

AUDIT REPORT



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

Audit Report on the Financial Practices of the Economic Development Corporation For “Other General Expenses” Fiscal Years 2001 and 2002

FR03-120A

October 8, 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 financial practices of the New York City Economic Development Corporation (Corporation) for its "Other General Expenses." The results of our audit, which are presented in this report, have been discussed with Corporation officials, and their comments have been considered in preparing this report.

Audits such as this provide a means of ensuring that public benefit corporations adhere to the applicable procurement guidelines, and that expenses incurred are reasonable, necessary, justified, properly recorded, and in the interest of the public.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please contact my audit bureau at 212-669-3747 or e-mail us at audit@Comptroller.nyc.gov.

Very truly yours,

A handwritten signature in black ink that reads "William C. Thompson, Jr." in a cursive style.

William C. Thompson, Jr.
WCT/GR

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

**Audit on the
Financial Practices of the
Economic Development Corporation
For “Other General Expenses”
Fiscal Years 2001 and 2002**

FR03-120A

AUDIT REPORT IN BRIEF

The Economic Development Corporation (Corporation) is a local development corporation organized in accordance with the not-for-profit corporation law of the State of New York. The City and the Corporation have entered into two contracts under which the Corporation administers economic development programs relating to the attraction, retention, acquisition, rehabilitation, and improvement of commercial and industrial enterprises within the City.

The audit assessed whether reimbursements to Corporation employees for “travel and out-of-pocket expenses” and other charges to the “Other General Expenses” account were in accordance with the Corporation’s contracts with the City. In that regard, we determined whether the expenses were reasonable, justified, and properly documented.

Audit Findings and Conclusions

The Corporation complied with some of its policies for processing payments. Apart from the exceptions noted in this report, we found that: payments were dated and included the required taxpayer identification numbers; vouchers were marked “paid”; vouchers were assigned individual general ledger accounting codes; check requests and reimbursement forms were submitted within the stipulated 60-day period; and payment requests contained the approval of the Department head.

However, there were instances in which the Corporation did not: maintain appropriate documentation to support expenses; justify that the expenses were business-related; follow its guidelines for awarding sole source contracts; obtain bids for procurements; and ensure that all payments to consultants were documented.

We questioned \$288,405, or 38 percent, of the expenses reviewed because the Corporation was unable to provide documentation showing that the items or services paid for were reasonable, justified, and supported with adequate documentation. In addition, the Corporation awarded three sole source contracts totaling \$40,624 without maintaining documentation to show that reasonable efforts were made to obtain offers from other possible responsible persons or entities

or obtaining the Deputy Mayor's approval. In at least four instances, the Corporation did not comply with the competitive bidding requirements for procuring goods and services in excess of \$25,000. Moreover, the Corporation made payments totaling \$124,082 to one of its consultants for expenses that lacked the required supporting documentation.

Also, our review of the Corporation's "Other General Expenses" disclosed instances in which the Corporation did not follow its reimbursement and purchasing guidelines, such as: payments based on photocopies of invoices, registration forms, and flyers; approvals for meals and travel either not obtained or obtained after the expense was incurred; consultant contract files that did not including the Deputy Mayor's approval; and purchases, each for more than \$2,500, made without soliciting three bids.

Moreover, the Corporation provided no records or documentation to support the validity of a \$1,368,304 write-off from its Bad Debts Account in Fiscal Year 2002; improperly paid approximately \$2,950 in sales and occupancy taxes for which it is exempt for purchases and lodging in New York; and misstated its Miscellaneous Expense Account and its Section 208 Planning account.

Audit Recommendations

We make 14 recommendations to the Corporation, including that it: ensure that all expenses are reasonable, necessary, and in accordance with its contractual agreements with the City; ensure that sole source agreements are awarded in accordance with the Master and Maritime Contracts; obtain bids and enter into formal contracts for purchases of goods and services exceeding \$25,000; obtain all appropriate documentation, such as invoices, timesheets, receipts, and canceled checks, before approving payments to consultants; submit appropriate documentation for consulting contracts to the Deputy Mayor for approval; solicit bids for all purchases that exceed \$2,500; ensure that its does not pay sales tax; and ensure that employee use of car services is in compliance with Travel and Meal Policy 8.4.

INTRODUCTION

Background

The Economic Development Corporation (Corporation) is a local development corporation organized in 1966 in accordance with the not-for-profit corporation law of the State of New York. The City and the Corporation have entered into two contracts—the *Amended and Restated Contract between The City of New York and New York City Economic Development Corporation* (Master Contract), and the *Amended and Restated Maritime Contract between The City of New York and New York City Economic Development Corporation* (Maritime Contract). Under the Master Contract, the Corporation administers economic development programs relating to the attraction, retention, and expansion of commerce and industry in the City. Under the Maritime Contract, the Corporation administers programs that encourage construction, acquisition, rehabilitation, and improvement of commercial and industrial enterprises within the City, and provide loan guarantees or grants to qualifying business enterprises as a means of helping to create and retain employment.

The City provides the Corporation grants to administer and operate certain programs and at the request of the Mayor, the Corporation remits to the City any amounts of its net assets that exceed \$2.5 million. Thus, any amount of unauthorized expenses or inappropriate expenses incurred and reimbursed to employees from the unrestricted operating fund reduces the Corporation's surplus that should be paid to the City. According to its certified financial statements, the Corporation made transfers to the City in the amount of \$38,164,891 for Fiscal Year 2001 and \$59,919,300 for Fiscal Year 2002.

Corporation Response: "The 'Introduction' section of the Draft Report incorrectly states on page 3 that transfers made to the City by EDC [Corporation] for fiscal years 2002 and 2001 were \$59,919,300 and \$38,164,891 respectively. This understates EDC's transfers to the City by \$14,390,015 and \$16,728,905 for fiscal years 2002 and 2001 respectively. Your office was advised of this at the exit conference. Therefore, the amounts in the Draft Report should be increased to read \$74,309,315 and \$54,893,796 for fiscal years 2002 and 2001, respectively as reflected on page 7 of our Certified Financial Statements."

Auditor Comment: The numbers cited in the report were extracted from the Corporation's certified financial statements. If Corporation officials believe that these numbers are misstated, they should request that their certified public accountant reclassify the amounts "incorrectly stated" and reissue the financial statements.

Objectives

Our audit objectives were to determine whether reimbursements to Corporation employees for "travel and out-of-pocket expenses" and other charges to the "Other General Expenses" account were in accordance with its Master and Maritime Contracts. In that regard, we determined whether the expenses were reasonable, justified, and properly documented.

Scope and Methodology

The audit scope covered the two-year period July 1, 2000, to June 30, 2002—Fiscal Years 2001 and 2002—and included review of selected accounts from the Corporation's ledger for its "Other General Expenses" account. The "Other General Expenses" account included 47 sub-accounts, of which we selected nine for our testing: (1) Travel and Meal—In Town; (2) Travel and Meal—Out-of-Town; (3) Travel and Meal—In-Town (Finance); (4) Corporate; (5) Consulting for Business Recruitment; (6) Transportation and Equipment; (7) Mobile Telephone; (8) Bad Debt; and (9) Miscellaneous Expense Account.

To gain an understanding of the Corporation's reimbursement process, we interviewed relevant personnel and conducted a walk-through for each phase of the payment process. We also performed interviews and a walk-through of the reimbursement, procurement, and vouchering operations. From this information, we prepared a narrative of the reimbursement, payment, and procurement operation. Analyses of the information from the interviews and walk-throughs enabled us to determine whether controls were in place over reimbursements and payments for items procured.

We reviewed and abstracted the policies and procedures governing the Corporation's reimbursements, expenses, and procurement policies contained in the Master and Maritime Contracts with the City. Since those contracts require that the Corporation conform to all applicable federal, State, and local laws, rules, and regulations, we reviewed and abstracted guidelines for the reimbursements for travel and entertainment from the Internal Revenue Code Section 162.

We reviewed Corporation guidelines relative to the following accounts: Travel and Meal—in-town and out-of-town expenses; Corporate; Consulting for Business Recruitment; Transportation; and Equipment; and Mobile Telephone. For the two fiscal years, \$1,781,175 was expended from these accounts. We reviewed documentation relating to \$761,422 of this amount. Specifically, we randomly selected 100 Travel and Meal expenses, 40 Corporate expenses, and 24 Mobile Telephone expenses, and all expenses relating to consulting and to transportation equipment. We determined whether these expenses were appropriate, accurately recorded, and properly authorized and documented by reviewing supporting documentation, such as original invoices or receipts, bid quotes, and justifications.

We reviewed the Corporation's "Other General Expenses" Bad Debt Account, which totaled \$1,384,887 for Fiscal Year 2002 and \$10,443 for Fiscal Year 2001, to determine whether all write-offs were justified and adequately documented.

We reviewed the Corporation's Miscellaneous Expense Account, which had an ending balance of \$9,054 for Fiscal Year 2001 and a negative ending balance \$366,698 for Fiscal Year 2002. We randomly selected 10 entries in each fiscal year—\$117,438 for Fiscal Year 2001 and \$5,775,470 for Fiscal Year 2002—that included both positive and negative adjustments to determine whether adjusting entries were justified, accurately reported, and not commingled with other expenses.

To determine whether the Corporation complied with its Master and Maritime Contract procedures for procurements of goods and services of more than \$25,000, we examined a random sample of 11 of 153 vendor contracts extracted from its Check Register for Fiscal Year 2002, of these 11 contracts only two contracts were for expenses under the "Other General Expenses" account. We reviewed documentation pertaining to these two contracts for adherence to proper bidding procedures and authorizations.

