

## 2014-15 INTERNAL CONTROL SUMMARY & CONCLUSION FORM

This Internal Control Summary and Conclusion Form provides supporting documentation for Empire State Development's level of compliance with the requirements of the Internal Control Act. The form summarizes pertinent information about the annual assessment and reflects the President and CEO's review of the assessment.

Section 2800 (1)(a)(9) and Section 2800 (2)(a)(8) of Public Authorities Law require all public authorities to complete an annual assessment of the effectiveness of their internal control structures and procedures (source: Authority Budget Office - *Recommended Governance Practice Bulletin on Internal Controls*).

Additionally, State authorities with a majority of the members appointed by the Governor must establish and maintain a system of internal control and a program of internal control review as provided in Title 8 of Public Authorities Law.

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**Empire State Development**

**Thomas P. Brennan**

**212-803-3579**

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**Authority Name**

**Date**

**Completed by (Name)**

**Phone**

**Note:** This report pertains to New York State Urban Development Corporation and its subsidiaries, doing business as Empire State Development ("ESD").

ESD's related agency (Department of Economic Development – DED) is being reported in a separate Internal Controls Certification Report.

This Summary and Conclusion Form pertains to ESD and Job Development Authority (JDA). For simplicity, references to "ESD" in this document refer to both ESD and JDA.

**A. Establish and maintain guidelines for a system of internal controls for the authority.** Internal control guidelines communicate an organization's management and programmatic objectives to its employees and provide the methods and procedures used to assess the effectiveness of its internal controls in supporting those objectives. Internal control guidelines should:

1. State the authority head's support of internal controls to provide staff with an understanding of the benefits of effective controls;
2. Identify the authority's primary responsibilities and objectives;
3. Explain how internal controls are organized and managed;
4. Define responsibilities of authority management, supervisors and staff;
5. Acknowledge that internal controls adhere to accepted standards; and,
6. Describe the organization's process for evaluating internal controls.

**For this requirement, the authority is: Fully Compliant**

**Provide a thorough explanation of the specific actions your authority has taken, or which are needed, to comply with this requirement.**

*Internal Control Guidelines addressing above points have been distributed to ESD personnel and are posted on the ESD Intranet.*

*Each year, Senior Management takes steps to effectively communicate information within the company via firm-wide broadcast messages, press releases and periodic meetings. ESD staff is encouraged to provide feedback to Senior Management. Policy and procedural changes are communicated to employees as appropriate.*

*The organization's process for evaluating internal controls – see next page.*

**B. Establish and maintain a system of internal controls and a program of internal control review for the authority.** The system of internal control should be developed using the COSO (Committee of Sponsoring Organizations of the Treadway Commission) conceptual framework adopted in the *Standards for Internal Controls in New York State Government*, and should incorporate COSO's five basic components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring.

The program of internal control review shall be a structured, continuing and well documented system designed to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of necessary corrective actions and periodically assess the adequacy of the authority's internal controls.

Organizations can adopt a system of internal control review tailored to their needs, size and degree of centralization. The procedures for evaluating the adequacy of that system also vary, but at a minimum should:

1. Identify and clearly document the primary operating responsibilities (functions) of the authority.
2. Define the objectives of these functions so they are easily understood by staff accountable for carrying out the functions.
3. Identify/document the policies and procedures used to execute functions.
4. Identify the major functions of each of the authority's assessable units.
5. Include a process and cycle used to assess risk and review controls for major functions. *(Describe the process used to review the authority's internal controls and list all high-risk activities and indicate which were reviewed during 2014-15.)*
6. Assess the risks and consequences associated with controls failing to promote the objectives of major functions. *(Identify the significant deficiencies revealed during the 2014-15 review process. Outline the actions taken, or planned, to eliminate those deficiencies, highlighting the most important improvements made during the year.)*
7. Test controls to ensure they are working as intended (see the Manager's Testing Guide which can be downloaded from BPRM Item B-350). *(Summarize specific actions the authority has taken to install a compliance testing program. Describe actions taken during 2014-15 to verify test results and expand the testing program.)*
8. Institute a centrally monitored process to document, monitor and report deficiencies and corrective actions. *(Describe the monitoring system installed to verify that corrective actions are taken. Discuss the extent to which IT systems are used to track actions.)*

**For this requirement, the authority is: Fully Compliant**

In addition to providing a thorough explanation of the specific actions your authority has taken, or which are needed, to comply with this requirement, please describe briefly your authority's process for reviewing and testing controls and monitoring corrective actions. Also list all high-risk activities which were reviewed during the past year, and the results of those reviews.

