

## 2009-10 INTERNAL CONTROL SUMMARY & CERTIFICATION FORM

The Internal Control Summary and Certification Form provides supporting justification for an authority's level of compliance with the requirements of the Internal Control Act as outlined below.

This form requests information regarding specific actions taken, or needed to be taken, by authorities to comply with each of the Act's requirements as described in Budget Policy and Reporting Manual (BPRM) Item B-350.

A completed and signed Internal Control Summary and Certification Form should be submitted by **April 30, 2010**, via e-mail as an attached PDF file to the Division of the Budget's internal control reporting mailbox at [dob.sm.icreporting@budget.state.ny.us](mailto:dob.sm.icreporting@budget.state.ny.us).

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*Empire State Development Corporation*      *4/29/10*      *Dennis M. Mullen, CEO*    *212 803 3700*

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Authority Name	Date	Completed by (Name)	Phone
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**A. Establish and maintain guidelines for the authority's system of internal controls.**

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 the objectives;
3. Explain how internal controls are organized and managed;
4. Define responsibilities of authority management and supervisors and authority 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:**

**X Fully Compliant**

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

*Guidelines addressing all points above have been distributed to ESDC personnel*

**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 & clearly document primary operating responsibilities/functions of 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. Develop a process or cycle to assess risk and test controls for major functions
6. Assess the risks and consequences associated with controls failing to promote the objectives of major functions
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);
8. Institute a centrally monitored process to document, monitor and report deficiencies and corrective actions

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

**X Fully Compliant**

**Provide a thorough explanation of the specific actions your authority has taken, or are needed, to comply with this requirement and specifically address the following points:**

1. Describe the process used to review the authority's internal controls.

*ESDC emphasizes operating in a well-controlled environment as a normal course of business. Annually, each department head is required to identify key risks and corresponding key controls, and to determine and identify control gaps, if any. When control gaps are identified, either during the annual review or at other times, a plan of action is proposed and addressed appropriately.*

*ESDC's Internal Control Officer reviews and critiques all annual risk / control submissions and compiles a **Control Enhancements summary**, should any control enhancements be identified, for submission to executive management.*

2. List all high-risk activities and indicate which were reviewed during 2009-10.

*ESDC management understands that in the continuing tight budgetary environment, restrictions on funding available for programs and projects will have somewhat of an impact on ESDC's execution of its mission to foster economic development and stability in NYS. Management acts strategically to maximize ESDC's impact with resources at its disposal.*

**Specific High Risk Activities**

- a. Disbursement functions - Contracts Administration, Accounts Payable; Administrative Services (procurement and bidding); Cash Management
- b. Subsidiary Operations (MSDC; CCDC; QWDC; BBPDC; HRDTC; USAN; HCDC; ECHDC; 42<sup>nd</sup> St. DC; GIPEC); Subsidiary Finance Dept.)
- c. Treasury - Investments; Debt; Cash Management
- d. Controllers (GL Accounting and Account Reconciliations)
- e. Loans & Grants (grant and loan screening, approval, and disbursement)
- f. Portfolio Management (Grantee compliance requirements enforcement)
- g. MIS Support Functions

*All areas review and document key risks and key controls annually. Also, ESDC's annual audit by a CPA firm includes a review and test of controls. In addition, Internal Audit audits and tests key controls for a significant portion of ESDC areas each fiscal year, and considers external auditor coverage when determining its plan of audit. Audit reports are issued to executive management, the Audit Committee, and other responsible managers following each internal audit.*

3. Identify the significant deficiencies revealed during the 2009-10 review process. Outline the actions taken, or planned, to eliminate deficiencies, highlighting the most important improvements made during the year.

*While internal audits do identify issues requiring management's attention, no deficiencies deemed significant were identified in 2009/10. In addition, the annual internal control documentation process identified no high risk issues in need of corrective action, other than the need for ESDC to finish development of, and fully test, a comprehensive disaster recovery plan for the Corporation (substantial progress in this regard in fiscal 2009-10). Progress was made in that regard during 2009-10.*

*Finally, the external audit firm issued a clean opinion regarding ESDC internal controls as of fiscal year end March 31, 2009.*

4. Describe the monitoring system installed by the authority to verify that corrective actions are taken. Discuss the extent to which IT systems are used to track corrective actions.

*Internal Audit tracks corrective actions taken in response to audit report comments, and also monitors and evaluates actions deemed appropriate to be taken regarding internal control enhancements arising from the annual review process by managers.*

5. Summarize specific actions the authority has taken to install a compliance testing program. Describe actions taken during 2009-10 to verify test results and expand the testing program.

*In 2009/10, the highly experienced and professional team of 4 ESDC internal auditors conducted extensive and appropriate levels of testwork in its audits.*

6. Describe measures instituted to sustain the effectiveness of the internal control program during 2009-10. Include information on reorganizations and other revisions in the program to enhance operations.

*Internal Audit conducts a significant level of ongoing audits and reviews, focused on key risks and controls. No significant reorganizations have taken place in 2009/10, although such will come into play in 2009/10 as it is expected that certain ESDC and DED functions will be consolidated. Managers are aware to monitor control adequacy and areas for possible improvement, and as noted, annually formally evaluates and documents key risks and controls, subject to screening and evaluation by the ESDC Internal Control function.*

7. Describe efforts authority management has taken to coordinate and integrate the documentation and reporting of activities the Office of the State Comptroller's (OSC) *Standards for Internal Controls in NYS Government* recognize as supporting a good internal control system: evaluation, strategic planning and internal audit.

*"Evaluation" and "internal audit" have been addressed above.*

*Management performs ongoing strategic planning. A strong system of Internal control is considered to be of paramount interest in such efforts.*

8. Describe efforts authority management has taken to effectively communicate information within the organization. Information should be communicated to management and other employees who need it in a form and within a time frame that helps them to carry out their responsibilities. Communication is not an isolated internal control component. It affects every aspect of an organization's operations and helps support its system of internal control. The feedback from this communication network can help management evaluate how well the various components of the system of internal control are working.

