

**Public Authorities
Reporting Information
System – Required Postings**

**New York State Urban
Development Corporation
d/b/a Empire State
Development Corporation –
FY 4/1/07 – 3/31/08**

**An Assessment of the
Effectiveness of the
Corporation's
Internal Control
Structure and
Procedures**



Avi Schick
President & Chief Operating Officer

April 30, 2008

Mr. Thomas Lukacs
Division of the Budget
State Capitol
Albany, New York 12224

Re: 2007-2008 Internal Control Certification and Summary Report

Dear Mr. Lukacs:

In compliance with the reporting requirements of the New York State Government Accountability, Auditing and Internal Control Act, attached is the 2007-2008 Internal Control certification and summary report for the New York State Urban Development Corporation (and its subsidiaries) and the Job Development Authority, both d/b/a Empire State Development Corporation (ESDC).

Sincerely,

A handwritten signature in dark ink, appearing to read "Avi Schick".

Avi Schick
President & Chief Operating Officer

Attachment:
2007-2008 Internal Control Certification and Summary Report

CC: Thomas Brennan

Empire State Development Corporation

633 Third Avenue New York, New York 10017-6754 Tel 212 803 3730 Fax 212 803 3734

INTERNAL CONTROL CERTIFICATION

New York State Urban Development Corporation D/B/A Empire State Development Corporation

Authority Name

Avi Schick, Acting Downstate Chairman; Dan Gundersen, Upstate Chairman

Authority Head/Chairperson Governing Board

633 Third Avenue, New York, New York 10017

212-803-3100

Authority Address

Telephone Number

Thomas Brennan 633 Third Avenue, NY, NY 10017

212-803-3579

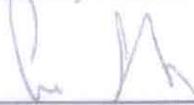
Name of Internal Control Officer Address

Telephone Number

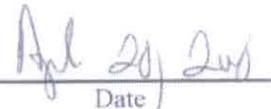
I hereby certify the authority has complied with the following provisions for internal controls.

Those provisions are as follows:

- A. Establish and maintain guidelines for a system of internal controls for the authority. Internal control guidelines communicate the management and programmatic objectives of an authority to its employees and provide the methods and procedures used to assess the effectiveness of authority internal controls in supporting these objectives.
- B. Establish and maintain a system of internal controls and a program of internal control review for the authority. 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.
- 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 the officer or employee of such authority shall be expected to comply. Such statements shall emphasize the importance of effective internal controls to the authority and the responsibility of each officer and employee for effective internal controls.
- D. Designate an internal control officer, who shall report to the head of the authority or their designee within the executive office, to implement and review the internal control responsibilities established pursuant to this item.
- E. Implement education and training efforts to ensure that officers and employees within such authority have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.
- F. Periodically evaluate the need for an internal audit function.



Signature, Authority Head/Chairman of Governing Board



Date

INSTRUCTIONS FOR PREPARING 2007-08 INTERNAL CONTROL SUMMARY

This Internal Control Summary, to be submitted to the Division of Budget by April 30, 2008, provides background on the internal control certifications made by agencies and authorities for 2007-08.

AGENCY	DATE	COMPLETED BY
NYS Urban Development Corp and Job Development Authority - Both - d/b/a Empire State Development Corp.	April 30, 2008	Thomas Brennan

1. Describe the review process used by the authority during 2007-08 to assure that internal controls were evaluated regularly.

- Departments periodically (e.g., annually) complete internal control self evaluations, based on previous internal training and instruction provided. Departments identify key functions, potential risks, related controls, and recommended corrective actions as needed.
- The Corporation continues to evaluate its risk management policies and procedures.
- ESDC continues to convert stored paper records to digital format, and to streamline its record retention system.
- The Corporation continues to update its Project Tracking System (PTS). PTS is used to track, manage, and document the loans and grants it extends.
- ESDC continues to refine its Peoplesoft financial management system.
- The Management Information Services department continues to create and enhance several web sites and public folders to increase the information base for staff and customers.
- ESDC's Internal Audit Department performs internal audits of operations and programs.
- The financial statement audits performed by ESDC's independent certified public accounting firm including a review of major internal accounting controls.
- Annual notification is given to all employees explaining both management and employee roles and responsibilities in maintaining an effective system of internal controls.

2. List all high-risk activities and indicate which were reviewed during 2007-08.

ESDC reviewed its internal financial and accounting controls, which are also evaluated by ESDC's independent certified public accountants annually as part of their audit of JDA and UDC's financial statements. Internal auditors performed auditwork related to, but not limited to, the following: ESDC's accounting and selected Treasury functions; Loan and Grant project review, approval, payment and compliance processes; a subsidiary's facility operations; and various other programmatic activities based on assessed risk. The Corporation also periodically updates its Disaster Recovery/Business Continuity Plan.