*ESD emphasizes operating in a well-controlled manner as a normal course of business. Department and subsidiary heads and program managers are annually requested to identify/update key risks and related key controls, and to identify and address control gaps, if any.*

*When control gaps are identified, either during the annual review or at other times, those personnel are expected to address it appropriately. Essentially, ESD's controls have been evaluated and deemed to be satisfactory - see also the discussion regarding disaster recovery preparation efforts below.*

*The Internal Control Officer reviews and evaluates annual risk/control submissions and compiles a Control Enhancements summary, should any potential control enhancements be identified, for submission to executive management.*

*ESD management understands that restrictions on funding for programs and projects in the continuing tight budgetary environment will have some impact on ESD's execution of its mission to foster economic development in NYS. Management has acted, and will continue to act, strategically to maximize ESD's impact with personnel and other resources at its disposal.*

### **Specific Higher Risk Activities**

- a. *Disbursement functions: Accounts Payable; Administrative Services (procurement and bidding); Contracts Administration; Treasury Disbursements*
- b. *Subsidiary Operations (Development Corporations: primarily Erie Canal Harbor; Harlem Community; Moynihan Station; New Markets Corp.; USA Niagara); and ESD's Subsidiary Finance Dept.*
- c. *Treasury – Cash Management; Debt; Investments*
- d. *Controllers (Bank and Other GL Account Reconciliations, GL Accounting)*
- e. *Loans & Grants (Grant/Loan Screening, Approval, Processing, Disbursement)*
- f. *Portfolio Management (Enforcement of Grantee Compliance Requirements)*
- g. *IT Functions*

*Annually, ESD conducts internal audits or performs internal control reviews and analyses on all of the above areas, unless an audit is imminent in the ensuing fiscal year. No critical issues were noted in recommendations made during those audits. ESD department personnel review and document key risks and key controls. ESD's annual external audit also includes a review and test of controls. ESD's Audit Committee reviews ESD's audited financials (unqualified opinion every year, including y/e 3/31/14); financials are presented to ESD Board annually.*

*In a few key areas (e.g., ESD investments and debt, which result in multiple schedules and pages of footnotes in ESD's financial statements), Internal Audit determined that internal audit work would be largely redundant and thus limits its work to review of the detailed annual audited financial statement information in those areas; this has been a successful way to limit internal audit staffing and costs.*

*Also, Internal Audit evaluates and tests key controls for a significant portion of ESD areas each fiscal year, and considers the extent of external auditor coverage when determining its annual audit plan. ESD's experienced internal auditors conduct controls testing during its audits.*

*Audits are designed to focus on key risks and controls. ESD's department and division managers are aware to monitor control adequacy and to look for possible control improvements and formally evaluate and document key risks and controls annually, subject to screening and evaluation by ESD's Internal Control function.*

*Internal audit reports are issued to executive management, the Audit Committee's members, and other responsible managers following each audit.*

*If an internal audit has neither been conducted recently nor will be conducted within the next several months, other coverage of key risk functions occurs as part of this certification effort (e.g., internal control testing, analytical reviews, discussions with managers and department heads, reviews of quantitative data, etc.). This overall approach results in comprehensive ongoing coverage of controls in ESD.*

*Minor matters resulting from each year's I/C certification process are summarized and communicated to executive managers for their awareness. Significant matters would be reported in this document. No such items needed to be reported this year.*

*Internal Audit follows up periodically on audit report recommendations. Internal audits performed did not identify critical issues requiring current management attention in 2014/15. This year's annual internal control documentation process identified no high risk issues in need of corrective action. While follow up on outstanding audit comments each year has been sufficient, a database to track the status of corrective actions for audit issues has recently been redeveloped and will be used to follow up on the status of open comments more systematically.*

*Disaster recovery preparedness has been a priority for ESD and is considered satisfactory. Essential steps to be prepared for disaster recovery will continue, as in 2014-15 and prior fiscal years.*

*ESD has completed its plan to set up and operate its systems in a virtual environment in its main (NYC) office, replicated to its Albany site. Successful failover testing from NYC to the Albany site was performed with highest critical applications and associated business units in mid-2014. ESD Business Resumption Plans were instituted, with annual review and update to begin shortly by the department heads and the Information Security Officer. Iterative testing will be executed in 2015-16 by ESD as part of an on-going effort to safeguard its ability to function in the event of a major disaster impacting the NYC office.*

*ESD continues to participate in the ITS Virtual Desktop Infrastructure and in Office 365 shared services.*

- C. Make available to each officer and employee of the authority a clear and concise statement of the generally applicable management policies and standards with which the officer or employee of such authority shall be expected to comply, along with detailed policies and procedures the employees are expected to adhere to in completing their work.**

The statement should set an appropriate tone at the top, reflecting authority management's expectations. It should be issued periodically and emphasize the importance of effective internal controls to the authority and the responsibility of each officer and employee for effective internal controls.