*Executive management takes steps to effectively communicate information within the organization, both through e mail correspondence and press releases and periodic meetings. Feedback is encouraged and policy and procedural changes are communicated to employees as appropriate.*

*ESDC's management team is highly seasoned and has in most cases been with the organization for extended periods of time and, as such, understands the necessary interactions to allow ESDC to operate efficiently and effectively and in a well-controlled environment.*

- 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 the tone at the top. 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:**

**X Fully Compliant**

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

*Applicable management policies and standards with which officers and employees of ESDC are to comply, and policies and procedures that employees adhere to, are appropriately available to ESDC personnel.*

*Executive management also periodically circulates statements that reinforce the "tone at the top", with emphasis on the importance to ESDC of effective internal controls and the responsibility of personnel for such internal controls.*

*Managerial policies and procedures for the performance of specific ESDC functions are articulated in administrative manuals, employee handbooks, job descriptions and applicable policy and procedure manuals which are appropriately made available to employees.*

- 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. 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 performed by authority staff, program and line managers are primarily responsible for conducting reviews to assure adherence to controls and 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 authority operations, personnel and policy objectives.

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

**X Fully Compliant**

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

*As previously reported, the ICO is also the Internal Audit Director of ESDC. ESDC has established this coupling of responsibilities and views that as cost-effective and not incompatible, as the ICO/IAD's makes recommendations as to control enhancements but does not mandate those changes, instead expecting executive management to evaluate the recommendations and implement as deemed appropriate.*

*As a check and balance, the IAD also reports its recommendations to ESDC's Audit Committee (comprised of non-ESDC personnel, including the NYS Superintendent of Banks) and would alert to them to significant recommendations it deemed were not addressed properly.*

*This has not proven to be necessary because, as a practical matter, ESDC values a strong internal control environment and has proven to implement recommendations appropriately. IAD also will periodically perform follow ups on the status of key recommendations, and reports same to the Audit Committee and management.*

*Please see prior responses in this document with regard to internal control evaluation and testing. The ICO and Internal Audit evaluate the adequacy of the internal controls in conjunction as appropriate with authority staff, program and line managers.*

*The ICO has been designated with sufficient authority to act on behalf of ESDC in implementing and reviewing the authority's internal control program, and has 7 years with ESDC, providing a strong and broad knowledge of ESDC 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:**

**X Fully Compliant**

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

*ESDC had updated and developed internal control training documents to reinforce internal control concepts to line staff and managers. Given Internal Audit's wide interactions with many personnel in the organization, there is a good understanding of Internal Audit's role within the organization and its role in evaluating internal controls.*

*Most department managers had previously participated in internal controls training and were provided with clear guidance on how to complete their annual internal control evaluation for this certification, and one-on-one interactions as needed to properly conduct this exercise.*

*ESDC's ICO provided training to personnel at the Department of Economic Development during the quarter ended June 30, 2009. ESDC departments assess training needs and address those as necessary, and the ICO will plan to coordinate with the departments to conduct training in ESDC as determined to be necessary during 2010/11.*

- F. Periodically evaluate the need for an internal audit (IA) function. If an IA function exists, it should be maintained in compliance with generally accepted professional auditing standards. 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 Institute of Internal Auditor *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, authorities 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, IA units 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 unit, the individual that has responsibility for overseeing the internal audit activity and other organizations/activities under its purview.
3. The IA function should be independent of, but work closely with ICO. Limitations should be established on IC activities where those duties overlap. Agencies should identify impairments to the independence of the DIA that may be created where the DIA is performing the ICO function. Further, IA units 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 notify DIA when a new impairment arises.
5. At a minimum, DIAs should hold quarterly meetings with executive management and the audit committee, where applicable, to report on audit results. Final reports should be distributed to authority head, executive deputy, auditee, ICO and audit committee.
6. The DIA should assure that authority audit staff have the skills, knowledge and ability to perform the audit work required and that the size of the audit staff is appropriate given the size and complexity of the organization.
7. IA units should take steps to ensure 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.

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

**Provide a thorough explanation of specific actions your authority has taken, or are needed, to comply with this requirement by providing the following information:**

1. A current organizational chart identifying the placement of the IA unit, 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.  
*ESDC's (and JDA's) Internal Audit Director (IAD) is Thomas Brennan, SVP and Audit Director, who also serves as ESDC's Internal Control Officer. Thomas reports administratively to the Executive Director of ESDC and reports directly to ESDC's independent Audit Committee.*
2. A description of how the internal audit director's credentials, education and experience meets minimum qualifications established in BPRM Item B-350.  
*ESDC's Audit Director is a CPA with an MBA in Finance and an undergraduate BS in Accounting. He has over 30 years of audit experience, including 5 years of large CPA firm experience and over 20 years of internal audit managerial experience with large organizations, including having served as ESDC Audit Director for 7 years.*
3. A description of how CPE requirements are met by director and each staff member.  
*Staff are highly seasoned; as noted above, the Director has extensive audit experience, and 2 other staff members are CPAs with numerous years of experience at ESDC, while the 3<sup>rd</sup> additional staff member has less audit experience, but over 15 years of total experience at ESDC in a variety of capacities. All 3 staff members have Bachelors degrees in Accounting. Suitable, cost-effective training is undertaken on an ongoing basis and is reported to ESDC's external auditors annually.*
4. A description of how quality assurance review requirements are being met.  
*All annual audit plans are formulated by the Internal Audit Director (IAD) and presented to the Audit Committee and executive management. Oversight of the Internal Audit function by the IAD is strong, as a) the scope of each audit is determined by the IAD in conjunction with the assigned auditor, b) workpapers are reviewed by the IAD; and c) all drafted audit reports are reviewed and edited by the IAD, and responses evaluated for adequacy by the IAD and staff.*  
*The IAD plans to formally document an audit self assessment during 2010, and will assess whether a QAR would subsequently be feasible from a cost standpoint in a very tight cost environment. In that regard, the possibility of a state audit director-level peer coming to conduct such an exercise will be explored in 2010/11.*
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).  
*As previously noted, the IAD also serves as Internal Control Officer, as has been the case for the past 5 annual certification cycles. Documentation underlying the annual control certification has been substantially enhanced as compared to documentation compiled when ESDC had an ICO other than the IAD. ESDC also sees 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. ESDC does not view this as compromising Audit function independence for reasons outlined in point D's response on page 6.*

6. A copy of your 2009-10 and 2010-11 internal and contract audit plans. (Please note: Dennis Whalen's memo of April 1, 2009 called on internal audit units to include the impact of Federal American Recovery and Reinvestment Act (ARRA) funding in their risk assessment and audit planning. If your authority is receiving ARRA funds, please be sure that your 2010-11 internal audit plan addresses this issue.)

