



**Chautauqua, Cattaraugus, Allegany & Steuben Counties**

# **Southern Tier Extension Railroad Authority**

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**"This institution is an equal opportunity organization"**  
**John Margeson, Chairman**

## **STERA ASSESSMENT OF EFFECTIVENESS OF INTERNAL CONTROLS**

**Prepared for the Year Ending December 31, 2010**

**March 30, 2011**

This assessment is prepared in conformity to the NYS ABO Policy Guidance, "Assessment of the Effectiveness of Internal Controls."

### **A. Definition of the Authority's Major Business Functions**

**Mission of the Authority** - The mission of the Southern Tier Extension Railroad Authority is to fulfill the intent of the New York State Legislature in creating it, which was "to preserve and enhance the system of railroads serving Chautauqua, Cattaraugus, Allegany and Steuben counties in New York state and Warren and Erie counties in the Commonwealth of Pennsylvania, so as to insure a healthy economy for these counties."

The goals of the Southern Tier Extension Railroad Authority are (a) to encourage an operating railroad that provides adequate rail service, (b) to catalyze increased rail shipping carload volumes, (c) to create and seize opportunities for additional business expansion and development based on rail service, (d) to undertake and catalyze rehabilitation efforts and improved functional performance of the rail lines, and (e) to achieve a clean audit report and NYS ABO compliance report

**Authority's Primary Operating Responsibilities** – The Authority is responsible for:

- operating in conformity with all applicable laws and regulations,
- the ownership of certain railroad assets for the benefit of the public good,
- operating consistently with the public trust and best interests of Chautauqua, Cattaraugus, Allegany and Steuben counties in New York state and Warren and Erie counties in the Commonwealth of Pennsylvania, and the municipalities and school districts therein,
- the proper and appropriate use of public funds
- the maintenance of good operating relationships with affected railroad operating companies, the business community, and certain public entities including but not limited to NYS DOT
- undertaking certain capital projects, including rehabilitation of railroad assets and construction of assets that will further the mission of the Authority

**Indication of responsibilities of various business units, operations and functions that have been put in place to achieve the goals of the Authority** – There are no other business units, operations and functions that have been put in place to achieve the goals of the Authority.

**Definition of the Objectives of the Authority** – The Authority’s objectives include:

- the promotion of the ongoing and permanent commercial viability of the railroad system operating in southwestern New York State and northwestern Pennsylvania
- the increased utilization of railroad shipping by companies operating in southwestern New York State and northwestern Pennsylvania
- growth in real property and sales tax bases of the affected counties in New York state and the Commonwealth of Pennsylvania, and the municipalities and school districts therein

**Policies, procedures and guidelines in place to guide staff in the operations of each specific business function, communicate the objectives, and provide the methods and procedures used to assess the effectiveness of those functions** – STERA has in place the following policies:

- Bylaws
- Audit Committee Charter
- Governance Committee Charter
  
- Compensation, Reimbursement and Attendance Policy
- Property Disposition Guidelines
- Code of Ethics (Standards of Conduct Policy)
- Defense and Indemnification Policy
- Investment Policy
- Lobbying Policy
- Measurement Standards for Performance Evaluation
- Mission Statement
- New Member Orientation Process
- Procurement Guidelines (Contract and Procurement Policy)
- Property Disposition Guidelines
- Standards of Conduct Policy – “Ethics and Conflict of Interest Policy”
- Travel Policy
- Uniform Tax Exemption Policy
- Whistleblower Policy

STERA also has the following policies in a state of preparation:

- Competencies and Personal Attributes Required of Board Members
- Equal Opportunity and Affirmative Action Policy
- Management Performance Evaluation Standards
- Personnel Policy
- Public Access to Records Policy

- Public Access to Records – Subject Matter List
- Records Management Program

STERA also has in place the following three committees to help guide staff, implement business operations, and provide the methods and procedures used to assess the effectiveness of business functions:

- Executive Committee
- Audit Committee
- Governance Committee

The Authority has not created a Finance Committee inasmuch as it never has issued any debt.

