

AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Financial and Operating Practices of the 125th Street Business Improvement District

MD03-057A

April 10, 2003



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has examined the operating practices of the 125th Street Business Improvement District (BID). The BID is required to provide services called for in its District Plan and to comply with provisions of its Department of Business Services (DBS) contract.

The results of our audit, which are presented in this report, have been discussed with BID and DBS officials, and their comments have been considered in the preparation of this report.

Audits such as this provide a means of ensuring that BID programs effectively meet their goals according to their guidelines.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov or telephone my office at 212-669-8945.

Very truly yours,

A handwritten signature in cursive script that reads "William C. Thompson, Jr.".

William C. Thompson, Jr.

Report: MD03-057A
Filed: April 10, 2003

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*The City of New York
Office of the Comptroller
Bureau of Management Audit*

**Audit Report on the Financial and
Operating Practices of the 125th Street
Business Improvement District**

MD03-057A

AUDIT REPORT IN BRIEF

This audit determined whether the 125th Street Business Improvement District (BID) provided services called for in its District Plan and complied with provisions of its Department of Business Services (DBS) contract. The audit also evaluated the adequacy of the BID's internal controls over its funds and operations.

Audit Findings and Conclusions

The BID has provided services and has introduced a variety of programs and projects, as required in its District Plan. The BID is also in compliance with its DBS contract provisions on insurance coverage, submission of reports, and the bidding process in the selection of outside vendors. In addition, the transactions we reviewed appeared to be ordinary and reasonable.

However, the BID has been operating at a loss for four of the last five years and is depleting its net assets. The BID needed to obtain a \$100,000 revolving line of credit, at an interest rate of 7.75 percent, to help it meet expenses. Moreover, the BID has been paying bills late or only partially paying bills because of its lack of funds. In addition, we found some weaknesses in the BID's internal controls relating to segregation of duties, handling of checks, and recording of transactions.

Audit Recommendations

To address these issues, we make eight recommendations that include the following:

- BID officials should pay its bills on a timely basis.
- BID officials should monitor and control the BID's spending patterns.
- The Board of Directors should monitor the BID's rate of spending.

- BID officials should ensure that bank reconciliations are performed on a consistent and accurate basis.

Discussion of Audit Results

The matters covered in this report were discussed with officials from the 125th Street BID during and at the conclusion of this audit. A preliminary draft report was sent to BID officials and discussed at an exit conference held on February 4, 2003. On February 18, 2003, we submitted a draft report to BID officials with a request for comments. We received a written response from the 125th Street BID on March 6, 2003. Although BID officials disagreed with some of the audit's conclusions, they agreed to implement the report's recommendations.

The full text of the BID response is included as an addendum to this report.

INTRODUCTION

Background

In 1981, the New York State Legislature passed legislation permitting municipalities throughout the State to establish Business Improvement Districts (BIDs). BIDs are geographic areas in which property owners and tenants band together to use a municipality's tax collection powers to assess themselves and to create a fund to be used for improvements within the geographic area (the district). According to the State legislation (Article 19-A of the New York State General Municipal Law), BIDs may be formed:

- “(a) To provide for district improvements . . . which will restore or promote business activity in the district;
- “(b) to provide for the operation and maintenance of any district improvement; [and]
- “(c) to provide for additional maintenance or other additional services required for the enjoyment and protection of the public and the promotion and enhancement of the district.”

Pursuant to that legislation, the New York City Council passed Local Law 2 in January 1982, authorizing the creation of BIDs in New York City. This law was incorporated into the City's Administrative Code as Chapter 4 of Title 25. These State and City laws permit the creation and define the specifications of BIDs.

Under City legislation, BID assessments are collected by the City and then returned in their entirety to the BID. These moneys are used to purchase services and improvements supplemental to the services already provided to the area by the City, and to enhance and promote the business district. By law, these services and improvements can include the following:

- Capital improvements, such as lighting, sidewalk paving, pedestrian malls and walkways, tree plantings, signs, bus-stop shelters, and landscaping;
- Enhanced sanitation services;
- Enhanced security services for people and property within the district;
- Promotional services to advertise activities within the district; and
- Seasonal and holiday decorations and lighting.

BIDs must undergo a formal approval process through the Office of the Mayor and the New York City Council. All BIDs must sign a contract with the Department of Business Services (DBS), the City agency that supervises and oversees all BIDs. DBS is responsible for determining

whether the BIDs are in compliance with their District Plans and with the contract between the BID and DBS. The contract is subject to renewal every five years. BIDs are required to submit annual budgets and audited financial reports to DBS.

BIDs are also required to submit audited financial statements annually to the New York City Audit Committee for review based on a schedule determined by the Comptroller. BIDs with budgets of more than \$1 million a year are reviewed by the Audit Committee every year; those with budgets between \$500,000 and \$1 million are reviewed every two years; and those with budgets under \$500,000 are reviewed every three years.

BIDs have become increasingly important in New York City, and in other localities, as vehicles for raising funds for capital improvements and for complementing the delivery of municipal services. According to DBS, there was only one BID operating in New York City in 1984. According to the DBS *NYC Business Improvement Districts Report* of 2002, the number of BIDs has now increased to 44. Those BIDs had assessments totaling approximately \$53.5 million. The majority of existing BIDs are modest in scope: the annual operating budgets of 29 are each less than \$500,000, and 16 of the 29 are each less than \$200,000. Another six have annual budgets ranging from \$500,000 to \$1,000,000. The annual budgets for the remaining nine active BIDs exceed \$1,000,000.

Measured by revenue from assessments, the 125th Street BID ranked 16th out of the 44 BIDs in New York City in Fiscal Year 2002. The 125th Street BID was incorporated September 21, 1993, by property owners, business owners, and not-for-profit groups with an interest in the area. As required by the BID legislation, the majority of the BID Board of Directors are representatives of property and business owners, commercial tenants, and residents of the defined district, as well as ex-officio members representing various elected officials, including the Mayor, the Comptroller, the City Council, and the Manhattan Borough President.

The BID area covers 125th Street from Fifth Avenue to Morningside Avenue and includes a five-block commercial area in Central, West, and East Harlem. The area is the central shopping area for residents of the community. Some of Harlem's greatest tourist attractions are within the BID, including the Apollo Theater, the Studio Museum in Harlem, and the National Black Theater. Other commercial buildings within the BID area include the historical landmark Theresa Towers, The Adam Clayton Powell, Jr. State Office Building, and the Charles A. Vinson Building, which contains the office of former President William Jefferson Clinton. Currently, the BID is examining the feasibility of expanding its boundaries between 124th and 126th Streets and from the Hudson River to Second Avenue.

As required by law, at the time of its formation, the BID presented to the City Council and the Office of the Mayor a District Plan detailing the proposed improvements for the district, how the improvements would be implemented, and the total annual expenditures anticipated. The most recent renewal of the BID's contract with DBS was on August 11, 1998. The contract represents an agreement between the BID and the City regarding requirements for its supplemental services and capital improvements.

As shown in the table below, the 125th Street BID had revenues of \$475,074 and expenditures of \$524,009 in Fiscal Year 2001.

TABLE I

125th Street BID Revenue and Expenditures

	FY 2001
Support and Revenue	
Assessment Revenue	\$275,000
Government grants	149,136
Contributions	50,584
Interest Income	354
Total Support and Revenues	475,074
Expenses	
Program Services	391,350
Management & general	88,458
Fund raising	44,201
Total Expenses	\$524,009

At the exit conference, BID officials stated that although the above table shows expenses exceeding revenue by \$48,935, the BID's Statement of Cash Flows for Fiscal Year 2001 showed a negative cash flow of only \$8,818.

Since a Statement of Cash Flows recognizes revenue that has not yet been received and does not recognize non-cash expenses, such as depreciation, we feel that the Statement of Revenue and Expenditures provides a better understanding of the BID's financial profile.

