



City of New York

OFFICE OF THE COMPTROLLER

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COMPTROLLER



FINANCIAL AUDIT

Tina Kim

Deputy Comptroller for Audit

Audit Report on the Compliance of
Carnegie Hall Corporation's Special
Program Fund with Its City Lease
Agreement

FN12-089A

January 18, 2013

<http://comptroller.nyc.gov>



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

John C. Liu
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January 18, 2013

To the Residents of the City of New York:

My office has audited the compliance of Carnegie Hall Corporation's (the Corporation) Special Program Fund with its City lease agreement. The Agreement allows the Corporation, in lieu of rent, to set aside \$183,600 into a Special Program Fund (SPF) to be used exclusively to fund high quality public services programs. City public funds allocated to assist in Carnegie Hall's operations are provided through the New York City Department of Cultural Affairs (DCA).

The audit found that DCA did not ensure the Corporation submitted proposed programs and an annual budget for approval and did not ensure the Corporation distributed the neighborhood concerts equitably within the five boroughs and monitored the level of attendance.

Further, the Department of Citywide Administrative Services (DCAS) did not renegotiate the terms of the lease and reassess the amount of the public service contribution after the Carnegie Hall Studio Towers were reclassified from residential to exclusively commercial use including music education, rehearsal space, and event space. Despite substantial changes in the architectural integrity of the premises, DCAS did not seek to renegotiate the lease terms that would have allowed for a proportionate increase in SPF contributions to the City.

The results of the audit have been discussed with Corporation, DCA, and DCAS officials, and their comments have been considered in preparing this report. Their complete written responses are attached to this report.

If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read 'JCL', with a period at the end.

John C. Liu

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

Audit Report on the Compliance of Carnegie Hall Corporation's Special Program Fund with Its City Lease Agreement

FN12-089A

AUDIT REPORT IN BRIEF

In 1960, after acquiring Carnegie Hall (CH), the City of New York entered into a lease agreement with the Carnegie Hall Corporation (the Corporation) to operate the CH Premises consisting of the land, together with all buildings and improvements and other rights. Later in 1987, when the City, through the Department of General Services, currently known as the Department of Citywide Administrative Services (DCAS), amended the lease to include the development of the adjacent Carnegie Hall Tower¹, it negotiated the rental amount that the Corporation would be required to pay the City. In so doing, the City allowed the Corporation, in lieu of rent, to set aside \$183,600 into a Special Program Fund (SPF) to be used exclusively to fund high quality public services programs. City public funds allocated to assist in CH's operations are provided through the New York City Department of Cultural Affairs (DCA).

Under the lease agreement, the Corporation is required to submit proposed programs and an annual budget to DCA for approval. Further, the Corporation is required to designate a separate bank account for the SPF and obtain DCA's approval for any withdrawals of grants, contributions, or other payments to the SPF. Additionally, the Corporation is required to maintain records of payments into or charges against the SPF.

¹ In 1987, the City allowed the Corporation to develop the Carnegie Hall Tower on the adjacent land (the Tower Property). Consequently, the City and the Corporation entered a "restated" Master Lease, which covers the Carnegie Hall building and the Tower Property. The requirements of this aspect of the Master lease are being addressed in a separate audit report (FN12-068A; Audit Report on the Carnegie Hall Corporation Compliance with Its City Lease Agreement, covering the Carnegie Hall Tower).

Audit Findings and Conclusion

Our review found that the Corporation maintained general records supporting the SPF-related activities. However, DCA did not ensure the Corporation complied with significant SPF requirements stated in Article 3 of its lease agreement with the City. Specifically, DCA did not ensure the Corporation submitted proposed programs and an annual budget for approval, did not ensure the Corporation distributed the neighborhood concerts equitably within the five boroughs and monitored the level of attendance, and did not maintain a separate bank account for the SPF. Without a proper approval process, DCA was unable to ensure the diversity of the programs provided and whether the programs were equitably distributed among the five boroughs and to benefit the intended population of the City.

Further, regarding another matter, DCAS did not renegotiate the terms of the CH lease and reassess the amount of the public service contribution after the Carnegie Hall Studio Towers were reclassified from residential to exclusively commercial use including music education, rehearsal space, and event space. In 2009, DCAS approved a proposed modification for the studio portion of the CH premises. The approved physical modification resulted in the reclassification of space from residential to exclusively commercial use. However, despite the substantial change in the architectural integrity of the premises, DCAS did not seek to renegotiate the lease terms that would have allowed for a proportionate increase in SPF contributions to the City. As the Carnegie Hall Studio Towers were repurposed to enhance the value of the premises, the City should reassess the lease terms to ascertain an equitable increase in its public service contribution.