To determine whether expenses were accurately reported, we obtained the Corporation's certified financial statements for the two-year audit period and matched the total amount in the general ledger for "Other General Expenses" to the reported amount on the financial statements for each year. We determined whether the account totals reported in the "Other General Expenses" account were accurate by recalculating and matching the detailed schedule of expenses for 18 (nine of the above selected accounts and nine additional accounts) of the 47 accounts listed in the "Other General Expenses" account ledger.

The audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included all tests of records and other auditing procedures considered necessary. The audit was performed in accordance with the audit responsibilities of the City Comptroller 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 Corporation during and at the conclusion of this audit. A preliminary draft report was sent to Corporation officials and was discussed at an exit conference on June 20, 2003. On July 16, 2003, we submitted a draft report to Corporation officials with a request for comments. We received a written response from Corporation officials on August 7, 2003.

In their response, Corporation officials stated that they “agree with many of the recommendations, which as we stated in the exit conference are already substantially incorporated into EDC’s policies and procedures.” However, the Corporation officials also stated that “in many cases we found the Draft Report to contain material misstatements of facts due to misunderstandings of our policies and procedures.” The specific issues raised by the Corporation and our rebuttals are included within the respective sections of this report. The full text of the Corporation’s comments is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

The Corporation complied with some of its policies for processing payments. Specifically, we found that:

- payments were dated and included the required taxpayer identification numbers,
- vouchers were marked “paid,”
- vouchers were assigned individual general ledger accounting codes,
- check requests and reimbursement forms were submitted within the stipulated 60-day period, and
- payment requests contained the approval of the Department head.

However, there were instances, in which the Corporation did not: maintain appropriate documentation to support expenses; follow its guidelines for awarding sole source contracts; obtain bids for procurements in accordance with its Master and Maritime Contract; and ensure that all payments to consultants were documented.

These matters and other issues are discussed in detail in the following sections of this report.

Questionable Expenses

We question \$288,405 of the \$761,422, or 38 percent, of the expenses reviewed because the Corporation was unable to provide documentation showing that the items or services paid for were reasonable, justified, and supported with adequate documentation in accordance with the Corporation’s Master Contract with the City. Article 8, Exhibit F, of the Master Contract states, in part, that “all costs shall be supported by . . . invoices, contracts, or vouchers, or other official documentation evidencing in proper detail the nature and propriety of the charges.” The questionable expenses included:

- \$154,451 in purchases on behalf of the Mayor’s Office and the Office of Management and Budget. These purchases included: \$129,879 for three Chevy Tahoes and related accessories in March 2002; \$6,000 for 100 engraved “keys to the City”; \$5,200 for an alarm installed in the Mayor’s Office; and \$13,372 for hotel accommodations and meals in New York City for an official of the Office of Management and Budget.
- \$11,222 paid to the 14 Wall Street Restaurant for a dinner event on January 23, 2002, from 6:00 p.m. to 8:00 p.m. The voucher for this expense stated, “Michael Carey Party,” and the stated purpose was “Company-wide reception–President.” In addition to the questionable nature of this expense, the voucher was not signed by the Vice President, as required by the Corporation’s Travel and Meal Policy 8.4.
- \$7,000 paid to Captain’s Ketch restaurant for which the voucher stated “Farewell party for Catherine Giuliani on March 22, 2002.”

- \$6,514 for lodging costs incurred on behalf of four individuals for accommodations at the Hotel Giraffe from September 19, 2001, through September 25, 2001, without documentation to support the need to accommodate the guests or to identify their business affiliation with the Corporation.
- \$4,212 for mobile phones and pagers whose emergency use was not documented. The Corporation's Travel and Meal Policy No. 8.4 states that "cell phones should not be utilized except for emergency situations." The definition of what constitutes an "emergency" is not specified in the guidelines.
- \$2,240 paid to New York Corporation Basketball League for team sponsorship participation. The corresponding invoice stated "Winter 2000 Scrimmage Program."
- \$1,900 paid to USTA/Eastern Metro Region for the Corporation's Tennis League.
- \$1,253 in reimbursements to an employee for travel to Las Vegas from April 9, 2002, to April 11, 2002. .
- \$1,123 paid to Mrs. Java, LLC, for coffee refills for employees. We noted that the Corporation paid this vendor a total of \$27,265 for the audit period.

A complete listing of the questionable expenses is the Appendix.

Recommendations

The Corporation should:

1. Ensure that all expenses are reasonable, necessary, and in accordance with its contractual agreements with the City. In that regard, the Corporation should maintain appropriate documentation to support and justify the business nature of each expense.

Corporation Response: "The Corporation does ensure that all its expenses are reasonable, necessary and that all required supporting documentation is provided. During the course of the audit, we made available to the auditors supporting documentation in the form of invoices; purchase orders, where applicable; payment request vouchers approved by a Vice President or above, as indicated in our policies and procedures; as well as the related canceled checks. A description of the business purpose, though not on the face of the check, is reflected on the check stub and on the payment request voucher. We are confident that our processes in this regard meet the intent in our contract with the City."

In addition, the Corporation stated: "Regarding the following expenses cited in the Draft Report, we believe they were, in fact, reasonable and justified. The amount spent on the 100 engraved 'keys for the City' was meant for ceremonial use to help promote the City as a vibrant economic entity. We believe the purpose of not bidding out a security system for the Mayor's Office speaks for itself in a post-9/11 environment. Regarding the costs incurred in hotel accommodations for a senior City official, it should be noted that this official was required to be close to Ground Zero 24 hours per day for the first several weeks after the attack. Therefore, the business

purpose of these purchases is self-evident in the context of the emergency situation that existed at that time.

“Regarding the reasonableness of payments to 14 Wall Street and Captain’s Ketch: the prior practice of corporate contributions toward outside employee events was modified last fiscal year (the year after the audit period) and reduced to \$200 per event. We agree with the Draft Report finding and this Fiscal Year this practice was discontinued entirely.

“Regarding the mobile phone and pagers expense: only 1% or \$36.83 applies under the employee reimbursement provisions of Policy 8.4, which is cited as the basis for this finding. The remaining 99% was paid directly to the cell phone or pager provider pursuant existing agreements. These were vendor payments, not employee reimbursements. Furthermore, the \$36.83 was reimbursed to the employee for the use of the personal cell phone while on business travel, because it was more economical to use a cell phone than a hotel telephone. This finding was brought to your office’s attention at the exit conference and should have been excluded from the Draft Report.

“Regarding the justification of payments for corporate basketball and tennis sponsorships as well as for pantry upkeep: it should be noted that EDC employees put in substantial hours beyond the regular 9-to-5 schedule, and do not receive many of the benefits available to their City counterparts, most notably ‘comp time.’ We believe the small amount spent to foster a sense of collegiality and teamwork promotes employee morale and productivity, and is a justifiable business expense.

“Regarding justification for the reimbursement to employee for business travel: at the exit conference and in a subsequent communication, we submitted to your office a copy of the brochure for the May 19-22, 2002 International Council of Shopping Centers Convention (‘ICSC’), as well as an explanation of the business purpose. EDC staff always attends the ICSC Annual Convention because one of our primary missions is to revitalize commercial/retail districts. In our opinion this finding should have been removed.”

Auditor Comment: We are pleased that the Corporation has discontinued its practice of paying for parties for departing employees. However, contrary to its response, the Corporation did not ensure that all expenses were reasonable, necessary, and that all required supporting documentation was provided. The documentation provided by the Corporation contained general comments such as “corporate expense“ and “business expense“ that were not adequate to justify the questioned expenses. (See Exhibit I.) Other documentation provided merely contained account codes with no further explanations or justification. Aside from this lack of specific information in the documentation, we fail to see how paying for an alarm system and keys to the City for the Mayor’s Office; sports league sponsorships and coffee for Corporation employees; and hotel accommodations for senior City officials fall within the Corporation’s mission of promoting economic development in the City. While it might have been appropriate for the Mayor’s Office to purchase some of these items through the City’s procurement process, they are not appropriate Corporation expenses.

In addition, given the Corporation's defense of these particular expenses, we must question why Corporation officials made no attempt to justify an expense representing more than 84 percent of the questioned expenses, namely, the purchase of the three Chevy Tahoes for the Mayor's Office.

Finally, we question why the Corporation's response includes comments about the May 2002, International Council of Shopping Centers Convention. Based on the documentation provided by the Corporation at the exit conference, we removed expenses associated with this event when preparing the draft report. The reimbursement cited pertained to a trip to Las Vegas in April 2002, one month before the International Council of Shopping Centers Convention, for which the Corporation provided no documentation.

Inadequate Sole Source Justification

The Corporation awarded three sole source contracts totaling \$40,624 without maintaining documentation to show that reasonable efforts were made to obtain offers from other possible responsible persons or entities or obtaining the Deputy Mayor's approval, in accordance with the Master Contract. The three contracts are as follows:

- A \$20,000 contract with Josh Glantz for "sponsorship sales, sponsor recruitment, ticket sales, attendee recruitment, negotiation of sponsorship packages, and related support" in connection with the NYC Venture Capital Conference 2001.
- A \$15,495 contract with John McNamara & Associates for "strategic development and tactical implementation of a multimedia marketing campaign for the upcoming NYC Venture Capital Conference 2001."
- A \$5,129 contract with Islum Casey Kim for a business trip to Korea.

Article 4, § 4.01, of the Master Contract states, "Any procurement (a) for goods or services and services for an amount from \$2,500 to \$25,000 . . . may be made without Competitive Sealed Bidding . . . provided the Corporation shall use reasonable efforts to obtain offers from at least three responsible persons or entities." Furthermore, subsection (d), states, "A contract may be awarded for a supply, service or construction item without competition when permitted specifically by or under general guidelines of the Deputy Mayor, or when, with the Deputy Mayor's approval, the President determines in writing that there is only one source for the required supply, service or construction item." However, we found no documentation showing that these procedures were followed.

