NEW YORK STATE OF OPPORTUNITY. Empire State Development

KATHY HOCHUL
Governor

HOPE KNIGHT
President, CEO & Commissioner

EMPIRE STATE DEVELOPMENT – AUDIT AND BUDGET COMMITTEE

Meeting of the Committee Members

Thursday

March 26, 2026 – 8:30 am

AGENDA

FOR INFORMATION

1. Fiscal Year 2026-2027 Proposed Annual Operating Budget and Non-Programmatic Capital Expense - Highlights

2. Internal Audit Progress Report (July 2025 – March 2026) and Annual Plan of Internal Audit Coverage (April 2026 – March 2027)

Item 1

NEW YORK STATE OF OPPORTUNITY. | Empire State Development

EMPIRE STATE DEVELOPMENT

Audit and Budget Committee Meeting

Thursday

March 26, 2026

Highlights of
FY 2026-27 Proposed Annual Operating Budget
and Non-Programmatic Capital Expense Authorization

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New York State Urban Development Corporation
d/b/a
Empire State Development

Audit and Budget Committee Meeting

Highlights to the FY 2026-27 Proposed Operating Budget
and Non-Programmatic Capital Expense Budget

Intro/Context

- ESD is statutorily required to have all fiscal year budgets approved by the ESD Board of Directors and filed with the Office of the State Comptroller by April 1st.

ESD – Operating Budget – Overall

- The FY 2026-27 proposed total operating budget of $161.0 million represents a 3.5% decrease, or approximately $5.9 million, under the FY 2025-26 $166.9 million budget.
- Approximately $44.0 million, or 27.3% of the total budget is expected to be funded from Federal, State and/or other third-party resources.
- The proposed Operating Budget reflects the continued staffing, consultants and other expenses needed to support the significant new and existing statewide programs and initiatives included in the NYS Budget that ESD is charged with administering, including those overseen by various subsidiaries.
- If any changes are required to the operating budget after passage of the final Enacted State budget, they will be brought to the Board as needed.

ESD – Operating Budget – Expenses

- Total Personal Services (PS) of $95.2 million (salaries and fringe benefits) represent a 3.8% decrease, or approximately $3.8 million, under last fiscal year's total of $99.0 million.
  - This decrease represents a slight decrease in ESD's staff open positions and keeping a flat fringe benefit rate of 42%.
- Total Non-Personal Services (NPS) of $58.5 million represent a 5.2% decrease, or approximately $3.2 million, under the FY 2025-26 $61.7 million budget.
  - This decrease is largely contributed to a shift for program consultants for GO-SEMI to future years, offset by increases due to modifications for office space, program specific IT needs, agency wide professional development, semiconductor and global initiatives, technical assistance for programs and insurance premiums.

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Audit and Budget Committee Meeting

Highlights to the FY 2026-27 Proposed Operating Budget
and Non-Programmatic Capital Expense Budget

(cont'd)

Subsidiary Operating Support

- The budget also includes approval of approximately $7.3 million of support for certain ESD subsidiaries: Erie Canal Harbor Development Corporation ($1.5 million), Harlem Community Development Corporation ($4.3 million), Queens West Development Corporation ($0.5 million) and USA Niagara ($1.0 million).

ESD – Non-Programmatic Capital Expense Authorization

- The Non-Programmatic Capital Expense Budget of $12.0 million represents a 9.1% increase, or approximately $1.0 million, over last fiscal year's total of $11.0 million.
- Support is provided to continue to ensure safe, functional, and compliant work environments across ESD locations, enhancements to the loans (GDA) payment process, provision for the procurement and replacement of agency vehicles necessary to support statewide operations and program delivery, and other IT initiatives including, but not limited to AI.

Next Steps

- Upon recommendation by this Committee, the budget will be presented to the full ESD Board.
- After approval by the ESD Board, the budget will be posted to ESD's website and submitted to the Office of the State Comptroller, as required by State Finance Law.