Objectives

The objectives of this audit were to:

- 1) Determine whether the 125th Street BID has provided the services called for in its District Plan;

- 2) Assess the 125th Street BID's compliance with certain provisions of its contract with DBS; and
- 3) Evaluate the adequacy of the BID's internal controls over its funds and operations.

Scope and Methodology

The scope of our audit was Fiscal Year 2001. To meet the audit objectives, we reviewed the BID's District Plan, its bylaws, and its certified financial statements for Fiscal Years 2000 and 2001. We reviewed the minutes of Board meetings and annual meetings for the same period. We also interviewed the BID Manager and Executive Assistant, as well as members of the Board of Directors.

To determine business owners' level of satisfaction with the BID's services, we reviewed the surveys of businesses and property owners conducted by the BID during Fiscal Year 2000. The survey addressed areas such as sanitation, marketing and promotion, tourism, holiday lighting, and outreach and advocacy. We also determined whether the BID maintained an up-to-date mailing list. Since the BID's mailing list was up-to-date, and since the BID had already conducted an extensive survey, we did not conduct a door-to-door survey of our own.

We assessed whether the supplemental services reported in the Annual Reports for Fiscal Years 2000 and 2001 were in compliance with the requirements of the District Plan and of the contract with DBS. We also conducted area walk-throughs to verify the existence and effectiveness of BID programs.

To determine whether the BID is in compliance with DBS requirements, we reviewed: insurance documents maintained by the BID, the Annual Reports submitted to DBS for Fiscal Years 2000 and 2001, and documentation pertaining to the bidding for purchases that required bidding.

To determine the extent of the Board members' involvement with the operations of the BID, we interviewed 13 Board members about those operations. We also determined whether any Board members were awarded contracts.

To assess the BID's internal controls, we compared its procedures to internal control standards set forth in the New York City Comptroller's Directives and its contract with DBS. In addition, we interviewed BID officials to determine whether responsibilities were adequately segregated, assets were safeguarded, and authorization and approval requirements were met.

To determine whether transactions were valid and properly recorded, we tested all receipts and disbursements made from December 2000 through February 2001. We examined contracts, invoices, and supporting documentation for expenditures. We also reviewed the BID's Annual Reports, financial statements, general ledger, bank statements, and canceled checks for the entire Fiscal Year 2001.

Independence Disclosure

The Comptroller is a member of the Board of Directors of the 125th Street BID. The Comptroller maintains this position pursuant to New York State General Municipal Law § 980-m, which requires that the Comptroller, as the City's chief fiscal officer, be a member of the board of directors of any City BID. The Comptroller sits on the Board of the 125th Street BID through a designee. The bylaws of the 125th Street BID specify that the Board have not less than 17 nor more than 50 members, including the Comptroller. The Comptroller's designee was not involved in planning or conducting this audit, or in writing or reviewing the audit report.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS), and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, § 93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with officials from the 125th Street BID during and at the conclusion of this audit. A preliminary draft report was sent to BID officials and discussed at an exit conference held on February 4, 2003. On February 18, 2003, we submitted a draft report to BID officials with a request for comments. We received a written response from the 125th Street BID on March 6, 2003. Although BID officials disagreed with some of the audit's conclusions, they agreed to implement the report's recommendations.

The full text of the BID response is included as an addendum to this report.

OFFICE OF THE COMPTROLLER NEW YORK CITY

DATE FILED: April 10, 2003

FINDINGS AND RECOMMENDATIONS

The BID has provided supplemental services and has introduced a variety of programs and projects, as required in its District Plan. The BID is also in compliance with its DBS contract provisions on insurance coverage, submission of reports, and the bidding process in the selection of outside vendors. In addition, the transactions we reviewed appeared to be ordinary and reasonable.

However, the BID has been operating at a loss for four of the last five years and is depleting its net assets. The BID needed to obtain a \$100,000 revolving line of credit, at an interest rate of 7.75 percent, to help it meet expenses. Moreover, the BID has been paying bills late or only partially paying bills because of its lack of funds. In addition, we found some weaknesses in the BID's internal controls relating to segregation of duties, handling of checks, and recording of transactions.

BID Response: "Even though the BID has been operating at a loss for four of the last five years, the BID made a conscious decision to only spend carryover funds on programs and to try to obtain government grants. . . .

"The government grants were reimbursable, thus allowing the BID to reduce the amount of assessment dollars used for operational cost and shifting them to the services."

Auditor Comment: The BID's carryover funds had decreased by 64 percent between Fiscal Year 1997 and Fiscal Year 2001. Had the BID continued its spending patterns without receiving additional assessment revenue it could have become insolvent.

As stated in subsequent sections of the report, although some of the expenditures may have been tied to additional government grants, the additional grant revenue was less than the increase in expenses. By Fiscal Year 2001, the BID had already been operating at a deficit for three years. Even though the expenses incurred for that year increased by \$173,599, the amount received in government grants increased by only \$129,136.

The 125th Street BID Is Providing Services According to Its District Plan

The BID has provided supplemental sanitation services and has introduced a variety of programs and projects, in accordance with its District Plan. These programs have enhanced the community environment of the BID area.

According to Section III of the BID's District Plan:

"The services to be provided pursuant to this Plan (the "Services") may include, but shall not be limited to, any services required for the enjoyment and protection of the public and the promotion and enhancement of the District."

Then the Plan lists sanitation services, promotion services, holiday decorations and security as the services to be provided by the BID.

In accordance with its District Plan, the BID provides:

- A Sanitation program to sweep sidewalks and curbs. The BID also paints over graffiti and removes illegal posters throughout the District every Wednesday.
- Promotional services include: a “Jazz Summerstage” series to showcase local talent; a “Business Expo” in which financial institutions and small businesses exchange financial information; production of a BID map and guide; maintenance of media and public relations; development of a web site, and creation of outreach programs.
- A holiday lighting program for the BID area.

In 1998, the BID had a security lighting program, in conjunction with rebates offered by Con Ed, in which a business in the BID area had to spend 25 percent of the cost to install the security lighting in their building. However, due to a lack of funding, this program has been discontinued.

During Fiscal Year 2001, the BID conducted a security survey, funded by Upper Manhattan Empowerment Zone (UMEZ). The survey asked business owners’ opinions on security lighting, a foot patrol, and security gates. It also identified business needs and concerns regarding security. The results of the survey indicated that 93 percent of the respondents expressed interest in continuing the security lighting program started in previous years. In addition, 75 percent expressed interest in a visible foot patrol. In response to the results, the BID obtained partial funding from the UMEZ to develop a comprehensive security program.

The BID also created a Security Committee to address the needs raised in the survey. Initial meetings have focused on funding and how to develop the program. Currently, the BID and the Security Committee are looking into a security program under which there will be two foot patrols, and they will hire a security manager to work with the security committee to develop a comprehensive program.

Our walk-throughs of the BID area confirmed the existence and effectiveness of its programs. We observed: the sanitation crew collecting and placing the garbage on street corners to be picked up by the Department of Sanitation; trash receptacles that bear the BID logo, in red, at the corner of each avenue, and lined with white plastic bags. In addition, we saw the banner advertising “Jazz Summerstage” as well as three BID banners on light poles advertising the BID area.

During Fiscal Year 2000, the BID distributed 302 surveys to businesses and property owners and received 168 responses (56%). Participants were provided a brief description of each program and asked specific questions regarding those programs (sanitation, marketing and promotion and tourism, holiday lighting, and outreach and advocacy). In addition, participants were requested to provide ideas and suggestions for specific programs, as well as to rank the overall performance of and satisfaction with the BID activities.