## **B. Determination of the Risks Associated with Authority Operations**

<u>Risks</u>	<u>Risk Level</u>
Financial insolvency – external causes	Low
Financial insolvency – internal causes	Low
Liability for event occurring from railroad operations	Low
Liability for event occurring from real estate ownership	Low
Liability for event occurring during construction	Low

### **Methods for Minimizing or Avoiding Risks**

- Risk: Financial insolvency – external causes
  - Method: Avoiding activities that are not self-liquidating from external funding
- Risk: Financial insolvency – internal causes
  - Method: Involvement of Board in preparation and presentation of internal financial statements, review of financial statements by full Authority Board, double signature requirement for all checks (CEO/Treasurer does not have signature authority), annual audits in which all financial transactions are reviewed, ethics filings by Board and contract staff
- Liability for event occurring from railroad operations
  - Method: Indemnification agreement with operating railroads, directors and officers insurance
- Liability for event occurring from real estate ownership
  - Method: Indemnification agreement with operating railroads, directors and officers insurance
- Liability for event occurring during construction
  - Method: Indemnification agreement with construction agents and engineering consultants, requiring construction agents and engineering consultants to have adequate insurance, directors and officers insurance

### **Frequency of Review of Risk Controls**

- Risk: Financial insolvency – external causes
  - This is an ongoing procedure. It is reviewed annually.
- Risk: Financial insolvency – internal causes
  - This is an ongoing procedure. It is reviewed annually.
- Liability for event occurring from railroad operations
  - This is an ongoing procedure, with the indemnification agreement in place and insurance in place. It is reviewed annually.
- Liability for event occurring from real estate ownership
  - This is an ongoing procedure, with the indemnification agreement in place and insurance in place. It is reviewed annually.
- Liability for event occurring during construction
  - This is an ongoing procedure, with the indemnification agreements and insurance requirements for construction agents and engineering consultants required of all such contracts. Insurance is in place on an ongoing basis. This policy is reviewed annually.

### **C. Identification of the Internal Control Systems in Place**

The Authority has adopted a number of internal controls (policies, practices, attitudes, guidelines and other actions) that, when followed, provide reasonable assurance that the Board and staff understand and properly carry out their responsibilities, that appropriate professional and ethical conduct is observed, and that the Authority will honor its purpose and mission. All Board members, management, and staff are aware of and understand the policies and practices that the Authority has adopted to ensure that the Authority is effective and to address the risks that are relevant to the Authority's operation. The Authority's policies and guidelines are posted on the Authority's web site for review by all Board members, management, and staff, and all Board members, management, and staff are given a copy of these policies and guidelines when they first become associated with the Authority.

### **D. Assessment of the Extent to Which the Internal Control System is Effective**

The assessment of internal controls is an annual process involving a review by the Authority's Governance Committee and Audit Committee, which identify and report any weaknesses of the internal control structure to the Authority Board of Directors and Management. During this process, the Governance Committee and Audit Committee evaluate the effectiveness of the existing control structure and determine whether current procedures are adequate with respect to mitigating risk, minimizing ineffectiveness and deterring opportunities that could lead to the abuse of corporate assets. The Governance Committee and Audit Committee also evaluate whether the authority's policies and operating practices are understood and executed properly and whether these policies and practices are adequate to protect the organization from waste, abuse, misconduct, or inefficiency. This assessment also is reported to the Authority Board of Directors and Management. The primary vehicle for these assessments is inquiry and observation, supplemented by a review of documents and records as needed.

## **E. Process for Corrective Action**

When a weakness is identified, the Governance Committee and/or Audit Committee recommend to the Authority Board of Directors and Management a corrective action plan. The Board reviews any such recommendation, modifies the proposed plan if necessary, and then adopts the corrective action plan, which is then monitored by Management, the Governance Committee, the Audit Committee, and the Authority Board of Directors.

## **F. Internal Control Certification**

As a local public authority, in order to satisfy the requirement of Section 2800 (2)(a)(8) of Public Authorities Law, STERA incorporates, either within its annual report or as a separate document, a statement explaining that the Authority has conducted a formal, documented process to assess the effectiveness of their internal control structure and procedures, and indicating whether or not the internal controls are adequate. This statement is posted to the Authority's website.

Additionally, the Authority retains any documentation available to support the assessment of its internal controls. If the Authority has found any deficiencies with the internal controls over its functions or operations, it retains additional documentation to demonstrate that it has adopted corrective action plans to address these weaknesses. This documentation is available upon request to the Authority's independent auditor or to the NYS ABO compliance review staff.

As part of the Public Authorities Reporting Information System (PARIS) Annual Report process, STERA reports whether or not it has prepared this assessment and provides the URL link to the Authority's website where STERA has posted the Annual Report, which includes the assessment and the required statement explaining that the Authority has conducted a formal, documented process to assess the effectiveness of their internal control structure and procedures, and indicating that the internal controls are adequate.