GLDC Response to ABO Report

GLDC is a New York not-for-profit local development corporation. It was formed in 1994 to foster the redevelopment of the former Griffiss Air Force Base. Beginning last October and continuing through this April, the ABO conducted a review of the activities and expenditures of GLDC, its staff services provider, Mohawk Valley EDGE, and various other entities with which either GLDC or Mohawk Valley EDGE has a contractual or other relationship. The ABO published the results of its review in a report dated April 30, 2014 (the “ABO Report” or “Report”).

The ABO Report covers the 33-month period from January 2011 through September 2013. During that period, Mohawk Valley EDGE processed 14,865 separate financial transactions representing $48,047,296 in cash inflows and outflows on behalf of GLDC and the other entities named in the ABO Report.

After spending 6 months reviewing GLDC, EDGE and the other entities --an unusually long period for a review of this type and one which placed undue burden on our staff and financial resources -- the ABO has chosen to focus its attention on 198 financial transactions totaling approximately $287,000 which it claims are “attributable to accounting errors or resulted in the inappropriate expenditure of GLDC’s funds in the first instance”. While GLDC strongly disputes the accuracy of the ABO’s figures, it is important to put its claim into some perspective: the 198 financial transactions which the ABO questions represent only 1.33% of the 14,865 total number of financial transactions and only 0.6% of the total dollar volume of $48,047,296 in cash inflows and outflows for the time period reviewed. Of the 198 financial transactions questioned by the ABO, 131 of them were for amounts of less then $1,000. Thus, from an accounting standpoint, the 198 financial transactions are immaterial to GLDC’s operations, both individually and in the aggregate. Presumably, the ABO itself recognizes this since it does not recommend in its Report that GLDC take any corrective action.

Before addressing the specific transactions highlighted by the ABO in its Report, it is worth taking a moment to recognize the results and accomplishments that have transpired with the transformation of Griffiss Air Force Base from a closed and/or realigned former military installation into what is now known as the Griffiss Business & Technology Park (the “Griffiss Business Park”).

Since 1995, Griffiss has attracted over $520 million in public and private investment that has helped solidify the presence of the remaining federal tenants (Air Force Research Laboratory and Eastern Air Defense Sector) that were retained when Griffiss was closed and/or realigned. Today, the Griffiss Business Park has nearly 80 employers with over 5,800 employees. The regional impact of Griffiss encompasses a significant part of the upstate region and employers at Griffiss draw a work force from 26 upstate counties. When it was an active Air Force Base, 100% of the federal lands at Griffiss were exempt from property taxes. With the creation of
Griffiss Business Park a substantial portion of these lands have been returned to the tax rolls. Currently, approximately $5.5 million in tax revenues are being generated annually at Griffiss.

In addition, the transformation of Griffiss has enabled Oneida County to relocate its general aviation airport to Griffiss. Nearly $100 million in federal, state, private and local funding has been invested to convert the former Strategic Air Command (SAC) airfield into a general aviation airport which includes a privatized Fixed Base Operation (FBO) and two maintenance repair overhaul firms that provide wide body airframe maintenance to domestic and international aviation firms.

The development of the Griffiss International Airport, coupled with the significant investment and job creation at Griffiss, has enabled the FAA to designate Griffiss as one of 6 FAA Unmanned Air Vehicle Test Sites in 2013 and has positioned Griffiss to be a leader in the integration and commercialization of Unmanned Air Vehicles (UAVs).

The ongoing, successful transformation of Griffiss has enabled the Griffiss Business Park to attract considerable recognition. Griffiss is commonly cited as a model on how to leverage excess federal assets for community and economic development. Even the ABO acknowledges that GLDC has produced tangible results. In its Report, the ABO states that “the decision of the federal government to close [realign] the Griffiss Air Force Base could have had a crippling impact on the economy and labor market of the City of Rome and Oneida County. The work of GLDC and its related corporations and EDGE has mitigated this potential impact and produced positive results, consistent with the statutory mission for which GLDC was created” and

that “the GLDC was formed with clear authority and accountability for managing the multi-million dollar redevelopment of the former Griffiss AFB. This effort was seeded in large part with public funds, has proven to be an ongoing success. We found that the majority of payments and transactions we reviewed are related to this public purpose. Both public and private entities have located to the Business and Technology Park and new jobs have been created”.

While GLDC is pleased that the ABO has affirmed what we and others have already noted -- that Griffiss has been an engine for economic growth and development -- we are very troubled by the inaccurate, misleading and, in several instances, the fabricated conclusions drawn in its Report.

Since its inception in 1994, GLDC has undergone annual independent audits which follow rigorous accounting and auditing guidelines. Specifically, each and every independent audit of GLDC has been performed in accordance with Generally Accepted Accounting Principles (GAAP), Generally Accepted Auditing Standards (GAAS), and the American Institute of Certified Public Accountants Statement’s on Auditing Standards (SAS) and COSO Internal Control Integrated Framework standards. All of these audits (including the audits for the 33-month period covered by the ABO Report), have resulted in “clean” audit opinions being issued to GLDC. Thus, one wonders how the ABO could reach such a different conclusion then GLDC’s independent auditors. Unfortunately, the answer is that during the course of its review of GLDC activities and expenditures,
the ABO did not follow any commonly accepted accounting and auditing standards. Moreover, it assigned inexperienced personnel with little or no background in accounting and/or auditing to perform the review. For a review of the type, which the ABO conducted in this instance, it seems to us that it would have been more appropriate for an entity like the Office of State Comptroller (OSC) to take the lead. OSC has trained auditors on its staff who are experienced in conducting these types of reviews.

In its Report, the ABO mischaracterizes the relationships that GLDC has with Griffiss Institute (GI), Griffiss Park Landowners Association (GPLA), Cardinal Griffiss Realty LLC (CGR), Griffiss Utility Services Corporation (GUSC), and with GLDC’s staff services provider, Mohawk Valley EDGE (EDGE).

The ABO attempts to portray these multiple entities, and the relationships between them, as creating a blurred governance structure when in fact there is a specific reason why each of these organizations exists. The ABO argues that transactions between these corporate entities are “redundant”. These are not redundant transactions, but are instead the type of routine transactions that typically occur between separate legal entities who have business relationships with one another. For the most part, they consist of transactions undertaken to fulfill either contractual requirements or meet normal customer-vendor obligations (e.g., GLDC paying monthly utility payments to GUSC). The ABO report suggests that if these multiple entities did not exist, there would be no need for these transactions. That is a patently absurd statement and raises questions as to the motivations behind the ABO’s review. In GLDC’s opinion, the ABO takes the position it does because it generally dislikes local development corporations (especially those who, like GLDC, have had the temerity of challenge to ABO’s authority in court), thinks there are too many of them, and would prefer to see both their numbers and powers reduced.