According to the BID's Annual Report, based on the survey's results, the top five concerns for BID participants were crime against businesses, lack of parking, police presence, the need for public restrooms, and concerns over soliciting by hair braiders. In addition, 62 of 143 respondents¹ (43%) gave the BID the highest rating in overall performance of and satisfaction with BID activities. Having received feedback from BID area members, the BID now intends to address these concerns through its security committee. The BID is also working with the office of the State Senator who represents the area to create a community task force to address complaints. In addition, the BID has initiated dialogues with several community organizations to explore a parking initiative.

Because the BID conducted two recent extensive surveys, we did not conduct a door-to-door survey of our own.

Sanitation Services

During Fiscal Year 2001, the BID spent \$122,238 on sanitation services. This is 23 percent of its total 2001 expenditures.

Since the inception of the BID, sanitation services have been contracted out to Atlantic Maintenance. The company provides sanitation services seven days a week, from 7 a.m. to 7 p.m., Monday through Saturday, and 8 a.m. to 5 p.m. on Sunday. A four-person team provides sanitation services during morning shifts, and one person provides the service during afternoon shifts.

The service includes sweeping and cleaning of sidewalks 18 inches past the curb and into any other common area that is accessible to the public; removing graffiti and illegally posted bills from street furniture every Wednesday; and maintaining trash receptacles in the district. The BID places white garbage bags in BID- and City-owned receptacles for pedestrian litter. The sanitation crew carries the bags to receptacles from which the Department of Sanitation removes them. A total of 15,000 pounds of litter is removed from 125th Street in this manner each week.

To address the problem of dumping garbage, the BID created a "Dumping is Harmful" brochure that outlines the penalties and laws involved, and distributed approximately 1,500 copies to tenants and property owners in the district. Violators were identified through tours of the area and through periodic walk-throughs. In a previous outreach attempt, the BID had designated businesses in the area to monitor the progress and status of sanitation programs. These businesses also filled out forms to identify violators. The BID photographed the facades of businesses that showed the garbage in front of the premises and it included the photographs in the brochures. The BID also sent letters to those businesses, notifying them of the violations.

The BID also placed 62 litter baskets in the district. In addition, with the grants received from the Borough President's office and the UMEZ, the BID purchased two vacuum sweepers for \$26,500 each.

¹ Although the BID received a total of 168 responses, only 143 participants answered this survey question.

The Mayor's Office of Operations *Sanitation Scorecard* rates the level of cleanliness of the streets in districts throughout the City each month. According to the *Scorecard*, the ratings for the 125th Street BID for Fiscal Year 2001 ranged from 80 percent to 93 percent for street cleanliness and from 87 percent to 100 percent for sidewalk cleanliness. Recently, the BID hired a consultant to evaluate the sanitation program and devise ways to make the program more effective.

Marketing, Promotion, Tourism Activities

During Fiscal Year 2001, the BID spent \$62,803 on neighborhood promotional services. This represents 12 percent of its total 2001 expenditures.

The BID's promotional activities are designed to foster the perception of the BID area as a unified shopping area, to highlight the assets and activities in the area, and to make it attractive to shoppers as well as area businesses. As reported in its 2001 Annual Report, during Fiscal Year 2001, the BID held one special event, one seasonal activity, produced a BID map and guide, and maintained a web site.

125th Street Oasis

The BID, in conjunction with the New York State Office of General Services, the New York City Housing Authority, and the Adam Clayton Powell, Jr. State Office Building Health, Safety & Resource Committee, produced the Third Annual "Harlem Jazz Summerstage" series. The purpose of the series was to showcase local talents twice a week during the summer months. More than 11,995 people attended the 22 performances.

In addition, the BID hosted the Second Annual BRISC "Business Expo," together with the Business Resource Information Source Center and the UMEZ. The purpose of the event was for lending and financial institutions and small businesses to exchange financial information in an informal setting. Several banks, the UMEZ, Metlife, Healthstate and various other financial institutions set up booths for this event and made themselves available to the public.

Malcolm X Event

At the request of Harlem-based businesses, property owners, community boards, community leaders, organizations, residents, elected officials, and others, the BID organized a day filled with special activities to help commemorate and recognize the legacy of Malcolm X. The event was on May 19, 2001, and more than 2,000 people attended. It included educational activities, films, readings for children, guest speakers, guest appearances, art exhibits, food and beverage tasting, giveaways, essay contests, and awards of scholarships to children. According to BID officials, the event was funded through grants and fundraising activities and not through City funds.

BID Map and Guide

During Fiscal Year 2001, the BID produced a map and guide to 125th Street. It provides information about the BID area and its services, listing 602 business in the existing BID boundaries as well as in the proposed expansion areas. The guide provides names of businesses and companies, addresses, and telephone numbers, along with a map that highlights tourist attractions, banking, and other service locations. The map is distributed at conferences and events, to other visitor centers, to businesses along 125th Street, and upon request.

Media and Public Relations

The BID provides information related to the activities and projects on 125th Street to the media and maintains contact with the media through press releases, telephone conversations, and walking tours. The BID participates in panel discussions during the economic development conferences and meets with groups from around the world to inform them about the work of the BID and the role it plays in the development of 125th Street. The BID also attends community events, store and business openings, and community board meetings, and it participates in the orientation of new police officers.

BID Web Site

The BID developed a web site that lists and highlights BID programs and activities, showcases businesses through a photo gallery, provides an area map and business listing, describes the retail and development activity in the district, and solicits information through consumer and visitors surveys. According to the BID's Fiscal Year 2001 Annual Report, there was an average of 1,100 to 1,500 visits per month to the web site.

Outreach Activities

The BID updates its mailing list biannually, visits merchants door-to-door, holds merchant meetings, makes quarterly mailings to businesses, and hosts a holiday outreach party during the Christmas holidays.

Holiday Lighting

During Fiscal Year 2001, the BID spent \$29,280 on holiday lighting. This represents six percent of its total 2001 expenditures.

The BID provides a holiday lighting program during the Christmas season. It contracted with New York Christmas to install 30 star streamers across 125th Street. The lights are officially turned on one week before Thanksgiving and removed one week after New Year's Day.

Decrease in BID's Fund Balance

The BID has been operating at a loss for four of the last five years and is depleting its net assets. The BID needed to obtain a \$100,000 revolving line of credit, at an interest rate of 7.75 percent, to help it meet expenses. Furthermore, the BID has been paying bills late or only partially paying bills because of its lack of funds. Table II below shows the BID's declining net asset balances in Fiscal Years 1997 through 2001.

Table II

Changes in Net Assets

Fiscal Year	Total Support and Revenue	Expenses	Change in Net Assets	Net Assets Beginning of Year	Net Assets End of Year
1997	308,350	362,963	(54,613)	211,598	156,985
1998	352,134	388,870	(36,736)	156,985	120,249
1999	367,195	364,060	3,135	120,249	123,384
2000	332,025	350,410	(18,385)	123,384	104,999
2001	475,074	524,009	(48,935)	104,999	56,064

The BID's net assets decreased by 74 percent from Fiscal Year 1997 to Fiscal Year 2001. At this rate, the BID may not have funds in its reserve to pay for the basic operations required under its contract with DBS.

In addition to its declining net assets, the BID's expenses increased 50 percent from \$350,410 for Fiscal Year 2000 to \$524,009 for Fiscal Year 2001. The three expenses with the most significant increases (and the BID President's explanation for the increases) follow:

- Salaries and Payroll Taxes—An 88 percent increase, from \$106,001 for Fiscal Year 2000 to \$199,612 for Fiscal Year 2001. BID officials stated this increase was because during Fiscal Year 2001, the BID received additional government grants and added two full time employees: an Operations Manager and an Administrative Assistant. The BID did not have these employees during the previous years, and it no longer employs these two people.
- Promotion Expenses—A 200 percent increase, from \$20,850 for Fiscal Year 2000 to \$62,803 for Fiscal Year 2001. BID officials stated that this increase was due to the BID's Malcolm X event, which was costly and resulted in a higher promotion expense. However, according to BID Officials, the event was funded through grants and fundraising activities and not through City funds.
- Professional Expenses—A 178 percent increase, from \$7,450 for Fiscal Year 2000 to \$20,697 for Fiscal Year 2001. The BID officials stated that this

increase was for consultants, temporary labor, and interns during Fiscal Year 2001.