Item 2

EMPIRE STATE DEVELOPMENT

INTERNAL AUDIT PROGRESS REPORT

JULY 2025 - MARCH 2026

ANNUAL PLAN OF INTERNAL AUDIT COVERAGE

APRIL 2026 – MARCH 2027

EMPIRE STATE DEVELOPMENT

AUDIT COMMITTEE PROGRESS UPDATE – JULY 2025 THROUGH MARCH 2026

Since the prior Audit Committee meeting in June 2025, Internal Audit has completed four audits and issued the respective audit reports. Three audits and one monitoring review are currently in progress and fieldwork is either completed or underway. Additionally, Internal Audit provides support to ESD's Internal Control Officer in assessing annual internal control risk surveys completed by ESD's departments, subsidiaries and DED departments.

ESD Audit Reports Issued

- ESD Global NY
- ESD Contracts Administration
- USA Niagara (ESD Subsidiary)

DED Audit Reports Issued (Informational only, as DED is not within the scope of the ESD Audit Committee)

- DED Finance

ESD and DED Internal Audit and Review Work in Progress

- Erie Canal Harbor Development Corporation (ESD Subsidiary) – fieldwork completed. Report is being drafted.
- Erie County Stadium Corporation (ESD Subsidiary) – Monitoring visit performed. Memo to ESD Management is being drafted.
- ESD ConnectALL– fieldwork is in progress.
- ESD Office of Supplier and Contractor Diversity (OCSD)– fieldwork is in progress.
- ESD and DED Internal Control Certification Report review (submitted by ESD and DED in the second quarter of each year).

INTERNAL AUDIT - 2026-27 ESD INTERNAL AUDIT PLAN

ESD's Internal Audit Department (IA) is responsible for both Empire State Development (ESD) and the Department of Economic Development (DED) audit coverage. While the Audit Committee's scope of oversight includes only ESD and not DED, limited DED-related audit details are provided in these documents to present the totality of Internal Audit's ESD and DED audit coverage.

Appendix A details the ESD audits to be conducted, subject to adjustment if needed during the upcoming fiscal year. Appendix B details the DED audits (for reference purposes only). Appendix C details the estimated hours required for the 2026-27 audit plan.

IA is also a member of management's Project Implementation Teams (PIT), which allows IA the opportunity to advise management on internal controls and risk prior to projects being implemented.

Audits are focused on key risks and ESD/DED's more critical programs. The rationale for, and scope adjustment regarding, each audit is outlined in each audit report issued. In some cases, limited scope audits may be performed to provide sufficient audit coverage for areas/functions. IA will expand its sampling in such audits if issues are encountered that warrant increased testing.

APPENDIX A – ESD INTERNAL AUDIT PLAN: APRIL 2026 THROUGH MARCH 2027

Planned Audits and Reviews	*RR*	*Hours*	*Comments*
ConnectALL	4	300	Carryover from 2025/26.
Life Science Initiatives	4	825	Grants and tax credits will be covered in this audit.
Office of Strategic Workforce Development	4	825	Grants are issued in rounds which are announced quarterly. OSWD uses three types of grants. Capital Grants, Operating Grants and Capacity Building Awards. The audit will include the On-Ramp program.
Small Business & Technology Development (selected ESD-administered programs)	4	500	This audit will cover various Small Business areas not covered during prior audits, including SSBCI-related programs.
Regional Office Review	3	300	Initiator of various ESD programs that encourage growth and attract investment to NYS including Regional Council awards.
Strategic Business Development	3	600	Initiator of various ESD programs that encourage growth and attract investment to NYS including FAST NY, Restore NY and Power UP.
ESD Finance: GL Reconciliations; Cash Receipts, Accounts Payable, T&E Processing	3	150	EFPR audits ESD annually in preparing ESD's Financial Statements. Internal Audit has limited coverage with historically satisfactory results.
Internal Control Certification (ICC)	3	125	Supporting work for annual certifications. Covers both ESD & DED.
MIS/IT Review	3	125	Hours allocated to monitor IT activities and functions.
HR/Payroll	2	100	As EFPR (CPAs) tests payroll annually, IA limits coverage to ICC review.
Administrative Services	2	400	Review ESD administrative services and facilities including ESD vehicles.
Loans and Grants (Informational Purposes Only)		0	Last audit was completed at the end of 2022-23 with satisfactory results. Since the last audit IA has reviewed L&G operations as part of Global NY and ConnectALL audits. During this plan year, L&G operations will be reviewed as part of Strategic Business Development, Life Science and the Regional Office audits.
ESD Audit Hours		**4,250**	**To Appendix B**

"RR": Risk ratings (assigned judgmentally by Audit) are very low (1), relatively low (2), moderate (3), and high (4).