We also find the statements made by the ABO about the supposed drawbacks of having a single staff organization providing administrative support to multiple entities to be without any basis in fact. For some reason, the ABO simply does not like the fact that Mohawk Valley EDGE furnishes staff services to or on behalf of GLDC and the other named entities. Apparently, the ABO would rather that each of these organizations have its own full complement of staff. We find it incredulous that in this era of tight financial resources the ABO would fail to understand the value of shared services as being a smart way to administer multiple organizations and all of whom are engaged in one way or the other in furtherance of our region’s economic development. While the ABO appears to be focused on a global goal of reducing what it considers to be unnecessary economic development organizations, it takes the opposite tack here by criticizing an organizational model that actually fulfills an ABO objective through consolidation of staff functions and a shared services structure.
Turning to the specific transactions questioned by the ABO in its Report, GLDC responds as follows:

1. **ABO Allegation: Service Agreements with EDGE:**

   - EDGE provides administrative staff services to or on behalf of GLDC and the other entities reviewed by the ABO (except for GUSC). Throughout its Report, the ABO carelessly and incorrectly asserts that Boards of Directors of GLDC and the other corporations have somehow delegated or ceded their fiduciary and corporate responsibilities to Mohawk Valley EDGE. The ABO’s claim is demonstrably false. Each of these boards is independent of Mohawk Valley EDGE, sets its own corporate policies and procedures, performs its own financial and corporate decision-making, and provides to Mohawk Valley EDGE, as its staff services provider with whatever guidance and direction it feels is necessary with regard to specific projects. The ABO makes the conclusory allegation that it “found little evidence” that these boards “exert strong oversight of their organizations or the daily operations of the Park”. The reason that the ABO found “little evidence” is because it did not look. The ABO made no attempt to interview the members of any of these boards, review the minutes of their meetings in any meaningful detail or otherwise examine their respective corporate records. Instead, the ABO makes the unfounded allegation that the directors of these corporations are neglecting their fiduciary duties.

2. **ABO Allegation: Activities Inconsistent with GLDC Mission:**

   - The ABO claims that although “lobbying is prohibited by GLDC’s articles of incorporation and by Section 1411 of the Not-for-Profit Corporation Law”, GLDC has lobbied. Neither GLDC’s Certificate of Incorporation nor Section 1411 of the Not-For-Profit Corporation Law uses the term “lobbying”. GLDC’s Certificate of Incorporation and Section 1411 of the Not-For-Profit Corporation Law state, in pertinent part, that no local development corporation “shall attempt to influence legislation by propaganda or otherwise”. Upon information and belief, lobbying by a local development corporation of federal, state and local executive branch officers, departments, agencies, boards, commissions, etc., which is not an “attempt to influence legislation”, is permissible. A local development corporation may also lobby the legislative branch if it chooses to as long as it confines its activities to matters which do not constitute an “attempt to influence legislation” or if it is responding to legislative inquiries.

   In the past, GLDC has retained outside consultants to assist it in efforts to enhance and protect the remaining federal missions located at Griffiss Business Park, with a particular emphasis in bolstering the mission of the Air Force Research Laboratory (AFRL), which was potentially subject to closure by the Base Realignment and Closure Commission in
the 1995 and 2005 base closure rounds. GLDC contends that its hiring of such consultants was consistent with the very reason why GLDC was created in 1994. GLDC currently does not retain consultants who engage in lobbying activities.

- GLDC disagrees with the ABO’s assertion that GLDC’s use of its maintenance staff on a “fee-for-service basis” on projects located outside of the Griffiss Business Park exceeds its corporate purposes. GLDC maintenance personnel have been used to provide maintenance support for real estate owned by Rome Industrial Development Corporation, Rome Community Brownfield Restoration Corporation, and Mohawk Valley EDGE and non-GLDC owned real estate within the Griffiss Business Park. The ABO believes that while it is acceptable for GLDC to provide such fee-for-service maintenance services within Griffiss, the same is not true for any work that GLDC maintenance staff performs outside of Griffiss.

The ABO statement that it found no documentation that the GLDC Board was aware or approved these “outside the Park” assignments of its maintenance staff is factually incorrect. The Annual GLDC Administrative Budget, which is prepared for and voted on by the GLDC Board of Directors, includes revenue lines for reimbursement of the GLDC Maintenance Staff. The individual revenue lines in the Annual GLDC Budget identify the organizations that GLDC may secure reimbursement from for use of GLDC maintenance personnel.

The GLDC Board has consciously decided that it is willing to contract out its maintenance staff as a way to help defray some of its staffing costs under a shared services arrangement. Mohawk Valley EDGE has carried out GLDC’s policy guidance to promote the use of shared services arrangements as a best business practice.

The $13,216 in revenues realized by GLDC from this shared services arrangement constitutes approximately 4% of GLDC total salaries and benefits accounts for its maintenance staff. GLDC finds it odd that the ABO would be against the notion of a shared services arrangement when there is a strong push in Albany to promote consolidation, shared services and regionalization as a means of promoting local government efficiency and reducing the financial burdens of duplicative and overlapping governmental entities. The GLDC disagrees with the ABO’s position on this matter and plans to continue entering into such fee-for-service maintenance agreements with other consenting economic development organizations, upon terms and conditions that do not compromise GLDC core maintenance responsibilities.

3. **ABO Allegation: Inadequate Financial Oversight:** 

- The ABO alleges that there were 198 financial transactions totaling approximately $287,000 that were “attributable to accounting errors or resulted in the inappropriate expenditure of GLDC’s funds in the first instance”. As noted above, in terms of overall
activity, these transactions are de minimus, assuming one concurs that the ABO’s allegation are factually correct (which we do not). 131 of these transactions are for amounts of less than $1,000, which raises the question of what materiality threshold, if any, the ABO applies when it conducts those types of reviews.

- Out of the 198 financial transactions cited by the ABO, GLDC has determined that only 28 of them ($28,232.54) were transactions that were coded incorrectly and/or were transactions that involve questions concerning the use of Mohawk Valley EDGE and GLDC credit cards. All of the transactions in this category were corrected by Mohawk Valley EDGE and were properly recorded prior to the issuance of the applicable independently issued audited financial statements. The fact that these transactions were discovered and corrected by Mohawk Valley EDGE in a timely manner demonstrates the effectiveness of the financial review mechanisms and internal cost controls that are in place.

As part of its claim, the ABO references the following as examples of what it contends are instances of inadequate financial oversight:

A. **ABO Allegation: GLDC Allowed EDGE Staff to credit payments for a Non-existent Loan ($13,748.22):**

GLPA made two payments totaling $13,748.22 to GLDC on a GLDC loan to GLPA which, technically, had not yet closed. The purpose of the loan was to finance part of the cost of some new GPLA signage in the Griffiss Business Park (the “Signage”). Ultimately, GPLA determined that it had sufficient internal funds on hand to pay for the Signage. Thus, it became unnecessary to close the loan in question and GLDC refunded the $13,648.22 to GPLA.

The ABO makes the claim that GLDC’s financial condition was overstated from January 2013 to October 2013 by the above-referenced sum of $13,748.22. First, the ABO never reviewed GLDC’s interim financial statements covering the time period in question. Second, if it had, it would have seen that GLDC carried the $13,748.22 in GLPA loan payments on its balance sheet as a deferred revenue item. Therefore, contrary to the ABO’s assertion, GLDC’s financial statements were not overstated.
B. **ABO Allegation: GLDC allowed EDGE to use GLDC Funds for its own benefit:**

- **GLDC’s Acquisition of 394 Hangar Road Corporation’s (394 HRC) Interest in Bobcat ($15,000):**

GLDC leased a Bobcat skid steer loader (with attachments) to 394 HRC pursuant to a financing lease. The ABO complains “there is no record of the title being transferred from GLDC to [394 HRC]”. As far as GLDC is aware, it is customary for the lessor of equipment under a financing lease to retain title until such time as the lessee has fulfilled all its obligations under the lease and requested that title be transferred to it. In this instance, 394 HRC decided to terminate the financing lease early, whereupon GLDC decided to acquire 394 HRC’s equity interest in the equipment for its then market value of $15,000.00. As noted above, and as was explained to the ABO, EDGE was not involved in this transaction.