By Fiscal Year 2001, the BID had already been operating at a deficit for three years. Although some of those expenditures might have been tied to additional government grants that the BID received, the additional grant revenue was less than the increase in expenses. During Fiscal Year 2001, the amount received in government grants increased by \$129,136; the expenses incurred increased by \$173,599.

The BID's declining reserves has led to routine late payments or partial payments of invoices. The following are examples:

- The BID paid Atlantic Maintenance in October for services rendered in July and August; in December for services rendered in September; and in January for services rendered in October.
- Although the December 2000 invoice for holiday lighting was for \$26,000, the BID paid only \$10,000.

BID officials told us that the BID had an arrangement with certain vendors that allowed for late payment of invoices for programs such as holiday lighting and sanitation. Without this flexibility, the BID would have been unable to carry out either of those programs.

Although recently the BID was approved for a \$250,000 increase in assessment revenue that will alleviate its current financial concerns, it should not continue to overspend. The BID still needs to allocate its funds in a manner that allows for the timely payment of bills, while at the same time ensuring that it is not using up its reserve funds so rapidly.

At the exit conference, BID officials informed us that a portion of the increased assessments would be earmarked to ensure that bills are paid on time.

Recommendations

BID officials should:

1. Pay its bills on a timely basis.
2. Monitor and control the BID's spending patterns.

BID Response: "The BID makes every effort to pay its bills on time. However, due to sporadic receipt of its assessments, it is not always possible. . . . The establishment of the contingency account with the new increase should help the BID cover its operations during those months when payments are slow. . . . To monitor and control the BID's spending patterns, new members will be added to the budget and finance committee, a

part-time bookkeeper will be hired to . . . prepare a report of finances for finance committee meetings.”

Corporate Governance

The bylaws of the BID require that it be managed by a Board of Directors. The Board’s key responsibilities are to set policies for the BID’s operations and to oversee the advancement of the District Plan. At its discretion, the Board may create standing committees and delegate to them the authority to take action to address certain matters. The chief executive officer for the BID is the BID president, who supervises its business and is subject to Board control.

Under law, the Board is responsible for the activities of the BID, regardless of how much authority the Board delegates to the staff or to any committee. Thus, it is in the Board’s best interests to be fully informed about the activities of the BID, as well as the activities of BID management.

To ensure that the BID operates in compliance with its bylaws, we reviewed the minutes of the Board of Directors’ meetings, the BID’s annual meeting, and the meetings of the Board’s standing committees. In addition, we contacted those members of the Board of Directors who served on a number of the committees to determine their views of, and the extent of their involvement with, the BID’s operations.

According to the Annual Reports, the BID had 25 voting board members in Fiscal Year 2001. When we compared the Board members listed in the Annual Reports with BID contracts, we found no Board members owned or were employed by any business that had contracts with the BID.

BID officials told us that the BID’s certified financial statements, which include any management letters, are distributed to Board members and to the Finance Committee and are included in the Annual Reports. In addition, the various Board and committee members we interviewed told us they believe that the BID is a very well-governed organization, administered with due regard for governance, accountability, and oversight, and that it is responsive to the needs and views of its members.

The BID has been running at a deficit for four of the last five years. The Board members we spoke to were aware of the situation and expressed hopes that proposed increases in BID assessments would alleviate the problem. In addition, the Board of Directors approved the BID’s plan to obtain a \$100,000 revolving line of credit to help it meet expenses. The BID also notified DBS of its plan to obtain a line of credit. However, we did not see any discussion in the Board minutes regarding control of the BID’s spending patterns to ensure that the BID remains financially solvent.

Moreover, we saw no ongoing oversight of the BID’s finances by its finance committee. Such oversight would have uncovered the problems we found regarding the BID’s overspending and inability, due to lack of funds, to pay its bills in a timely manner

Recommendation

3. The Board of Directors should monitor the BID's rate of spending.

BID Response: "To monitor and control the BID's spending patterns, new members will be added to the Budget and Finance Committee."

Weaknesses in Internal Controls

Our audit evaluated the adequacy and effectiveness of the BID's internal controls and accountability over the expenditures of its funds. The transactions that we reviewed appeared to be ordinary and reasonable.

The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management authorization, and are properly recorded.

Although the BID maintained adequate accountability over its receipts and disbursements and transactions were properly authorized, we found weaknesses in the following areas of its internal control system:

- Lack of segregation of duties.
- Bank account reconciliations not performed accurately.
- Lack of controls over the recording of transactions.

Lack of Segregation of Duties

The BID does not segregate the responsibilities for processing and recording receipts and disbursements. Instead, the BID Executive Assistant performs all of these functions. Lack of appropriate segregation of duties in an organization can allow errors and irregularities to occur without being detected.

The responsibility for the cash receipt function (receiving checks, depositing them, and recording them in the books) is not segregated. In addition, the responsibility for preparing the bank account reconciliation is not segregated from the cash receipt function or from the cash disbursement function.

The Executive Assistant is responsible for all bookkeeping operations. She receives checks, endorses them with the BID stamp, makes the bank deposits, and records the deposit in the general ledger. At the end of each month, although she is responsible for the cash receipt and

cash disbursement functions, the Executive Assistant also performs the bank reconciliation. Furthermore, she has custody of the checkbook, as well as the petty cash, and she also orders and receives the standard, day-to-day supplies. This lack of segregation of duties increases the possibility of inefficiencies, errors, and irregularities.

Comptroller's Directive #1 on internal controls states, "To minimize the possibility of inefficiency, errors, and fraud, responsibility for a sequence of related operations should be divided among two or more persons." Furthermore, the Directive states, "In essence, key duties and responsibilities in authorizing, processing, recording, reviewing transactions and safeguarding assets should be separated among individuals." We believe that good internal control practices would dictate conforming to this Directive to the greatest extent possible.

We recognize that the BID has limited resources and is operating with a small staff of only two full-time employees. However, the BID should try to implement other forms of control to compensate for the inability to segregate duties. For example, certain bookkeeping functions can be divided between the two employees. Furthermore, Board members can set up a schedule whereby a Board member reviews and monitors the financial transactions performed by the BID employees.

Recommendation

4. The 125th Street BID should implement internal controls to compensate for the lack of segregation of duties.

BID Response: "The BID implemented internal controls to compensate for the lack of segregation of duties within the resources available. To improve on those controls, the BID has hired a part-time bookkeeper."

Problems with Bank Account Reconciliations

The BID's bank reconciliations were partially performed for six months (October and December–April) during Fiscal Year 2001, and the reconciliations that *were* completed were inaccurate. As a result, financial errors went unnoticed for an extended time.

According to Comptroller's Directive #11, Cash Accountability and Control, "Bank reconciliations must be prepared monthly and kept on file. Monthly bank reconciliations must be maintained with cancelled checks and bank statements subject to audit." While the BID prepares monthly bank reconciliations and maintains cancelled checks and bank statements, it does so in an inconsistent manner.

Bank reconciliations are performed by deducting outstanding checks from the bank statement's ending balance for the period, and adding to the balance deposits made but not yet recorded by the bank in its statement. This amount should reconcile to the general ledger ending balance for the same period. Conversely, bank reconciliations can be performed by adding

outstanding checks to the general ledger's ending balance for the period, and deducting deposits that were made but not yet recorded by the bank in its statement.

