments, evaluations and monitoring of the organizations internal controls, ensuring compliance with the Standards of Internal Control.

Conclusion

Based on various observation, tests of controls and management interviews, the five (5) components and seventeen (17) principles of the Standards for Internal Control were determined to be present, functioning and operating together. None of the assessable units tested yielded any material exceptions. Any other exceptions were noted, discussed with management and addressed appropriately.

CNYRTA has an effective internal control program that provides a solid foundation and framework for proper control activities to mitigate risk.

Implementation of Standards for Internal Control in New York State Government 2016 - Update

In March 2016, the OSC issued a revision of the Standards for Internal Control in New York State Government that incorporates the updated 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. The updated Framework retains the core definition of internal controls and the five components of internal controls (control environment, risk
assessment, control activities, information & communication, monitoring) to assess the effectiveness of a system of internal control. The key changes from the original 1992 edition of the Integrated Framework includes; the addition of seventeen (17) principles underlying the original five (5) components of internal control; additional considerations related to changes in business, technology, operations, and regulatory environments; and expansion of financial reporting objectives to include nonfinancial and compliance reporting objectives.

The CNYRTA has made significant progress implementing the new requirements. In November 2017, the CNYRTA acted on their plan to address the new requirements by hiring a designated Internal Control staff member, currently titled the Internal Control Manager [ICM]. The ICM, under the direction of the CFO, has built and implemented a robust Internal Control Program that satisfies the framework requirements of the new Standards. This program consists of a number of dynamic, interactive processes requiring an organization-wide effort and is continually being enhanced developed further. Through continued education, staff training & development and internal control documentation, the Internal Control Program both satisfies the new Standards for Internal Control and continues to improve and strengthen the system of Internal Controls at the CNYRTA on a daily basis.