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STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**

October 22, 2004

Mr. Kevin J. Plunkett  
Chairman  
Greenway Conservancy for the Hudson River Valley  
Capitol Building, Capitol Station, Room 254  
Albany, NY 12224

Re: Report 2004-Q-11

Dear Mr. Plunkett:

Pursuant to the New York State Governmental Accountability, Audit and Internal Control Act of 1987, as revised in 1999, the management of the Greenway Conservancy for the Hudson River Valley (Conservancy) is responsible for establishing and maintaining an effective system of internal controls and a program of internal control review. State agencies and authorities must annually certify their compliance with important provisions of internal control to the Division of the Budget (DOB) in accordance with Budget Policy and Reporting Manual Item B-350. The Conservancy's management is responsible for the certification. Our responsibility is to express an opinion on the certification based on our examination.

**Background**

The Conservancy is a public benefit corporation established by the Hudson Valley Greenway Act of 1991. The Conservancy was created to continue New York State's commitment to the preservation, enhancement and development of the scenic, natural, historic, cultural and recreational resources of the Hudson River Valley, while continuing to emphasize economic development activities and remaining consistent with the tradition of municipal home rule. The Conservancy provides two grant programs and technical assistance to municipalities and nonprofit organizations. The Conservancy consists of a 26-member advisory board and 5 staff. In the fiscal year ended March 31, 2004, the Conservancy was budgeted about \$313,000, the majority of which was from a State appropriation and from Federal government grants.

**Examination Objective and Methodology**

The objective of our examination was to determine whether the Conservancy's certification for the year ended March 31, 2004 is fairly stated in all material respects. Our examination was conducted in accordance with Generally Accepted Government Auditing Standards, which include the attestation standards established by the American Institute of Certified Public Accountants. Accordingly, we examined, on a test basis, evidence supporting the existence of a system of internal

controls over basic financial functions and performed such other procedures as we considered necessary in the circumstances. In particular, we performed tests to determine whether management has established policies and procedures that provide an appropriate level of internal control over basic financial operations and to determine whether the Conservancy's employees follow those policies and procedures.

To accomplish this objective, we interviewed appropriate Conservancy officials and reviewed applicable policies and procedures governing the following significant financial operations: board oversight and governance; revenue and collections; cash and investments; payroll; procurement and contracting; equipment and asset management; budgeting and expenditure control; and accounting and information systems. We interviewed Conservancy staff responsible for these financial operations and performed limited compliance testing to provide assurance that Conservancy employees follow established policies and procedures.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under Generally Accepted Government Auditing Standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

### **Results of Examination**

Conservancy management did not file the required certification with DOB for the fiscal year ended March 31, 2004. Accordingly, we cannot issue an opinion. However, on June 15, 2004, the Executive Director sent a letter to DOB indicating the steps the Conservancy would take to be in compliance by March 31, 2005. These steps include:

- Updating internal controls to reflect current administrative changes by September 30, 2004;
- Completing all risk assessments and vulnerability assessments by December 31, 2004; and
- Completing all reviews and filing the certification by March 31, 2005.

Our examination, as of September 17, 2004, indicates that the Conservancy has made progress in completing these steps. We also determined that the Conservancy has an adequate system of internal controls over financial operations and employees adhere to existing policies and procedures. (A summary table addressing specific questions related to each of the Conservancy's basic financial operations is attached as Table I.)

Major contributors to this examination were John Buyce, Joel Biederman, Greg Petschke, Mike Durkin, Steve Capozza, Jeremy Zierler and Joseph Nopper.

We welcome your comments in response to this examination. We wish to express our appreciation to the management and staff of the Conservancy for the courtesies and cooperation extended to our auditors during this examination.

Very truly yours,

Frank J. Houston  
Audit Director

cc: Robert Barnes, Division of the Budget

**GREENWAY CONSERVANCY FOR THE HUDSON RIVER VALLEY  
INTERNAL CONTROLS OVER BASIC FINANCIAL OPERATIONS**

A colored “traffic light” legend is included in the table below to assist management in focusing an appropriate level of attention on the issues identified in the Conservancy Activities and Comptroller’s Comments sections of the Examination Findings.

**Legend:**

	Activities/Comments contain matters that should be of immediate concern to management.		Activities/Comments contain matters which management should consider correcting.		Activities/Comments do not contain issues that require management’s immediate consideration.
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**Examination Findings:** As part of our examination, we sought answers to a series of questions and reviewed selected Conservancy records related to certain basic financial operations. Our questions in each area, along with a summary of the Conservancy’s activities and our comments, are presented below.