According to the Executive Assistant, at the time that she receives each month's bank statement, she takes the ending balance of that month's general ledger and adds the outstanding checks issued in this period, as well as outstanding checks from prior periods. She uses this total as her book balance to compare to the bank balance. However, she is not consistent in her definition of "prior-period outstanding checks." In some cases, checks that were outstanding in prior periods but have cleared are added to the book balance, while in other cases only checks issued in prior periods that are still outstanding are added to the book balance.

Outstanding checks should be added to the general ledger's ending balance to reconcile with the bank's ending balance. Prior-period outstanding checks that have cleared during the period should not be added to the general ledger's ending balance, as they have already been deducted in the ledger and are now deducted from the bank's balance.

We found other errors in the bank reconciliations, such as bank reconciliations that listed outstanding checks as having cleared, checks that cleared but were not recorded in the general ledger, and outstanding checks that were not accounted for. As a result, none of the bank reconciliations performed by the BID's Executive Assistant reconciled with the bank and general ledger ending balances, as shown on Table III:

Table III
Problems with Bank Reconciliations

Month Fiscal Year 2001	The BID's Reconciled Ending Book Balance	Bank Statement Ending Balance	Difference
July	\$80,486	\$80,561	\$(75)
August	26,991	26,993	(2)
September	83,816	84,492	(676)
October	55,514	55,591	(77)
November	16,307	16,378	(71)
December	20,479	20,471	8
January	18,985	21,155	(2,170)
February	24,804	26,861	(2,057)
March	39,792	41,740	(1,948)
April	21,833	20,993	840
May	31,680	31,515	165
June	14,078	13,362	716

We used the BID's calculations for the above "BID's Reconciled Ending Book Balances." However, in none of the 12 months is the book balance calculated correctly. For example, in October 2000, the BID twice recorded in its general ledger a check that was issued in the amount of \$1,000. Not only was the error not detected during the bank reconciliation, but the BID also listed the check as outstanding when it had in fact cleared in the same period that it was issued. Because this was not detected, the error caused the ending General Ledger Balance to be understated by \$1,000 for that month and all subsequent months. In another example, for the month of April 2001, in calculating its book balance, the BID twice added two outstanding checks, thereby overstating its book balance by \$2,867. We found errors relating to the BID's calculation of its book balance in each of the 12 months that we reviewed. The BID cannot reconcile its book balance with its bank balance if the book balance is not calculated correctly.

The Executive Assistant stated that the accountant told her that she should not worry about any bank reconciliation differences that were less than \$500 or \$600 dollars, that he would help find the difference that she was unable to reconcile, since part of his contract with the BID provided for a few visits each year to help out with such matters. Furthermore, she said, the BID was aware that somewhere along the way a discrepancy developed between the book and the bank balance, and they were still trying to reconcile the difference. She said that this discrepancy had been carried forward for quite some time now.

Monthly bank reconciliations are conducted to ensure that all cash receipts and disbursements are accounted for. Had the BID performed its bank reconciliations properly, the \$1,000 error in the month of October would have been detected before it had an effect on the ending general ledger balance for the remaining months of the fiscal year. Inaccurate bank

reconciliations can result in lost funds that are undetected, as well as in the misstatements in other financial documents.

By performing bank reconciliations correctly and in a timely manner, BID officials would be able to detect errors when they occur and to take the necessary corrective actions in a timely manner.

BID officials acknowledged at the exit conference that the bank reconciliations are not reconciled properly. They are trying to hire a professional bookkeeper for this function.

Recommendations

BID Officials should:

5. Investigate the current differences in its general ledger and bank balances.
6. Ensure that bank reconciliations are performed on a consistent and accurate basis.

BID Response: “The BID acknowledges the findings in this area and understands that a full-fledged bookkeeper is needed to correct the problems. At the time there was not adequate funding to do this, however, with the increase the BID has hired a bookkeeper on a part-time basis to investigate the current differences in its general ledger and bank balances. This will also help with the segregation of duties as well as the accurate bank reconciliations. The part time bookkeeper will review reconciliations on a monthly basis and prepare reports for each account.”

Lack of Controls over the Recording of Transactions

The most recent renewal contract between The City of New York Department of Business Services and 125th Street District Management Association, Inc., dated August 11, 1998, requires that the BID “shall maintain complete and accurate records in readily accessible files on all its activities.”

However, there is a lack of control over the recording of transactions. We found the following irregularities:

- Checks not Recorded in General Ledger: Three checks totaling \$370 were listed on the bank statements as being cashed, but were not recorded in the general ledger.
- Check Dates Differ from Dates in General Journal: There were 12 disbursements out of our sample of 62 that were not recorded in the general ledger the same day the checks were issued. All of the checks were either

payroll or Automated Data Processing charges for payroll. Eleven of the checks were recorded one to 20 days *before* the checks were issued. Since checks should be authorized and approved for payment at the time that they are issued, the checks that were recorded before they were issued were therefore not authorized and approved for payment prior to issuance. One check was recorded 14 days *after* it was issued. Proper controls require that checks be posted at the time they are issued.

- Checks Issued Out of Sequence: We found two checks that were issued out of sequence during the three months that we reviewed. Check #2230 was issued on 12/8/00 in the amount of \$378.62, however, it followed check #2402, which was issued on 12/1/00. Another check, #2409, was issued on 12/29/00 in the amount of \$300. However, this check followed check #2410, which was issued on 12/20/00. BID officials told us that to avoid forgetting to make a payment, they write checks as soon as they receive an invoice. However, they said, because of their financial situation, they are not always able to mail the check right away.

For good internal controls over funds, checks should be written and posted when the BID actually intends to make the payment.

BID officials informed us at the exit conference that to prevent checks from being issued out of sequence, the Board of Directors instituted a policy change that will not allow checks to be written until funds are available to cover the check amounts.

Recommendations

BID officials should ensure that:

7. Checks are recorded in the general ledger at the time that they are issued.
8. Checks are not written until there are sufficient funds to cover the checks.

BID Response: “The Executive Committee has passed a resolution that no checks should be written until approval has been granted on the request for checks. This should correct the findings on checks being written out of order and when there are insufficient funds in each account.”



125th Street Business Improvement District

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Frank Encarnacion
Roberto Fata
Honorable C.V. Fields
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Honorable William Thompson
Steve Williams
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Mr. Greg Brooks
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Office Of The Comptroller
Executive Offices
1 Centre Street
New York, New York 10007-2341

Re: Draft:
Audit Report on the Financial and Operating Practices
Of the 125th Street Business Improvement District

Audit Number: MD03-057a

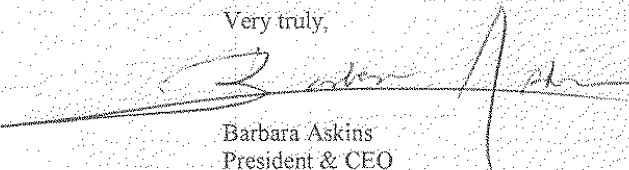
Dear Mr. Brooks:

The 125th Street Business Improvement District has reviewed the above mentioned draft report. We are submitting our written comment.

We have addressed each recommendation made in the attached audit.

If you have any questions, regarding our comments, please contact me at (212) 662-8999.

Very truly,


Barbara Askins
President & CEO

Attachment

Cc: Frank Encarnacion
BID Executive Board Members



125th Street Business Improvement District
Response to Comptroller's Draft Audit
March 5, 2003

Section: Audit Report in Brief

Audit Findings and Conclusions

"However, the BID has been operating at a loss for four of the last five years and is depleting its net assets. The BID needed to obtain a \$100,000 revolving line of credit, at an interest rate of 7.75 percent, to help it meet expenses. Moreover, the BID has been paying bills late or only partially paying bills because of its lack of funds. In addition, we found some weaknesses in the BID's internal controls relating to segregation of duties, handling of checks, and recording of transactions."