APPENDIX B – DEPARTMENT OF ECONOMIC DEVELOPMENT INTERNAL AUDIT PLAN: APRIL 2026 THROUGH MARCH 2027

Planned Audit and Reviews	*RR*	*Hours*	*Comments*
Select Tax Credit Programs	3	500	Digital Gaming Tax Credit, NYC Music Theater, Semiconductor Workforce Training Incentive.
Low Interest Capital Program (formally Linked Deposit Program)	3	450	Last audited in 2020-21.
Division of Minority and Women's Business Development	3	0	Large statewide certification and recertification carried out by ESD. Last audited in 2020-21. Currently under OSC Audit. On Audit Plan for informational purposes.
DED Audit Hours		**950**	
ESD Audit Hours		**4,250**	***From Appendix A***
Total Audit Hours for 2026-2027		**5,200**	

"RR": Risk ratings (assigned judgmentally by Internal Audit) are very low (1), relatively low (2), moderate (3), and high (4).

DED Internal Audit Reports: IA performs both ESD and DED audits. DED audits are outside the ESD Audit Committee's scope of responsibilities and, therefore, DED audit reports are not presented to the Committee when completed. To give a fuller picture of the scope of coverage provided by IA, and clarity as to overall IA planned coverage, audit plan schedules for both ESD (Appendix A) and DED (the above Appendix), and a list of audits in progress or issued, are included for the Committee.

APPENDIX C

FY 2026-27 AUDIT PLAN RESOURCES

SOURCE OF HOURS PER FULL TIME EMPLOYEE – FULL YEAR

Workdays	261
Less Holidays and Floating Days	(13)
Less Estimated Sick Days	(5)
Less Estimated Personal Days	(5)
Less Estimated Training Days	(5)
Less Estimated Vacation Days	(20)
Estimated "Chargeable" Days	**213**

ESTIMATED AVAILABLE HOURS PER STAFF MEMBER:

Staff	*Available Workdays*	*% of Direct Audit Hours*	*Available Hours Per Day*	*Approx. Available Hours for Audits*
Stephen Konopko, VP	213	75%	7.5	1,198
Dianne Hughes, AVP	213	80%	7.5	1,278
Esther Buff, Audit Manager	213	80%	7.5	1,278
James DeVito, Senior Auditor	213	90%	7.5	1,438
Open Position				
TOTAL				5,192

ANNUAL INTERNAL CONTROL ASSESSMENT REPORTS

NYS annually requires public authorities and agencies such as ESD and DED to conduct an evaluation regarding the status of the internal control environment and submit annual internal control certification reports for each entity, approved by ESD's President, CEO and Commissioner, to the NYS Office of the State Comptroller (for ESD's certification) and to the Division of Budget (for DED's certification).

ESD's 2025 certification report, which was provided to the Audit Committee, reflected that ESD was fully compliant with the requirements of the Internal Control Act to establish and maintain a system of internal controls. DED's separate certification report also reflected full compliance.

ESD's Director of Compliance (Internal Control Officer) coordinates the annual internal control exercise for ESD and DED, including preparation of the filed internal controls certification reports.

The underlying supporting documentation for both reviews is submitted by department heads to the Legal Department and IA for review. IA evaluates the submissions and performs analytical reviews and test work to support the certification reports. Much of that test work support occurs while conducting internal audits during the year.

IA also considers the level of financial and operational control testing performed by ESD's CPA firm, EFPR, in determining IA's scope of testing for the ESD certification.

The current year's review process is largely complete, with satisfactory results, and the resultant ESD certification report should be issued by June and provided to the Audit Committee at a future 2026 Committee meeting.

INTERNAL AUDIT STAFF

- ***Stephen Konopko, VP, CIA, and MBA***:
  - 32 years of experience, 22 years with ESD.
  - Certified Internal Auditor (CIA)

- ***Dianne Hughes, AVP, CIA:***
  - 21 years of experience, 9 years with ESD.
  - Certified Internal Auditor (CIA)

- ***Esther Buff, Audit Manager:***
  - 10 years of experience, 3 years with ESD.

- ***James DeVito, Senior Auditor:***
  - 9 years of experience, 3 years with ESD.
  - Certified Public Accountant (CPA) Candidate