Managerial policies and procedures for the performance of specific functions are articulated in administrative manuals, employee handbooks, job descriptions and applicable policy and procedure manuals. While it is not necessary for all employees to possess all manuals, employees should be provided with, or have access to, applicable policies and procedures for their position.

**For this requirement, the authority is: Fully Compliant**

**Provide a thorough explanation of the specific actions your authority has taken, or which are needed, to comply with this requirement.**

- a. *Periodically, executive management issues statements that reinforce the "tone at the top," emphasizing the importance to ESD of effective internal controls and the responsibility of personnel for such controls.*
- b. *ESD personnel have appropriate access to management policies and standards with which officers and employees of ESD are to comply, and policies and procedures to which employees adhere.*
- c. *In general, managerial policies and procedures for the performance of specific ESD functions are documented in administrative manuals, employee handbooks, job descriptions and policy and procedure manuals. Those are made available to employees, as appropriate.*

- D. Designate an Internal Control Officer (ICO), who shall report to the head of the authority or to their designee within the executive office, to implement and review the internal control responsibilities established pursuant to this Item. The designation of the ICO should be communicated to all employees.** The ICO works with appropriate personnel within the authority to coordinate the internal control activities and to help ensure that the internal control program meets the requirements established by BPRM Item B-350. Although the ICO evaluates the adequacy of the internal control reviews, program and line managers are primarily responsible for conducting reviews to assure adherence to controls and for analyzing and improving control systems. The ICO should be an individual with sufficient authority to act on behalf of the authority head in implementing and reviewing the authority's internal control program. This individual should have a broad knowledge of the authority's operations, personnel and policy objectives.

**For this requirement, the authority is: Fully Compliant**

**Provide a thorough explanation of the specific actions your authority has taken, or which are needed, to comply with this requirement.**

*The ICO function is under the Director of Compliance for ESD; the Internal Audit Director (IAD) of ESD had held that role, and is assisting in the transition to the new ICO.*

*As noted in prior years, ESD had established this coupling of responsibilities between the ICO and IAD roles, viewed as cost-effective and not incompatible; when ICO/IAD has made control enhancements recommendations, he did not implement or mandate specific recommended actions; those were determined by management.*

*Senior management evaluates the recommendations and implement changes that it determines, and which it deems appropriate. Internal Audit follows up as needed on the implementation of recommended and agreed-to actions.*

*As a check and balance for when the Audit Director was also ICO, the IAD reports recommendations to ESD's Audit Committee and would alert them to any significant recommendations IAD deemed were not addressed properly. Up to this time, this has not been necessary because ESD continues to value a strong internal control environment and has proven to implement recommendations appropriately. Also, IAD will periodically follow up on the status of key recommendations, and report on same as appropriate to the Audit Committee and management.*

*Please see responses in the preceding pages of this document with regard to internal control evaluation and testing. The ICO and Internal Audit evaluate the adequacy of internal controls in conjunction with ESD staff, program personnel and line managers.*

*The ICO has the appropriate authority to act on behalf of ESD in implementing and reviewing the authority's internal control program.*

*The IAD (who had been, and now is the prior ICO) has 12 years with ESD, and over 30 years of audit/internal controls experience, providing a strong and broad knowledge of ESD operations, personnel and policy objectives.*

**E. Implement education and training efforts to ensure that officers and employees have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.**

Authorities should identify staff requiring internal control training and the depth and content of that training. Such education and training should be on-going with specific courses directed at line staff, middle managers and executive management. For organizations that have established internal audit functions, training and education should be offered on the appropriate role of the internal auditor within the organization's internal control system.

**For this requirement, the authority is: Fully Compliant**

**Provide a thorough explanation of the specific actions your authority has taken, or which are needed, to comply with this requirement.**

*In 2013, a representative of the Division of Budget (with active input from the ICO) was requested by the ICO to provide ESD employees with training on internal controls, their importance in the workplace, and the New York State Internal Control Act. Attendance was strong for this program with a large majority attending, and attended as well by many personnel of Department of Economic Development, ESD's sister agency.*

*In addition to this past presentation, it is clear, through ongoing interactions with many personnel in the organization, that there is a good awareness and understanding of internal controls and the reason for them. In addition, personnel are aware of ESD's Internal Audit role in assessing and testing compliance with internal controls in its audits throughout the organization.*

*Going forward, ESD continues to assess internal control training needs and address those needs as appropriate. ESD Human Resources evaluated SLMS 2014/15 risk management training and made it available to all employees, and rolled out several other courses, including an on-line internal controls review course, in 2014/15.*

**F. Periodically evaluate the need to establish, maintain or modify an internal audit (IA) function. If an IA function exists, it should operate in accordance with generally accepted professional standards for internal auditing.** Agencies on DOB's list of agencies required to establish IA functions – and those choosing to have an IA function – are required to comply with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (see BPRM Item B-350 Section III "IA Responsibilities").