	QUESTION	CONSERVANCY ACTIVITIES	COMPTROLLER’S COMMENTS
<b>Board Oversight &amp; Governance:</b>			
	Does the Conservancy’s Board of Directors function in a manner that promotes an ethical business climate within the organization and encourages and supports full compliance with all applicable laws, rules and regulations?	The Conservancy’s by-laws and the Environmental Conservation Law establish the Board’s responsibilities and duties. The Board meets monthly and the minutes to these meetings indicate that the Board is properly discharging the duties assigned to it. However, the Board has not adopted a formal ethics policy.	Board minutes indicate that the Board actively oversees the Conservancy’s operations. Because the Conservancy’s annual non-personal service costs are only about \$41,000, the risk of Board members unjustly enriching themselves is slight, somewhat mitigating the absence of a formal ethics policy.
	Has the Board of Directors established appropriate internal controls that promote the economic, efficient and effective operation of the Conservancy consistent with its statutory public benefit mission and that provide for transparency and accountability in pursuing its strategic business objectives?	The Board has established appropriate internal controls that promote the economic, efficient and effective operation of the Conservancy. Conservancy management keeps the Board apprised of business transactions and the Board provides the proper level of oversight and approval for these transactions.	Our examination indicates that the Board has established appropriate internal controls for Conservancy operations and that these controls are working as intended.

	QUESTION	CONSERVANCY ACTIVITIES	COMPTROLLER'S COMMENTS
<b>Revenue &amp; Collections:</b>			
	<p>Do the Conservancy's internal controls provide assurance that revenues are billed timely and accurately and are recorded properly in the accounting records?</p>	<p>The Conservancy has no revenue sources that it bills on a recurring basis. It receives the majority of its funding from a State appropriation and from several Federal grants.</p>	<p>No formal system of billing is necessary.</p>
	<p>Do the Conservancy's internal controls provide assurance that revenues are being collected timely?</p>	<p>Because it receives the majority of its funding from a State appropriation and from several Federal grants, the Conservancy has no need for a formal accounts receivable and collection system. The Conservancy ensures that it receives grant moneys and it draws down the State appropriation as necessary to meet its needs.</p>	<p>Our examination indicates that the activities described to us by Conservancy management are occurring.</p>
<b>Cash &amp; Investments:</b>			
	<p>Do the Conservancy's internal controls provide assurance that cash and investments are properly safeguarded, accounted for, and deposited into the appropriate accounts?</p>	<p>All cash received by the Conservancy is deposited within 24 hours. The Conservancy properly separates the responsibilities for cash handling, banking activities and recording activities. All transactions are approved and/or reviewed by the Executive Director. These controls provide assurance that the Conservancy's cash and investments are properly safeguarded, accounted for, and deposited into the appropriate accounts.</p>	<p>Our examination indicates that Conservancy staff are following the prescribed procedures and that the internal controls are working as intended.</p>
	<p>Do the Conservancy's internal controls provide assurance that cash disbursements are properly authorized and recorded?</p>	<p>All Conservancy disbursements are reviewed and approved by the Executive Director. Separate staff members are responsible for preparing and issuing the checks and recording the payments in the accounting records. These controls provide assurance that cash disbursements are properly authorized and recorded.</p>	<p>Our examination indicates that Conservancy staff are following the prescribed procedures and that these controls are working as intended.</p>

	QUESTION	CONSERVANCY ACTIVITIES	COMPTROLLER'S COMMENTS
<b>Payroll:</b>			
	<p>Do the Conservancy's internal controls provide assurance that employee time and attendance records are accurate and that leave time is accounted for and recorded properly?</p>	<p>One staff person maintains records of all employee time off and verifies these records to the time sheets when they are submitted. The Executive Director approves all time sheets. An external payroll company processes the time sheets and compiles the accrual records for each employee. These policies and procedures provide assurance that employee time and attendance records are accurate and that all leave time is accounted for and recorded properly.</p>	<p>Our examination indicates that Conservancy staff are following the policies and procedures and that the internal controls are operating as intended.</p>
	<p>Do the Conservancy's internal controls provide assurance that payroll changes (e.g., additions, deletions, and overtime) are processed accurately and timely?</p>	<p>The Conservancy's internal controls provide assurance that payroll changes are processed accurately and timely. The Executive Director approves all additions and deletions, and employees do not earn overtime. The Conservancy had only one addition and no deletions to the payroll during our examination period.</p>	<p>Our examination indicates that Conservancy staff are following the policies and procedures and that the internal controls are operating as intended.</p>
<b>Procurement &amp; Contracting:</b>			
	<p>Do the Conservancy's internal controls provide assurance that purchases are authorized, received, and recorded properly?</p>	<p>The Conservancy has properly segregated the requesting, authorizing and recording functions. All large dollar purchases must be approved by the Deputy Director of Budget and the Executive Director. The procurement policies provide assurance that purchases are authorized, received, and recorded properly.</p>	<p>Our examination indicates that Conservancy staff are following the procurement policies and that the internal controls are operating as intended.</p>
	<p>Do the Conservancy's internal controls provide assurance that purchases are reasonable and necessary and made in an economical and efficient manner?</p>	<p>Most of the Conservancy's purchases are inexpensive supplies procured through DOB. For large-dollar items, the Conservancy follows State and Federal purchasing and contracting guidelines. The policies and procedures provide assurance that purchases are reasonable and necessary and are made in an economical and efficient manner.</p>	<p>Our examination indicates that Conservancy staff are following the procurement policies and that the internal controls are operating as intended.</p>