*Copies of 2009-10 and 2010-11 plans are appended (appendices A and B).*

*ARRA activities were monitored during 2009-10 and are incorporated in the audit plan for 2010-11.*

7. Documentation re: the risk-assessment utilized in formulating the 2010-11 audit plans.

*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 them into audit work performed. Most ESDC functions have been audited a number of times in the 7 year tenure of the Audit Director.*

*Also, department and subsidiary heads' risk/control submissions are closely scrutinized to assess potential impact on the annual audit plan. As an example, see copies of Internal Audit's Risk Assessment Matrix for the Loans and Grants function, accompanied by that unit's own 2009-10 Risk Assessment, in Appendix C.*

8. An indication of which audits in the audit plan for FY 2009-10 were not conducted, and an explanation as to why they were not conducted.

*The status of all audits in the 2009/10 audit plan is reflected in the attached 2009/10 audit plan schedule.*

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 2009-10 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 result from implementation of such recommendations.

*It is not feasible to provide a cost estimate for savings. Process improvements, risk mitigation, fraud prevention or cost avoidance measures that result from implementation of such recommendations – some summary examples from recent audit reports are included in Appendix E.*

10. Identify recommendations contained in audits described in FY 2009-10 audit plans that were not implemented, if any; provide full explanation why they were not implemented.

*Internal Audit stays abreast of activities in the Corporation and performs follow ups on those areas where the prior audit may have identified relatively more significant audit issues. Audit has noted prior issue resolution, or progress towards issue resolution, when Audit performs follow up reviews, evidence that auditees take the audits seriously and constructively.*

11. Identify the recommendations contained in final audits issued by the Office of State Comptroller between July 1, 2008 and March 31, 2010 that were not implemented, if any, and provide a full explanation why they were not implemented.

*OSC issued a February 2009 Recycling Program audit and recently issued a follow up on that audit, so Internal Audit did not review that program to avoid overlap and excessive coverage. With regard to an audit entitled Funding Commitments for Economic Development Projects, issued December 2009, Internal Audit will evaluate the effectiveness of corrective actions regarding issues (which were not major) when it conducts its 2010-11 Loans and Grants audit in several months. Audit will similarly review actions taken regarding to the Rochester Rhinos Soccer Stadium Civic Project audit (OSC report issued March 2010) during the Loans and Grants audit in 2010-11.*

The Governor's Office of Taxpayer Accountability (OTA) and the Division of the Budget (DOB) will be conducting a review of these State authority and authority internal and contract audit plans and audit recommendations to assess (i) whether the audit plans are based on a documented risk assessment which captures areas for review that have the greatest risk exposure, (ii) the percentage of audits identified in each audit plan that were conducted, (iii) whether recommendations contained in audits were implemented, and any reasons for non-implementation, and (iv) cost savings and other benefits attributable to the audits. In addition, the OTA and DOB will assess whether recommendations contained in audits conducted by the Office of the State Comptroller were implemented, and any reasons for non-implementation.

2009-10 INTERNAL CONTROL CERTIFICATION

Empire State Development Corporation

Authority Name

Dennis M. Mullen

Authority Head/Chairperson Governing Board

633 3<sup>rd</sup> Ave. New York, NY 10017

Authority Address

212 803 3700

Telephone Number

Thomas P. Brennan

Name of Internal Control Officer

212 803 3579

Telephone Number

tbrennan@empire.state.ny.us

Email Address of Internal Control Officer

I hereby certify the authority is:

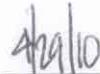
**Fully Compliant (Full compliance with all provisions)**

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

This certification 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 or Chairperson of Governing Board



Date

**APPENDIX A - 2009/10 AUDIT PLAN STATUS**

<b>Auditable Entity – Scheduled Audits</b>	<b>Status</b>	<b>Explanation</b>
Annual Employment Reports (& Action Taken Re: Companies Not Reaching Targeted Goals)	In progress at year end	Anticipated increase in non-compliant companies and in difficulty recapturing penalties, due to adverse economic conditions. Focus on those aspects and penalty waivers.
Contracts Administration (CA)	Report issued April 2010	Prior audit - good results.
Accounts Payable and Expenses	Report issued Mar. 2010	Prior audit - good results. Conducted simultaneous with CA audit for efficiency.
Loans and Grants	Report issued April 2010	Annual audit of diverse sample of grants and loans.
WTC Programs Recapture/Compliance	In progress at year end	Follow up. Compliance workload is diminishing.
Other HUD-related activities (i.e., WTC Utilities Restoration/Enhancement Pgm)	Periodic Monitoring	Review ESDC "audits" of utilities' applications and controls over of costs reimbursed. Evaluate and monitor specific utilities' issues.
Accounting Functions	Rpt draft being finalized	Follow up review of cash and balance sheet and revenue accounts - focused on prior audit issues.
Treasury Debt	Decided to leave this work with external CPA firm, to avoid overlap.	Review of underwriter selection and costs; pricing of, and accounting for debt; debt pay-downs. CPA firm performs considerable audit work for Debt
Treasury Cash Mgmt/Investment/Wires	In progress at year end	Wires, cash mgmt; investments in short term liquid assets; check processing - good past results.
<u>Subsidiaries:</u>		
• 42 <sup>nd</sup> St. (42 DP)	Some 42DP coverage in Accting audit in 09/10	Review risks / controls re: this subsidiary.
• Javits Convention Center - CCDC	In progress at year end	Review risks/controls (CPA firm audits annually).
• Erie Canal Harbor Develop. Corp.	Done – Report Issued	Review risks / controls re: this subsidiary.
• Harriman Research/Tech - HRTDC	Done – Report Issued	Review risks / controls re: this subsidiary.
• Queens West Development Corp.	Done – Report Issued	Review risks / controls re: this subsidiary.
• Brooklyn Bridge Park – BBPDC	Prior report in 2009. Internal Audit monitored activities since.	Follow up review (see what was done at left). <i>Note: being transferred to NYC in 2010.</i>
• Governors Island - GIPEC	Prior report in 2009. Internal Audit monitored activities since.	Follow up review (see what was done at left). <i>Note: being transferred to NYC in 2010.</i>
• USA Niagara Follow Up	Done	Follow up (activities other than Conference Center); also monitor conference center issue resolution.
Payroll Operations & Accounting	To avoid overlap, will do these later in 2010, after external audit. Also, addressed an HR matter in last A/P audit	Good results in prior audit & CPA's annual reviews.
Human Resources		Good results in prior audit & CPA's annual reviews.
Other	Atlantic Yards Project - In progress at year end	Moved this review up to be done in 2009/10, given the amount of state \$\$ involved.
Other	ARRA	Monitored progress during 2009-10.