C. **ABO Allegation: Transactions where GLDC funds were used to pay costs incurred by EDGE or an EDGE subsidiary ($119,000):**

The ABO Report makes the claim that there were 23 transactions totaling more than $119,000 where “GLDC funds were used to pay costs incurred by EDGE or an EDGE subsidiary”. The spreadsheets detailing those financial transactions provided by the ABO to Mohawk Valley EDGE show 11 transactions -- not 23 -- totaling $119,338.97.

With respect to the specific transactions cited by the ABO, GLDC provides the following response:

- **Building Improvements 394 HRC: ($110,890)**

The ABO claims that there were $110,890.22 in construction charges invoiced to GLDC that should instead have been charged to 394 HRC. These transactions were third-party billing errors made by the contractors. One of these contractors, Eastern Energy Solutions, handled a lighting retrofit project for 394 HRC in the main hangar complex. The other, J&B Installations, provided roof repairs for 394 HRC on the high and low bay shop areas of the main hangar complex. While it is true that these charges were initially billed by the contractors, and paid for by GLDC, once the errors were discovered, they were promptly corrected thereby providing further evidence of the effectiveness of our internal cost controls. The specifics on these charges are as follows:

  - January 12, 2011: Eastern Energy Solutions to GLDC $ 17,869.20
GLDC was reimbursed by 394 HRC on January 21, 2011 for the payments made to Eastern Energy Solutions (January 12, 2011 and January 18, 2011) and J&B Installation on January 12, 2011. This amounts to a total of 9 days before these errors were corrected once it was discovered.

Eastern Energy Solutions made the same error again on February 9, 2011 and April 6, 2011. These errors were discovered and corrected on May 6, 2011.

GLDC notes that the errors were unintentional and were due to the incorrect billing by the contractors that were not discovered until after the payment was made. Once again, GLDC’s prompt correction of these errors demonstrates the effectiveness of the internal cost control mechanisms that are in place.

The ABO questions why Mohawk Valley EDGE staff transferred $75,131 from 394 HRC to GLDC when the ABO review noted in contractor requisitions that GLDC had paid totaled only $63,684. After reviewing this comment, Mohawk Valley EDGE determined that the ABO failed to add up all of the transactions that make up the $75,131 figure. In fact, GLDC paid $75,131 to Eastern Energy Solutions for the requisitions on January 18, 2011, April 6, 2011 and the J&B Installation requisition dated January 12, 2011. These requisitions were repaid to GLDC by 394 HRC. Thus, there is no financial discrepancy on the amount paid by GLDC to the contractors or the amount reimbursed by 394 HRC to GLDC.

- **Miscellaneous Charges in Error to GLDC $5,845.22:**

The ABO claims that GLDC paid for a Direct TV subscription and the purchase of some furniture that should have been paid for by Mohawk Valley EDGE. The charges in question total $5,845.22 ($5,656.22 for the furniture purchase and $188.97 for the Direct TV subscription).

The furniture purchase was a third-party billing error made by the vendor. The vendor billed GLDC for the furniture purchase as part of the renovation of the Building 780 that occurred when Mohawk Valley EDGE’s offices were being relocated from Building 301 (building was slated for demolition by GLDC as part of a new building being planned for that site). GLDC renovated Building 780 and, as part of the renovation project, handled the purchase of the FF&E to facilitate the relocation of Mohawk Valley EDGE’s offices. There was never any intention to have GLDC pay for the Mohawk Valley EDGE work stations that were
installed as part of the renovation project. The error was discovered and Mohawk Valley EDGE reimbursed GLDC. The furniture purchase was invoiced in June 2010 and was corrected in December 2010 (check issued on January 5, 2011) prior to the year-end close out GLDC and Mohawk Valley EDGE’s books.

The Direct TV invoices, totaling $188.97, were incorrectly booked to GLDC rather than Mohawk Valley EDGE on February 2, 2011 and August 3, 2012, respectively. The errors were discovered by virtue of the internal cost control mechanisms and were reimbursed by Mohawk Valley EDGE to GLDC on July 2, 2011 and September 11, 2012, respectively. These are minor errors that do not meet any materiality standards and were corrected when discovered.

D. **ABO Allegation: GLDC has allowed its credit cards to be used by EDGE as the equivalent of a cash advance:**

- The ABO claims that there were 6 purchases by Mohawk Valley EDGE totaling more than $10,000 [said purchases actually totaled more than $12,000] for other entities using GLDC Credit Cards. The transactions in question include:

  - Purchase of Supplies and Materials (GLDC Vendor Accounts): $2,592.00
  - Purchase of 2 iPads for EDGE: $1,495.00
  - Purchase of iPads for OCIDA Board: $6,721.00
  - Purchase of airfare, conference registration, Hotel for NDC Training course: $1,363.00
  - Total: $12,107.00

All of the above-referenced transactions, excluding the $2,592 purchase of materials and supplies from GLDC vendors, were made using the GLDC credit card since, at the time of the transaction, the Mohawk Valley EDGE credit card typically used for these types of transactions did not have a high enough credit limit to cover these purchases. All of the above credit card transactions were promptly reimbursed by Mohawk Valley EDGE, and OCIDA, respectively, and no interest costs were incurred by GLDC.

GLDC and Mohawk Valley EDGE concur with the ABO that there is an opportunity for them to strengthen their internal protocols on the use of credit cards to avoid the use of the GLDC credit card for non-GLDC purchases. Steps have been taken to modify the credit card policies of both organizations to prevent future occurrences of where such credit cards are used interchangeably.
The ABO claims that during 2011 and 2012, 394 HRC purchased supplies and materials totaling $2,592 using GLDC charge accounts. These are “house accounts” that GLDC maintains with various vendors for purchase of building supplies and materials. The materials and supplies charged on GLDC’s house accounts were for building repairs performed by GLDC personnel as part of its maintenance functions provided to 394 HRC. As a matter of policy, when GLDC provides maintenance and/or repair services to other entities, (in this instance 394 HRC), it purchases the supplies that it needs to perform the maintenance and/or repair services in question and then bills the customer (in this instance 394 HRC) for its labor costs at its published hourly rates for staff plus the cost of materials and supplies, without markup. GLDC does not see anything wrong with this practice and uses this policy to maintain tighter controls on its vendors accounts to avoid errors. The GLDC Facility Manager meets regularly with the EDGE A/P Accountant to go through all monthly invoices to make sure which invoices need to be reimbursed by another entity.

E. **ABO Allegation: GLDC financial entries made by EDGE frequently contain errors ($78,000)**

- The ABO asserts that as a part of the 198 financial transactions at issue, it has identified 54 errors totaling more than $78,000. Of the 54 alleged “errors”, the ABO itself double-counted at least 19 such transactions (35% of the total number of 54). This double-counting occurs because, apparently, the ABO counts the correction of an error as an error. GLDC has no idea why the ABO would count the correction of an error as an error. What it does know is that the effect of this unique system of accounting would be to actually discourage entities subject to the ABO’s jurisdiction from rectifying errors, since each error corrected would be counted against the entity as an additional error. It is difficult to see how this makes any sense.

- One of the errors cited by the ABO, totaling $17,297.98, was an error made by the Defense Finance and Accounting Service (DFAS) DFAS doubled paid GI, and then debited GI’s account to correct its own error. This DFAS error was explained to the ABO, who did not question the explanation. Nonetheless, it failed to remove this as a questioned transaction. It appears that the ABO is unable to distinguish an error made by GLDC and/or Mohawk Valley EDGE from an error made by an outside third party (in this case the federal government). In the eyes of the ABO, all errors regardless of who makes them, are counted against GLDC and/or Mohawk Valley EDGE. This is beyond absurd.