Recommendation

2. The Corporation should ensure that sole source agreements are awarded in accordance with the Master and Maritime Contracts.

Corporation Response: "We agree with the auditor's recommendation, however, we find one instance among the three stated in the draft report, where we did not have Deputy Mayor approval to engage in a sole source contract. This event of non-compliance relates to an agreement with Islum Casey Kim for \$5,129. With respect

to the other two, which totaled \$35,495, we provided the auditors with the required Deputy Mayor memorandum authorizing the sole source agreements. We will continue to monitor our procurement processes to ensure full compliance with the provisions in our Master and Maritime contracts.”

Auditor Comment: The Corporation’s response gives the appearance that the Deputy Mayor granted specific approval for the two sole source contracts and that this information was provided to the auditors during the audit. However, this was not the case. After the draft report was issued, the Corporation provided us an **undated** memorandum in which the Corporation requested and received the then-Deputy Mayor’s approval for entering into sole source contracts for the NYC Venture Capital Conference & Showcase 2001. If, in fact, the Deputy Mayor’s approval was clearly granted prior to the execution of these agreements and if documentation of this approval had been included in the Corporation’s files, we would not have cited these sole source contracts in the draft report.

Competitive Sealed Bids Not Obtained for Procurements in Excess of \$25,000

The Corporation did not comply with the competitive bidding requirements of Article 4, §4.01, of the Master Contract, which requires that the Corporation obtain Competitive Sealed Bidding or Competitive Sealed Proposals if the purchase of services exceeds \$25,000, or if only one service exists, then the Corporation’s President must determine, in writing, that it is a sole source service.

Specifically, the Corporation procured the following goods and services without obtaining the required bids and entering into formal contracts:

- \$105,000 for temporary staff provided by Merlin Temps. According to Corporation officials, they had an “oral agreement” with Merlin.
- \$83,272 for transportation services provided by Elite Limousine.
- \$29,355 for various items from F&F Hardware & Supply, Inc. While the Corporation provided us with bid offers solicited from five vendors of which only two responded, the Master Contract requires the Corporation to obtain Competitive Sealed Bids or Competitive Sealed Proposals.
- \$29,353 for T-shirts, jackets, golf caps, and rain suits purchased from Eisner Bros., Inc.

By not securing competitive bids, the Corporation compromises its ability to obtain the most competitive prices for procured goods and services.

Recommendation

3. The Corporation should obtain bids and enter into formal contracts for purchases of goods and services exceeding \$25,000, in accordance with the Master Contract.

Corporation Response: “EDC has formal procurement policies and procedures in place and consistently makes every effort to adhere to the requirements in its contracts with the City. The circumstances that gave rise to this finding, involve hourly and/or fee for services type agreements where the initial intent was not to incur

a sizeable expenditure, but over the course of two years, resulted in the amounts reported in this draft report. In the future, we will exercise more caution with these types of agreements, and will monitor the related expenses to ensure that we remain in full compliance with our procurement guidelines.”

Consultant Payments Lacked Documentation

The Corporation made payments totaling \$124,082 to one of its consultants—Virtual European Office—for expenses that lacked the required supporting documentation. The Corporation’s contract with Virtual European Office, states in part that:

“The Consultant agrees to accept, the sum of \$10,000 per month, plus out-of-pocket expenses approved in advance in writing by the Director on a direct cost basis . . . and shall be paid only upon receipt by the Corporation of properly documented invoices for time spent and for out-of-pocket expenses. All out-of-pocket expenses for which the Consultant seeks payment of reimbursement must be supported by appropriate and complete documentation, such as receipts, invoices, cancelled checks or similar proof. . . . In no event shall the Corporation reimburse or pay the Consultant for expenses for ordinary business or infrastructure expenses, such office rent, equipment purchases or rentals, Internet access, local telephone calls . . . and the like.”

However, the Corporation made 12 monthly payments, totaling \$120,000, based on invoices that did not properly document time spent by the consultant or indicate the services performed. The invoices only stated “activities for” a specific month. No other documentation was provided. In addition, Table I lists the remaining \$4,082 in payments made by the Corporation for which appropriate documentation was not provided.

Table I
Expenses Lacking Documentation

ITEM	AMOUNT	REASON FOR INELIGIBILITY
New York Hotel	\$591.88	Invoice lacking authenticity, i.e., no hotel logo or name was on invoice submitted.
Answering Machine-Telephone calls, 4/01	\$245.26	No receipt to justify item as a business expense.
Pre-payment for expenses 11/00-1/01	\$150	No receipts to justify payment
Pre-payment for expenses 2/01-4/01	\$200	No receipts to justify payment
Phone Calls – June '01	\$200	No receipts
Phone Calls – July '01	\$200	No receipts
Phone Calls - August '01	\$200	No receipts
Phone Calls – Sept. '01	\$100	No receipts
Phone Calls – Oct. '01	\$100	No receipts
Phone Calls – Nov. '01	\$200	No receipts
Phone Calls – Dec. '01	\$200	No receipts
Phone Calls – Jan. '02	\$400	No receipts
Phone Calls – Feb. '02	\$400	No receipts
Phone Calls – March '02	\$400	No receipts
Miscellaneous Expense – March '02	\$35.14	No receipts
Miscellaneous Expense – Sept. '01	\$370	No receipts
“Growth Plus List” – Dec. '01	\$90	No receipts
TOTAL	4,082.28	

Recommendation

4. The Corporation should ensure that all consultants are paid in accordance with their agreements. In that regard, the Corporation should obtain appropriate documentation, such as invoices, timesheets, receipts, and canceled checks, before approving payments.

Corporation Response: “We make every effort to insure that consultant payments are made in accordance with their agreements. We disagree with your interpretation of the Virtual European Office contract with EDC. We provided your office with appropriate documentation, including 12 approved invoices (one for each month of service performed under the contract), which accounted for \$120,000 of the \$124,082 the auditors cited, clearly describing the specific month for which services were performed and containing a listing of all out-of-pocket expenses incurred.”

Auditor Comment: As previously stated, the contract cited requires that Virtual European Office properly document the time it spends and the out-of-pocket expenses it incurs on the monthly invoices it submits to the Corporation. However, the invoices in the Corporation’s files and referenced in its response did not meet these requirements. Instead, the invoices listed the description of services as “European Business development activities for [a specific month]” and “phone calls” or “phone expenses.” Clearly, these invoices did not provide documentation of time spent, which is critical for ensuring that Virtual European Office is acting in good faith and providing the services specified in the agreement. In addition, with the exception of June 2001, Virtual European Office provided no documentation for the out-of-pocket expenses it billed the Corporation. By contrast, the June 2001 invoice contained a list of expenses claimed by Virtual European Office and receipts supporting these expenses (except for telephone charges). Had the billings for the other months included such detail, we would not have cited them in this report.

Other Reimbursement, Purchasing and Procurement Weaknesses

Our review of the Corporation’s “Other General Expenses” disclosed instances in which the Corporation did not follow its reimbursement or purchasing guidelines, as follows.

- 19 instances, totaling \$24,317, for meals and travel expenses for which prior approvals were not obtained. For example, a \$2,429 airline ticket to Ireland on June 4, 2001, was not approved until July 16, 2001. The Corporation’s Travel and Meal Policy 8.4 states that “all travel plans require prior approval of the appropriate Department Head and the Executive Vice President of Finance and Administration.”
- 11 instances totaling \$234,166 that were posted to the “Consulting for Business Recruitment Account” in which the canceled checks did not indicate the purpose of the payment. Article 5, § 5.02(d), of the Master Contract states, “Each check must have a voucher number, or other indication of the purpose of the payment, written on its face.”
- 24 expenses, totaling \$190,982, in which payment was based on photocopies of invoices, registration forms, and flyers. The Corporation’s Reimbursement Policy 8.1 states that “only actual expenses are reimbursable and must be supported by original

receipts. Photocopies of invoices or receipts are not acceptable unless the original document was lost and a memorandum is attached to the voucher giving full explanation of the circumstances.” The files, however, contained no explanation as to why documents other than original invoices were accepted.

- Three consultant contracts totaling \$58,345 did not include the Deputy Mayor’s approval, as required by the Master Contract. Article 4, §4.05 (c), of the Master Contract states, “Prior to entering into a Consulting Contract of \$10,000 or more, the Corporation shall submit to the Deputy Mayor (i) a written work program detailing the services to be performed by Consultant, divided into phases that will allow for periodic review of performance, (ii) a written explanation of the method used to select and the reasons for selecting that particular Consultant, (iii) a budget for the Consultant’s services, and (y) obtain the Deputy Mayor’s approval.” There was no documentation on file to indicate whether any of these documents were submitted to the Deputy Mayor for approval.
- Three purchases, each for more than \$2,500, were made without soliciting three bids, as required. The items purchased were 100 “keys to the City” (\$6,000); an alarm system installed at the Mayor’s Office (\$5,200); and carpeting for the President’s office (\$4,033). Article 4, subsection C, of the Master Contract states that “any procurement (a) for goods or services for an amount from \$2,500 to \$25,000 . . . may be made without competitive sealed bidding . . . provided that the Corporation shall use reasonable efforts to obtain offers from at least three responsible persons or entities.”
- The Corporation did not publish required information in the *City Record* for four contracts, as required. The Master Contract, § 7.03 (c), states that the following information for all contracts must be published in the *City Record*: “Name of Company/Individual receiving the award; the amount of contract; a summary of the scope of services; the process used to select the Consultant; a summary of responses; and the evaluation criteria used by the Consultant Selection Committee” be published in the *City Record* at the time the contract is awarded.¹ We should also note that three of these four agreements were awarded as sole source contracts.