BID's Response

Even though the BID has been operating at a loss for four of the last five years, the BID made a conscious decision to only spend carryover funds on programs and to try to obtain government grants to enhance existing programs and develop new programs that had been identified through surveys of its membership.

The government grants were reimbursable, thus allowing the BID to reduce the amount of assessment dollars used for operational cost and shifting them to the services.

Even though the BID took a line of credit, it was taken in a different year than the one that is being audited. The purpose of the line of credit was allow the DMA to continue to operate at the same level of services while the BID's request for an increase in assessment in the amount of \$100,000 went through the City's budget process.

The DMA applied for an increase in assessment of \$100,000. Although BIDs had not been receiving assessment increases, there was consideration being given by the City to those areas that had experienced tremendous growth and an assessment increase would not yield a significant increase to property owners. The 125th Street BID fell into that category. The BID requested and received a verbal approval from DBS to apply for this increase.

However, due to the unresolved issues around BID's receiving increases, our request was never processed, forcing the DMA to solicit a line of credit. Before the line of credit was solicited, the DMA sought and obtained approval from DBS as required by the BID's contract with the City.

"Additionally, the BID secured the line of credit to combat against the seasonality that comes with relying on assessment revenues as the primary source of cash." The BID maintains a spreadsheet that highlights the amount of assessments funds that the BID receives from the City on a monthly basis. This spreadsheet shows a historic pattern of months where the BID does receives any funds. The line of credit is only used in case of emergencies and to meet expenses until assessments are received.



Due to the sporadic receipt of BID assessments by the City, the BID has on occasions paid some of its bills late or made partial payments. The government grants helped the BID to cover some of these expenses but did not allowed for some contractual services such as sanitation and holiday lighting to be covered.

"The BID officials felt that obtaining a line of credit was a sound business decision and common among many other organizations and/or businesses. The fund balance/net assets account for the BID shows a balance of \$56,054 at the end of June 30, 2002."

The BID segregates the duties, within reason, given the existing staffing of the BID. The BID staff consist of 2 employees. The President is responsible for the day to day management of the BID's over all operations and development and implementation of its program. The Executive Assistant is responsible for assisting the President, management of the office, and bookkeeping functions.

Although the Executive Assistant/Bookkeeper handles all of the bookkeeping and reconciliation functions, the President approve expenses, sign checks and review all bank deposits before the Executive Assistant goes to the bank. In addition, The Chairman, Vice-Chairman, Secretary, Treasurer, or Assistant Treasurer approves all expenses and signs checks after they have been approved by the President.

The BID acknowledges some of the findings and recommendations related to the recording of transactions and handling of checks.

Audit Recommendations

"To address these issues, we make eight recommendations that include the following:

- *BID officials should pay its bills on a timely basis.*
- *Bid officials should monitor and control the BID's spending patterns.*
- *The board of Directors should monitor the BID's rate of spending*
- *BID officials should ensure that bank reconciliation is performed on a consistent and accurate basis."*

BID's Response

The BID makes every effort to pay its bills on time. However due to the sporadic receipt of its assessments, it is not always possible to pay certain contractual services on time. The government grants are project specific and can not be used to pay for such services.

The Board of Directors and its Executive Committee always monitor and control the BID's spending patterns. However, due to many changes on the BID Board of Directors new members are being recruited to join the Budget and Finance Committee which is responsible to oversee the spending patterns of the BID.

The BID requested a \$250,000 increase on its assessments which has been approved. The BID budget increased from \$275,000 to \$525,000. These will allow the BID to enhance its services and establish a contingency reserve fund of at least 3 months of the operating budget.



The DMA has retained a part-time bookkeeper to ensure that bank reconciliations are performed on a monthly basis. Additionally, the bookkeeper will prepare monthly in-house financial statements for each account. This report will be presented to the President and will be discussed during the Budget and Finance committee meetings. In addition, the DMA is seeking the services of a stenographer (part-time or hourly, whichever is appropriate) to record the minutes of the Board of Directors meetings.

Section: Introduction

Table I – 125th Street BID Revenue and Expenditures

“As shown in the table below, the 125th Street BID had revenues of \$475,074 and expenditures of \$524,009 in Fiscal Year 2001. (See page 5 of Auditor’s Report for Table).

At the exit conference, BID officials stated that although the above table shows expenses exceeding revenue by \$48,935, the BID’s Statement of Cash Flows for Fiscal Year 2001 showed a negative cash flow of only \$8,818.

Since a Statement of Cash Flows recognizes revenues that has not yet been received and does not recognize non-cash expenses, such as depreciation, we feel that the Statement of Revenue and Expenditures provides a better understanding of the BID’s financial profile.”

BID’S Response

The auditor did not take into consideration the BID’s opening balance in Table I. At the beginning of Fiscal Year 2001, the opening balance (or carry-over) was \$87,806.94 plus the BID’s Total Support and Revenues of \$475,074 equals \$562,880.94, minus \$524,009 Total Expenses equals \$38,871.94.

Section: FINDINGS AND RECOMMENDATIONS

“However, the BID has been operating at a loss for four of the last five years and is depleting its net assets. The BID needed to obtain a \$100,000 revolving line of credit, at an interest rate of 7.75 percent, to help it meet expenses. Moreover, the BID has been paying bills late or only partially paying bills because of its lack of funds. In addition, we found some weaknesses in the BID’s internal controls relating to segregation of duties, handling of checks, and recording of transactions.”

BID’s Response

Even though the BID has been operating at a loss for four of the last five years, the BID made a conscious decision to only spend carryover funds on programs and to try to obtain government grants to enhance existing programs and develop new programs that had been identified through surveys of its membership.

The government grants were reimbursable, thus allowing the BID to reduce the amount of assessment dollars used for operational cost and shifting them to the services.



Even though the BID took a line of credit, it was taken in a different year than the one that is being audited. The purpose of the line of credit was allow the DMA to continue to operate at the same level of services while the BID's request for an increase in assessment in the amount of \$100,000 went through the City's budget process.

The DMA applied for an increase in assessment of \$100,000. Although BIDs had not been receiving assessment increases, there was consideration being given by the City to those areas that had experienced tremendous growth and an assessment increase would not yield a significant increase to property owners. The 125th Street BID fell into that category. The BID requested and received a verbal approval from DBS to apply for this increase.

However, due to the unresolved issues around BID's receiving increases, our request was never processed, forcing the DMA to solicit a line of credit. Before the line of credit was solicited, the DMA sought and obtained approval from DBS as required by the BID's contract with the City.

"Additionally, the BID secured the line of credit to combat against the seasonality that comes with relying on assessment revenues as the primary source of cash." The BID maintains a spreadsheet that highlights the amount of assessments funds that the BID receives from the City on a monthly basis. This spreadsheet shows a historic pattern of months where the BID does receives any funds. The line of credit is only used in case of emergencies and to meet expenses until assessments are received.

Due to the sporadic receipt of BID assessments by the City, the BID has on occasions paid some of its bills late or made partial payments. The government grants helped the BID to cover some of these expenses but did not allowed for some contractual services such as sanitation and holiday lighting to be covered.

"The BID officials felt that obtaining a line of credit was a sound business decision and common among many other organizations and/or businesses. The fund balance/net assets account for the BID shows a balance of \$56,054 at the end of June 30, 2002."

The BID segregates the duties, within reason, given the existing staffing of the BID. The BID staff consist of 2 employees. The President is responsible for the day to day management of the BID's over all operations and development and implementation of its program. The Executive Assistant is responsible for assisting the President, management of the office, and bookkeeping functions.

Although the Executive Assistant/Bookkeeper handles all of the bookkeeping and reconciliation functions, the President approve expenses, sign checks and review all bank deposits before the Executive Assistant goes to the bank. In addition, The Chairman, Vice-Chairman, Secretary, Treasurer, or Assistant Treasurer approves all expenses and signs checks after they have been approved by the President.



