

## Assessments of the Effectiveness of Internal Controls

Operations of the New York City Municipal Water Finance Authority (the “Water Authority”) are carried out by staff of Water Authority and of the New York City Office of Management & Budget (“OMB”) utilizing the office space and computer systems of OMB.

The human resource management functions, including payroll responsibilities (processing and timekeeping) for employees of OMB and the Water Authority are performed by OMB’s Personnel Management and Administration unit. The City’s Office of Payroll Administration (“OPA”) processes the payroll, prepares and files all required payroll returns, including W-2s, and makes all payments from an account funded by the Water Authority. Thus, controls over these areas of operations are maintained by OMB and OPA in accordance with City policies.

The computer systems management, security, business continuity planning and related functions for the Water Authority are carried out by OMB’s Information Systems Unit. Thus, controls over this area are likewise maintained by OMB in accordance with City policies.

The accounting, financial reporting, cash management and related functions are carried out relying on the following controls:

- Dual signatures are required for all disbursements (via wire transfer or check).

- Vendor payments are checked by the accounts payable unit to prevent duplicate payment and are approved by the manager responsible for the goods or services received.

- Employee reimbursements are appropriately documented and approved by the employee’s supervisor.

- Checking and trustee investment accounts are reconciled regularly and reconciliations are reviewed and approved by an accounting manager.

- All other accounting entries are prepared based on (and reconciled to) trustee account statements and are reviewed and approved by an accounting manager.

The system of controls applicable to the Water Authority was recently reviewed in conjunction with the annual filing of a formal NYC Directive One checklist and certification for the Water Authority. This review affirmed that there are no material control weaknesses to be reported.

The Water Authority undergoes an annual financial statement audit by an independent CPA firm. While auditors are not engaged to perform an audit of internal controls, auditors do provide management letter comments when they encounter control weaknesses. No material weaknesses have been identified for the Water Authority.

In summary, the present internal control structure appears to be sufficient to meet internal control objectives that pertain to the prevention and detection of errors and irregularities.