Recommendations

The Corporation should:

5. Ensure that all meals and travel expenses are approved in accordance with Travel and Meal Policy 8.4.

Corporation Response: “The Corporation has a clear policy regarding reimbursement for meals and travel expenses. This policy is enforced and additional standards have been set in place to ensure full compliance.”

6. Ensure all checks contain a voucher number or other indication of the purpose of the payment, in accordance with the Master Contract.

¹ The four contracts for which the required information was not published in the *City Record* were with New York Business Forums, Inc., Virtual European Office, Josh Glantz, and John McNamara.

Corporation Response: “We disagree with the auditor’s findings and recommendation in light of existing procedures to that effect.

“We are confident that our policies and procedures meet the intent and requirements of the Master Contract. EDC’s check stub contains a description field where the summarized purpose for payment is included. Additionally, the check stub incorporates reference fields for contract, invoice, purchase order, and obligation numbers. We can track transactions and payments to our accounting system or to our files by reference to any of these fields. Our internal control objectives and related control activities, in this regard, have been tested by our independent auditors, and have resulted in no material reportable conditions over the years.”

Auditor Comment: We agree that the Corporation’s check stubs have description fields for recording voucher numbers, purchase order numbers, invoice numbers, and other information regarding the purpose of the payment, in accordance with the Master Contract. However, for the 11 payments totaling \$234,166 cited in the report, neither the face of the checks nor the check stubs contained such information. Obviously, the Corporation needs to take additional steps to ensure that its policies are followed.

7. Ensure that original invoices are maintained to support all payments. If original documents were lost, a memorandum should be attached to the voucher giving full explanation of the circumstances.

Corporation Response: “This finding is the result of a misapplication of our policies and procedures. In fact, 96.5% of the payments cited in this finding were made properly. Only 3.5% or \$6,621 of the \$190,982 relates to employee reimbursement, where the provisions of Reimbursement Policy 8.1 apply. Again, this misapplication of Policy 8.1 was brought up at the exit conference but remained in the final report.”

Auditor Comment: We do not understand how the Corporation’s response relates to this recommendation. We maintain that original invoices and receipts were not in the files for the 24 expenses cited, in violation of Corporation policy and, therefore, reiterate our recommendation.

8. Submit appropriate documentation for consulting contracts to the Deputy Mayor for approval.

Corporation Response: “As stated in our response to Recommendation #2, we agree, however, we find one instance among the three stated in the Draft Report, where we did not have the required Deputy Mayor approval to engage in a sole source contract.

“Regarding the sole source contracts with Josh Glantz and John McNamara & Associates related the NYC Venture Capital Conference & Showcase 2001, we forwarded to your office a copy of the approved memorandum signed by the Deputy Mayor, which reads as follows: ‘EDC proposes to enter into (1) a consulting agreement with New York Business Forums Inc. for conference organization and support services, (2) a contract with the New York Marriott Marquis Hotel or an affiliated entity for

conference space and catering services, and (3) such other agreements as may be necessary and appropriate in connection with EDC's hosting the Sixth Annual New York City Venture Capital Conference & Showcase.' The consulting work performed by Josh Glantz and John McNamara is covered under this Deputy Mayor approval memorandum."

Auditor Comments: As mentioned earlier, the approval memorandum referred to in the Corporation's response was an **undated** document that was provided to the auditors after we issued the draft report to the Corporation. If, in fact, the Deputy Mayor's approval was clearly granted prior to the execution of these agreements and this documentation was included in the Corporation's files, we would not have cited these contracts in the draft report.

9. Solicit bids for all purchases that exceed \$2,500. The Corporation should document its efforts to obtain bids in the contract files.

Corporation Response: "The Corporation has formal procurement policies and procedures in place and, as a matter of practice, routinely solicits bids for purchases over \$2,500. The examples cited in this finding represent a very small percentage of EDC's total procurements. To ensure complete compliance, we have taken steps to enforce the documentation of these efforts."

10. Ensure that all consultant contracts over \$10,000 are published in the *City Record*, as required by the Master Contract.

Corporation Response: "We agree and will implement this recommendation immediately."

Other Issues

Accounts Misstated

The Corporation's Miscellaneous Expense Account is used to make incidental purchases such as for flowers, books, and movie tickets. In addition, the Corporation uses the account as a "conduit" for reclassifying certain transactions. We found that the Corporation made an error that caused the Miscellaneous Expense Account and its Section 208 Planning account to be misstated.

Specifically, according to information contained in its Miscellaneous Expense Account Ledger, the Corporation transferred \$539,391 into this account that ultimately was intended for the Section 208 Planning account. However, the Corporation reclassified only \$172,307 from the Miscellaneous Expense Account to the Section 208 Planning account.

The Corporation reclassified more than \$32 million in Fiscal Year 2001 and more than \$40 million in Fiscal Year 2002 through its Miscellaneous Expense Account. While it is an appropriate and acceptable practice to reclassify certain expenses, we believe that the Corporation should use a separate suspense account for transactions of this sort. This account should be designed to have transactions zero out at the end of every fiscal year to prevent any future misclassifications, especially transactions that may have a material effect to the Corporation's financial statements.

Recommendation

11. The Corporation should set up and use a separate account and cease using its Miscellaneous Expense Account for all reclassifications. The Corporation should then monitor the new account to ensure that each entry is correct and can be documented.

Corporation Response: “Due to a coding error, the Miscellaneous Expense account was overstated by \$367,084 and the Section 208 Expense account was understated by the same amount. The net effect of this ‘misstatement’ is zero since these accounts are combined and reported under the ‘Operating Expenses’ caption of the Statement of Revenue and Expenses. Effective August 2003, we will incorporate the use of an ‘Interfund Clearing Account’ to ensure that no balances remain when these transfers occur.”

Lack of Documentation to Support a \$1.37 Million Write-Off

The Corporation wrote off \$1,368,304 from its Other General Expenses Bad Debts Account in Fiscal Year 2002. The receivables written-off were related to Fiscal Years 1998 and 1999 Interfund Agreement (IFA) expenses. We could not determine the validity of this write-off because the Corporation did not provide any documentation to support it.

After the exit conference, to support this write-off, the Corporation provided us with an e-mail from an official of the City’s Office of Management and Budget, which indicated that since Fiscal Year 2000, the Corporation has not been eligible for reimbursement of these expenses. However, as previously stated, the write-off dealt with Fiscal Years 1998 and 1999 receivables, therefore we still question the validity of this transaction.

Recommendation

12. The Corporation should ensure that all write-offs claimed are justified, documented, and detail the validity of the expense to comply with its Master Contract.

Corporation Response: “The write-off referenced in this finding was justified based on Generally Accepted Accounting Principles (‘GAAP’), which require that receivables be reported on the Balance Sheet at their net realizable value.

“We provided your office with all relevant records supporting the write-off of this receivable, which was on our books since fiscal year 1998. Our decision to write-off this receivable was based on its aging status (five years) as well as on communication with the debtor regarding its uncollectibility. All of this documentation was shared with your office. After five years of attempted collection efforts, we justifiably concluded that a write-off was the appropriate GAAP treatment.”

Auditor Comments: If, as claimed by the Corporation, the \$1,368,304 write-off pertains to a five-year old uncollectible amount due from OMB, we would agree that the write-off was appropriate. However, the Corporation provided no documentation showing how the debt arose, who the debtor was, and what efforts, if any, were made to collect the amount due. Therefore, we still question the validity of this transaction.

Sales Taxes Paid

The Corporation improperly paid sales and occupancy taxes of approximately \$2,950 for purchases and lodging in New York. Article 3, § 3.08, of the Master Contract states that “purchases . . . are exempt from the sales and use taxes imposed by Article 28 of the Tax Law.” Furthermore, the Corporation’s Travel and Meal Policy 8.4 states that “an employee should always bring along a sales-tax exempt certificate for car rental, lodging, or making any purchase in New York City or State.”

Recommendation

13. The Corporation should ensure that its does not pay sales tax. The Corporation should ensure that employees present certificates of tax exemption for purchases and lodgings within New York State.

Corporation Response: “We agree and will increase our compliance efforts in this area. The Corporation regularly issues sales tax exemption notification (Form ST-119.1 – Exempt Organization Certificate) to our staff engaging in purchases of goods and services on behalf of the Corporation. We will increase our efforts in communicating and enforcing this requirement in the future.”

Questionable Use of Car Service

The Corporation did not always follow its policies with regard to its use of car service. The Corporation’s Travel and Meal Policy 8.4 states that employees may use car service at the expense of the Corporation “when they work overtime past 8:00 p.m. in the winter and 9:00 p.m. in the summer.” However, we found 55 instances totaling \$2,281 in which the Corporation did not comply with this policy. Table II, following, lists 14 of the 55 instances that involved car services used by one of the Corporation’s employees.

