



Management should assess the risk exposure and associated vulnerability of each function and assign a corresponding risk level (i.e. high, medium, or low). Risk can originate both internally and externally. Control activities should be tailored to the individual operation based on management's identification and evaluation of applicable risks.

Once a risk is identified, management must determine how to best handle it by evaluating its significance, likelihood, and cause. Based on the assigned risk levels, management should determine how frequently to review the controls in place for each function (i.e., high risk functions to be reviewed more frequently than lower risk functions).

1. Internal Controls (1.1)

Internal Controls are the policies, practices, attitudes, guidelines and other actions adopted by the authority that, when followed, provide reasonable assurance that 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. Management and staff throughout the organization should understand and be aware of the policies and practices in place to ensure that the authority is effective and to address the risks that are relevant to the operation.

2. Assessment of Internal Controls (2.1)

The assessment of internal controls should be a structured and monitored process to identify and report any weaknesses of the internal control structure to the authority. This process should determine if the existing control structure and procedures are adequate, to then mitigate risk, minimize ineffectiveness and deter opportunities that could lead to the abuse of assets. The assessment should provide management with information as to whether the authority's policies and operating practices were understood and executed properly, and whether they are adequate to protect the organization from waste, abuse, misconduct, or inefficiency. This assessment can be completed through a combination of inquiry and observation, a review of documents and records, or by replicating transactions to test the sufficiency of the control system.

3. Corrective Action (3.1)

When a weakness is identified, a corrective action plan should be developed, adopted by the board, and monitored by management to ensure that the vulnerability is addressed.

4. Reporting (4.1)

Pursuant to the New York State Governmental Accountability, Audit and Internal Control Act of 1987 (Internal Control Act), as revised in 1999 and in accordance with New York State Division of the Budget Policy and Reporting Manual Item B-350, State authorities can satisfy the certification stipulated in Manual Item B-350, submitting this certification of compliance to the Division of the Budget, and posting the document on their official websites.

To satisfy the requirement of Section 2800 (2)(a)(8) of Public Authorities Law, the Watervliet LDC will incorporate, within the annual report, 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 will be posted to the authority's website. An example of this statement is provided below:

*This statement certifies that management has documented and assessed the internal control structure and procedures of the [name of Authority] for the year ending [Month, Date, Year]. This assessment found the authority's internal controls to be adequate, and to the extent that deficiencies were identified, the authority has developed corrective action plans to reduce any corresponding risk.*

In addition, the authority should retain documentation to support the assessment of its internal controls. If the authority has found any deficiencies with the internal controls over its functions or operations, additional documentation should be maintained to demonstrate that the authority has adopted corrective action plans to address these weaknesses. This documentation should be made available upon request to the authority's independent auditor or to ABO compliance review staff.

**Public Authorities Reporting Information System (PARIS):** As part of the PARIS Annual Report tab, the Watervliet LDC will be required to indicate whether or not they have prepared this assessment and to provide the URL link to the statement, if available.