**APPENDIX B - 2010/11 AUDIT PLAN DRAFT (TO BE APPROVED BY AUDIT COMMITTEE)**  
**ESDC AND JDA 2009 - 10 AUDIT RECAP**

Audit reports for 2009/10 plan assignments issued in 2009/10 (or commenced in 2009/10 and issued in 2010/11) included the following:

<ul style="list-style-type: none"><li>○ Accounts Payable</li><li>○ Contracts Administration</li><li>○ Subsidiary - USAN</li><li>○ Subsidiary - QWDC</li><li>○ Subsidiary - ECHDC</li><li>○ Subsidiary - HRTDC</li></ul>	<ul style="list-style-type: none"><li>○ WTC Programs Audit – JCRP</li><li>○ Accounting Functions</li><li>○ Economic Empowerment Functions</li><li>○ Loans and Grants</li><li>○ Employment Target monitoring/enforcement</li></ul>
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Internal Audit efforts again resulted in the observation that ESDC's overall control environment is operating satisfactorily. Also, Internal Audit, under the guidance of its Audit Director, again coordinated and evaluated ESDC's organization-wide annual Internal Control self-assessment process, and prepared the internal control certification filing with NYS Division of Budget, which was approved by ESDC's President and CEO.

For Department of Economic Development (DED) in 2009, substantial assistance was provided to DED personnel who were new to the annual certification process due the retirement of its internal auditor/controls officer. As DED has not yet filled its open audit position since that retirement, ESDC Internal Audit agreed to provide a level of audit coverage by commencing an internal audit of DED grant functions on behalf of DED.

Audit currently has 3 personnel, including its Director, all of which are CPAs. A fourth individual who had been with ESDC for 17 years (2 of those years with Audit) resigned to pursue a career opportunity in the private sector; a requisition to fill his position has been submitted. Efforts to increase audit efficiency (do more with less) will continue to be focused upon, especially in light of the possible time delay in filling that open position. As in past years, greater resources will be directed towards higher risk functions.

ESDC's Audit Committee has been comprised of members of ESDC's Board of Directors and meets periodically to review audit matters.

**External audits:**

- Toski Schaeffer's annual audit of ESDC as of 3/31/09 was presented to the Audit Committee last June, with no noted control issues or significant accounting adjustments.
- OSC issued 2 audit reports related to ESDC, one involving Loans and Grants activities, and other related to Rochester's Rhino Stadium, which involved ESDC and other governmental entities. The results of the audits will be summarized in an audit progress update to the Audit Committee.
- HUD semiannually audits programs of Lower Manhattan Development Corp., as recipient of 9/11 disaster funds; ESDC is funding sub-recipient from LMDC for ESDC's Utilities and Job Creation and Retention programs, for which ESDC performs activities related to disbursements, and conducts compliance efforts for the JCRP and SFARG programs. No significant issues related to either ESDC or LMDC programs were noted in HUD reports.

## ***PLANS OF AUDIT COVERAGE APRIL 1, 2010 – MARCH 31, 2011***

The 2010/11 audit plan again includes audits of key ESDC areas and functions, including major subsidiaries; Treasury investment activities; Loans and Grants; and the contract administration/disbursement cycle. See Appendix A for the Audit Plan.

Internal Audit seeks to provide audit coverage in a twelve to thirty six month cycle for areas deemed of higher risk. The audit cycle (period of time between audits) may extend beyond that cycle period for functions not deemed high risk. Most large operating subsidiaries were subject to audit coverage or follow up audit work in 2009-10; CCDC will be completed early in 2010/11, and audits of Moynihan Station and 42<sup>nd</sup> St. DC are included in the audit plan for this year. Follow up reviews are planned for Erie Canal Harbor Development Corp., and for BBPDC and GIPEC, for which limited reviews to ascertain that their transition to the City was executed effectively will be performed.

Internal Audit continues to refine its identified and documented key risks and related controls for ESDC functions during its audits, and evaluates the risk profile of organizational functions when developing each year's audit plan. Given that ESDC's annual activities always involve significant Loans and Grants functions, planned audit coverage of its functions will continue to require a substantial allocation of resources. Also, within the plan of coverage, Audit will perform follow up work on audit comments in other previously issued audit reports as deemed necessary.

Internal Audit will, upon issuance, also evaluate State Comptroller and HUD external audit reports and the external CPA firm's annual audit reports for ESDC, JDA, CCDC and HCDC, and assess whether that issues raised in those reports are being addressed appropriately by responsible ESDC management.

Internal Audit plans will consider, and appropriately adapt to, organizational changes which may occur during 2010-11, particularly as it may relate to a merger of activities, should a merger occur. The Committee will be apprised of significant changes to the annual plan, if any.

Internal Audit implemented and has been utilizing the Teammate automated workpaper package; annual licensing costs are minimal and worth the expenditure.