As outlined in BPRM Item B-350, agencies are required to periodically evaluate the need to establish, maintain or modify an IA function utilizing the *Internal Audit Evaluation Criteria (Attachment C)*.

Authorities concluding that an IA function is warranted should submit their evaluation to DOB as outlined in BPRM Item B-350. Periodically thereafter, authorities with IA functions should review current operations to determine whether the function should be altered or maintained.

Authorities concluding an IA function is not warranted should periodically reevaluate the need for such a function using Attachment C, especially when organizational, operating, fiscal, program, legal or personnel changes occur which affect the authority's exposure to risk or which could otherwise change the results of the initial assessment.

Pursuant to BPRM Item B-350, agencies required to have – and those entities choosing to have – an internal audit unit should comply with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. Therefore, the IA function should comply with the guidance outlined below regarding organizational placement, independence and reporting.

1. Directors of Internal Audit (DIA) should report functionally to the authority head or audit committee and may report administratively to the designated executive deputy (or equivalent position). If the executive deputy has line or staff duties, the DIA should report directly to the authority head.
2. A current organizational chart should be available that identifies the placement of the IA function, the individual that has responsibility for overseeing the internal audit activity and other organizations/activities under the purview of the DIA.
3. The IA function should be independent of the ICO, but should work closely with the ICO. Limitations should be established on IC activities where those duties overlap. Authorities should identify impairments to the independence of the DIA that may be created where the DIA is performing the ICO function. Furthermore, IA functions should not assume operating responsibilities, perform management functions, make management decisions or assume other monitoring roles (e.g., Information Security Officer).

4. IA staff should complete an annual independence statement identifying actual/potential impairments to independence and notifying the DIA whenever a new actual/potential impairment arises.
5. The IA function should develop an annual risk-based audit plan, track the extent to which audit plans are achieved and monitor implementation of audit recommendations.
6. At a minimum, DIAs should hold quarterly meetings with authority executive management and the audit committee, where applicable, to report on audit activities and results. Final reports should be distributed to the authority head, executive deputy, auditee, ICO and the audit committee.
7. The DIA should assure that authority audit staff have the skills, knowledge and ability to perform the audit work required, and should take steps to assure that the size of the audit staff is appropriate given the size and complexity of the organization.
8. The IA function should take appropriate steps to assure sufficient audit resources are available given the size and complexity of the organization. This can be accomplished by exploring in-sourcing, outsourcing and sharing audit services.

Authorities should specifically provide the following information when presenting their explanation:

1. A current organizational chart identifying the placement of the IA function, the name and title of the IA director, other organizations/activities under the IA function's purview and the name and title of the person to whom the IA director reports.

*ESD's (and JDA's) Internal Audit Director (IAD) is Thomas Brennan, SVP, who had also served as ESD's Internal Control Officer (ICO). This ICO role was recently transitioned to Benson Martin, ESD's Director of Compliance, with continuing assistance and guidance from Mr. Brennan's team as needed.*

*Mr. Brennan reports administratively to ESD's President and CEO and reports directly to ESD's independent Audit Committee.*

2. A description of how the internal audit director's credentials, education and experience meet minimum qualifications established in BPRM Item B-350.

*ESD's Audit Director has an undergraduate BS in Accounting, an MBA in Finance, and is a CPA.*

*The Audit Director has 38 years of audit experience, including 5 years of large CPA firm experience and over 22 years of internal audit managerial experience with large organizations, including having served as ESD Audit Director for 12 years.*

3. A description of how continuing professional education requirements are met by the director and each staff member.

*The Audit SVP is a CPA with extensive audit experience, and Robert White (Audit Manager), the other longstanding Internal Audit staff member, is also a CPA with numerous years of experience at ESD.*

*The Department's 3rd position was filled in December 2014 with Vivian Reichenbach, Audit Director, a highly skilled CISA with considerable financial/operational career audit experience.*

*All IA staff undertake suitable, highly cost-effective training on an ongoing basis that is reported to ESD's external auditors annually.*