Audit Recommendations

To address these issues, the audit recommends that DCA should ensure the Corporation:

- Submits proposed programs and an annual budget for approval.
- Diversifies the fund programs.
- Distributes the neighborhood concerts equitably within the five boroughs and attains a high level of attendance.
- Maintains a separate bank account for the SPF.

The audit recommends that DCAS should:

- Renegotiate an equitable increase in the City's public service contribution.

Agency Response

In its response, DCA stated that “the Draft Report contains a number of inaccuracies and mischaracterizations about the Carnegie Hall Corporation (‘Carnegie Hall’ or the ‘Hall’) and the Special Program Fund (the ‘Fund’).” Specifically, DCA stated, “The most troubling aspect of the first finding is the assertion that the Agency was required to guarantee equitable distribution of the *Neighborhood Concerts* within the five boroughs and monitor attendance levels as a means of ensuring that musical programming was ‘broad and diverse’ as required by Article 3.” DCA stated that “...this finding is largely inconsistent with the terms of the lease and immaterial to the public service that was successfully delivered by Carnegie Hall in FY 2010.”

We disagree. A lack of adequate Fund records precluded the DCA from properly monitoring Article 3's requirement for "broad and diverse" musical programming. If DCA had carried out the type of analysis that we conducted, it would have known that the Neighborhood Concert programs were falling short in attracting capacity audiences by almost 25 percent.

Additionally, DCA's inability in tracking actual expenses hindered its ability for measuring and determining whether the quantity and quality of Corporation programs was satisfactory.

DCA also disagreed that "DCAS should have renegotiated the terms of the public service contribution associated with the Fund in concert with its review of the Hall's renovation of its Studio Towers...", and deemed the report conclusion as "a fundamental misunderstanding of the City's partnership with Carnegie Hall and its not-for-profit mission. Contrary to the description in the Draft Report, the Studio Towers Project is intended to create additional spaces for its music-education programs and modernize its back stage to ensure that the Hall remains a destination for world-renowned artists and educators....Most important, however, is the marked increase in public service that will result from the additional space created by the Project....To the extent that the roof-top event space will generate revenue for the Hall through rentals and catered events, such revenue will be used toward not-for-profit operations and mission-driven programming. As a result, DCA does not deem an increase in Carnegie Hall's public service contribution to be necessary."

In its response, DCAS stated that "...DCAS believes that renegotiation of the lease in connection with the renovation is inconsistent with the public policy detailed heretofore. We therefore respectfully decline the recommendation to do so."

Despite DCA's and DCAS's disagreement, we maintain our position that the lease renegotiated in 1987 may need to be updated as a result of the Corporation's ability to enhance its revenue. Accordingly, it is our opinion that a sensible renegotiation be attempted.

INTRODUCTION

Background

In 1960, after acquiring Carnegie Hall (CH), the City of New York entered into a lease agreement with the Carnegie Hall Corporation (the Corporation) to operate the CH Premises consisting of the land, together with all buildings and improvements and other rights. Later in 1987, when the City, through the Department of General Services, currently known as the Department of Citywide Administrative Services (DCAS), amended the lease to include the development of the adjacent Carnegie Hall Tower, it negotiated the rental amount that the Corporation would be required to pay the City. In so doing, the City allowed the Corporation, in lieu of rent, to set aside \$183,600 into a Special Program Fund (SPF) to be used exclusively to fund high quality public services programs. City public funds allocated to assist in CH's operations are provided through the New York City Department of Cultural Affairs (DCA).

In 1995, DCA issued a letter to the Corporation outlining the four categories of expenditures allowed to be charged against the SPF and the budgetary and administrative procedures to be followed. Based on these guidelines, disbursements from the SPF are generally designated for the creation and enhancement of musical programs throughout New York City. Accordingly, the Corporation was directed to spend \$83,600 (45.5 percent) for a minimum of 35 Main Hall and Recital Hall events, \$50,000 (27.2 percent) for a minimum of 30 neighborhood concerts, \$15,000 (8.3 percent) for free tickets, and \$35,000 (19 percent) in CH's administrative costs.