**2010/11 AUDIT PLAN**

<b>Auditable Entity – Planned Audits</b>	<b>Risk</b>	<b>Hrs</b>	<b>Explanation</b>
Annual Employment Reports (and Actions Taken Re: Companies Not Reaching Targeted Goals)	3	300	In a climate of adverse economic conditions, focus in 2010/11 on tests re: grantees penalized or narrowly missing penalties, & penalty waivers. Extra time included to complete 2009/10 audit-in-progress
Contracts Administration (CA)	4	150	Late 10-11: good results prior audit. Will include Subsidiary Finance
Accounts Payable and Expenses	3	200	Late 10-11: simultaneous with CA audit for efficiency. Will include T&E review this year (passed on in 2009-10)
Loans and Grants	4	500	Annual audit. Consider including a few site visits. Focus on newer programs (e.g. Upstate/Downstate Funds initiated in 2009)
Champlain Bridge Assist. Program	2	200	Ascertain if program (set up to aid local businesses impacted by demolition of bridge) is functioning effectively and as per guidelines
WTC Programs: Recaptures / Compliance	3	200	Magnitude of JCRP and SFARG compliance efforts diminishing. Extra time included here to also complete 2009/10 SFARG audit-in-progress
Other HUD-related activities (Utilities Restoration & Enhancement Program)	4	150	Continue to review ESDC's "audits" of utilities and controls over of costs reimbursed for various URIR program categories. Evaluate and monitor specific utilities' issues
Accounting Functions	3	225	Focus on bank and investment reconciliations, and analytical review and testing of selected G/L accounts; follow up on 2009/10 audit issues. CPA firm also performs significant work with accounting matters
Treasury Cash Mgmt/Investments/Wires	4	350	Audit to be conducted in late 2010/11. Extra time included here to also complete 2009/10 audit-in-progress
Rochester Midtown Redevelopment Project	3	200	Re: major projects overseen by ESDC, conducted a 2009/10 review of Atlantic Yards project. Will audit this large project in 2010/11
<u>Subsidiaries:</u>			
• 42 <sup>nd</sup> St. (42 DP)	3	250	Review risks / controls re: this sub, as far as accuracy of billings
• Javits (CCDC)	4	300	Toski audits CCDC annually. Involved in a major renovation, so will complete 2009/10 audit-in-progress and do more later in 2010/11
• ECHDC	4	250	Will be major Canal Side Project construction during 2010/11
• HRTDC	2	250	Again review risks / controls re: this sub
• Brooklyn Bridge (BBPDC)	4	125	Follow up, and to see if upcoming transition to NYC was well controlled
• Governors Island	3	125	Follow up, and to see if upcoming transition to NYC was well controlled
• USA Niagara	3	150	Time re: dispute involving former USAN convention center operator.
Payroll Operations and Accounting	3	125	Scheduled for 2009/10 and shifted to this fiscal year, given good results in prior audit and CPA firm's annual reviews
Human Resources	2	125	Scheduled for 2009/10 and shifted to this fiscal year, given good results in prior audit and CPA firm's annual reviews
Federal Stimulus Funds (ARRA)	2	150	A review will be conducted (note: these have less than typical risk to ESDC, as activities for weatherization, New Markets tax credits and Recovery Zone bonds are not ESDC's primary reporting responsibility)
Management-Requested Audits		200	DED grants audit in progress at mgmt's request. Others, if any, TBD
Audit follow ups and other tasks		400	To be determined as year progresses
<b>AUDIT TIME TOTAL</b>		<b>4925</b>	
Compliance Work		300	Annual internal controls certification work
<b>TOTAL</b>		<b>5225</b>	

Note 1: Above hours include JDA review, but do not reflect hours for LMDC and DED, both with separate audit functions

Note 2: Risk ratings range from 1 (very low) to 5 (very high). Above are relatively low (2), moderate (3) or high (4) risk

**FY 2008/09 AUDIT PLAN RESOURCES**

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

Workdays	262
Less Holidays and Early Leave	(14)
Less Sick Days (E)	( 5)
Less Personal Days	( 6)
Less Training Days (E)	( 5)
Less Vacation (E)	<u>(18)</u>
Estimated Chargeable Days	<u>214</u>

**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)	214	60%	7.5	965
Kramer (AVP)	214	85%	7.5	1,370
White (Audit Manager)	214	90%	7.5	1,445
Audit Senior (open requisition) (NOTE)	214	90%	7.5	1,445
<b>TOTAL</b>				<b>5,225</b>

NOTE: Anticipated hours needed and resources project a staff of 4 for the full year. Delays in filling open requisition will delay the commencement and completion of certain planned audits.

**APPENDIX C INTERNAL AUDIT REVIEW - LOANS & GRANTS RISK ASSESSMENT MATRIX**

<u>RISK</u>	<u>CONTROL</u>	<u>AUDIT PROCEDURES</u>
<b><u>Awarding Grants</u></b>		
<b>R1-</b> Dept may lack sound guidelines on awarding grants or loans, or are adequate but not adhered to. This may result in adverse business decisions, and loss of funds.	Department procedures are documented/accessible on line. Procedures document steps taken to solicit, approve process and pay grants and loans.	Review the following for completeness: 1. L&G policies & procedure manual. 2. Project Management Manual. 3. Project Tracking System Manual.
<b>R2-</b> Grants and loans are not issued according to the UDC Act; funding program rules and regulations; or Legislative or State Budget Guidelines	SVP reviews each project for compliance with funding and statutory requirements before offer and Board presentation. Some grants require PACB, legislative approval, public hearing. Legal reviews all loans for closing, grants case-by-case	1. Review PTS Board Materials and SVP approval and compliance review. 2. Review L&G payment approval checklist, noting PACB's approval and Public Hearing were checked off and noted in related PTS milestones. 3. Note Legal review of sampled loans.
<b>R3-</b> Fictitious grantees are created resulting in fraudulent activity and financial loss.	Regional and L&G staff perform due diligence and Directors approve grants and loans. Signed Legislative letter, and State Budget page and line, support all Member Items.	Review closed grant/loan payments for Board approval, L&G staff approvals & adequate support documents assuring grants were proper.
<b>R4-</b> Grants and loans are awarded in an unfair and biased manner resulting in possible loss of funds, and public / media criticism.	ESDC promotes program awareness though web site, Regional Offices, Business Development unit, Legislative and Executive sponsored initiatives that originate grants.	Sample projects funded from different funding sources and regional localities, to assess whether projects were awarded in a fair and unbiased manner.
<b>R5-</b> Grants and Loans are approved exceeding available funds.	L&G staff review "Pipeline" reports of accepted discretionary funds offers so that Corp "cash cap" is not overcommitted.	Review pipeline reports for staff review and availability of funds.
<b><u>Grant/Loans Approval</u></b>		
<b>R6-</b> Grants and loans are not properly approved resulting in loss or misappropriation of funds.	Board approves all loans and grants. L&G SVP approves all loan and grant agreements. PACB approval required on specific grants and/or loans.	Verify proper Board grant/loan approvals and L&G SVP's GDA approval. Review for PACB approvals where required.
<b>R7-</b> Policy exceptions without good business rationale, or not properly approved and monitored, which may result in financial loss (i.e. excessive costs/rates), public/media criticism.	Policy exceptions must have SVP's written approval with an explanation to the Directors since policy is directed by legislation.	Review grant and loan sample for policy exceptions (no policy exceptions noted).
<b>R8-</b> Design & Construction (D&C) oversight is not obtained by L&G personnel when necessary, or D&C concerns not addressed prior to GDA approval or disbursement, resulting inadequate oversight or possible excessive disbursements.	Policy calls for D&C involvement on High Risk and "Gray Risk" progressive pymt. construction projects. ( <i>High Risk</i> when ESDC is developer or providing oversight. <i>Gray Risk</i> are projects where ESDC provides 60% funding; only ESDC and recipient are involved, and recipient is non-profit entity.)	Review payment sample for D&C approval and proper support documents, if required.