	QUESTION	CONSERVANCY ACTIVITIES	COMPTROLLER'S COMMENTS
<b>Equipment &amp; Asset Management:</b>			
	<p>Do the Conservancy's internal controls provide assurance that equipment acquisitions and dispositions are authorized and recorded properly, and that a comprehensive inventory of equipment is maintained?</p>	<p>All equipment acquisitions and dispositions are approved by the Deputy Director of Budget and the Executive Director. The Deputy Director of Budget maintains the comprehensive inventory of equipment items. The internal controls provide assurance that equipment acquisitions and dispositions are authorized and recorded properly and that a comprehensive inventory is maintained.</p>	<p>Our examination indicates that Conservancy staff are following the equipment policies and procedures and that the internal controls are working as intended.</p>
	<p>Do the Conservancy's internal controls provide assurance that equipment is secured properly and used as intended?</p>	<p>The Conservancy has policies that limit the personal use of Conservancy equipment by staff. The internal controls provide assurance that equipment is secured properly and used as intended.</p>	<p>Our examination indicates that Conservancy staff are following the equipment policies and procedures and that the internal controls are working as intended.</p>
<b>Budgeting &amp; Expenditure Control:</b>			
	<p>Do the Conservancy's internal controls provide assurance that the Conservancy's annual budget is prepared accurately and timely?</p>	<p>The Conservancy's internal controls provide assurance that the annual budget is prepared accurately and timely. The Deputy Director of Budget prepares an initial budget, which must be approved by the Executive Director and the Board. The approved budget is then enacted temporarily until the State's budget is passed. The budget would be amended, if necessary, to reflect any change in the State appropriation to the Conservancy.</p>	<p>Our examination indicates that the budget policies and procedures are being followed and the internal controls are operating as intended.</p>

	QUESTION	CONSERVANCY ACTIVITIES	COMPTROLLER'S COMMENTS
	<p>Do the Conservancy's internal controls provide assurance that actual operating results are monitored against budgeted estimates and that appropriate revisions to current and future budgets are made as warranted by these operating results?</p>	<p>The Deputy Director of Budget monitors all expenditures against budgeted amounts and prepares a quarterly spreadsheet comparing budgeted to actual expenditures, making any necessary changes as a result of unforeseen circumstances. Any increases to the budget must be approved by the Chairman. These internal controls ensure that actual results are compared to the budget and that revisions are made as necessary.</p>	<p>Our examination indicates that Conservancy staff are following the budgeting and expenditure control procedures and that these internal controls are operating as intended.</p>
<p><b>Accounting and Information Systems:</b></p>			
	<p>Do the Conservancy's accounting and information systems provide assurance that management has access to timely, accurate and relevant information?</p>	<p>The Conservancy's accounting and information systems provide assurance that management has access to timely, accurate and relevant information. The Conservancy uses commercial software to maintain its accounting data. Accounting transactions are posted timely and all necessary information is provided to the Executive Director and the Board. Conservancy databases are maintained on systems at the State Office for Technology (OFT).</p>	<p>Our examination indicates that the Conservancy's accounting and information systems provide timely, accurate and relevant information to management.</p>
	<p>Do the Conservancy's internal controls provide assurance that the accounting and information systems are secure and that the information is recoverable in case of system failure?</p>	<p>The accounting system is accessible by only two individuals who must use their own passwords. The rest of the Conservancy's data is maintained on OFT's system, which is also password protected. The Conservancy has Internet access through an OFT proxy server with several firewalls. Both the accounting data and the OFT databases are backed up regularly, and backups are stored offsite. The Conservancy has a disaster recovery plan through OFT. These internal controls provide assurance that the accounting and information systems are secure and that the information is recoverable in case of system failure.</p>	<p>Our examination indicates that the internal controls are in use and operating as intended.</p>