Table II
Examples of Car Service Use That Was
Not in Compliance with Corporation Policy

Date	Time	Pick-Up	Destination	Fare
10/09/00	9:45 am	Palmetto St	110 William St	\$37.74
10/11/00	9:30 am	Palmetto St.	110 William St.	\$37.74
10/12/00	10:00 am	Palmetto St.	110 William St.	\$37.74
10/13/00	9:45 am	Palmetto St.	110 William St.	\$41.82
10/16/00	9:12 am	Palmetto St.	110 William St.	\$37.74
10/17/00	9:30 am	Palmetto St.	110 William St.	\$37.74
10/18/00	9:30 am	Palmetto St.	110 William St.	\$37.74
10/20/00	8:20 am	Palmetto St.	110 William St.	\$37.74
10/20/00	5:14 pm	Palmetto St.	110 William St.	\$37.74
10/05/00	5:32 pm	110 William St.	Palmetto St.	\$37.74
10/11/00	5:15 pm	110 William St.	Maspeth	\$32.64
10/17/00	5:15 pm	110 William St.	Palmetto St.	\$37.74
10/18/00	4:42 pm	110 William St.	Palmetto St.	\$37.74
10/19/00	6:36 pm	110 William St.	Glendale	\$37.74
Total				\$527.34

Recommendation

14. The Corporation should ensure that employee use of car services is in compliance with Travel and Meal Policy 8.4.

Corporation Response: “We agree with the recommendation, however, the case in question involves an exception to policy. The circumstance involves an employee who, due to medical reasons, was temporarily unable to use public transportation to commute to and from work. Given her assignment, the employee’s presence in the office was considered critical and a senior manager authorized an exception to policy.”

Auditor Comment: While we understand that in extraordinary situations exceptions to policy may be acceptable, such circumstances and approvals of those exceptions should be documented in the Corporation’s files.

ECONOMIC DEVELOPMENT CORPORATION
SUMMARY OF FINDINGS FOR TRAVEL AND MEAL, MOBILE
CONSULTING, CORPORATION, TRANSPORTATION EQUIPMENT,
AND MISCELLANEOUS EXPENSE ACCOUNTS
AUDIT PERIOD: FISCAL YEARS 2001 AND 2002
AUDIT #FR03-120A

Date	Vendor/Payee	Expense Amount	Questionable Expenses	Original Receipts/ Invoices Missing	Voucher #, purpose missing on checks	Prior approval for travel not obtained
TRAVEL AND MEALS						
FY 2001						
3/6/02	E-Z PASS CUSTOMER SERVICE CTR	\$700.00				
8/31/00	MTA BRIDGES AND TUNNELS	\$400.00				
10/4/01	DEONARRINE SINGH	\$322.88				
9/28/00	ELITE LIMOUSINE PLUS INC.	\$302.43	X			
1/31/01	BREWBAKERS	\$265.54	X		X	
1/31/01	PIATTI PRONTI	\$243.83	X		X	
6/30/02	EXXON MOBIL	\$231.45				
11/30/00	TEXAS ROTISSERIE	\$219.15	X		X	
3/31/01	BREWBAKERS	\$209.66	X		X	
1/31/01	TEXAS ROTISSERIE	\$206.75	X		X	
6/21/01	MICHAEL BERFIELD	\$961.72	X		X	X
2/21/01	JOSEPH CABUAY	\$539.82	X		X	X
6/30/01	ELIZABETH O'DONOGHUE	\$514.22		X	X	X
7/31/00	EVE MICHEL	\$351.50	X		X	X
9/19/00	LUCY PALACIOS	\$294.09	X		X	X
SUB-TOTAL - COUNT			10	1	10	5
SUB-TOTAL AMOUNT		\$5,763.04	\$3,594.49	\$514.22	\$3,806.28	\$2,661.35
EMPLOYEE - COUNT			8	3	0	1
EMPLOYEE - AMOUNT		\$31,634.64	\$14,692.17	\$3,925.26	\$0.00	\$2,110.84
EXEC. CHARGE, INC. - COUNT			29	0	0	0
EXEC. CHARGE, INC. - AMOUNT		\$14,741.57	\$14,741.57	\$0.00	\$0.00	\$0.00
TOTAL COUNT			47	4	10	6
TOTAL AMOUNT		\$52,139.25	\$33,028.23	\$4,439.48	\$3,806.28	\$4,772.19
FY 2002						
10/30/01	ZEYTONA GOURMET MARKET	\$784.43	X		X	
8/31/01	SOLACE	\$621.95	X		X	
10/31/01	MAJESTIC PIZZA	\$387.17	X		X	
11/30/01	BREWBAKERS (**)	\$285.50	X		X	
6/25/02	SEATTLE COFFEE ROASTERS	\$282.42	X		X	
8/22/01	ELITE LIMOUSINE PLUS INC.	\$231.54			X	
6/30/02	TEXAS ROTISSERIE	\$229.13	X		X	
12/31/01	GIOVANNI Tafa	\$228.75	X		X	
6/30/02	ELITE LIMOUSINE PLUS INC.	\$225.42			X	
6/30/02	SEATTLE COFFEE ROASTERS	\$205.01	X		X	
6/4/02	E-Z PASS CUSTOMER SERVICE CTR	\$2,500.00			X	
5/31/02	EXXON MOBIL FLEET/GECC	\$1,571.24	X		X	
10/2/01	THE LIBRARY HOTEL	\$2,337.24	X	X	X	
10/17/01	THE LIBRARY HOTEL	\$5,656.00	X		X	
11/13/01	THE LIBRARY HOTEL	\$5,378.82	X	X	X	
11/1/01	HOTEL GIRAFFE	\$6,513.87	X	X	X	
1/11/02	DANIEL KURTZ	\$1,137.05	X		X	X
5/22/02	BARBARA BASSER-BIGIO	\$1,458.33			X	X
5/8/02	ANDREW STERN	\$658.38	X		X	X
5/8/02	ANDREW STERN	\$1,253.10	X		X	X

ECONOMIC DEVELOPMENT CORPORATION
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AND MISCELLANEOUS EXPENSE ACCOUNTS
AUDIT PERIOD: FISCAL YEARS 2001 AND 2002
AUDIT #FR03-120A

Date	Vendor/Payee	Expense Amount	Questionable Expenses	Original Receipts/ Invoices Missing	Voucher #, purpose missing on checks	Prior approval for travel not obtained
7/31/01	MICHAEL CAREY	\$701.12	X		X	X
5/31/02	MARC VIGGIANO	\$561.90			X	X
5/31/02	NIA FRANCIS	\$1,105.36			X	X
5/31/02	DEMETRIOS GANIARIS	\$1,037.77	X		X	X
7/18/02	AMY APPLEBAUM	\$1,000.93			X	X
6/25/02	ROBERT BALDER	\$773.78			X	X
6/30/02	RACHEL E. BELSKY	\$728.02			X	
SUB-TOTAL - COUNT			18	3	27	10
SUB-TOTAL AMOUNT		\$37,854.23	\$29,268.95	\$14,229.93	\$37,854.23	\$9,687.72
EMPLOYEE - COUNT			4	3	0	3
EMPLOYEE - AMOUNT		\$1,849.20	\$1,202.35	\$937.25	\$0.00	\$9,856.68
TOTAL COUNT			22	6	27	13
TOTAL AMOUNT		\$39,703.43	\$30,471.30	\$15,167.18	\$37,854.23	\$19,544.40
TOTAL FY 2001 AND 2002 - COUNT			69	10	37	19
TOTAL FY 2001 AND 2002 - AMOUNT		\$91,842.68	\$63,499.53	\$19,606.66	\$41,660.51	\$24,316.59
MOBILE TELEPHONE						
FY 2001						
6/30/01	06/01 ACCR. VERIZON WIRELESS	\$69.61	X		X	
6/30/01	06/01 ACCR. VERIZON WIRELESS	\$97.08	X		X	
6/30/01	06/01 ACCR. VERIZON WIRELESS	\$508.40	X		X	
6/30/01	LUCY PALACIOS	\$36.83	X		X	
4/26/01	MOTOROLA INC	\$511.86	X			
11/30/00	PAGING NETWORK OF NEW YORK	\$38.95	X		X	
11/30/00	PAGING NETWORK OF NEW YORK	\$166.05	X		X	
11/30/00	PETTY CASH	\$14.14	X		X	
1/31/01	VERIZON WIRELESS	\$30.24	X		X	
10/31/00	VOICESTREAM WIRELESS	\$143.88	X		X	
6/6/01	SKYTEL	\$253.32	X		X	
2/28/01	SKYTEL	\$375.45	X		X	
TOTAL COUNT			12	0	11	0
TOTAL AMOUNT		\$2,245.81	\$2,245.81	\$0.00	\$1,733.95	\$0.00
FY 2002						
6/30/02	ARCH WIRELESS	\$127.00	X		X	
1/31/02	RENT A PHONE	\$24.99	X			
10/31/01	VERIZON WIRELESS	\$305.23	X			
3/26/02	WEB LINK WIRELESS	\$6.50	X			
7/31/01	RENT A PHONE	\$486.67	X		X	
5/31/02	RENT A PHONE	\$240.27	X			
4/16/02	RENT A PHONE	\$24.99	X			
2/28/02	WEB LINK WIRELESS	\$13.00	X			
4/9/02	ARCH WIRELESS	\$37.95	X			
5/29/02	VERIZON WIRELESS	\$87.02	X			
12/13/01	SKYTEL	\$293.17	X		X	