3. **Identify the significant deficiencies revealed through the agency's 2007-08 review process. Outline the actions taken, or planned, to eliminate the deficiencies. Highlight the most important internal control improvements made during the fiscal year.**

No significant deficiencies were revealed through the 2007-2008 review process.

4. **Describe the monitoring system installed by the authority to verify that corrective actions are, in fact, taken. Discuss the extent to which electronic data processing systems are used to track steps taken to reinforce internal controls.**

Functional managers are responsible for implementing corrective actions within their respective areas. PTS provides a database of ESDC's extensive project activities. External auditors track implementation of recommendations (if any) included in their Internal Control (management) letter issued to the Audit and Budget Committee. In addition, ESDC's functions are subject to audit coverage by its Internal Audit department, which reports directly to the Audit & Budget Committee and administratively to the Chief Executive Officer.

5. **Summarize specific actions the authority has taken to install a compliance testing program in accordance with the methods presented in the *Managers Guide: Testing Compliance with Internal Control Requirements* which can be downloaded from BPRM Item B-350. Describe actions taken during 2007-08 to verify test results and expand the testing program.**

Formal compliance testing of internal controls, as described in the Managers' Guide, is performed during internal audits within various departments, and controls are also reviewed through management's close oversight of transactions and controls built into authority functions. ESDC's actions are also subject to audit, and compliance testing, by its external auditors.

6. **Discuss the methods used in 2007-08 to provide internal control education and training to keep authority staff aware of the need for internal controls.**

Training sessions were conducted in 2006 (and are expected to again be in this fiscal year), attended by department heads and individuals completing internal control self assessments, to highlight the nature and types of key risks ESDC is exposed to; the controls in place to address risks, and the importance of a strong internal control system. ESDC Senior Management issued a memo to employees outlining senior management's commitment to maintaining effective internal controls and explaining both management's and employees' roles in maintaining an effective system of controls.

7. **Describe measures instituted to sustain the effectiveness of the internal control program during 2007-08. Include information on reorganizations and program revisions to enhance operations.**

The ongoing active participation of ESDC executive management and ESDC staff in internal control activities helps ensure that a strong system of internal controls is sustained.

8. **Outline specific actions taken to implement the internal control recommendations included in the Internal Control Task Force report, *"The New York State Internal Control Act Implementation Guide: Strengthening Compliance with the Act and Standards."* Using the "Compliance Roadmap for Internal Control Officers, Directors of Internal Audit and Other Stakeholders" as a guide, please provide a point-by-point affirmation of compliance with, or gap analysis of, each of the recommendations directed to agencies on the pertinent pages. Please provide an action plan and related timetable for any instances of non-compliance.**

See attached copy of Roadmap.

9. For those agencies required by BPRM Item B-350 to have an internal audit (IA) function, demonstrate how that function complies with requirements of the Internal Control Act and professional IA standards. Provide the following:
- Name and title of the IA director (IAD)
 - Name and title of the person to whom the IAD reports.
 - Description of how the IAD's credentials, education and experience meet the minimum qualifications established in B-350.
 - A description of how CPE requirements are being met by IAD and Audit staff.
 - A description of how quality assurance review requirements are being met.
 - 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).

In addition to the information outlined above, using the "Compliance Roadmap for Internal Control Officers, Directors of Internal Audit and Other Stakeholders" as a guide, demonstrate how the IA function conducts its operations in accordance with professional IA standards. Provide a point-by-point affirmation of compliance with, or gap analysis of, each of the internal audit recommendations directed to agencies on pages 11, 12 and 13. Please provide an action plan and related timetable for any instances of non-compliance.

Response:

While not required by law to do so, ESDC has maintained an internal audit function. Thomas Brennan, Internal Audit Director, reports to the Audit and Budget Committee and administratively to ESDC's COO. Mr. Brennan has been with ESDC for 5 years, and is a CPA with an MBA in Finance and over 30 years of public, corporate and governmental audit experience, with many years of audit managerial experience and appropriate levels of continuing education. ESDC Internal Audit members (3 of the 4 of who are CPAs) have undertaken a number of CPE courses annually, and Internal Audit plans to perform a self assessment of its audit function during the ensuing fiscal year and plan to have a quality assurance review performed thereafter.

The IA function is independent from the processing of transactions and other management activities that would impair Audit's independence. For the current and prior years, the Audit Director has conducted and coordinated the internal control function leading to the organization's annual internal control certification. To ensure that it does not compromise its audit independence, any recommended controls and control enhancements are the responsibility of the managers in the organization that are responsible for the related functions; those managers must agree to those recommendations and implement / revise the related controls.

With regard to the request above to provide a point-by-point affirmation of compliance with, or gap analysis of, each of the internal audit recommendations directed to agencies on the pertinent pages of the Compliance Roadmap, please see attached copy of completed Roadmap document.