**APPENDIX C INTERNAL AUDIT REVIEW - LOANS & GRANTS RISK ASSESSMENT MATRIX**

<u>RISK</u>	<u>CONTROL</u>	<u>AUDIT PROCEDURES</u>
<u>Grant/Loan Compliance</u>		
<b>R9-</b> Grantees and borrowers are not adhering to grant agreements resulting in financial loss and breach of grant agreement.	<p>Project Mgrs monitor project performance for adherence to grant and loan terms before disbursement.</p> <p>Grantee submits affidavits of project costs, financial condition and equity contribution affidavits when requisitioning payments attesting to its compliance with grant terms.</p> <p>Both Project Mgr and Contract Admin review grant/loan terms to ensure grantee's compliance prior to disbursement approval.</p> <p>Portfolio Mgmt. tracks job req'ts. and recommends punitive action to ESD Workout Committee.</p>	<p>Verify that performance reports were received, if required.</p> <p>Review payments for applicable affidavits.</p> <p>Review payments for proper L&amp;G approval &amp; Contract Admin approval evidencing their review.</p> <p>Portfolio Management reviewed in a separate audit. Not in this audit's scope.</p>
<b>R10-</b> Grantee, borrower, or other public or private funding sources' project contributions not obtained and ESDC disburses anyway.	L&G obtains affidavits from grantee, borrower, or CPA to attest to project total costs or equity expenditures. Grantee or borrower also attests to the total project costs on the Payment Invoice Form.	Review payments for grantee/borrower affidavits or attestation as per the total project cost and final reports, where applicable.
<b>R11-</b> Fees due to ESDC from grantee/ borrower at time of grant or loan are not collected and properly processed, resulting in losses.	Project Managers are required to obtain all required fees (application fee, committee fee & PACB/public hearing expenses) from grantee/borrower upon GDA execution: PTS fee milestones: application; commitment; reimbursable.	<p>For loan and grant sample, review PTS records for fees received milestones.</p> <p>Review AP files for evidence of fee payment.</p> <p>Analysis of reimbursable fee G/L account was addressed in the 2009-10 Accounting audit.</p>
<b>R12-</b> Grantees or borrowers who do not achieve job targets are not subject to remedial action.	Note: This risk is covered in the Annual Reports of Employment audits and is subject to controls tested in those audits.	<p>Review Annual Employment Report for project job compliance.</p> <p>See procedures performed in the Employment Audit.</p>
<b>R13-</b> - Grantees or borrowers who do not achieve Affirmative Action best efforts goals are not subject to remedial action	L&G/AA new October 2009 policies of establishing AA goals in the Acceptance Letter and withholding disbursement until AA requirements are addressed.	Inquired of AA Grantee's compliance with AA goals.
<u>Grant/Loan Invoice/Disbursement</u>		
<b>R14</b> – Regarding invoice approval, inadequate separation of duties may result in undetected errors and/or fraud.	Separations of duties between invoice originator (project mgr or grantee), reviewer (L&G Sr Staff & CA) & approver (up to \$100K, L&G SVP; over \$100,000 CFO & over \$5MM CEO).	Review payments for the proper level of approvals: originator (the grantee), L&G senior mgmt and Grant Admin, L&G SVP/VP, CFO, CEO.

**APPENDIX C INTERNAL AUDIT REVIEW - LOANS & GRANTS RISK ASSESSMENT MATRIX**

<b><u>RISK</u></b>	<b><u>CONTROL</u></b>	<b><u>AUDIT PROCEDURES</u></b>
<b>R15-</b> Grant and loan amounts to be disbursed are not properly entered in the GL.	Contract Admin reviews payments for compliance with GDAs; enters payments in PS Purchase Order module to reduce available funds. AP pays amount, supported by L&G approved payment request.	Review sample of payments for proper PS PO entries. Note all were properly approved, initialed as entered to PS, paid thru Treasury Dept. (Treasury cannot make payment without the invoice being recorded in Peoplesoft.)
<b>R16-</b> Grants and loans are disbursed although funding has not been appropriated, or grants are disbursed using unrelated appropriated funds.	General Accounting obtains funding, confirms GL codes, and notifies Contract Admin when funds are available.	Observe DOB Drawdown or approved reallocation funding in AP file for each sampled payment.
<b>R17-</b> With regard to progress payment grants (not loans), invoices may not be processed accurately or timely, resulting in financial loss, negative publicity, and possible breach of contract.	Project Managers and L&G SVP approve all payments; Contract Admin reviews & signs same for: <ul style="list-style-type: none"> <li>• Proper approvals</li> <li>• Compliance with GDA/Loan</li> <li>• Duplication</li> <li>• Sufficient funds</li> </ul>	Review payment sample assuring evidence that payments were : <ul style="list-style-type: none"> <li>• Properly review/ approved</li> <li>• Compliant with GDA/Loan.</li> <li>• Not duplicated</li> <li>• Not exceeding grant amount</li> </ul>
<b><u>Grant and Loan File Maintenance</u></b>		
<b>R18-</b> Grant and loan files are incomplete / not properly documented, resulting in possible legal ramifications, regulatory criticism, or unfavorable media exposure	1. L&G payment checklist is used as a tool to assure all necessary documents are in project file to ensure the disbursement was in compliance with the GDA. 2. "Check Cut" milestones are entered into the Project Tracking System (PTS) for each payment. PTS files are updated monthly. 3. Critical grant/loan documents are scanned into PTS as a permanent record.	1. Review payment sample for checklist.  2. Review payment sample for proper PTS milestones.  3. Review L&G sample PTS for major documents (Board Materials and Executed GDA).
<b>R19-</b> Grant and loan files are not properly closed upon project completion, resulting in potential improper payments and loss of funds.	L&G confirms documentation of project completion is received before the grant or loan is disbursed for most projects. Grants with advances have supporting documents showing projects progression, benchmarks and goals achieved. Grant or loan funds are not released until project goals reached, as determined by the Project Mgr's review of the grantees' final closing report. For capital grants and loans, L&G Finance closing report before disbursement.	Review payment sample and verify that: <ol style="list-style-type: none"> <li>1. Payments were supported by project completion reports, where applicable.</li> <li>2. Payments were processed for completed projects.</li> <li>3. Advances were documented with interim reports and supported by invoices and other disbursement support, where applicable.</li> </ol>