4. A description of how quality assurance review requirements were met.

*Since the prior year's internal control certification report, a Quality Assurance Review was scheduled, conducted and completed. The QAR review team issued a QAR report in late 2014 reflecting satisfactory results and acknowledgement of a strong audit function.*

*Staffing level concerns have been largely addressed by hiring a highly experienced, productive auditor (Ms. Reichenbach) rather than a lighter-experienced auditor who would have needed more oversight and likely would have been less productive. Other minor suggestions and recommendations to enhance the internal audit function are being addressed during 2015.*

*The QAR report accompanies this certification.*

5. A description of how the IA function ensures that it does not compromise its independence if it is also responsible for other functions (i.e., internal control, information security or other duties).

*Since 2007 and until recently, ESD's IAD had also served as ICO. ESD saw this combination of ICO and IAD duties as more cost-effective than maintaining these roles under separate individuals, a significant consideration in this very tight cost environment.*

*ESD did not view this as compromising Audit independence as Internal Audit recommended improvements, but did not design or implement controls.*

*As previously noted, ESD's Director of Compliance has been assigned the ICO function, working closely with Internal Audit in the annual internal control self assessment solicitation and review process..*

6. A copy of the 2014-15 internal audit plan.

*2015-16 audit plan (attached) was discussed with and approved by the Audit Committee in February 2015.*

7. Documentation pertaining to the risk-assessment utilized in formulating the 2014-15 audit plan.

*Internal Audit evaluates risk during each audit it performs, and develops a Risk Assessment Matrix and process control and informational narratives for each, identifying key risks and controls, and ties those into audit work performed. Many ESD functions have been audited several times in the Audit Director's 12 year tenure. Several newer functions and programs (e.g., Start-up NY) will be audited for the first time in 2015.*

*Also, department and subsidiary heads' risk/control submissions are closely scrutinized to assess potential impact on the annual audit plan.*

8. An indication of which audits in the audit plan for FY 2014-15 were not conducted, and an explanation as to why they were not conducted.

*Unlike all prior years, when most audits planned for a given audit plan year were completed, the loss of 1 of Internal Audit's 3 staff members (due to transfer) in late 2013 resulted in the loss of seven months of audit time (when the department was at a headcount of just 2, due to slow hiring processes).*

*The Audit SVP spent considerable time in 2014 interfacing with the QAR team during the conduct of the QAR review. The reduction in staff and the difficulty in replacing the departed staff member reduced Internal Audit's output in 2014.*

*Several planned audits were therefore not commenced in 2014/15. This was thoroughly communicated with ESD's (now former) CEO Kenneth Adams, and with its audit committee, and a 15-month plan (1/1/15 through fiscal year ending 3/31/16) was developed. This plan (a copy of which was provided to the current CEO) includes audits delayed in 2014 due the above reasons. Internal Audit's plans provide an effective plan of coverage through 3/31/17 at present staff levels. Please refer to the audit plan document for further details.*

9. An estimate of the cost savings to be achieved by virtue of implementing the recommendations contained in each conducted audit described in the FY 2014-15 audit plans and any audits that were conducted during that time period that were not in the audit plan.

*If it is not feasible to provide a cost estimate for savings, please identify process improvements, risk mitigation, fraud prevention or cost avoidance measures that resulted from implementation of such recommendations.*

*It is generally not feasible to provide a cost estimate for savings regarding process improvements, risk mitigation, fraud prevention or cost avoidance measures. Some recommendations, for example, that were made in Internal Audit's BBDO Marketing audit helped further ensure that costs incurred in that large \$\$ expenditure initiative are carefully controlled and monitored.*

10. Identify the recommendations contained in the audits described in the FY 2014-15 audit plans that were not implemented, if any, and provide a full explanation why they were not implemented.

*Internal Audit stays abreast of activities in ESD and performs follow ups on significant prior audit issues.*

*Internal Audit is now tracking all open internal audit and external audit (e.g., OSC) audit recommendations in Excel, and may transfer that data to an Access database format during 2015 to further improve the process.*

*Internal Audit's SVP is satisfied that significant comments are being addressed within reasonable timeframes.*

*Internal Audit notes prior issue resolution, or progress towards issue resolution, when it performs follow up internal audit reviews (and/or during these internal controls certification cycles, or outside the audit/IC cycle (via e mail contacts and conversations with auditees, etc.)).*

*Internal Audit's assessment is that auditees take audit recommendations seriously and constructively, and address comments effectively.*

11. Identify the recommendations contained in final audits issued by the Office of State Comptroller between April 1, 2014 and March 31, 2014 that were not implemented, if any, and provide a full explanation why they were not implemented.