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Date	Vendor/Payee	Expense Amount	Questionable Expenses	Original Receipts/ Invoices Missing	Voucher #, purpose missing on checks	Prior approval for travel not obtained
11/30/01	SKYTEL	\$319.59	X		X	
TOTAL COUNT			12	0	4	0
TOTAL AMOUNT		\$1,966.38	\$1,966.38	\$0.00	\$1,226.43	\$0.00
TOTAL FY 2001 AND 2002 - COUNT			24	0	15	0
TOTAL FY 2001 AND 2002 - AMOUNT		\$4,212.19	\$4,212.19	\$0.00	\$2,960.38	\$0.00
CONSULTING EXPENSES						
FY 2001						
4/24/01	CRAWFORD MILLS	\$750.00				
4/26/01	CRAWFORD MILLS	\$750.00				
4/24/01	ELIZABETTA SAVIGNI ULMNN	\$1,400.00				
5/14/01	JOHN MCNAMARA	\$3,873.75				
5/31/01	JOHN MCNAMARA	\$3,873.75				
5/14/01	JOSH GLANTZ	\$7,000.00				
5/31/01	JOSH GLANTZ	\$7,000.00				
6/26/01	JOSH GLANTZ	-\$7,000.00				
5/14/01	NEW YORK BUSINESS FORUMS INC	\$75,000.00				
5/31/01	NEW YORK BUSINESS FORUMS INC	\$45,000.00				
3/31/01	Reclass Carlo Marini exp 3/0	\$22,850.00		X		
6/30/01	VIRTUAL EUROPEAN OFFICE	\$33,508.58		X		
TOTAL COUNT			0	2	0	0
TOTAL AMOUNT		\$194,006.08	\$0.00	\$56,358.58	\$0.00	\$0.00
FY 2002						
10/31/01	CASEY ILSUM KIM	\$2,500.00				
11/16/01	CASEY ILSUM KIM	-\$2,500.00				
8/29/01	ILSUN CASEY KIM	\$1,071.69			X	
7/5/01	JOHN MCNAMARA	\$3,873.75			X	
7/31/01	JOHN MCNAMARA	\$3,873.75			X	
12/31/01	MATHESON INTERACTIVE	\$925.00			X	
12/31/01	MATHESON INTERACTIVE	\$925.00			X	
7/5/01	NEW YORK BUSINESS FORUMS INC	\$80,000.00			X	
7/26/01	NEW YORK BUSINESS FORUMS INC	\$50,000.00			X	
7/31/01	VIRTUAL EUROPEAN OFFICE	\$10,200.00		X	X	
8/1/01	VIRTUAL EUROPEAN OFFICE	\$801.36		X	X	
3/21/02	VIRTUAL EUROPEAN OFFICE	\$72,060.00		X	X	
5/31/02	VIRTUAL EUROPEAN OFFICE	\$10,435.14		X	X	
TOTAL COUNT			0	4	11	0
TOTAL AMOUNT		\$234,165.69	\$0.00	\$93,496.50	\$234,165.69	\$0.00
TOTAL FY 2001 AND 2002 - COUNT			0	6	11	0
TOTAL FY 2001 AND 2002 - AMOUNT		\$428,171.77	\$0.00	\$149,855.08	\$234,165.69	\$0.00
CORPORATE EXPENSES						
FY 2001						
7/31/00	EXP. 7/00 PICNIC	\$4,847.96	X		X	
10/31/00	EAGLE SPECIALTIES CO	\$3,070.00			X	

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12/5/00	NY CORP BASKETBALL LEAGUE	\$2,240.00	X		X	
2/22/01	USTA/EASTERN METRO REGION	\$1,900.00	X	X	X	
1/31/01	FINE & SCHAPIRO	\$1,700.49	X	X	X	
12/31/00	AMERICAN EXPRESS	\$1,658.50	X		X	
2/22/01	YORKVILLE SPORTS ASSOC.	\$1,605.00	X	X	X	
1/31/01	BREWBAKERS	\$1,562.50	X		X	
3/31/01	MAURY SATIN	\$1,244.16	X	X	X	
12/21/00	MAURY SATIN	\$1,165.08				
12/31/00	Recl Brewbaker fr D851	\$1,124.75	X		X	
6/10/01	FINE & SCHAPIRO	\$1,123.25	X	X	X	
9/30/00	MRS JAVA, LLC	\$1,122.50	X		X	
12/28/00	MAURY SATIN	\$1,100.80				
8/31/00	IAN T. SMITH	\$1,093.00			X	
11/30/00	MRS JAVA, LLC	\$1,038.20	X		X	
12/31/00	JOHN STREET FLORIST	\$405.00	X		X	
9/30/00	GALLS, INC	\$260.00				
1/31/01	MRS JAVA, LLC	\$192.00	X		X	
12/31/00	ARAMARK REFRESHMENT SVCS	\$140.00			X	
2/28/01	FRIENDLY PIZZERIA	\$108.00	X		X	
TOTAL COUNT			15	5	18	0
TOTAL AMOUNT		\$28,701.19	\$21,872.31	\$7,572.90	\$26,175.31	\$0.00
FY 2002						
3/28/02	BAY CHEVROLET	\$109,176.00				
10/31/01	EISNER BROS.	\$15,500.00	X		X	
1/15/02	14 WALL STREET RESTAURANT	\$11,221.88	X		X	
10/31/01	EISNER BROS.	\$8,903.00	X		X	
4/30/02	THE UNIVERSITY CLUB	\$8,497.04	X	X	X	
3/31/02	THE CAPTAIN'S KETCH	\$7,000.00	X		X	
11/12/01	EAGLE SPECIALTIES CO	\$6,822.00			X	
11/12/01	ASHBURNS, INC	\$6,000.00	X		X	
12/12/01	ALARMS INCORPORATED	\$5,200.00	X	X	X	
2/28/02	CARPET RESOURCES, LTD	\$4,033.00	X		X	
8/8/01	BACON'S MEDIA DIRECTORIES	\$2,095.00			X	
11/30/01	CENTURY TOWEL SUPPLY	\$845.74			X	
3/21/02	CAROUSEL BEVERAGES	\$644.00	X		X	
3/13/02	MRS JAVA, LLC	\$430.00	X		X	
5/31/02	JAY'S FLOWERS	\$287.00	X		X	
12/21/01	MAJESTIC PIZZA	\$250.00	X	X	X	
1/22/02	14 WALL STREET RESTAURANT	\$250.00	X		X	
5/9/02	CAROUSEL BEVERAGES	\$208.50	X		X	
5/30/02	POLAND SPRING WATER	\$154.75			X	
12/27/01	DEER PARK SPRING WATER	\$113.00			X	
TOTAL COUNT			14	3	19	0
TOTAL AMOUNT		\$78,454.91	\$68,342.42	\$13,947.04	\$78,454.91	\$0.00
TOTAL FY 2001 AND 2002 - COUNT			29	8	37	0

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Date	Vendor/Payee	Expense Amount	Questionable Expenses	Original Receipts/ Invoices Missing	Voucher #, purpose missing on checks	Prior approval for travel not obtained
TOTAL FY 2001 AND 2002- AMOUNT		\$107,156.10	\$90,214.73	\$21,519.94	\$104,630.22	\$0.00
TRANSPORTATION EQUIPMENT EXPENSES						
FY 2001						
7/6/00	NEW YORK BASKETBALL LEA	\$600.00	X		X	
9/30/00	Recl NYCBL to MISCELL EXP.	-\$600.00				
12/31/00	EAGLE SPECIALTIES CO	\$81.00			X	
12/31/00	MASUNE CO	\$79.15			X	
TOTAL COUNT			1	0	3	0
TOTAL AMOUNT		\$160.15	\$600.00	\$0.00	\$760.15	\$0.00
FY 2002						
3/31/02	Recls expense-correct G/L A/	\$109,176.00	X			
4/30/02	N.A.C. VAN & TRUCK INC	\$20,703.00	X			
TOTAL COUNT			2	0	0	0
TOTAL AMOUNT		\$129,879.00	\$129,879.00	\$0.00	\$0.00	\$0.00
TOTAL FY 2001 AND 2002 - COUNT			3	0	3	0
TOTAL FY 2001 AND 2002- AMOUNT		\$130,039.15	\$130,479.00	\$0.00	\$760.15	\$0.00
TOTAL ALL ACCOUNTS-COUNT (Note 1)						
			125	24	103	19
TOTAL ALL FINDINGS BY ACCOUNTS (Note 1)						
			\$288,405.45	\$190,981.68	\$384,176.95	\$24,316.59
Total of Sample Size for the 5 Accounts		\$761,421.89	38%	25%	50%	3%

** Payment of \$2,035.65 to Brewbaker's consisted of five invoices, all of which were delivered between the hours of 10:30 a.m. to 4:30 p.m..

Note 1: Excludes Miscellaneous Expense Account

NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION
CHECK REQUEST/PAYMENT VOUCHER

TO: ACCOUNTS PAYABLE

FROM: John Cirolia

Due

11/2

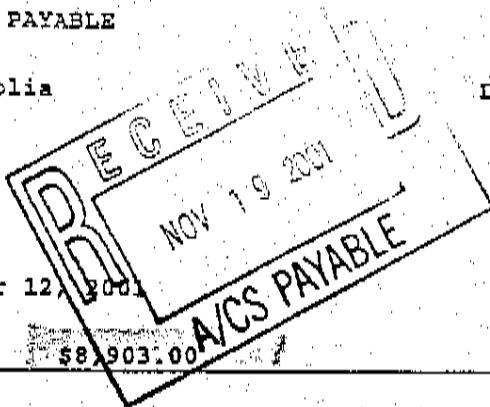
PROJECT:

CONTRACT NO:

DATE: November 12, 2001

AMOUNT OF CHECK:

\$8,903.00



CORP

Send check to payee.

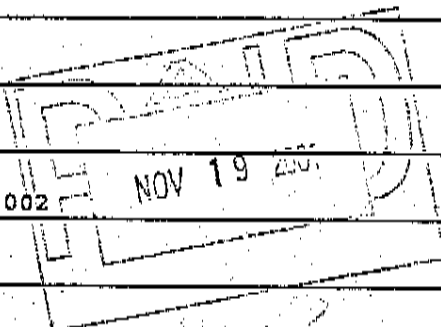
Deliver check to requester.