- Eight of the alleged 54 errors were old receivables due from GI that GLDC was carrying on its balance sheet dating back to 2005 and 2006. These
receivables totaled $29,612.52 and were finally paid by GI to GLDC. **Why the ABO would consider it an error for GLDC to collect aged accounts receivable makes absolutely no sense.**

The ABO Report includes the following 4 transactions, totaling $5,030.51, as “errors”. The examples that the ABO chose to highlight were transactional errors that Mohawk Valley EDGE admits were among the 28 transactional errors described above.

- **JDLR Loan Payment Remitted to GLDC vs. UIDC: $54.56**
  
  This loan payment was inadvertently deposited into GLDC’s account instead of UIDC’s. The posting error was made on September 28, 2012. The correction was booked on October 1, 2012 and a check was issued by GLDC on October 4, 2012. This error was discovered and corrected within 6 days after its occurrence, which validates the internal cost control mechanisms that are in place. The fact that the ABO chose to highlight this as an example of a Mohawk Valley EDGE error shows its lack of any materiality threshold and of its failure to follow auditing standards.

- **FMA loan Payment Remitted to GLDC vs. UIDC: $759.34**
  
  This loan payment was inadvertently deposited into GLDC’s account instead of UIDC’s. The posting error was made on September 28, 2012. The correction was booked on October 1, 2012 and a check was issued on October 4, 2012. This error was discovered and corrected within 6 days after its occurrence, which is further proof of the effectiveness of the internal cost controls that are in place.

- **GI payment to GLDC for Payment from SERCO Lease: $2,766.66**
  
  The ABO Report inaccurately describes a lease arrangement that existed at the GI facility, which is an indication of the ABO’s lack of understanding on many of the items that it reviewed.

  The facts are as follows: GLDC leased Room 210 to GI for use as a Cloud Computing Center. GI had a consultant arrangement with SERCO, who occupied the space. GI entered into a sublease with GLDC for this space on March 1, 2011 for a 1 year term extending through February 29, 2012, with a renewal option for an additional 1
year. GI exercised its renewal option for the additional year with the renewal option period terminating on February 28, 2013.

At the end of the term, GI elected not to renew its sublease as it did not know whether it would be continuing its consulting arrangement with SERCO. However, SERCO wanted to remain in the space. As a result, GLDC assumed the role of lessor with SERCO being a direct tenant of GLDC. This lease was on a month-to-month basis inasmuch as SERCO was uncertain at that point as to whether its AFRL contract would be renewed. Ultimately, in SERCO vacated the space at the end of May, 2013.

SERCO agreed with GLDC to remain in the space upon the same terms and conditions that it had when it leased the space directly from GI. During the transition from GI to GLDC, GI was inadvertently billed by GLDC for the cost of the leased space at the same time that SERCO was paying GLDC for such space directly. Thus, there was a double payment made to GLDC on this space, which was discovered and corrected. The transaction was booked on March 25, 2013. The correction was booked on April 1, 2013 and the check was issued on April 18, 2013 to reimburse GI.

This was included by EDGE as one of the 28 transactions that were made in error but were corrected. This is another example of a transaction where the internal cost control mechanisms were found to be effective. The ABO list of transactions took this transaction and counted it as 5 separate errors when in fact the error occurred only twice and was promptly corrected. Apparently, the ABO leads by example when it comes to making errors.

- **EDGE Double Payment to GLDC for 394 HRC Maintenance Work: $1,449.95.**

EDGE acknowledges that out of the 14,865 transactions processed, there were 28 errors that were discovered and corrected. One of the errors involves a double payment made by 394 HRC to GLDC for maintenance work that GLDC performed on the hangar complex. The amount of the double payment was $1,449.95. The original transaction was booked on May 11, 2011. The correction was booked on May 12, 2011 and the check was issued on June 2, 2011. This represents further proof of the internal cost control mechanisms that are in place.
4. ABO Allegation: GLDC’s creation of multiple corporate entities to help govern the Park necessitates redundant financial transactions.

The ABO claims that instead of carrying out its entire mission directly, GLDC has caused the creation of multiple other entities to each carry out selected components of its mission. In the ABO’s view, this results in redundant transactions and bookkeeping entries between these various entities. The ABO argues that there are 522 such redundant financial entries, with a total dollar value of $6.2 million, that were made by Mohawk Valley EDGE on behalf of GLDC and other entities simply because these multiple entities exist. This amounts to about 16 transactions per month, which is not an inordinate number of transactions when you take into account the required transactions that are part of the various agreements that GLDC maintains for its contractual obligations with such entities as the Griffiss Institute, GPLA, Cardinal Griffiss Realty, LLC and Mohawk Valley EDGE. These transactions are not redundant in any sense of the word. Rather, they consist of routine transactions that typically occur between companies that have a business relationship with one another.

Prior to its release of the ABO Report, Mohawk Valley EDGE and GLDC provided the ABO with an explanation of the types of intercompany transactions that take place and the underlying rationale for such transactions. One example cited by the ABO was the payment by GLDC to GPLA for CAM fees on its leased properties. GLDC went back and reviewed the list of alleged redundant transactions and noted that there 136 financial entries that deal with the remittance of CAM charges by GLDC to GPLA from its leased properties at Griffiss. The total CAM remittance to GPLA for all applicable properties at Griffiss totaled $459,355.92 of the $6.2 million in intercompany transactions. Is the ABO suggesting that GLDC should not pay the CAM fees it owes?

GLDC explained to the ABO why it is subject to CAM payments on its leased property and GLDC also re-explained the reason why it established a Landowners Association for Griffiss, which frankly was the decision of the Board of Directors when it carefully laid out the structure for ensuring that there was an ongoing system to maintain the aesthetic appearance of this 3,500 acre Griffiss site. GLDC abides by its decision to create the GPLA and respectfully disagrees with the ABO on its assertion that this is unnecessary and redundant.

- The ABO makes a broad statement about what it considers to be redundant intercompany transactions without comprehending or deliberately and consciously ignoring the reasons why these transactions take place.
Essentially, the ABO glosses over various legitimate transactions including those involving the New Markets Tax Credit financing (investor loan being repaid to GLDC), payments due to GLDC from GUSC under a Definitive Agreement, lease payments for shared occupancy costs on the GLDC-GUSC maintenance facility, lease payments due to GLDC from GI for lease of the Cloud Computing Center, GLDC payments to GUSC for utilities, and various loan payments to name just a few of the routine monthly payments made to or by multiple entities. Mohawk Valley EDGE and GLDC provided a detailed explanation on these transactions, which are undertaken to fulfill contractual obligations and are necessary components of the operations and development functions at Griffiss. Is the ABO suggesting that GLDC shouldn’t pay its utility bills or make its loan payments? It is absurd for the ABO to make such broad statements without accurately portraying the reasons why these transactions exist.

One of the alleged redundant transactions was a $0.05 write off on a charge from to GLDC to GUSC. The fact that this is listed as an example of a redundant transaction among two corporate entities shows the level of absurdity and total lack of financial judgment on the part of the ABO.

5. Conclusion:

- GLDC and its staff services provider, Mohawk Valley EDGE, vigorously dispute the ABO’s assertion that GLDC has somehow transferred its management responsibilities or delegated its fiduciary obligations to EDGE solely by virtue of the fact that Steven J. DiMeo, who serves as Mohawk Valley EDGE’s President, also serves as GLDC’s Authorized Representative.

