



Chautauqua, Cattaraugus, Allegany & Steuben Counties

# Southern Tier Extension Railroad Authority

Center for Regional Excellence, 4039 Route 219, Suite 200, Salamanca, New York 14779  
TEL (716) 945-5301 FAX (716) 945-5550 TDD (716) 945-5301

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

## AUDIT COMMITTEE SELF-EVALUATION REPORT TO THE STERA BOARD on AUDIT COMMITTEE FUNCTIONS FOR CALENDAR YEAR 2011

Submitted March 5, 2012

### 1. Audit Committee Meetings

A. During 2011, the Audit Committee met four times, on March 30, 2011; June 20, 2011; October 17, 2011; and November 14, 2011. The Committee Charter requires the Committee to **meet a minimum of twice a year**, plus any additional meetings as needed to adequately fulfill all the obligations and duties outlined in its Charter. All meetings were properly noticed and open to the public as required, and all agendas and minutes were made available to the public on the Authority web site as required.

- **Deficiencies:** None.
- **Evaluation:** The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
- **Recommendations:** None.

B. During 2011, the Audit Committee met with the Authority's independent auditor on March 30, 2011. The Committee Charter requires the Committee to **meet with the Authority's independent auditor at least annually** to discuss the financial statements of the Authority.

- **Deficiencies:** None.
- **Evaluation:** The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
- **Recommendations:** None.

### 2. Audit Committee Responsibilities

A. Per the Committee Charter, the Audit Committee shall assist the Board by assuring that the Authority's Board fulfills its responsibilities for the Authority's **internal and external audit process, the financial reporting process, and the system of risk assessment and internal controls over financial reporting;** and

- **Deficiencies:** None.
- **Evaluation:** The Board's responsibilities were fulfilled in these regards by the audit process for the year ending December 31, 2011.

- **Recommendations:** None.
- B. Per the Committee Charter, the Audit Committee shall assist the Board by **recommending to the Corporation's Board the hiring of a specific certified independent accounting firm for the Corporation, establishing the compensation to be paid to the accounting firm, providing direct oversight of the performance of the impendent audit performed by the accounting firm hired for such purposes, and by pre-approving all audit services provided by the independent auditor.**
- **Deficiencies:** None.
  - **Evaluation:** The Board's responsibilities were fulfilled in these regards by the audit process for the year ending December 31, 2011.
  - **Recommendations:** None.
- C. Per the Committee Charter, the Audit Committee shall assist the Board by providing an **avenue of communication between management, the independent auditors, the internal auditors, and the Authority's Board of Directors.**
- **Deficiencies:** None.
  - **Evaluation:** The Board's responsibilities were fulfilled in this regard in the audit process for the year ending December 31, 2011.
  - **Recommendations:** None.
- D. Per the Committee Charter, the Audit Committee shall assist the Board by **establishing procedures for the engagement of the independent auditor to provide permitted audit services.**
- **Deficiencies:** None.
  - **Evaluation:** The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
  - **Recommendations:** None.
- E. Per the Committee Charter, the Audit Committee shall assist the Board by **reviewing any proposals from the Authority's independent auditor to provide non-audit services.** STERA Bylaws (and State statute) provide that the Authority's independent auditor shall be prohibited from providing non-audit services unless having received previous written approval from the Audit Committee. Non-audit services include tasks that directly support the Authority's operations, such as bookkeeping or other services related to the accounting records or financial statements of the Authority, financial information systems design and implementation, appraisal or valuation services, actuarial services, investment banking services, and other tasks that may involve performing management functions or making management decisions.
- **Deficiencies:** None.
  - **Evaluation:** The Authority's independent auditor did not submit any proposals to provide non-audit services during 2011. The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
  - **Recommendations:** None.
- F. Per the Committee Charter, the Audit Committee shall assist the Board by **reviewing and**

**approving the Authority's audited financial statements, associated management letter, report on internal controls and all other auditor communications.**