Under the lease agreement, the Corporation is required to submit proposed programs and an annual budget to DCA for approval. Further, the Corporation is required to designate a separate bank account for the SPF and obtain DCA's approval for any withdrawals of grants, contributions, or other payments to the SPF. Additionally, the Corporation is required to maintain records of payments into or charges against the SPF.

During Fiscal Year 2010, the Corporation allocated the required \$183,600 to the SPF and reported total disbursements of \$352,660 for 48 neighborhood concerts, with the remaining balance of \$168,880 funded by its general fund.

Objective

The objective of this audit was to determine whether the Carnegie Hall Corporation complied with the Special Program Fund provisions of its City lease agreement.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit was Fiscal Year 2010 (July 1, 2009 - June 30, 2010). Please refer to the

Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with the Corporation, DCA, and DCAS officials during and at the conclusion of this audit. A preliminary draft report was sent to the officials and discussed at an exit conference held on October 4, 2012. On November 16, 2012, we submitted a draft report to the officials with a request for comments. We received written responses from Corporation officials on November 30, 2012, and from DCA and DCAS officials on December 3, 2012.

In its response, DCA stated that “the Draft Report contains a number of inaccuracies and mischaracterizations about the Carnegie Hall Corporation (‘Carnegie Hall’ or the ‘Hall’) and the Special Program Fund (the ‘Fund’).” Specifically, DCA stated, “The most troubling aspect of the first finding is the assertion that the Agency was required to guarantee equitable distribution of the *Neighborhood Concerts* within the five boroughs and monitor attendance levels as a means of ensuring that musical programming was ‘broad and diverse’ as required by Article 3.” DCA stated that “...this finding is largely inconsistent with the terms of the lease and immaterial to the public service that was successfully delivered by Carnegie Hall in FY 2010.”

We disagree. A lack of adequate Fund records precluded the DCA from properly monitoring Article 3’s requirement for “broad and diverse” musical programming. If DCA had carried out the type of analysis that we conducted, it would have known that the Neighborhood Concert programs were falling short in attracting capacity audiences by almost 25 percent.

Additionally, DCA’s inability in tracking actual expenses hindered its ability for measuring and determining whether the quantity and quality of Corporation programs was satisfactory.

DCA also disagreed that “DCAS should have renegotiated the terms of the public service contribution associated with the Fund in concert with its review of the Hall’s renovation of its Studio Towers...”, and deemed the report conclusion as “a fundamental misunderstanding of the City’s partnership with Carnegie Hall and its not-for-profit mission. Contrary to the description in the Draft Report, the Studio Towers Project is intended to create additional spaces for its music-education programs and modernize its back stage to ensure that the Hall remains a destination for world-renowned artists and educators....Most important, however, is the marked increase in public service that will result from the additional space created by the Project....To the extent that the roof-top event space will generate revenue for the Hall through rentals and catered events, such revenue will be used toward not-for-profit operations and mission-driven programming. As a result, DCA does not deem an increase in Carnegie Hall’s public service contribution to be necessary.”

In its response, DCAS stated that “...DCAS believes that renegotiation of the lease in connection with the renovation is inconsistent with the public policy detailed heretofore. We therefore respectfully decline the recommendation to do so.”

The full text of the responses received from the Corporation, DCA, and DCAS are included as addenda to this report.

FINDINGS

Our review found that the Corporation maintained general records supporting the SPF-related activities. However, DCA did not ensure the Corporation complied with significant SPF requirements stated in Article 3 of its lease agreement with the City. Specifically, DCA did not ensure the Corporation submitted proposed programs and an annual budget for approval, did not ensure the Corporation distributed the neighborhood concerts equitably within the five boroughs and monitored the level of attendance, and did not maintain a separate bank account for the SPF. Without a proper approval process, DCA was unable to ensure the diversity of the programs provided and whether the programs were equitably distributed among the five boroughs and to benefit the intended population of the City.

Further, regarding another matter, DCAS did not renegotiate the terms of the CH lease and reassess the amount of the public service contribution after the Carnegie Hall Studio Towers were reclassified from residential to exclusively commercial use including music education, rehearsal space, and event space. In 2009, DCAS approved a proposed modification for the studio portion of the CH premises. The approved physical modification resulted in the reclassification of space from residential to exclusively commercial use. However, despite the substantial change in the architectural integrity of the premises, DCAS did not seek to renegotiate the lease terms that would have allowed for a proportionate increase in SPF contributions to the City. As the Carnegie Hall Studio Towers were repurposed to enhance the value of the premises, the City should reassess the lease terms to ascertain an equitable increase in its public service contribution.