The BID acknowledges some of the findings and recommendations related to the recording of transactions and handling of checks.

**Section: The 125th Street BID Is Providing Services
According to Its District Plan**

Page 9, 2nd paragraph

In 1998, the BID had a security lighting program, in conjunction with rebates offered by Con Ed, in which a business in the BID area had to spend 25 percent of the cost to install the security lighting in their building. However, due to a lack of funding, this program has been discontinued.

BID's Response

During the exit conference, the BID discussed how the program worked and it is not reflected in this summary. Specifically, the security lighting program was funded by the Upper Manhattan Empowerment Zone, a State Grant, and Consolidated Edison. These funds were incentives to encourage participation. The program was offered to property owners.

Members that opted to participate paid 25% of the total cost and the other 3 funders paid the remainder. The program was offered based on available funding. The BID is fundraising to continue the program due to interest in the program.

Page 9, paragraph 4

The BID created a Security Committee to address the needs raised in the survey. Initial meetings have focused on funding and how to develop the program. Currently, the BID and the Security Committee are looking into a security program, under which there will be two-foot patrols, and they will hire a security manager to work with the security committee to develop a comprehensive program.

BID's Response

During the exit conference, the BID described the Security Program. It includes education, foot patrol, security lighting, and technology.

Page 10 - paragraph 1

During Fiscal Year 2001, the BID spent \$122,238 on sanitation services. This is 23 percent of its total 2001 expenditures.

BID's Response

The BID discussed the percentage of this budget line during the exit conference. It is our understanding that this is a positive percentage. Sanitation is the core program for the 125th Street BID.



Page 10 - Marketing, Promotion, Tourism Activities

Paragraph 1

During Fiscal Year 2001, the BID spent \$62,803 on neighborhood promotional services. This represents 12 percent of its total 2001 expenditures.

Page 10 - draft audit - Malcolm X Event

According to BID officials, the event was funded through grants and fundraising activities and not through city funds.

BID's Response.

As discussed during the exit conference, the money spent on promotional services was a combination of BID assessment dollars and private contributions. During this year, the promotion budget increased due to the BID's response to the community's needs and concern to organize an event to celebrate the birthday of Malcolm X that would allow greater participation from the community. The BID made an effort to address those concerns.

- 49% or \$31,030 of the promotion budget was raised from the private sector by the BID for the Malcolm X Celebration during the year audited.
- 16% or \$10,000 of the promotion budget came from government grants.
- Cost of Malcolm X event = \$38,214.97

Page 12 - Decrease in Fund Balance

"The BID has been operating at a loss for four of the last five years and is depleting its net assets. The BID needed to obtain a \$100,000 revolving line of credit, at an interest rate of 7.75 percent, to help it meet expenses. Furthermore, the BID has been paying bills late or only partially paying bills, because of its lack of funds. Table II below shows the BID's declining net asset balances from Fiscal Years 1997 through 2001."

BID's response

The BID has had a balanced budget going into each fiscal since its inception. As of June 30, 1996, there was a carry over from prior years in the amount of \$211,598. Each year the Board of Directors made a conscientious effort to maintain the level of service provided within the budget. The following chart shows the increase in spending relating to programs:

Year	Surpluses
1996	\$211,598
1997	\$156,985
1998	\$120,249
1999	\$123,384
2000	\$104,999
2001	\$56,064



Historically, the BID receives its assessments from NYC in a sporadic pattern. For example, assessments collected by the Department of Finance during the beginning of the fiscal year may not reach the BID until 3 or more months after they are collected.

The Board of Directors, at one of its meetings, voted to seek a line of credit. As a result, the request was submitted to the Department of Business Services and approved by its Commissioner. The Board of Directors felt it was prudent to seek a line of credit so that the BID could avert any cash flow problems it may anticipate in the future.

Although expenditures have continued to increase, the BID has not received an increase in its assessment budget since its inception in 1993. The BID sought an increase in its budget, 3 of the last five year and was denied. However, because of the outstanding accomplishments the BID made during this five year period, in October 2002, the BID was able to secure its first increase from NYC for the specific purpose of continuing to provide the level of service that the community has come to expect.

Page 13

"The BID's net assets decreased by 74 percent from Fiscal Year 1997 to Fiscal Year 2001. At this rate, the BID may not have funds in its reserve to pay for the basic operations required under its contract with DBS."

BID Response

All of these years, the DMA continued its efforts to obtain an increase in its assessments. They were denied every time it was requested.

The services are based on the BID Assessments and not dependent on the reserves to provide services. The reserves are required for situations such as slow payments, not receiving assessments on time or unforeseen emergencies.

Page 13.

"In addition to its declining net assets the BID's expenses increased 50 percent from \$350,410 for Fiscal Year 2000 to \$524,009 for Fiscal Year 2001. The three expenses with the most significant increases (and the BID President's explanation for the increases) follow:

- *Salaries and Payroll Taxes - An 88 percent increase, from \$106,001 for Fiscal Year 2000 to \$199,612 for Fiscal Year 2001. BID officials stated this increase was because during Fiscal Year 2001 the BID received additional government grants and added two full time employees: an Operations Manager and an Administrative Assistant. The BID did not have these employees during the previous years, and it no longer employs these two people."*
- *Promotion Expenses - A 200 percent increase from \$20,850 for Fiscal Year 2000 to \$62,803 for Fiscal Year 2001. BID officials stated that this increase was due to the BID's Malcolm X event, which was costly and resulted in a higher promotion expense. However, according to BID officials, the event was funded through grants and fundraising activities and not through City Funds.*



- *Professional Expenses - a 178 percent increase, from \$7,450 for Fiscal Year 2000 to \$20,697 for Fiscal Year 2001. The BID officials stated that this increase was for consultants, temporary labor, and interns during Fiscal Year 2001."*

BID's response

Because the BID had prior year surplus funds built up as of June 30, 1996, they were able to fund the increase spending with new government grants and the use of the prior surplus funds. The BID never had to fund the increased services with loans or any other type debt.

With regard to salaries and payroll taxes, the BID feels that these increases are taken out of context. Both of the salaries for the two additional employees that led to the increase in this line were funded 100% by government grant.

Although the promotion expense increased by almost \$40K, the BID received direct income of \$31K from private sources as a result of the promotions. An additional 10K came from government grants.

Page 13:

"By Fiscal Year 2001, the BID had already been operating at a deficit for three years. Although some of those expenditures might have been tied to additional government grants that the BID received, the additional grant revenue was less than the increase in expenses. During the Fiscal Year 2001, the amount received in government grant increased by \$129,136; the expenses incurred increased by \$173,599."

BID's Response

The BID admits that it was depleting its assets; however the BID always maintained an adequate level of reserves as indicated by its positive fund balance/net asset amounts.

The BID discussed the sporadic receipt of assessments during the interview. Late payments were made because the BID did not receive timely payments of the assessments money from the Department of Finance.

Page 14

"The BID's declining reserves have led to routine late payments or partial payments of invoices."

The following are examples of late or partial payments:

- *The BID paid Atlantic Maintenance in October for services rendered in July and August; in December for services rendered in September; and in January for services rendered in October.*
- *Although the December 2000 invoice for holiday lighting was \$26,000, the BID paid only \$10,000.*

BID officials told us that the BID had an arrangement with certain vendors that allowed for late payments of invoices for programs such as holiday lighting and sanitation. Without this flexibility, the BID would have been unable to carry out either of those programs."



BID's response

The BID has been operating on the same assessment budget since 1993. BID expenditure have increased, but increase in assessment has been consistently denied. An increase would have allowed the BID to maintain its reserve fund. Assessments dollars are received late or sporadic. Grants dollars have supplemented BID's budget lines where possible; however, some expenditure cannot be paid with grant funds.