- **Deficiencies:** None.
  - **Evaluation:** This occurred on March 30, 2011. The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
  - **Recommendations:** None.
- G. Per the Committee Charter, the Audit Committee shall assist the Board by **reviewing significant accounting and reporting issues**, including complex or unusual transactions and management decisions, and recent professional and regulatory pronouncements, and understanding their impact on the financial statements.
- **Deficiencies:** None.
  - **Evaluation:** There were no significant accounting and reporting issues in 2011. The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
  - **Recommendations:** Whenever significant accounting and reporting issues arise, the Committee minutes should document a discussion of those issues and a recommending (if any) to the Board on responding to those issues.
- H. Per the Committee Charter, the Audit Committee shall assist the Board by **meeting with the independent audit firm on a regular basis to discuss any significant issues** that may have surfaced during the course of the audit.
- **Deficiencies:** None.
  - **Evaluation:** There were no significant issues that surfaced during the course of the audit for the year ending December 31, 2011. The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
  - **Recommendations:** Whenever significant issues arise during the audit process, the Audit Committee should meet with the audit firm to discuss these issues, and subsequently report to the Board any recommendations.
- I. Per the Committee Charter, the Audit Committee shall assist the Board by **reviewing and discussing any significant risks** reported in the independent audit findings and recommendations and **assessing the responsiveness and timeliness of management's follow-up activities** pertaining to the same.
- **Deficiencies:** None.
  - **Evaluation:** The audit indicated that there is some risk associated with the fact that there is no independent check on the development of internally prepared interim financial statements, and their reconciliation with bank statements. The Committee discussed this on an ongoing basis at all of its meetings during 2011, and this issue also was discussed at several Board meetings during 2011. The Audit Committee has proposed a solution to this issue, which has not been reviewed by the Board as of December 31, 2011. The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
  - **Recommendations:** Whenever such significant risks arise, the Committee minutes should document a discussion of those issues and a recommending (if any) to the Board on responding to those issues.

- J. Per the Committee Charter, the Audit Committee shall assist the Board by **providing certain specific services to the Board with respect to internal audit activities.**
- **Deficiencies:** None.
  - **Evaluation:** There were no internal audit activities during 2011. The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
  - **Recommendations:** None.
- K. Per the Committee Charter, the Audit Committee shall assist the Board by **reviewing management’s assessment of the effectiveness of the Authority’s internal controls and reviewing the report on internal controls by the independent auditor as a part of the financial audit engagement.**
- **Deficiencies:** None.
  - **Evaluation:** The Audit Committee reviewed management’s assessment of the effectiveness of the Authority’s internal controls during the year ending December 31, 2011. Internal control issues were identified by the auditor during the audit process for the year ending December 31, 2010, relating to the preparation of internally prepared interim financial statements and their reconciliation to bank statements. This has caused the Audit Committee to propose revisions to the Internal Control Procedures, which have not been reviewed by the Board as Of December 31, 2011. The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
  - **Recommendations:** None.
- L. Per the Committee Charter, the Audit Committee shall **ensure that the Authority has an appropriate confidential mechanism for individuals to report suspected fraudulent activities, allegations of corruption, fraud, criminal activity, conflicts of interest or abuse by the Directors, officers, or employees of the Authority or any persons having business dealings with the Authority or breaches of internal control.**
- **Deficiencies:** None.
  - **Evaluation:** Depending on who the suspected perpetrator is, the mechanism for reporting varies. The Board officers, Corporate officers, and all members of the Board are available to receive such reporting, as are the appointing entities and the NYS ABO. The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
  - **Recommendations:** The Committee should document in the Committee minutes that it has discussed this issue and established such a mechanism for receiving reports, and for what it does with any such reports received.
- M. Per the Committee Charter, the Audit Committee shall **develop procedures for the receipt, retention, investigation and/or referral of complaints concerning accounting, internal controls and auditing to the appropriate body.**
- **Deficiencies:** None.
  - **Evaluation:** The Board officers, Corporate officers, and all members of the Board are available to receive such reporting, as are the appointing entities and the NYS ABO. The Authority is putting into place a Records Management Program that will provide for the retention of such complaints. The Chairman will direct an investigation of any complaints,

or refer them as appropriate. Should a complaint be made to either the NYS ABO or one or more of the appointing entities, the Authority will investigate as appropriate. The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.