- For the record, while Mr. DiMeo is GLDC’s Authorized Representative, he is not a GLDC officer and must obtain the prior approval of GLDC’s Board to sign contracts involving real property or the issuance of debt. Mr. DiMeo does not sit on either the Mohawk Valley EDGE Board or the GLDC Board. The Mohawk Valley EDGE Board and the GLDC Board do not meet jointly and have no interlocking directors or officers. Mr. DiMeo reports to each board separately. The Mohawk Valley EDGE Board manages Mohawk Valley EDGE and sets Mohawk Valley EDGE’s corporate policies.

- Moreover, the Staff Services Agreement between EDGE and GLDC expressly provides that:
The Parties acknowledge and agree that GLDC is managed by GLDC’s Board of Directors (the “GLDC Board”) and, to the extent that the GLDC Board has delegated management duties to GLDC’s officers, GLDC’s officers. The Parties further acknowledge that nothing contained in this Agreement shall confer on EDGE any power or authority to manage GLDC, which power and authority shall remain with the GLDC Board and/or GLDC’s officers at all times. Without limiting the generality of the foregoing, the Parties acknowledge and agree that (a) the Staff Services shall be strictly administrative (rather than managerial) in nature, and (b) EDGE shall have no authority to execute contracts or agreements on GLDC’s behalf or otherwise bind GLDC.

- GLDC takes great exception to the statements by the ABO that claim that the GLDC Board has taken a “cavalier” approach regarding the appropriateness of using GLDC funds to initially finance the operations of other organizations.

What the GLDC does find offensive is the misstatements, suppositions and outright fabrications made by the ABO in its Final Report. The failure by the ABO to use any established auditing procedures or apply any materiality threshold to its review is ridiculous. The fact that GLDC has expressed an opposing point of view on the limited scope report should not be interpreted as being cavalier.

GLDC’s Board Members take their fiduciary obligations very seriously and that is reflected in GLDC’s strong financial performance that has been exhibited based on its independent financial audit reports. GLDC has provided sound financial management and leadership in dealing with a heart wrenching and economically devastating situation when Griffiss was slated for realignment in 1993 and was again threatened in 1995 and 2005. GLDC can only wonder how much its success would have been inhibited if the ABO had existed prior to 2005.

- The ABO after spending six months reviewing GLDC and the other entities filed a report that does not contain one recommendation that GLDC and the other entities can consider to help improve financial oversight and corporate governance. The fact that the ABO devoted this much time and resources on this review raises the question as to what is the presumed function and role of the ABO and how does its oversight contribute to improvements in the operations and structure of the various public authorities, local authorities and local development corporations that are now subject to ABO oversight.
Local development corporations (LDCs) are not-for-profit corporations incorporated pursuant to Section 1411 of Not for Profit Corporation Law. The general statutory purpose of an LDC is to reduce unemployment, promote and maintain employment opportunities, aid communities attract new industry or to encourage the development or retention of existing industries, and lessen the burdens of government and act in the public interest. In furtherance of these public purposes, an LDC has the power to construct and rehabilitate industrial or manufacturing facilities to be used by others; provide grants and loans; borrow money; issue debt; and acquire, sell or lease real property below market value. Any county, city, town or village in New York State, alone or in combination, may cause the incorporation of a LDC by public officers or private individuals.

Section 2(2)b of Public Authorities Law defines local authorities to include not for profit corporations affiliated with, sponsored by, or created by a county, city, town or village government. By law, the operations, practices and reports of these LDCs are subject to the review and analysis of the ABO. The ABO is undertaking a series of reviews of selected LDCs across the state to develop a better understanding of the public purposes for which each LDC was formed, and to provide insight into how these corporations function, how each relates to the local government for whose benefit it was created, and the types of activities on which the LDC expends public funds.

These reviews are intended to focus on the following analytical issues:

- The specific mission of the LDC and the purpose(s) for which it was formed.
- The LDC’s corporate governance structure, including its relation to the municipal government and other local authorities.
- The sources of LDC funding.
- The programs, services and public objectives supported by LDC funding.
- Activities of the LDC, if any, that may be inconsistent with or tangential to its core mission.

This report reviewed the extent to which the activities and expenditures of the Griffiss Local Development Corporation are consistent with and advance the public purpose for which it was formed. This included GLDC’s role in the redevelopment of the Griffiss Air Force Base, and its governance and financial relations with other entities charged with supporting its mission.
Mission of the Griffiss Local Development Corporation

The Griffiss Local Development Corporation (GLDC) had its genesis in Section 110 of Chapter 63 of the Laws of 1994. A first year appropriation of state funds was contingent on the formation of a local development corporation organized with the cooperation of the Griffiss Redevelopment Planning Council, Oneida County and the City of Rome. GLDC was formed under Section 1411 of Not for Profit Corporation Law as the successor to the Griffiss Redevelopment Planning Council to design and implement a strategy for the redevelopment of the Griffiss Air Force Base (Base) and the Rome Laboratory (Lab). As articulated in its Certificate of Incorporation, the core mission of GLDC is to develop, maintain, strengthen and expand the use and viability of the Base, to continue research and development projects associated with the Lab to enhance its competitive position and reduce its costs, and to stimulate job growth in the City of Rome. GLDC’s primary focus is on the development of the Griffiss Business and Technology Park (Park), which occupies much of the Base.

The Griffiss Air Force Base comprises approximately 3,500 acres. Since the Base’s closure in 1994, about 45 percent of the property has been transferred to Oneida County (and is now the Oneida County International Airport) or the State of New York. The Air Force currently retains ownership of approximately 5 percent of the property. As property was decommissioned by the Air Force, title was acquired by the Oneida County Industrial Development Agency (OCIDA). The OCIDA subsequently transferred property to GLDC for redevelopment, consistent with the base redevelopment master plan. Approximately 21 percent of the Base has been sold or developed for commercial, educational or residential use. The remaining 29 percent is currently held by GLDC for future reuse and development.

GLDC reports that it received more than $90 million in government contributions from 1994 through 2012. This total constitutes nearly 59 percent of all revenues received by GLDC during this period. At least $32 million, or 36 percent of its government funding, has come from direct New York State appropriations.

Governance of the Business and Technology Park

As a prerequisite for receiving State support, Chapter 63 of the Laws of 1994 stated that GLDC was to be governed by a fifteen member board, comprised of appointees of the Governor, the State Legislature, Oneida County, and the City of Rome. In 2011, the GLDC board amended its by-laws to transition to an eventual 12 member self-appointing board of directors as vacancies occur. The current GLDC board has 12 directors, 10 of whom were initially appointed under the original governance structure.

Although GLDC is the entity charged with redeveloping the Base and implementing the re-use plan, it does not have its own executive, administrative or financial staff. GLDC’s only employees are eight individuals responsible for maintaining the facilities and grounds in the Park. GLDC relies on five separate corporate entities to carry out its mission and to manage its operations and finances.
Mohawk Valley Economic Development Growth Enterprise Corporation (EDGE) is a not-for-profit economic development organization serving both Oneida and Herkimer counties, initially created in 1963. Its focus is not just on attracting businesses to the Base and Park, but to market economic development and employment opportunities throughout both counties. GLDC has a contractual agreement with EDGE for administrative services, as well as the majority of functions related to developing the Park. EDGE is responsible for guidelines for the development of the Park, marketing and developing proposals for prospective Park tenants, managing Park properties and assisting GLDC in developing, renovating and improving the Park. The GLDC board has also appointed the current President of EDGE as its Authorized Representative to perform all duties generally associated with the position of President or chief executive officer. The Authorized Representative has the authority to negotiate and sign contracts, except for real property and debt transactions, and otherwise act on the board’s behalf.