*One OSC audit report was issued, and one was in the final stages, between April 1, 2014 and March 31, 2015:*

- OSC's audit of the BBDO advertising contract is in its final stages (still in draft). OSC noted operational and accounting controls were effective. OSC and ESD were providing their respective perspectives on what constitutes effective tracking of the success of advertising campaigns.*
- An OSC audit (Selected Personal Service Contracts) was issued 4/16/14. It addressed controls over 2 contracts (BDO integrity monitor for the Javits Center renovation, and a contract with a portfolio housing consultant). The Javits renovation has essentially been successfully completed and under budget. The housing portfolio was transferred to another state agency in 2013.*

*Both contracts were deemed by management to have been successful in providing efficient and effective services intended under each contract. OSC also made certain more general recommendations regarding contracting processes and procedures - those have been implemented.*

**For this requirement, the authority is: Fully Compliant**

**Provide a thorough explanation of the specific actions your authority has taken, or which are needed, to comply with this requirement.**

**2014-15 INTERNAL CONTROL CONCLUSION**

**Empire State Development**

Authority Name

**Howard Zemsky, President and CEO**

Authority Head

**633 Third Avenue, New York, NY 10017**

Authority Address

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**Thomas P. Brennan**

Name of Internal Control Officer

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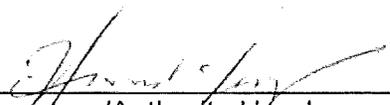
Email Address of Internal Control Officer

I hereby certify the authority is:

**X Fully Compliant**

With the New York State Governmental Accountability, Audit and Internal Control Act.

This conclusion is supported with detailed justification of actions taken and/or outlines specific actions needed to address areas of partial compliance or noncompliance as described in the preceding Internal Control Summary.

  
Signature/Authority Head

4.29.15  
Date

**Note:** As ESD is a Public Authority, DOB indicated that it no longer requires ESD to file this form with DOB. ESD's agency counterpart, DED, is still responsible to file an internal control certification with DOB. For consistency, ESD continues to complete and conclude on (rather than certifying) this and filing it internally, and will share it with the Audit Committee, and with the Office of the State Comptroller when the annual Public Authority Reporting Information System (PARIS) information for ESD is submitted this year.

***EMPIRE STATE DEVELOPMENT***

***ANNUAL PLAN OF AUDIT COVERAGE***

***ESDC AND DED***

***JANUARY 2015 – MARCH 31, 2016***

## **SUMMARY**

Internal Audit continues to handle internal audit functional responsibilities for both ESDC and DED. As it has for the past several years, Audit personnel also coordinated and evaluated ESDC's organization-wide annual Internal Control self-assessment process, under the oversight of its Audit Director, and reported the results to executive management.

In 2015, the role of Internal Control Officer, as it pertains to implementation of new controls and monitoring of control enhancement initiatives, will be handled by ESD's Legal Department's Director of Compliance, who reports to ESD's General Counsel. As in prior years, DED's Internal Control Officer is an Associate Counsel within the Legal Division in Albany.

ESDC, as a public benefit corporation, reported the results of its annual evaluation to the Office of the State Comptroller. DED personnel separately perform an annual DED internal control review, and submitted its completed annual certification to the Division of Budget in April 2014.

The internal control environment was deemed substantially compliant. One matter required resolution: ESD planned to continue to work towards establishing fully redundant off-site systems and then fully testing the processing capabilities of its disaster recovery plan. The current status of that matter will be assessed and reported on in the 2015 annual assessment reports. The Quality Assurance Review (QAR) of Internal Audit functions, a prior open issue, was completed with satisfactory results during 2014.

### **Internal Audit Staffing and Audit Committee Composition**

Audit currently is staffed by 3 highly experienced audit professionals.

In 2011, Audit assumed audit responsibility for DED without increasing staffing. This caused Audit to creatively formulate plans that stretch and fine tune ESDC's and DED's audit cycles for their universes of auditable entities in a manner that maximizes audit coverage with existing staff resources. Greater resources have been directed toward higher risk functions to maximize audit coverage.

Staffing issues since Howard Kramer left the Department in November 2013 resulted in fewer audits being conducted in 2014. Howard's replacement did not work out, and was replaced by a highly skilled individual in December. Howard's departure and the replacement's termination resulted in 7 man-months of lost audit resources between replacements.

ESD's Audit Committee is comprised of members of ESD's Board, including CEO and President (and DED Commissioner) Kenneth Adams, Derrick Cephas, Robert Dyson, and State Superintendent of the Department of Financial Services Benjamin Lawsky (or his designee Anthony Albanese). The Committee meets periodically with the Audit Director and other ESDC senior management team members to review audit matters.