John Cirolia

PAYEE'S NAME: Eisner Bros.

PAYEE'S ADDRESS: 75 Essex Street

New York, New York 10002



PURPOSE: Business Related Expense

The price has been checked for reasonableness.

REQUESTED BY:

Fuzel Guerra

APPROVED BY:

John Cirolia

Contract Admin. Approval:

NOTE: Appropriate bill(s) must be attached with this request.

FOR ACCOUNTING USE ONLY

Division:

Fund Project:

823 Corporate Expense

E/L Acct. #:

A01-823-000-0000-532-003

Vendor#:

4560

Business Date:

10-31-01

Posted:

Check Amount:

84403.00

Check #:

054196

Check Date:

NOV 19 2001

Approved:

G22 1/3

NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION
CHECK REQUEST/PAYMENT VOUCHER

EXHIBIT 1
PAGE 2 OF 7

TO: ACCOUNTS PAYABLE

FROM: John Cirolia

Bus

PROJECT:

CONTRACT NO:

DATE: November 12, 2001

AMOUNT OF CHECK: \$15,500.00

RECEIVED
NOV 19 2001
A/C'S PAYABLE

11/6

Send check to payee.

Deliver check
John Cirolia

PAYEE'S NAME: Eisner Bros.

PAYEE'S ADDRESS: 75 Essex Street

New York, New York 10002

NOV 19 2001

24403.00

PURPOSE: Business Related Expense

(See next
vch.)

The price has been checked for reasonableness.

REQUESTED BY:

Fuzel Suarez

APPROVED BY:

John V Cirolia

Contract Admin. Approval:

NB: Appropriate bill(s) must be attached with this request.

FOR ACCOUNTING USE ONLY

Division:

Fund Project:

Corporate
823 - Business Expense

G/L Acct. #:

823
A01-1000-0000-532-003

Vendor#:

4560

Business Date:

10-31-01

Posted:

Check Amount:

24403.00

Check #:

05496

Check Date:

NOV 19 2001

Approved:

2 PMTS (\$15,500 + \$8,903)

5983-54196-1

Obligation	Description	Contract/Invoice#	P.O.	Amount
43974	BUSINESS RELATED EXPENSE 09/01			15,500.00
43975	BUSINESS RELATED EXPENSE 10/01			8,903.00
	*** Total ***			24,403.00

Check Date: 11/19/2001

Vendor: 4560

EISNER BROS.

TAX ID# 11-321 245

NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION
CHECK REQUEST/PAYMENT VOUCHER

TO: ACCOUNTS PAYABLE

FROM: John Cirolia

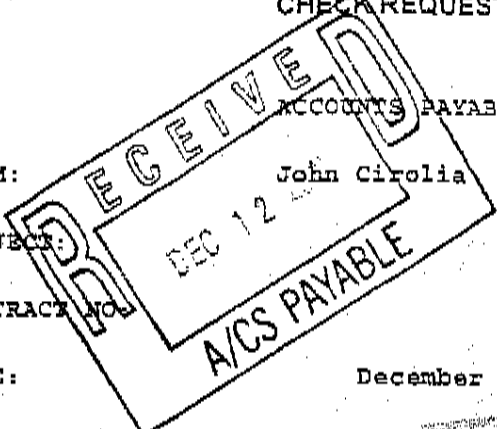
Due 12/17/01

PROJECT:

CONTRACT NO:

DATE: December 12, 2001

AMOUNT OF CHECK: \$5,200.00



30

[] Send check to payee. [X] Deliver check to requester.

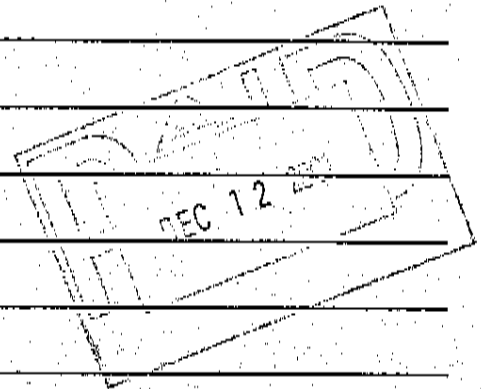
John Cirolia

PAYEE'S NAME: Alarms Incorporated

PAYEE'S ADDRESS: 25 Ohio Ave.

Massapequa, N.Y. 11758

PURPOSE: Business Expense



The price has been checked for reasonableness.

REQUESTED BY: [Signature] APPROVED BY: [Signature]

Contract Admin. Approval:

NB: Appropriate bill(s) must be attached with this request.

FOR ACCOUNTING USE ONLY

Division:

Fund Project: Corporate Expense

G/L Acct. #: A01-823-000-0000-532-003

Vendor#: 6372 Business Date: 12-12-01

Posted: Check Amount: 5,200.00

Check #: 054547 Check Date: DEC 12 2001

Approved:

G28 1/3

6073-54547-1

Obligation	Description	Contract/Invoice#	P.O.	Amount
44415	BUSINESS EXPENSE *** Total ***			5,200.00 5,200.00

Check Date: 12/12/2001

Vendor: 6372

ALARMS INCORPORATED

NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION CHECK REQUEST/PAYMENT VOUCHER

TO: ACCOUNTS PAYABLE

FROM: Shakira Perez

PROJECT: Corp Expenses 530 003

CONTRACT NO.:

DATE: 7/11/03

AMOUNT OF CHECK: \$ ~~530.00~~ 125.15

Send check to payee. Deliver check to requester.

PAYER'S NAME: Fine & Schapiro

PAYER'S ADDRESS: 5100 8th Ave
Concourse Level
New York, NY 10018

PURPOSE:

The price has been checked for reasonableness.

REQUESTED BY: Shakira Perez

APPROVED BY: [Signature]

Contract Admin. Approval:

NB: Appropriate bill(s) must be attached with this request.

FOR ACCOUNTING USE ONLY

Division:

Fund/Project:

G/Y Acct #: 01 803 200 4001 530 003

Vendor #: 3500

Business Date:

Posted:

Check Amount: 125.15

Check No.: 052665

Check Date: Jul 13 2003

613/7

5651-52663-5

Obligation	Description	Contract/Invoice#	P.O.	Amount
41631	SERVICES 06/01-06/29/01 *** Total ***			1,123.25 1,123.25

Check Date: 07/13/2001

Vendor: 3540

FINE & SCHAPIRO

G13 7/7



New York City
Economic Development
Corporation

John V. Cirolia
Chief Financial and Administrative Officer

August 7, 2003

Mr. Greg Brooks, Deputy Comptroller
Policy, Audits, Accountability & Contracts
The City of New York
Office of the Comptroller
1 Centre Street – Room 530 South
New York, NY 10007-2341

**Re: Draft Audit Report on the Financial Practices of the
Economic Development Corporation
For "Other General Expenses"
Fiscal Years 2001 and 2002
Audit Number: FR03-120A**

Dear Mr. Brooks:

We are very thankful to have the opportunity to comment on the findings and recommendations in the above stated draft report dated July 16, 2003 (the "Draft Report"). We agree with many of the recommendations, which as we stated in the exit conference, are already substantially incorporated into EDC's policies and procedures. Additionally, we are taking appropriate actions to implement those recommendations where we are in agreement with the findings.

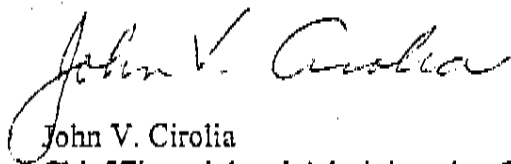
But although we agree with some of the audit findings, in many cases we found the Draft Report to contain material misstatements of facts due to misunderstandings of our policies and procedures. At the exit conference on June 20, 2003 and in subsequent correspondence, we brought these matters to the auditor's attention. However, it seems that neither our comments nor the documentation we provided were taken into consideration in the issuance of the Draft Report. We are therefore forwarding our comments on the information in the Draft Report that requires correction or deletion.

One important example: the "Introduction" section of the Draft Report incorrectly states on page 3 that transfers made to the City by EDC for fiscal years 2002 and 2001 were \$59,919,300 and \$38,164,891 respectively. This understates EDC's transfers to the City by \$14,390,015 and \$16,728,905 for fiscal years 2002 and 2001 respectively. Your office was advised of this at the exit conference. Therefore, the amounts in the Draft Report

should be increased to read \$74,309,315 and \$54,393,796 for fiscal years 2002 and 2001 respectively as reflected on page 7 of our Certified Financial Statements.

In the attachment to this letter, we provide our responses to the audit findings and recommendations.

Very truly yours,



John V. Cirolia
Chief Financial and Administrative Officer
Executive Vice President, Finance and Administration

Attachment

cc: Andrew M. Alper, President
Deo Singh, Controller
Ricardo A. Niles, Deputy Controller
Carolina Flores, Assistant Vice President

EDC's RESPONSE TO FINDINGS AND RECOMMENDATIONS**Responses to Audit Recommendations**

Recommendation #1 - "The Corporation should ensure that all expenses are reasonable, necessary, and in accordance with its contractual agreement with the City. In that regard, the Corporation should maintain appropriate documentation to support and justify the business nature of each expense".

Audit Response: The Corporation does ensure that all its expenses are reasonable, necessary and that all required supporting documentation is provided. During the course of the audit, we made available to the auditor supporting documentation in the form of invoices; purchase orders, where applicable; payment request vouchers approved by a Vice President or above, as indicated in our policies and procedures; as well as the related canceled checks. A description of the business purpose, though not on the face of the check, is reflected on the check stub and on the payment request voucher. We are confident that our processes in this regard meet the intent in our contract with the City.