Griffiss Utility Service Corporation (GUSC) was formed in 2000 to upgrade, operate and maintain the power plant that provides electricity and heat to Base tenants. GUSC is governed by a seven member board of directors and has its own administrative staff. Providing electricity and heat to Base tenants is part of developing and maintaining the Base, but rather than operate and maintain the power plant itself, GLDC formed a separate entity. GUSC’s primary sources of revenue are from the sale of steam heat and the distribution of electricity to the organizations that are located on the Base. GUSC provides a portion of its revenues to GLDC to finance the capital improvements GLDC made at the power plant and for ongoing development in the Park. According to its audited financial statements for 2011 and 2012, GUSC received $22.1 million in revenues while expenses totaled $20.5 million. GLDC officials indicated that its relationship with GUSC is a customer-vendor relationship. However, this perspective does not address GUSC’s role in supporting GLDC’s mission and ignores GUSC’s payments to GLDC to finance the capital improvements and ongoing development activity.

Griffiss Institute (GI) was formed in 2002 to conduct research and provide training in cyber security issues to private industry, academia and government for developing solutions to critical cyber security problems. GI is governed by a six member board of directors and has a limited number of management staff. Additionally, GI pays individuals to work with Air Force Research Laboratory (AFRL) researchers, and is reimbursed by AFRL for these costs. Ensuring that research and development projects associated with AFRL are continued to enhance AFRL’s competitive position and reduce its costs is part of GLDC’s mission, but rather than doing this itself, GLDC relies on GI. GLDC provides space for GI operations and pays the Institute’s utility costs at no charge to GI. The Institute received $4.1 million from January 2011 through September 2013 with payments of $3.9 million.

Griffiss Park Landowners Association (GPLA) was formed in 2008 by GLDC to assume its responsibility to manage and maintain the common areas within the Park, such as hiking trails, a sculpture park, and signs. GPLA functions as a landowners association, overseen by its own board of directors. Property owners and tenants are
assessed a fee to fund the maintenance of the common areas. However, GPLA has no staff and relies on GLDC employees to maintain the common area property. For the period of our review, GPLA received almost $1 million in common area assessment fees and had payments totaling more than $850,000.

**Cardinal Griffiss Realty, LLC (CGR)** was formed in 2010 by GLDC and EDGE so a specific project could qualify for Federal New Market Tax credits. The total cost of the project was approximately $10.6 million, funded by $2.4 million from the sale of federal tax credits, $3.1 million from GLDC funds, and $5.1 million in loans from various economic development organizations and commercial banks. The project was completed in 2011.

![Griffiss LDC Corporate Relationships Diagram]

**Service Agreements with EDGE**

Since the GLDC board chose not to retain executive, management and financial staff, it must contract for those services. Since January 1996, GLDC has engaged EDGE to administer its operations and finances. Under this agreement, EDGE is to provide general administrative and staff support to GLDC. The agreement prohibits EDGE from exercising any management control over GLDC or its employees. Yet, EDGE is responsible for marketing and developing the Park and the county airport; managing contracts with private firms for the development, construction and rehabilitation of buildings in the Park; and providing other economic development assistance to GLDC.

In addition, EDGE provides administrative support and financial services to GPLA and GI. The current EDGE President sits on the boards of directors of GPLA and GI, and EDGE is a part owner of Cardinal Griffiss Realty, LLC. In total, these three corporations and GLDC paid EDGE more than $1.4 million from January 2011 through September 2013, of which $1.3 million came from GLDC pursuant to its service agreement.
EDGE provides similar administrative, marketing or economic development services to other entities in the region. EDGE has various agreements with Oneida County, Oneida County Industrial Development Agency, Oneida County Local Development Corporation, Herkimer Industrial Development Agency, Rome Industrial Development Corporation, Utica Industrial Development Agency, and Rome Community Brownfield Restoration Corporation. These entities pay EDGE approximately $758,000 annually.

Solid Line denotes EDGE maintains financial and administrative records
Dotted Line denotes EDGE has other service arrangements

**GLDC Finances and Financial Relationships**

Between January 1, 2011 and September 30, 2013, GLDC and its related entities had approximately $20.8 million in receipts and more than $27 million in disbursements. EDGE processed all of these transactions per its service agreement with GLDC. The majority of receipts were for property leases, loan repayments, payments from the Air Force for research and education, maintenance fees, and grants. Payments over this period were primarily for property development, debt service, research and education, and administrative costs. EDGE also managed 17 GLDC loans with an original value of more than $25 million.

During this time, GLDC spent more than $10 million on Base development and infrastructure improvements. GLDC obtained grants or borrowed money from...
commercial banks and local economic development organizations, including EDGE. These funds are used for capital improvements or as a source for loans to businesses or other economic development organizations, including a subsidiary of EDGE. From January 2011 through September 2013, GLDC received over $2 million in grants from the State for development projects.

GLDC’s reliance on government funding has steadily decreased since its inception. GLDC initially received almost 100 percent of its funds from government, including more than $1.76 million from the Empire State Development Corporation specifically for its administrative activities. Between January 2011 and September 2013, however, GLDC received only 10 percent of its revenues from government sources.

GLDC Mission Driven Activities

The decision of the federal government to close the Griffiss Air Force Base could have had a crippling impact on the economy and labor market of the City of Rome and Oneida County. The work of GLDC and its related corporations and EDGE has mitigated this potential impact and produced positive results, consistent with the statutory mission for which GLDC was created. GLDC has remediated environmental issues, demolished buildings with structural problems, rehabilitated or constructed buildings for specific industries or businesses, and expanded the local property tax base.

The Business and Technology Park currently has more than 80 public and private tenants. Tenants include banks, hotels, business offices, manufacturing companies,
and distribution centers. GLDC currently owns nine buildings in the Park with space leased to 10 organizations. According to GLDC’s 2013 Annual Report, over 5,800 jobs have been created on the Base, and over $5.5 million in tax revenue is being generated.

Activities Inconsistent with GLDC Mission

While GLDC can point to significant accomplishments, this review identified instances where GLDC resources were used for purposes and activities inconsistent with its intended purpose, its Certificate of Incorporation, or existing agreements. For example, GLDC paid $309,000 from January 2011 through September 2013 to a consulting firm that typically engages in lobbying activities. Section 1411 of the Not-for-Profit Corporation Law and GLDC’s Certificate of Incorporation establish a clear and absolute bar prohibiting any attempt to influence legislation by propaganda or otherwise.

In spite of this prohibition, GLDC’s 2012 federal 990 tax filing reported that it paid a consulting firm to meet with state elected officials regarding passage of certain legislation. GLDC has also reported to the NYS Joint Commission on Public Ethics (JCOPE) that it has paid over $350,000 for lobbying activities. It is our understanding that the accepted meaning of Section 1411 prevents an entity such as GLDC from engaging outside lobbyists, directing third parties to communicate with government officials on its behalf, or working with these parties on testimony or other communications that are presented as if representing the positions of such parties. This position is supported by recent actions by the New York State Attorney General, who determined that while many types of not-for-profit corporations are subject to some form of lobbying restrictions, LDCs are subject to a total ban on lobbying under Section 1411(c) of the Not-for-Profit Corporation Law. GLDC officials indicate that its use of lobbyists is primarily limited to safeguarding and/or enhancing the remaining military missions at the Base. Nevertheless, we believe that these activities, as described, are strictly prohibited by Section 1411 and GLDC’s Certificate of Incorporation.