See Appendix A for ESDC's audit plan, Appendix B for DED's audit plan, and Appendix C for available audit time resources, and Appendix D for details regarding coverage of ESD's auditable universe.

The Lower Manhattan Development Corp. subsidiary continues to maintain its own Audit function and Committee; it does not report to the ESD Audit Director.

## **PLAN OF AUDIT COVERAGE \* ESD \* JANUARY 2015 – MARCH 2016**

This audit plan includes 5 quarters, the last quarter of fiscal 2014-15 and the 4 quarters of fiscal 2015-16. It again includes audit resources for coverage of key ESD areas and functions.

Please see appendices for audit plans, auditable universe, and synopsis of available audit resources.

Internal Audit continues to seek to provide audit coverage within a 36 month cycle for areas, with the intent to provide greater frequency of coverage for moderate to high risk functions (with audit coverage provided by others considered in that timing as well). The audit cycle (period of time between audits) may extend beyond that cycle period for functions not deemed high risk. Also, ESDC's larger operating subsidiaries have been audited or received follow up audit work previously, and resources for audits of ESDC subsidiaries are included in the audit plan for this year.

For the audit plans for ESDC and DED, to be conducted by its 3 audit professionals, judgment continues to be employed as to audit timing, as reduced or delayed audit coverage can increase the risk that weaknesses in key controls might not be identified (or identified as timely) and that cost saving recommendations may not be made (or made as timely).

NOTE: Itemized hours remain aggressive. Adjustments will be made as needed, and if major, discussed with the Committee.

Documentation of key risks and related controls continue to be refined by Audit for functions reviewed during its audits; Audit considers risk profiles of organizational functions when developing audit plans.

ESDC's annual activities consistently involve significant Loans and Grants (L&G) functions. Planned audit coverage of L&G functions will continue to require an allocation of resources (for 2015/16, hours allocated to L&G coverage will be towards completion of an audit commenced late in 2014 with the subsequent L&G audit likely to commence in the year 2016).

Within the plan of coverage, Audit will perform follow up work on audit comments in previously issued audit reports as appropriate.

State Comptroller and other external audit reports will be evaluated by Internal Audit upon issuance. Also reviewed are the annual external CPA firm's audit reports for ESDC, Job Development Authority (JDA), Convention Center Development Corp. (CCDC), Harlem Community Development Corp. (HCDC), and Empowerment Zones Corp. Audit assesses whether issues in reports are addressed by ESD management.

Internal Audit plans will consider, and appropriately adapt to, organizational changes which may occur. Also, Internal Audit will also conduct audits upon the request of management, as resources permit. Internal Audit seeks to minimize costs involving travel, continuing professional education, and other non-payroll and related costs where feasible.

Toski & Co.'s annual CPA audits as of March 31, 2015 for ESDC and JDA will be presented to the Audit Committee in June 2015. 2014's report noted no control issues or significant accounting adjustments.