**APPENDIX C INTERNAL AUDIT REVIEW - LOANS & GRANTS RISK ASSESSMENT MATRIX**

<b><u>RISK</u></b>	<b><u>CONTROL</u></b>	<b><u>AUDIT PROCEDURES</u></b>
<p><b>R20</b>-Access to grant hard copy agreements, etc. may not be restricted to authorized individuals resulting in unauthorized changes, or non-compliance with privacy and confidentiality policies.</p>	<p>Grant and loan documents are maintained on PTS, restricted to authorized users (each with unique user name &amp; password). Write access is restricted to L&amp;G employees only. PS system access is approved by the SVP L&amp;G.</p>	<p>Did not conduct testing of PTS security over documents in this audit since there were no findings in our prior audit's review.  Tested that the Board Materials and GDAs were in PTS.</p>
<p><b>R21</b>- Grant and loan original documents are not secured in a central, fire-proof location.</p>	<p>Files secured in PM's office or Central Files. Limited access to L&amp;G floor. PTS permanent record of documents. Original GDAs filed in Accounts Payable.</p>	<p>L&amp;G used PTS as their secured filing system. AP has GDAs in their files. PMs have project files in L&amp;G cabinets.</p>
<p><b>R22</b>-Disaster recovery plan not in place resulting in financial loss, as well as loss of grant data.</p>	<p>Disaster Recovery Plans are maintained by Corporate Internal Control. Disaster Recovery Plan is on file and is reviewed and updated quarterly.</p>	<p>No testing done on this audit. This will be addressed in future audits.</p>
<b><u>Benefit/Cost Analysis</u></b>		
<p><b>R23</b>-Benefit/cost benchmarks do not reflect accurate, current economic benefits/costs, providing an unrealistic economic benefit/cost. Projects retaining/creating jobs are B/C-analyzed, for benefits/cost to NYS, based on revenue/sales tax generated by direct/indirect jobs.</p>	<p>External firm maintains the database and programs. Three DED personnel have access through passwords and user ID. Data is stored on separate file. Project benchmarks based on jobs retained and create for related ESD project. Management periodically reviews model's integrity.</p>	<p>There were no findings in the prior audits. No test work was done in this audit cycle.</p>

**APPENDIX D - LOANS & GRANTS-PROVIDED RISK EVALUATION MATRIX**

Risk	Significant Internal / External Risks To Achieving Unit Goals	Related Controls To Mitigate And Control Risks; Needed Enhancements to Controls, If Any
1	Recommending approval for assistance that does not comply with UDC Act and/or funding program's rules and regulations.	To ensure full understanding of statutory basis of projects and confirm that each project meets the statutory requirements of each applicable funding source, the (SVP or his designee considers the applicable statute for compliance before an offer is made and again prior to presentation to ESD's Board of Directors. SVP may also request legal opinion from ESD's Legal Department.
2	Committing to assistance that exceeds available appropriations.	SVP coordinates closely with the CFO, Contract Administration, and the Division of Budget to monitor funding commitments and approvals against a running tally of obligated funds.  Loans and Grants staff regularly runs "Pipeline" reports which identify all accepted offers of discretionary assistance and a "Quarterly Cash Flow Report" to anticipate and understand the impact of commitments and approvals on appropriation limits and to identify future cash needs.
3	Recommending approval for assistance that exceeds funding authorization, or for a member item that does not exist.	<b>Discretionary:</b> SVP or his designee confirms that each project on the Board Meeting Agenda has funds available. Loans and Grants tracks all Board approvals to ensure that funding limits of available appropriations are not exceeded. <b>Non-discretionary:</b> The VP who manages member items confirms that each member item on the Board Meeting Agenda has funds available and receives the necessary legislative approval before including projects on the Agenda.  All member item initiative forms, including the associated cover memo from either Senate Finance, Assembly Ways and Means, Governor's Office or Division of Budget (DOB) that specifically defines the page and line in the current budget year, are uploaded into PTS and tracked according to project numbers assigned to each initiative.
4	Ensure that bond proceeds that are to be made available for all bond funded programs are not overcommitted.	L&G coordinates with ESD's Controller, DOB and Bond Counsel to determine appropriate usage of bond funds and to ensure that commitments are in line with available appropriations and anticipated bond proceeds. In addition, L&G consults with finance to make sure bond proceeds are available before cert and draws are requested.
5	PACB approval not achieved within same fiscal year as Directors' approval.	In typical years, SVP monitors PACB approval reports to ensure Board approval by February for all projects requiring PACB approval, so the projects can be presented for PACB approval in March, prior to end of the fiscal year when appropriated funds would cease to be available without an enacted budget with reappropriations. However, this was not an issue in 2010 because current FY funding was internal.
6	Inconsistent or incomplete data on project status and description.	Prior to being presented to the ESD Board for approval, project applications are reviewed for completeness by the assigned L&G Project Manager. Applications that originate from ESD's regional office are also reviewed for completeness and certified by the project originator. Projects receive scrutiny by senior corporation staff in the Agenda Meeting held prior to the Board approval.  All final Directors Materials are reviewed and signed off by Loans and Grants senior staff prior to final submittal. Each month's Directors' Materials are checked against PTS post approval. PTS Milestones, check points and reminders ensure that all required Milestones are updated and typical timelines are followed.
7	Sending correspondence to the wrong elected official.	The project location is confirmed by the application and checked against data in PTS. Project Vote Smart (an internet site) is used to confirm legislative districts. PTS upgrades base locations and corresponding legislators on ZIP codes, thereby lessening room for error at early stages.