- **Recommendations:** The Committee should document in the Committee minutes that it has discussed this issue and established such a mechanism for receiving complaints, and for what it does with any such complaints received.
- N. Per the Committee Charter, the Audit Committee shall **request and oversee special investigations as needed and/or refer specific issues to the appropriate body for further investigation** (for example, issues may be referred to the State Inspector General or, other investigatory organization.).
- **Deficiencies:** None.
  - **Evaluation:** No such special investigations were needed during the year ending December 31, 2011. However, the Committee stands ready to oversee special investigations as needed and/or refer specific issues to the appropriate body for further investigation. The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
  - **Recommendations:** The Committee's minutes should document any discussions regarding special investigations and referrals of issues.
- O. Per the Committee Charter, the Audit Committee shall **review all reports delivered to it by the Inspector General and serve as a point of contact with the Inspector General.**
- **Deficiencies:** None.
  - **Evaluation:** No reports were delivered to either the Committee or the Authority during the year ending December 31, 2011. However, the Committee stands ready to review any such reports delivered to it or the Authority by the Inspector General, and also to serve as a point of contact with the Inspector General. The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
  - **Recommendations:** The Committee's minutes should document the receipt of any such communications and any actions to be taken in response to them.
- P. Per the Committee Charter, the Audit Committee shall **present annually to the Authority's Board a written report of how it has discharged its duties and met its responsibilities** as outlined in the charter.
- **Deficiencies:** None.
  - **Evaluation:** The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
  - **Recommendations:** None. The Committee should prepare and deliver such reports to the Board on an annual basis.
- Q. Per the Committee Charter, the Audit Committee shall **obtain any information and training needed** to enhance the Committee members' understanding of the role of internal audits and the independent auditor, the risk management process, internal controls and a certain level of familiarity in financial reporting standards and processes.
- **Deficiencies:** None.

- **Evaluation:** The Audit Committee has not seen the need to obtain any such training. The members of the Committee have experience with understanding of the role of internal audits and the independent auditor, the risk management process, internal controls and a certain level of familiarity in financial reporting standards and processes. The Audit Committee met its responsibilities in this regard during the year ending December 31, 2011.
  - **Recommendations:** The Committee may wish to obtain training in specific relevant skill sets mentioned herein.
- R. Per the Committee Charter, the Audit Committee shall **review the Committee’s charter annually, reassess its adequacy, and recommend any proposed changes to the Board of the Authority.** The Audit Committee charter will be updated as applicable laws, regulations, accounting and auditing standards change.
- **Deficiencies:** None.
  - **Evaluation:** The Audit Committee reviewed its charter in 2011, and recommended revisions to the Board, which approved these revisions. Subsequently, the Audit Committee re-reviewed its charter in 2011, and has made recommendations to the Board for additional revisions to the charter, which as of December 31, 2011 has not reviewed the proposed revisions.
  - **Recommendations:** The Committee should annually review the Committee’s charter annually, reassess its adequacy, and recommend any proposed changes to the Board of the Authority in future years.
- S. Per the Committee Charter, the Audit Committee shall **conduct an annual self-evaluation of its performance,** including its effectiveness and compliance with the charter and request the Board approval for proposed changes.
- **Deficiencies:** None.
  - **Evaluation:** This Committee responsibility should be undertaken annually.
  - **Recommendations:** The Committee should annually conduct a self-evaluation of its performance.

### 3. Summary Self Evaluation of Audit Committee Functions During Calendar Year 2011

- **Successes**
  - The Committee complied with its functions as regards meetings, organizational and regulatory compliance.
  - The Committee complied with its functions as regards operating responsibilities and functions.
- **Deficiencies**
  - None
- **Recommendations**
  - The audit annually should be delivered in a timely fashion so that the Audit Committee and Board can review it, and the Board can approve it, and it can be included in the Annual Report and transmitted to NYS ABO prior to the March 31 submission deadline.

- The Audit Committee should review management’s annual assessment of the effectiveness of the Authority’s internal controls, and make recommendations to the STERA Board for its approval and for undertaking any corrective actions implied by the assessment.
- The Audit Committee should review the Committee’s charter annually, reassess its adequacy, and recommend any proposed changes to the Board of the Authority. The Audit Committee charter should be updated as applicable laws, regulations, accounting and auditing standards change.
- The Committee should annually conduct a self-evaluation of its performance.
- Additionally, the Committee should undertake the other recommended actions noted above, some of which are appropriate only when certain circumstances arise.

**Approved by the Audit Committee  
And  
Submitted to the Board of Directors of the  
Chautauqua, Cattaraugus, Allegany, and Steuben  
Southern Tier Extension Railroad Authority  
On March 5, 2012**

\_\_\_\_\_  
**Secretary**

\_\_\_\_\_  
**Date**