Recommendation #2 - "The Corporation should ensure that sole source agreements are awarded in accordance with the Master and Maritime Contracts."

Audit Response: We agree with the auditor's recommendation, however, we find one instance among the three stated in the draft report, where we did not have Deputy Mayor approval to engage in a sole source contract. This event of non-compliance relates to an agreement with Islum Casey Kim for \$5,129. With respect to the other two, which totaled \$35,495, we provided the auditors with the required Deputy Mayor memorandum authorizing the sole source agreements. We will continue to monitor our procurement processes to ensure full compliance with the provisions in our Master and Maritime contracts.

Recommendation #3 - "The Corporation should obtain bids and enter into formal contracts for purchases of goods and services exceeding \$25,000, in accordance with the Master Contract."

Audit Response: EDC has formal procurement policies and procedures in place and consistently makes every effort to adhere to the requirements in its contracts with the City. The circumstances that gave rise to this finding, involve hourly and/or fee for services type agreements where the initial intent was not to incur a sizeable expenditure, but over the course of two years, resulted in the amounts reported in this draft report. In the future, we will exercise more caution with these types of agreements, and will monitor the related expenses to ensure that we remain in full compliance with our procurement guidelines.

EDC's RESPONSE TO FINDINGS AND RECOMMENDATIONS

Recommendation #4 – The Corporation should ensure that all consultants are paid in accordance with their agreements. In that regard, the Corporation should obtain appropriate documentation, such as invoices, timesheets, receipts, and cancelled checks, before approving payments.

Audit Response: We make every effort to insure that consultant payments are made in accordance with their agreements. We disagree with your interpretation of the Virtual European Office contract with EDC. We provided your office with appropriate documentation, including 12 approved invoices (one for each month of service performed under the contract), which accounted for \$120,000 of the \$124,082 the auditors cited, clearly describing the specific month for which services were performed and containing a listing of all out-of-pocket expenses incurred.

Recommendation #5 – The Corporation should ensure that all meals and travel expenses are approved in accordance with the Travel and Meals Policy 8.4.

Audit Response: The Corporation has a clear policy regarding reimbursement for meals and travel expenses. This policy is enforced and additional standards have been set in place to ensure full compliance.

Recommendation #6 – The Corporation should ensure all checks contain a voucher number or other indication of the purpose of the payment.

Audit Response: We disagree with the auditor's findings and recommendation in light of existing procedures to that effect.

We are confident that our policies and procedures meet the intent and requirements of the Master Contract. EDC's check stub contains a description field where the summarized purpose for payment is included. Additionally, the check stub incorporates reference fields for contract, invoice, purchase order, and obligation numbers. We can track transactions and payments to our accounting system or to our files by reference to any of these fields. Our internal control objectives and related control activities, in this regard, have been tested by our independent auditors, and have resulted in no material reportable conditions over the years.

Recommendation #7 – The Corporation should ensure that original invoices are maintained to support all payments. If original documents were lost, a memorandum should be attached to the voucher giving full explanation of the circumstances.

EDC's RESPONSE TO FINDINGS AND RECOMMENDATIONS

Audit Response: This finding is the result of a misapplication of our policies and procedures. In fact, 96.5% of the payments cited in this finding were made properly. Only 3.5% or \$6,621 of the \$190,982 relates to employee reimbursement, where the provisions of Reimbursement Policy 8.1 apply. Again, this misapplication of Policy 8.1 was brought up at the exit conference but remained in the final report.

Recommendation #8 – The Corporation should submit appropriate documentation for consulting contracts to the Deputy Mayor for approval.

Audit Response: As stated in our response to Recommendation #2, we agree, however, we find one instance among the three stated in the Draft Report, where we did not have the required Deputy Mayor approval to engage in a sole source contract.

Regarding the sole source contracts with Josh Glantz and John McNamara & Associates related the NYC Venture Capital Conference & Showcase 2001, we forwarded to your office a copy of the approved memorandum signed by the Deputy Mayor, which reads as follows: "EDC proposes to enter into (1) a consulting agreement with New York Business Forums Inc. for conference organization and support services, (2) a contract with the New York Marriott Marquis Hotel or an affiliated entity for conference space and catering services, and (3) such other agreements as may be necessary and appropriate in connection with EDC's hosting the Sixth Annual New York City Venture Capital Conference & Showcase." The consulting work performed by Josh Glantz and John McNamara is covered under this Deputy Mayor approval memorandum.

Recommendation #9 – The Corporation should solicit bids for all purchases that exceed \$2,500. The Corporation should document its efforts to obtain bids in the contract files.

Audit Response: The Corporation has formal procurement policies and procedures in place and, as a matter of practice, routinely solicits bids for purchases over \$2,500. The examples cited in this finding represent a very small percentage of EDC's total procurements. To ensure complete compliance, we have taken steps to enforce the documentation of these efforts.

Recommendation #10 – The Corporation should ensure that all consultant contracts over \$10,000 are published in the City Records, as required by the Master Contract.

Audit Responses: We agree and will implement this recommendation immediately.

EDC's RESPONSE TO FINDINGS AND RECOMMENDATIONS

Recommendation #11 – The Corporation should set up and use a separate account and cease using its Miscellaneous Expense account for all reclassifications. The Corporation should then monitor the new account to ensure that each entry is correct and can be documented.

Audit Response: Due to a coding error, the Miscellaneous Expense account was overstated by \$367,084 and the Section 208 Expense account was understated by the same amount. The net effect of this “misstatement” is zero since these accounts are combined and reported under the “Operating Expenses” caption of the Statement of Revenue and Expenses. Effective August 2003, we will incorporate the use of an “Inter-fund Clearing Account” to ensure that no balances remain when these transfers occur.

Recommendation #12 – The Corporation should ensure that all write-offs claimed are justified, documented, and detail the validity of the expense to comply with its Master Contract.

Audit Response: The write-off referenced in this finding was justified based on Generally Accepted Accounting Principles (“GAAP”), which require that receivables be reported on the Balance Sheet at their net realizable value.

We provided your office with all relevant records supporting the write-off of this receivable, which was on our books since fiscal year 1998. Our decision to write-off this receivable was based on its aging status (five years) as well as on communication with the debtor regarding its uncollectibility. All of this documentation was shared with your office. After five years of attempted collection efforts, we justifiably concluded that a write-off was the appropriate GAAP treatment.

Recommendation #13 – The Corporation should ensure that it does not pay sales tax. The Corporation should ensure that employees present certificates of tax exemption for purchases and lodging within New York State.

Audit Response: We agree and will increase our compliance efforts in this area. The Corporation regularly issues sales tax exemption notification (Form ST-119.1 - Exempt Organization Certificate) to our staff engaging in purchases of goods and services on behalf of the Corporation. We will increase our efforts in communicating and enforcing this requirement in the future.

Recommendation #14 – The Corporation should ensure that employee use of car services is in compliance with the Travel and Meal policy 8.4.

EDC's RESPONSE TO FINDINGS AND RECOMMENDATIONS

Audit Response: We agree with the recommendation, however, the case in question involves an exception to policy. The circumstance involves an employee who, due to medical reasons, was temporarily unable to use public transportation to commute to and from work. Given her assignment, the employee's presence in the office was considered critical and a senior manager authorized an exception to policy.

Responses to Selected Draft Report Audit Findings

Audit Finding: The Corporation was unable to provide documentation showing that the items or services paid for were reasonable, justified, and supported with adequate documentation in accordance the Corporation's Master Contract.

Audit Response: Regarding the following expenses cited in the Draft Report, we believe they were, in fact, reasonable and justified. The amount spent on the 100 engraved "keys for the City" was meant for ceremonial use to help promote the City as a vibrant economic entity. We believe the purpose of not bidding out a security system for the Mayor's Office speaks for itself in a post-9/11 environment. Regarding the costs incurred in hotel accommodations for a senior City official, it should be noted that this official was required to be close to Ground Zero 24 hours per day for the first several weeks after the attack. Therefore, the business purpose of these purchases is self-evident in the context of the emergency situation that existed at that time.

Regarding the reasonableness of payments to 14 Wall Street and Captain's Ketch: the prior practice of corporate contributions toward outside employee events was modified last fiscal year (the year after the audit period) and reduced to \$200 per event. We agree with the Draft Report finding and this Fiscal Year this practice was discontinued entirely.

Regarding the mobile phone and pagers expense: only 1% or \$36.83 or applies under the employee reimbursement provisions of Policy 8.4, which is cited as the basis for this finding. The remaining 99% was paid directly to the cell phone or pager provider pursuant existing agreements. These were vendor payments, not employee reimbursements. Furthermore, the \$36.83 was reimbursed to the employee for the use of the personal cell phone while on business travel, because it was more economical to use a cell phone than a hotel telephone. This finding was brought to your office's attention at the exit conference and should have been excluded from the Draft Report.

Regarding the justification of payments for corporate basketball and tennis sponsorships as well as for pantry upkeep: it should be noted that EDC employees put in substantial hours beyond the regular 9-to-5 schedule, and do not receive many of the benefits available to their City counterparts, most notably "comp time". We believe the small amount spent to foster a sense of collegiality and teamwork promotes employee morale and productivity, and is a justifiable business expense.

EDC's RESPONSE TO FINDINGS AND RECOMMENDATIONS

Regarding justification for the reimbursement to employee for business travel: at the exit conference and in a subsequent communication, we submitted to your office a copy of the brochure for the May 19-22, 2002 International Council of Shopping Centers Convention ("ICSC"), as well as an explanation of the business purpose. EDC staff always attends the ICSC Annual Convention because one of our primary missions is to revitalize commercial/retail districts. In our opinion this finding should have been removed.