Risk	Significant Internal / External Risks To Achieving Unit Goals	Related Controls To Mitigate And Control Risks; Needed Enhancements to Controls, If Any
8	Sound guidelines for awarding grants are not used and/or made available for understanding the basis of ESD's involvement.	<p><b>Discretionary:</b> In addition to Rules and Regulations that apply to each funding source, guidelines for grant awards include the use of a Benefit/Cost analysis, cost-per-job averages, the risk of the prospective applicant moving to another state, and analysis of business plan and financials when applicable.</p> <p>Grant offers are made by the SVP and the Project Review Committee after consideration of the Project Worksheet, the Request for Offer memo, the Benefit/Cost analysis, Financial Analysis memo, and any other pertinent information, in consultation with the Originator, Regional Director, and corresponding ESD Officers.</p> <p><b>Non-Discretionary:</b> L&amp;G exercises due diligence in reviewing information and documentation received from grantees/borrowers and other sources in preparation for bringing projects to the ESD Directors for approval. The due diligence process also involves coordination with a number of external constituents, including the Office of the Attorney General ("OAG"), and the VP of Non-Discretionary Programs confirms that grantees have provided ESD with the required Disclosure and Accountability Certifications, and are in compliance with the Dept. of State and the OAG's Charities Bureau.</p>
9	Exceptions to policy allowed without sound business rationale.	Policy exceptions are only allowed with the appropriate business rationale. In such cases, written approval of the SVP is required.
10	Grantees are not adhering to grant agreements.	In the event that a grantee does not adhere to the grant agreements, the grantee is advised of the failure in writing and asked to remedy it. Should the grantee fail to take action, appropriate steps such as withholding of additional grant funds and/or demand for repayment of grant funds are taken in conformance with the GDA and in coordination with Portfolio Management and, ultimately, ESD's Workout Committee.
11	Grant files are not properly documented.	<p>PTS reminders automatically prompt specific milestones, and PTS blocks ensure that milestone are followed in the proper order and that mandatory information is entered and vital documents are uploaded into the system.</p> <p>A Project File Checklist ensures that all necessary documents are included in paper files. This helps to assure the completeness and reliability of the files.</p>
12.	Policy and procedure manual updates.	The current document is currently being updated to reflect the introduction of new programs and other minor procedural changes.

**APPENDIX E**

**SUMMARY OF SOME AUDIT REPORT POINTS AS PER QUESTION 9 ON PAGE 10**

EED Functions	EED promotes job and business expansion in disadvantaged communities. Results were satisfactory; enhancements needed to be made to EED's MWBE monitoring activity, and the funding & disbursement database for one \$23MM program needed to be reconciled to GL.
WTC JCRP	Portfolio Management Dept.'s (PMD) efforts regarding program compliance, monitoring and recapture efforts were deemed to be satisfactory. Recommendations were made regarding refinement of compliance sample selections, and inclusion of more timely information in annual Board materials of unusual situations like sudden bankruptcy of a large grantee several months after grant was disbursed.
GL Targeted Review	A number of large 42 <sup>nd</sup> St. and other subsidiary payable amounts needed further analysis and adjustments and were referred to Accounting for additional analysis.
QWDC	QWDC operations and accounting activities were occurring in a satisfactory manner. Audit noted that not all expenses billable to third parties were billed. Recommended tightening of reconciliation procedures from cash disbursement records to ultimate billings of rechargeable expenses.
USAN	Re: prior audit comments (Audit determined former center operator had over-calculated incentive fees and otherwise overpaid itself), a demand letter was sent to operator by USAN to recapture \$267,000. After no response, USAN is hiring an attorney for possible litigation, and a new CPA to do the audit for the year ended December 31, 2008, the end date of the contract with the prior operator.
GIPEC Ferry	Purchased in a bidding process, with limited ability to do due diligence on boat's condition pre-purchase. Boat was significantly more physically deteriorated than believed, leading to resale at a fraction of purchase price. Senate Investigation Committee conducted a review and issued report. In-house Legal found no negligence that would allow seller or consultants to be sued.
Brooklyn Bridge Park	Audit recommended that BBPDC should: <ul style="list-style-type: none"> <li>• Provide current actual expenditure data when furnishing operating and capital budget information to the BBPDC Board, and explain larger actual vs. budget variances.</li> <li>• Provide the Board with inception-to-date capital budget amounts in the same level of detail it gives to the Board when periodically requesting additions to the capital budget.</li> <li>• Provide Accounting with information sufficient to ensure that all amounts such as \$11.7MM (due to BBPDC at 3/31/08, but booked after that date) are recorded in correct fiscal year.</li> <li>• Enhance communication with Accounting regarding obtaining supporting documentation for \$165K in receivables. One item (\$116K) had been booked directly to income when collected instead of being offset against the existing receivable. The other 2 items, comprising the remaining portion of the \$165K balance, were being pursued for resolution by Accounting at the time of audit report.</li> </ul>
Loans and Grants	Loans and Grants efforts to ensure disbursements are properly processed continued to be satisfactory. Tested disbursements, covering a wide variety of grants of varying levels of complexity, were executed properly and in accordance with Board approvals and grant agreement terms, and were well supported.  In response to prior comments, L&G revised a performance reporting template to more uniformly present evaluation of COE performance, and has provided management with COE status updates. L&G needed to complete analyzing, and provide input to Accounting regarding, old receivable balances totaling \$155K at March 2009 which were booked as reimbursable project expenses. Upon analysis and follow up, these were to either be written off or recovered. L&G added it had taken steps to follow up to establish the recordable value (for G/L purposes) of ESD's percentage of Sematech royalties and ESD's right to utilize 20% of Computational Center's computer capacity for financial reporting.
HUD WTC Review: SFARG	Compliance efforts to ascertain which grantees were not continuing to comply with grant-specified residency timeframes and therefore would need to reimburse the program had accelerated but a considerable amount of work remained at the time of that audit to determine all noncompliant grantees and pursue recaptures (considerable progress has occurred since then).