

Item V:

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



Patrick J. Foye
Chairman, Downstate

March 30, 2007

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

Re: 2006-2007 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 2006-2007 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 black ink that reads "Patrick J. Foye". The signature is written in a cursive, flowing style.

Attachment:
2006-2007 Internal Control Certification and Summary Report

cc: Avi Schick
Thomas Brennan
Joseph Lacivita

INTERNAL CONTROL CERTIFICATION

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

Authority Head/Chairperson Governing Board

633 Third Avenue, New York, New York 10017
Authority Address

212-803-3100
Telephone Number

Thomas Brennan 633 Third Avenue, NY, NY 10017
Name of Internal Control Officer Address

212-803-3541
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.

Pat Royce
Signature, Authority Head/Chairman of Governing Board

3/30/07
Date

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- F. Periodically evaluate the need for an internal audit function.

Signature, Authority Head/Chairman of Governing Board

Date

INSTRUCTIONS FOR PREPARING 2006-07 INTERNAL CONTROL SUMMARY

This Internal Control Summary, to be submitted to the Division of Budget by March 31, 2007, provides background on the internal control certifications made by agencies and authorities for 2006-07.

AGENCY	DATE	COMPLETED BY
NYS Urban Development Corp And Job Development Authority Both d/b/a Empire State Development Corp.	March 31, 2007	Thomas Brennan

1. Describe the review process used by the authority during 2006-07 to assure that internal controls were evaluated regularly.

- Departments periodically (in most cases annually) complete internal control self evaluations, based on internal training and instruction provided. Departments identify key functions, potential risks, related controls, recommended corrective actions as needed.
- The Corporation continues to evaluate its risk management policies and procedures.
- The Corporation continues to convert stored paper records to digital format, and to streamline its Record Retention System.
- The Corporation continues to update the Project Tracking System used to track, manage, and document the loans and grants it extends.
- The Corporation 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 2006-07.

ESDC reviewed its internal financial and accounting controls, which were also evaluated by ESDC's independent certified public accountants as part of their audit of JDA and UDC's financial statements. Internal auditors performed audits of ESDC's accounting, project review, approval and payment processes, and audits of various outer programmatic activities based on assessed risk. The Corporation periodically updates its Disaster Recovery/Business Continuity Plan.

3. **Identify the significant deficiencies revealed through the agency's 2006-07 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 2006-2007 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. ESDC's Project Tracking System provides a database of ESDC's extensive project activities. ESDC'S external auditors continue to track implementation of recommendations included in their Internal Control (management) letter issued to the Audit and Budget Committee. In addition, Corporation functions are subject to audit coverage by the Corporation's Internal Audit department, which reports directly to the Audit & Budget Committee, and administratively to the Chief Operating 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 2006-07 to verify test results and expand the testing program.**

Formal compliance testing of internal controls, as described in the Managers' Guide, is performed departments 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 by its external auditors.

6. **Discuss the methods used in 2006-07 to provide internal control education and training to keep agency/authority staff aware of the need for internal controls.**

Training sessions are periodically conducted, with attendance of department heads and individuals involved in completion of internal control self assessments, to highlight the nature and types of key risks the Corporation is exposed to; identification of controls in place to address risks, and the importance of a strong internal control system. ESDC's Chair periodically issues 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 2006-07. Include information on reorganizations and other revisions in the program 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. 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:

- The name and title of the IA director.
- The name and title of the person to whom the IA director reports.
- A description of the internal audit director's credentials, education and experience that demonstrates how those qualifications meet IA standards.
- The amount of continuing professional education the director and each staff member has received over the past two years.
- The date and results of the last quality assurance review and an expected timeframe for the next review.

Response: While not required by law to do so, ESDC has maintained an internal audit function. Thomas Brennan is the Internal Audit Director, and reports to the Audit and Budget Committee and administratively to the Corporations' COO. Mr. Brennan has been with ESDC for 4 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 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.

- 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).

Response: 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 year, Audit 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 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.

- A demonstration of how the IA function conducts its operations in accordance with professional IA standards by responding to the following questions:
 - a. Does the IA function develop and follow a risk-based audit plan? Yes
 - b. When audits are conducted, are internal controls evaluated, weaknesses identified and recommendations made to correct those weaknesses? Yes
 - c. Does the IA function maintain adequate work papers? Yes
 - d. Does the IA function conduct follow-up audits? Yes, for significant matters where follow up prior to a subsequent cycle audit is appropriate.

9. **Outline the specific actions taken to implement 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."***

Management reviewed the Guide following its release in September 2006. As called for, the Corporation Chair sends out communications to all staff in support of the Corporation's internal control program and the importance of internal controls to the Corporation; an organization wide Departmental self assessment of controls is conducted and documented; an Internal Control function is maintained and an Internal Control Officer designated; internal controls training at suitable frequencies is conducted; control matters requiring corrective action are documented both during the internal control process but also during the internal audit process, and addressed in an appropriate manner; Internal Audit staff are highly qualified (all are CPA's), and staff level adequacy is subject to ongoing evaluation; Internal Audit's planning process is risk-based; continuing professional education is obtained as needed; and Internal Audit will during the ensuing fiscal year conduct a Quality Assurance self assessment and then plan to have a Quality Assurance review conducted in order to be in compliance with GAAS