**APPENDIX A – 2 YEAR PLAN: JAN. 2015 THRU MAR. 2017 - ESDC**

<b>Auditable Entity – Planned Audits</b>	<b>RR</b>	<b>15/16 Hours</b>	<b>16/17 Hours</b>	<b>Comments Re: Projected Plan</b>
<b>SMALL BUSINESS SERVICES (SBS):</b> •Community Economic Devel. Dept. (CED) •MWBE, Contractor & Supplier Diversity •Technical, Entrepreneurial Assistance, and Bus. Mentor Programs •Small Bus. Tech. Investment Fund (SBTIF) •State Small Bus. Credit Initiative (SSBCI): Innovate NY Fund; & Small Bus. Rev. Loan Fund, and Capital Access and Surety Bond Programs	3	300	300	2015 audit a portion of SBS. 2016 audit different portions of SBS.
Loans and Grants (L&G)	3	200	400	Complete current audit, and conduct another audit late 2016.
Human Resources	2	0	150	
Accounting – Payroll	2	0	150	
Accounting: Bank/GL A/C Recs, Cash Receipts, GL Postings	2	150	75	Audit first year, follow up in 2 <sup>nd</sup> .
Accounting – Loan Operations	2	0	150	
Accounting – Accounts Payable (A/P)	4	75	200	Internal control testing year 1, conduct an audit in year 2.
Administrative Services	2	0	200	
Contracts Administration (CA) and Procurement	4	275	275	See A/P description above.
Treasury Cash Mgmt / Invest. / Wires	4	0	200	Audited in 2014; Toski reviews annually
Marketing Contract (“State Marketing Strategy Division”)	3	250	250	
<b><u>Subsidiaries:</u></b>		0	0	
• Moynihan Station (MSDC)	3	175	175	Active project: audit 1Q-2Q 2016.
• Javits Center (CCDC) Renovation	3	0	0	Renovation complete.
• Erie Canal Harbor (ECHDC)	3	200	250	Follow up on Global Spectrum issues in 2015; full audit in 2016.
• USA Niagara (USAN)	3	40	150	Completed audit late 2014.
• Queens West (QWDC)	2	25	25	Monitoring. Little activity.
MIS / IT Review	3	325	200	Also see DED hours.
Employment Reports (Actions Re: Firms Not Reaching Target Goals)	3	30	30	Monitor report only unless issues.
Start-Up NY	3	350	150	Large, new high profile program warrants annual coverage.
<b>OTHER:</b>		0	0	
Audits: Management-Requested, or of programs not yet created		200	200	
Internal Audit Peer Review (every 5 yrs)		0	0	
Previous Audit Issues Follow Up		200	250	
Compliance Work		<u>250</u>	<u>250</u>	
<b>TOTAL</b>		<b>3,045</b>	<b>4030</b>	
<b>DED HOURS – carried forward from Appendix B</b>		<b><u>1,225</u></b>	<b><u>1,900</u></b>	
<b>TOTAL CHARGEABLE AUDIT HOURS</b>		<b><u>4,270</u></b>	<b><u>5,930</u></b>	Large # of hours carryover into 2017/18

**Note 1: RR: Risk ratings are very low (1), relatively low (2), moderate (3), and 4 (high).**

**APPENDIX B – 2 YEAR PLAN: JAN. 2015 THRU MAR. 2017 - DED**

<i>Planned Audit Scope</i>	<i>RR</i>	<i>15/16 Hours</i>	<i>16/17 Hours</i>	<i>Comments</i>
Division of Science, Technology and Innovation (NYSTAR)	3	150	300	Follow up in 2015, and an audit in 2016.
Excelsior and Empire Zones	3	150	150	Audit coverage in both years for these programs.
Motion Picture/TV	4	250	150	Ditto
DED Community Econ. Development (CED), incl. MWBE Division	2	0	0	Time reflected in ESDC budget; not split out.
DED Finance (Contract Mgmt, Accounting, Administrative Services, Grants, and Payment Functions)	3	150	350	Limit to basic testing in 2015, audit in 2016.
Payroll and HR	2	0	200	
Global NY (International)	3	225	100	Audit 2015, follow up 2016.
Linked Deposit Program (LDP)	2	0	200	Audited 2013. Low risk; re-audit in 2017.
Tourism	3	0	250	Audit in 2016.
MIS	3	100	100	See also ESDC MIS hours.
Regional Offices (RO)	1	0	0	Cover in other audits.
Broadband	2	200	100	Audit 2015, follow up 2016.
<b><i>Subtotal – carry forward to Appendix A</i></b>		<b><u>1,225</u></b>	<b><u>1,900</u></b>	

**Note 1: RR: Risk ratings are very low (1), relatively low (2), moderate (3), and 4 (high).**

**APPENDIX C**  
**FY 2015/16 AUDIT PLAN RESOURCES**

**SOURCE OF HOURS PER EMPLOYEE – FULL YEAR**

Workdays	262
Less Holidays and Early Leave	(14)
Less Estimated Sick Days	( 4)
Less Estimated Personal Days	( 5)
Less Estimated Training Days	( 5)
Less Estimated Vacation Days	<u>(20)</u>
Estimated Chargeable Days	<u>214</u>
<b>Est. Chargeable Days: 15 mo.</b>	<b><u>267</u></b>

**CHARGEABLE HOURS:**

	<i>Available Workdays</i>	<i>% of Direct Audit Hours</i>	<i>Hours Per Day</i>	<i>Total Available Hours for Audits</i>
Brennan (SVP/Department Head)	267	60%	7.5	1,200
Reichenbach (Audit Director)	214	85%	7.5	1,370
White (AVP)	267	85%	7.5	<u>1,700</u>
<b>TOTAL</b>				<b>4,270</b>

**Personnel Notes:**

Robert White was recently promoted to AVP from Audit Manager during 2014.

Howard Kramer, AVP, transferred to Marketing in Nov. 2013 after several years in Internal Audit.

Howard's replacement was hired as Audit Manager in May 2014, and terminated in November.

Vivian Reichenbach replaced that individual in December, as Audit Director. She works 4 days a week.