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

DCA Did Not Ensure the Corporation Complied with Fund Requirements

DCA did not enforce the SPF requirements as stipulated in Article 3 of the CH lease. Specifically, DCA did not require the Corporation to submit proposed programs and an annual budget for approval, to ensure the musical programs adequately attracted a broad and diverse segment of the population of the City, and to keep a separate bank account for the SPF.

Did Not Require the Corporation to Submit Proposed Programs and an Annual Budget for Approval

DCA did not require the Corporation to submit proposed programs and an annual budget for approval. As a result, the Corporation discretionarily expended \$352,660 of the program fund for Fiscal Year 2010. Article 3(a) specifies that the Corporation is required to propose Special Programs, which are “high quality musical programs designed to attract a broad and diverse segment of the population of the City” to DCA for approval. Article 3(b) further requires the Corporation “to use the Fund solely for the purposes of the Special Programs and in accordance with a budget approved” by DCA. Accordingly, the budget should be submitted on or before May 15 preceding each fiscal year of the City. Article 3(c) expands the approval requirement to cover any withdrawals of grants, contributions, and other payments from the SPF. However, due to DCA’s lack of oversight, the Corporation discontinued submitting proposed programs, an annual budget, and specific fund disbursements for approval. Rather, the SPF’s spending depends on a budget approved by the Corporation’s Board of Trustees.

According to DCA's fund guidelines issued in 1995, the Corporation was directed to spend \$83,600 (45.5 percent) for a minimum of 35 Main Hall and Recital Hall events, \$50,000 (27.2 percent) for a minimum of 30 neighborhood concerts, \$15,000 (8.3 percent) for free tickets, and \$35,000 (19 percent) in CH's administrative costs. However, our review found that the Corporation discretionarily allotted \$352,660 in program funds solely for 48 neighborhood concerts. The amounts expended included \$135,000 (38.3 percent) in rent and \$217,660 (61.7 percent) in program costs. The Corporation also disproportionately increased the SPF's administrative costs from 19 percent to 38.3 percent. The excessive administrative costs resulted in the elimination of the Main Hall and Recital Hall events from the Special Programs.

DCA Response: In its response, DCA stated that "...this finding is largely inconsistent with the terms of the lease and immaterial to the public service that was successfully delivered by Carnegie Hall in FY 2010.

"While Article 3 of the lease identifies a program and budget as deliverables for the Hall in connection with the Fund, nothing in Article 3 dictates the format or method of submission. Thus, rather than insisting on a separate submission of these items, the Agency relied upon the Hall's Final Report, a comprehensive report reconciling all City expenditures and summarizing its cultural programming that could be compared against 32 other City-owned institutions; Board Materials presented to the Hall's Board of Trustees and on which the Agency is represented; and Promotional Materials created for the public which outline the Hall's free offerings, including *Neighborhood Concerts*. Given the depth and breadth of information maintained by the Agency with respect to Carnegie Hall, the submission of a program and budget for the Fund would have been duplicative and unnecessary.

"The most troubling aspect of the first finding is the assertion that the Agency was required to guarantee equitable distribution of the *Neighborhood Concerts* within the five boroughs and monitor attendance levels as a means of ensuring that musical programming was 'broad and diverse' as required by Article 3. This assertion is unsupported by the terms of the lease and the facts. First, Article 3 does not specify how musical programs supported by the Fund are to be distributed among the five boroughs, nor does it specify minimum attendance. Accordingly, DCA's oversight of the Fund was not required to and did not include monitoring borough distribution or attendance. Second, Carnegie Hall's FY 2010 *Neighborhood Concerts* met the 'broad and diverse' aspects of the public service requirement of Article 3 from both quantitative and qualitative standpoints."

Auditor Comment: The Corporation and DCA were remiss in carrying out the requirements of lease Article 3(b), which requires the submission to and approval by DCA, of a budget "on or before May 15th preceding each fiscal year." Consequently, and given the lack of adequate Fund records, DCA lacked a basis for measuring and determining whether the quantity and quality of Corporation programs was appropriate. If DCA had effectively monitored the program, it would have been able to consider whether attendance at the Neighborhood Concert programs, which fell short in attracting capacity audiences by almost 25 percent, was acceptable.