In another example, we found that GLDC’s maintenance staff was directed by EDGE management to perform work at buildings and properties outside the Park that are owned by EDGE or by entities managed by EDGE. For example, GLDC employees provided maintenance services to 5900 Success Drive, which is a subsidiary of EDGE. In addition, GLDC employees provided maintenance services for the Rome Industrial Development Corporation and the Rome Community Brownfield Restoration Corporation, as well as for the Marcy Nanotech site. We found no documentation that the GLDC board of directors was aware of or approved of these assignments. Although GLDC was reimbursed $13,216, the provision of such services represents an improper use of GLDC staff. The GLDC board contends that these transactions are valid and justified since GLDC maintenance staff are underutilized and GLDC is paid for this work. However, we believe that these transactions are inappropriate since they constitute a use of GLDC’s resources to maintain property GLDC has no legal authority to maintain. Moreover, EDGE has no authority to manage or assign
GLDC staff to perform this work outside the Base since its agreement with GLDC provides only that it will oversee the services provided by GLDC facilities staff.

**Inadequate Financial Oversight**

As indicated, to accomplish its mission of redeveloping, maintaining and operating the Base, the GLDC board has formed and/or relied on related entities to address specific aspects of its mission. Each of these related entities has its own board of directors (except for Cardinal Griffiss Realty, LLC) but no administrative or financial staff (except for GUSC). Administrative services are provided by EDGE. The GLDC board has designated the current President of EDGE as its Authorized Representative to perform the duties of chief executive and to negotiate and sign contracts, documents and other instruments relating to the normal business activities of GLDC, without prior board review and approval, other than property or debt transactions. With the consent of the board, the Authorized Representative may act on behalf of GLDC without such limitations. Under this designation, the Authorized Representative is also responsible for preparing and overseeing the service agreement between GLDC and his employer – EDGE – and monitoring the GLDC budget which funds the agreement. Yet, the GLDC board indicates that it has not delegated to EDGE any of its management or fiduciary obligations.

Further, EDGE maintains the financial records for GPLA and GI without an administrative agreement with these entities, and GPLA does not pay EDGE for administering its funds. Instead, EDGE provides these services under its service agreement with GLDC. This concentration of authority over financial transactions has centered accountability in EDGE with little direct oversight by the GLDC board. We identified numerous errors and incorrect transactions in the financial records maintained by EDGE for each of the entities. For the period January 2011 through September 2013, we identified 198 transactions that were attributable to accounting errors or resulted in the inappropriate expenditure of GLDC’s funds in the first instance. These transactions totaled over $287,000.

While the GLDC board argues that it exercises full management control over its operations and EDGE’s administrative activities, we found no indication that GLDC board members took any proactive steps to make sure these errors were corrected or to prevent their continuation. There is also no indication that these transactions were brought to the attention of the directors or discussed at regular meetings of the board. A review of GLDC board minutes shows that the presentation of the financial statements by EDGE were routine with nothing out of the ordinary to report.

As the following transactions demonstrate, it appears that GLDC allows EDGE to charge, or make payments from, the wrong accounts, or to move funds between accounts. GLDC officials dispute this characterization. GLDC claims that all obligations were properly incurred, charged to the correct corporation, and approved only with sufficient documentation. However, this claim fails to adequately address the specific transactions where funds are transferred between the accounts of different
entities without any justifying documentation, or why a GLDC board member would co-sign checks for incorrect payments.

**GLDC allowed EDGE staff to credit payments on a non-existent loan.** The GPLA board approved a project in February 2012 to improve signage at the entrance to the Park. The GLDC board agreed to provide a loan to GPLA to finance a portion of the project cost. In January 2013 EDGE staff transferred a total of $13,748 from GPLA’s account to GLDC’s account. The transaction records indicated that this was a repayment of the GLDC loan. Upon our inquiry, EDGE staff indicated that the transfer was made even though the loan was never made and no loan agreement between GLDC and GPLA was ever executed. Further, in January 2013 EDGE staff reported to the GLDC board that GPLA is funding the sign project. There was no justification for this fund transfer. EDGE staff realized this error in March 2013 and no additional payments were made. However, these funds were not transferred back to GPLA’s account until October 2013, more than seven months after the inappropriate payment was discovered. This resulted in GLDC’s financial records being overstated from January 2013 through October 2013. There is no record that the errors, the decision to delay repayment, or the overstated financial records were discussed with GLDC’s board. Instead, during this timeframe EDGE staff generally reported to the board that there were no significant variances in the financial data, or that there was nothing out of the ordinary to report.

**GLDC allowed EDGE to use GLDC funds for its own benefit.** From January 2011 through November 2011 EDGE’s subsidiary, 394 Hangar Road Corporation (Hangar Road), paid $9,822 to GLDC to lease a Bobcat skid-steer loader with snow blower. EDGE staff told us that, while there was no formal lease agreement in place, the transaction was a lease/purchase arrangement. There is no record of the title to the equipment being transferred from GLDC to Hangar Road, and GLDC officials acknowledged that GLDC retained legal title to the Bobcat. Yet, in January 2012 EDGE staff took $15,000 from GLDC’s account and deposited it in Hangar Road’s account. The transaction was explained as GLDC purchasing the equipment back from Hangar Road. To support this, EDGE’s President produced a bill of sale from Hangar Road to GLDC. However, neither EDGE nor GLDC could produce any record that Hangar Road had ever purchased or acquired title to the equipment. From November 2011 through January 2012 EDGE staff reported to the GLDC board that there were no major financial issues to report. Nor is there any indication in the public record that the GLDC board questioned this transaction.

The GLDC board indicated that this transaction does not support the statement that the funds are used for EDGE’s benefit, since it does not involve EDGE, but involves Hangar Road. This position fails to recognize that Hangar Road is an EDGE subsidiary. GLDC officials also indicate that the equipment was originally purchased by GLDC to be leased directly to Hangar Road. GLDC board members did not explain why the equipment purchase was approved by GLDC if it was to be used by the private 394 Hanger Road Corporation. GLDC officials explained that the lease payments were intended to finance the acquisition of the equipment by Hangar Road from GLDC, and that the $15,000 payment from GLDC represented the accumulated equity
that Hangar Road had acquired by the time the lease was terminated. Yet GLDC officials acknowledge that there are no written agreements or documents that exist to support this arrangement. GLDC’s official explanation of this transaction is essentially that GLDC purchased the equipment for the exclusive use of a private entity unaffiliated with GLDC, that the GLDC board authorized this purchase and financing structure, and that after three years, when Hangar Road determined it no longer needed the equipment, the GLDC board authorized a refund of the majority of the lease payments that Hangar Road had made. The GLDC board argues that this transaction was proper in all respects.