During the exit interview, the BID described the payment agreement with the sanitation and holiday lighting contracts. The BID disagrees with the comment. At no time in the BID's history has it faced a crisis situation that would require it to suspend its most important services – to suggest otherwise is foolish.

With respect to the Atlantic Maintenance:

- The July bill was invoiced on 8/1/00 and received in the BID office on 8/14/00; paid October 4th.
- The August bill was invoiced on 9/1/00 and received by the BID office on 9/7/00; paid October 26th.
- The September bill was invoiced on 10/1/00; received by the BID office on 10/13/00; paid December 11th.

This contract averages approximately 10K per month. When assessments are available, the BID makes every attempt to pay them.

With respect to holiday lighting, a partial payment is made at the beginning of the job. The remainder of the bill is paid in partial payments. The balance is cleared before the next holiday lighting project is started.

Hopefully, the assessment increase and the prompt payment by the City to the BID should help the BID to pay bills faster.

Again there is a positive fund balance at all times, so the statement has no sound financial basis.

Page 14, paragraph 4.

Although recently the BID was approved for a \$250,000 increase in assessment revenue that will alleviate its current financial concerns, it should not continue to overspend. The BID still needs to allocate its funds in a manner that allows for the timely payment of bills, while at the same time ensuring that it is not using up its reserve funds so rapidly.

BID's response

The BID agrees with the Comptroller that the \$250,000 increase in assessment revenue will alleviate the current financial concerns it raised. This is an indication that the Comptroller understands the restraints that was placed on the BID's operations due to the lack of receiving an increase as requested.



Page 14, paragraph 5

At the exit conference, BID officials informed us that a portion of the increase assessments would be earmarked to ensure that bills are paid on time.

BID'S response

During the exit interview, the BID provided information related to plans for use of the \$250,000 increase. Specifically, BID officials informed the Comptroller's office that funds would be allocated to establish reserve fund of at least 3 months operating expenses, to obtain a part-time bookkeeper, and acquire additional help to improve recording of minutes in financial committee meetings. The remainder of the funds will be used for the security program.

"Recommendations

BID officials should:

- 1. Pay its bills on a timely basis.*
- 2. Monitor and control the BID's spending patterns"*

BID's response

The Board of Directors makes every effort to pay its bills on time. Now that the increase has been granted, the finance committee will look closer at the impact that the receipt of assessments has on the BID's operations. Adjustments where possible will be made to accommodate this situation.

To monitor and control the BID's spending patterns, new members will be added to the budget and finance committee, a part-time bookkeeper will be hire to review financial books and reconcile bank statements monthly, and prepare report of finances for finance committee meetings.

Page 15, paragraph 4

"The BID has been running at a deficit for four of the last five years. The Board members we spoke to were aware of the situation an expressed hopes that proposed increases n BID assessments would alleviate the problem. In addition, the Board of Directors approved the BID's plan to obtain a \$100,000 revolving line of credit to help it meet expenses. The BID also notified DBS OF its plan to obtain a line of credit. However, we did not see any discussion of Board minutes regarding control of the BID's spending patterns to ensure that the BID remains financially solvent."

BID's response

The BID had never received an increase in assessments since its inception in 1993. The BID has sought an increase in its budget for four of the last five years and denied. The BID sought and obtained government grants in order to maintain the service delivery. BID members knew that the only way to solve the problems was to get an increase in assessments because government grants have restrictions and cannot be used to pay bills for core services.



The organization should not be dependent on government grants and fund raising. The BID had requested a \$100,000 increase in assessment. The BID was aware that if approved, it would not be until well into the fiscal year and then the Department of Finance would have to process the payments before the BID received the funds. The BID conducted research and was aware that assessments received would not arrive in a timely manner.

The BID requested a line of credit in the amount of \$100,000 from DBS and received written approval from its Commissioner.

Currently, the BID records all of its meetings on tape. Meeting summaries are prepared. To improve on the documentation, an outside service will be hired to record the minutes.

Page 15, paragraph 6

"Moreover, we saw no ongoing oversight of the BID's finances by its finance committee. Such oversight would have uncovered the problems we found regarding the BID's overspending and overspending and inability, due to lack of funds, to pay its bills in a timely manner."

BID's response

With the increase, the recording of the minutes will be contracted out in order to provide detail finance committee and board of directors meetings in place of meeting summaries that have been prepared in the past.

The BID Board of Directors was aware of the BID's inability to pay bills on time due to timely receipt of assessment dollars. Government grants were sought to help this situation. Requests for assessment increase was consistently sought and denied.

The audit report acknowledges board members being aware of the situation.

Recommendation 3:

"The Board of Directors should monitor the BID's rate of spending."

BID's response

The BID's executive board was aware of the findings regarding the lack of funds and did not see spending carryover funds as overspending. The Board of Directors was aware of the lack of the timely receipt of funds that presented problems for paying bills in a timely manner.

The BID's finance committee is currently being restructured. There have been many changes to the board of directors due to loss of businesses in the area, new development, death and others. The newly organized committee will assume the responsibility that the Executive committee has been handling.

Page 16, Lack of Segregation of Duties

"The BID does not segregate the responsibilities for processing and recording receipts and disbursements. Instead, the bid Executive Assistant performs all of these functions. Lack of



appropriate segregation of duties in an organization can allow errors and irregularities to occur without being detected.

We recognize that the BID has limited resources and is operating with a small staff of only two full time employees. However, the BID should try to implement other forms of control to compensate for the inability to segregate duties. For example, certain bookkeeping functions can be divided between the two employees. Furthermore, Board member can set up a schedule whereby a Board member reviews and monitors the financial transactions performed by the BID employees."

BID'S Response

The BID is operating with a small staff of two: Executive Assistant/Bookkeeper and the President and CEO. Duties are segregated as follows:

President & CEO	Executive Assistant/Bookkeeper	Board of Directors
Receives bills and checks and provides to bookkeeper for processing.	Bookkeeper receives bills and prioritizes for payment accordingly to the due dates. Request for checks are prepared, transaction is logged into system and the activity report is generated to show bank balance Each request for check must have supporting documentation in order to be processed.	
<ul style="list-style-type: none"> President reviews the request and check it against balances from the activity report; approves and give to bookkeeper for processing checks. 	Prepares checks and gives to President for signatures.	
Signs check.	Acquires a second signature.	Chairman, Vice-Chairman, Secretary, Treasurer and Asst. Treasurer are signatories. Each receives the request for check along with the activity report for each account.
Receives checks and stamps received. Provide to bookkeeper.	Endorses and deposits into the bank.	



Recommendation 4: *"The 125th Street BID should implement internal controls to compensate for the lack of segregation of duties."*

BID's Response

The BID implemented internal controls to compensate for the lack of segregation of duties within the resources available. To improve on those controls, the BID has hired a part-time bookkeeper.

Recommendations 5, 6, 7, 8

"BID Officials should:

- 5. Investigate the current differences in its general ledger and bank balances*
- 6. Ensure that bank reconciliations are performed on a consistent and accurate basis.*
- 7. Checks are recorded in the general ledger at the time they are issued.*
- 8. Checks are not written until there are sufficient funds to cover the checks."*

BID's Response

The BID acknowledges the findings in this area and understands that a full-fledged bookkeeper is needed to correct the problems. At the time there was not adequate funding to do this, however, with the increase the BID has hired a bookkeeper on a part-time basis to investigate the current differences in its general ledger and bank balances. This will also help with the segregation of duties as well as the accurate bank reconciliations. The part time bookkeeper will review reconciliations on a monthly basis and prepare reports for each account.

In addition, the Executive Committee passed a resolution that no checks should be written until approval has been granted on the request for check. This should correct the findings on checks being written out of order and when there are sufficient funds in each account.

The establishment of the contingency account with the new increase should help the BID cover its operations during those months when payments are slow.