Did Not Ensure the Corporation Distributed the Neighborhood Concerts Equitably Within the Five Boroughs and Monitored the Level of Attendance

DCA did not properly monitor the SPF programs to ensure the Corporation equitably distributed the neighborhood concerts within the five boroughs to benefit the intended population of the City. As noted in Article 3(a), the musical programs should be designed to attract a broad and diverse segment of the population of the City. However, based on our analysis of 47 of the 48² neighborhood concerts provided by the SPF in FY 2010, the Corporation did not distribute the programs and the funding equitably throughout the City and did not attain a high level of attendance as detailed in the table.

TABLE

FY 2010 Neighborhood Concerts by Borough

Borough	Concerts		Artist Fees		Capacity		
	Count	Percentage	Amount	Percentage	Total	Filled	Unfilled
Manhattan	15	32%	\$ 37,010	32%	3,540	3,119	421
Brooklyn	12	26%	33,600	29%	3,604	3,252	352
Queens	13	27%	26,810	23%	3,525	2,342	1,183
Bronx	5	11%	12,600	11%	830	760	70
Staten Island	2	4%	6,000	5%	1,360	255	1,105
Total	47	100%	\$116,020	100%	12,859	9,728	3,131

As noted in the table, the majority of the concerts were performed in Manhattan, Brooklyn, and Queens. While Manhattan and Brooklyn each took the largest share (approximately 30 percent each) of the neighborhood concerts' funding, Staten Island and the Bronx shared only 5 and 11 percents, respectively. In addition, the overall attendance of these 47 concerts was at least 3,131— or 24.35 percent below the total capacity of 12,859. In this regard, DCA lacked the adequate oversight to ensure these musical programs were equitably distributed throughout the five boroughs. Consequently, these free concerts resulting from the SPF may not have attracted a broad and diverse segment of the population of the City.

Did Not Require the Corporation to Keep a Separate Fund Account

DCA did not require the Corporation to keep a separate bank account for the SPF. According to Article 3(a) of the lease agreement, the Corporation is required to pay the rent amount of \$183,600 into an account designated for the SPF. However, the Corporation did not designate a separate bank account as required. Instead, the Corporation commingled the funds designated for the SPF. Because the activities of the SPF are restricted, they should be maintained separately to ensure the SPF meets its intended purpose. Accordingly, the Corporation should keep a separate account to monitor all the payments into and withdrawals from or charges against the SPF.

² One of the 48 concerts took place at a homeless shelter and the attendance record is unavailable.

Other Matter

DCAS Did Not Renegotiate the Terms of the Public Service Contribution

DCAS did not reassess CH's substantial physical alteration and the related potential benefits to the City. Consequently, it did not renegotiate an equitable increase in the City's public service contribution based on an assessment of the enhanced value derived from the Carnegie Hall Studio Towers renovation project. In 1960, the City originally negotiated the CH lease terms based on the initial premises use and revenue-generating potential. At that time, the CH Premises were composed of the music halls as well as approximately 170 studios that were largely used as artists' studios and residences. Under the terms of the 1987 renegotiated lease, the Corporation was required to provide public services valued at \$183,600 for use of the premises. In 2009, DCAS approved a proposed modification for the studio portion of the CH premises. The approved physical modification resulted in the reclassification of space from residential to exclusively commercial use including music education, rehearsal rooms, and event space. However, despite the substantial change in the architectural integrity of the premises, DCAS did not seek to renegotiate the lease terms that would have allowed for a proportionate increase in SPF contributions to the City. As Carnegie Hall Studio Towers were repurposed to enhance the value of the premises, the City should have reassessed the lease terms to determine an equitable increase in its public service contribution amount.

Neither CH's public service contribution nor its public service obligation for a minimum of 35 Main Hall and Recital Hall events, a minimum of 30 neighborhood concerts, and \$15,000 in free tickets has changed since 1987. For the audit period, the Corporation discretionarily allotted \$352,660 in program funds to provide 48 neighborhood concerts --reflecting the increased cost over time of meeting its service obligations. Accordingly, DCAS should have renegotiated the Corporation's payment in lieu of rent to reflect the significant change in premises use as well as the passage of time.

DCAS Response: "The Audit Report recommends that DCAS renegotiate the lease agreement between the City and Carnegie Hall in order to require Carnegie Hall to increase its Special Program Fund contribution. This recommendation reflects a fundamental public policy difference with the Auditors and this and past Administrations.