In addition, we identified 23 transactions totaling more than $119,000 where GLDC funds were used to pay costs incurred by EDGE or an EDGE subsidiary. For example, EDGE employees used GLDC funds to pay invoices totaling $110,890 on behalf of Hangar Road. These invoices represented purchases from two vendors for work done at Hangar Road. EDGE employees told us that invoices from a vendor were mistakenly sent to GLDC for payment rather than to Hangar Road. Although EDGE staff maintains the accounts for both organizations, and would have been aware that Hangar Road purchased the items from the vendor, staff did not immediately correct this billing mistake. Instead, payment was made from GLDC accounts and EDGE staff later transferred the funds from Hangar Road’s account to GLDC’s account. The GLDC board argues that it is easier, and more effective, to pay such costs through GLDC in the first instance and to reconcile those bills among the responsible corporations at a later date, and that this approach ultimately charges purchases to the correct entity. GLDC officials indicated that the errors were detected and corrected in a timely manner. However, this contention is not supported by the transaction details. Specifically, between January 12 and January 18, 2011 EDGE staff paid two contractors a total of $63,684 out of GLDC funds for work those contractors performed for Hangar Road. EDGE staff transferred $75,131 from Hangar Road to GLDC on January 21, 2011 as reimbursement. The GLDC board has provided no explanation as to why the amount transferred exceeded the amount spent or identifying that the financial records were overstated by $11,400. After identifying the billing error, EDGE staff paid an additional $47,184 from GLDC funds between February 9 and April 6, 2011 for this same project. Arguing that the board’s financial oversight is effective does not explain why payments would continue to be charged to GLDC after the error was first detected. EDGE staff did not transfer the balance of the amount paid by GLDC until May 12, 2011. During this period EDGE staff reported to the GLDC board that there was nothing out of the ordinary to report. There is no indication in the public record that the GLDC board questioned these transactions or directed that the errors be corrected at any time between January 2011 and May 2011.

We also noted that EDGE staff used $5,845 of GLDC funds to pay for subscription television service and furniture before subsequently reimbursing GLDC for these payments (as much as six months after the invoice was paid). We could find no justification for these purchases, any pre-approvals by the GLDC board of directors, or indication that these purchases directly benefitted GLDC. The GLDC board does not disagree that these funds were used for EDGE’s operations, and generally
characterize these transactions as errors. Yet, a member of the GLDC board signed checks authorizing these payments.

**GLDC has allowed its credit cards to be used by EDGE as the equivalent of a cash advance.** We identified six purchases totaling more than $10,000 made by EDGE staff for other entities using GLDC’s credit cards. For example, in July 2013 EDGE employees purchased $1,494 of computer equipment for use by EDGE staff using GLDC funds. These funds were later repaid by EDGE in September 2013 without interest. GLDC officials explained that GLDC’s credit cards were used because EDGE staff did not have sufficient credit approval to make the purchase with EDGE funds. According to GLDC’s own policies a GLDC board member had to approve and co-sign this payment.

In another example, an EDGE employee used a GLDC credit card to charge more than $1,300 in travel costs to attend a training course. The GLDC board argued that the use of a GLDC credit card by EDGE staff was appropriate and necessary since the EDGE credit limit was insufficient to cover these expenses. The signature of a GLDC board member was required to make this payment. GLDC was ultimately reimbursed for this charge.

In addition, at various times during 2011 and 2012, Hangar Road purchased supplies and materials totaling $2,592 using GLDC credit accounts. EDGE staff subsequently transferred funds from Hangar Road’s account to GLDC’s account to cover these purchases. On another occasion, EDGE staff used GLDC’s credit card to purchase computer equipment totaling $6,721 for the Oneida County IDA (OCIDA), an entity that has a staffing services agreement with EDGE. EDGE staff later transferred funds from OCIDA to GLDC to cover this purchase. GLDC officials indicated that GLDC funds were used to purchase the equipment for OCIDA because EDGE staff did not have sufficient credit approval available for the transaction. This does not justify why GLDC funds are used by EDGE staff to purchase items that are not for GLDC, or why a GLDC board member would sign for such purchases. The GLDC board has indicated that it will strengthen its internal protocols on the use of credit cards.

**GLDC financial entries made by EDGE frequently contain errors.** In addition to the examples cited throughout this report, we identified 54 other errors totaling more than $78,000 made by EDGE staff in providing accounting and financial support to GLDC during the 33 months covered by our review. For example, in September 2012 EDGE staff received two checks payable to Utica Industrial Development Corporation (UIDC). However, these checks were deposited in GLDC’s account. EDGE staff transferred the funds from GLDC’s account to UIDC’s account to correct the error in October 2012.

In another example, GI leased space in its building to a private tenant. However, EDGE staff sent invoices to the company from GLDC. As a result, the company made payment to GLDC instead of GI. EDGE staff first deposited the funds in GLDC’s account, and only later transferred the funds to GI.
In another instance, GLDC staff performed maintenance work at Hangar Road. EDGE staff paid GLDC twice for this work from Hangar Road’s account. As a result, EDGE staff needed to reimburse Hangar Road for the duplicate payment from GLDC’s funds.

GLDC officials responded that these were simply coding errors made by EDGE staff that resulted in funds being deposited or charged to the wrong account. However, these transactions are more significant than simple coding errors, since they involve multiple independent entities. These transactions represent the deposit of revenues to the wrong organization.

**GLDC’s creation of multiple corporate entities to help govern the Park necessitates redundant financial transactions.** As indicated, it is GLDC’s mission to develop and maintain the Base and to support research and development projects associated with the Lab. However, rather than carrying out this mission directly, GLDC has caused the creation of other entities to each carry out select components of this mission. As a result, multiple transactions and bookkeeping entries are needed between these various entities, which would not occur if a single organization carried out the mission. We determined that 522 financial entries, with a total dollar value of more than $6.2 million, were made by EDGE simply because these multiple corporations exist. In just one example, an organization leases property in the Park from GLDC. A portion of the lease payment is designated as a common area maintenance fee, which goes to GPLA since GPLA was created to manage and maintain the common area within the Park. A bookkeeping entry is needed to record the lease payment received by GLDC. Two other bookkeeping entries are required to record the transfer of the common area fee from GLDC to GPLA. However, since GPLA has no employees, additional bookkeeping entries are also needed to transfer payment from GPLA to GLDC for the actual maintenance services that are provided by GLDC employees. This need to record the same payment transaction multiple times inevitably increases the risk that some transactions will be recorded incorrectly.

**Conclusion**

The Griffiss Local Development Corporation was formed, as a public entity, with clear authority and accountability for managing the multi-million dollar redevelopment of the former Griffiss Air Force Base. This effort, seeded in large part with public funds, has proven to be an ongoing success. We found that the majority of payments and transactions we reviewed are related to this public purpose. Both public and private entities have located to the Business and Technology Park and new jobs have been created.

Acknowledging the successful redevelopment and reuse of the Air Force Base to date cannot, however, excuse the cavalier approach that GLDC’s board has taken, as documented in this report, regarding the appropriateness of using GLDC funds to initially finance the operations of other organizations. It is clear from the board’s response to our report that the comingling of funds among the various organizations, even for a short period of time, is an acceptable business practice. Nor can it disguise
the fact that the organizational structure put in place by GLDC to accomplish its mission complicates governance, oversight, and public accountability.

This review found little evidence that, with the exception of GUSC, the multiple related entities, almost all with their own boards of directors but few to no staff, exert strong oversight of their organizations or the daily operations of the Park. Instead, each has opted to rely extensively on a not-for-profit corporation that argues it is exempt from the public accountability and transparency standards that apply to GLDC. Moreover, the contract between GLDC and EDGE is for development, maintenance, marketing, property management, and administrative services. Under this agreement, the GLDC board cannot transfer its management responsibilities to EDGE. Yet it has done so in practice by designating the current president of EDGE as its Authorized Representative to act as the chief executive officer over the entire Park. This structure increases the potential for conflicts of interest and a lack of transparency. As this report demonstrates, this arrangement contributed to a significant number of erroneous financial transactions during the period of our review, as well as transactions which were not directly related to GLDC’s core mission or were inconsistent with provisions of Not-for-Profit Corporation Law.