"In 1960, New York City purchased the Carnegie Hall building and premises in order to rescue the concert hall from demolition and ensure that its rich history and tradition of musical excellence would continue for future generations of New Yorkers and visitors to our City. Since that time, the City has worked with Carnegie Hall to support its not-for-profit mission through a public/private partnership because we fundamentally believe that institutions like Carnegie Hall enrich the fabric of life in the City of New York. To that end, in 1987, the City restated its lease agreement with Carnegie Hall to assist in providing financial stability through a dedicated revenue source from an office tower on a portion of the property adjacent to the Institution.

"The Auditors now suggest that DCAS' review of Carnegie Hall's plans to renovate the building for the purpose of expanding its mission-related programming ought to serve as a means for modifying or renegotiating the lease. Given Carnegie Hall's

public service commitment to the City which is so readily demonstrated by the Institution's programming, public outreach efforts, and reporting to the Department of Cultural Affairs, DCAS believes that renegotiation of the lease in connection with the renovation is inconsistent with the public policy detailed heretofore. We therefore respectfully decline the recommendation to do so."

DCA Response: "The Comptroller goes on to characterize the Studio Towers Project as a reclassification of residential space to 'exclusively commercial use' intended to 'enhance the value of the premises', Draft Report, p. 2, evidencing a fundamental misunderstanding of the City's partnership with Carnegie Hall and its not-for-profit mission.

"Contrary to the description in the Draft Report, the Studio Towers Project is intended to create additional spaces for its music-education programs and modernize its back stage to ensure that the Hall remains a destination for world-renowned artists and educators....

"Most important, however, is the marked increase in public service that will result from the additional space created by the Project. Among the uses slated for the new music rooms, rehearsal studios, and classrooms are a variety of educational activities for children; master classes and rehearsals for artists and ensembles; and professional development workshops for educators, teaching artists, and musicians who serve schools and community venues throughout the City. To the extent that the roof-top event space will generate revenue for the Hall through rentals and catered events, such revenue will be used toward not-for-profit operations and mission-driven programming. As a result, DCA does not deem an increase in Carnegie Hall's public service contribution to be necessary."

Auditor Comment: We recognize and appreciate the significant role that Carnegie Hall has played in the cultural affairs of the City. Given that recognition, we believe that the reclassification of the premises may have a considerable impact in enhancing the Hall's mission in providing public programming. Therefore, as part of its City oversight responsibilities, the Comptroller has an obligation to point out that the lease negotiated in 1987 may need to be updated as a result of the Corporation's ability to enhance its revenue as DCA noted in its response. Accordingly, even though DCA and DCAS disagree with our recommendation, it is our opinion that a sensible renegotiation be attempted.

RECOMMENDATIONS

To address these issues, the audit recommends that DCA should ensure the Corporation:

1. Submits proposed programs and an annual budget for approval.

DCA Response: “Disagree. Rather than demanding a superfluous list of programs and a budget for the Fund, the Agency will continue to rely upon Carnegie Hall’s Final Report, Board Materials, and Promotional Materials to determine whether the Fund’s public service obligation has been fulfilled by the Hall. For avoidance of doubt, this arrangement will be put in writing.”

Auditor Comment: As an oversight agency, DCA should adhere to the requirements stipulated in the City agreement to ensure the Corporation submits the proposed programs and an annual budget for approval. DCA should not discretionarily propose alternatives that are not consistent with the Fund administrative requirements under the lease.

2. Diversifies the fund programs.

DCA Response: “Disagree. As demonstrated by the Final Report, Board Materials, and Promotional Materials, the breadth and depth of the *Neighborhood Concerts* produced to date, have satisfied the requirements of Article 3 of the lease.”

Auditor Comment: We continue to recommend that DCA should take a proactive role in the determination of Fund use to ensure the diversity of the fund programs.

3. Distributes the neighborhood concerts equitably within the five boroughs and attains a high level of attendance.

DCA Response: “Disagree. This is no requirement in Article 3 of the lease that tasks the Agency with supervision of this kind.”

Auditor Comment: As noted in Article 3(a), the musical programs should be designed to attract a broad and diverse segment of the population of the City. As evidenced in DCA’s own 1995 letter to the Corporation, the former Commissioner also believed that “[i]n order to distribute free tickets to the broadest audience, Carnegie Hall will work through appropriate public and private agencies to assure equitable city-wide distribution ...” Therefore, we continue to recommend that DCA monitors the distribution and ensures neighborhood concerts are equitably provided within the five boroughs.

Further, as an oversight agency, DCA fails to recognize that a low attendance level may be a reflection of whether the musical programs are properly designed for the neighborhood.

4. Maintains a separate bank account for the SPF.

DCA Response: “Disagree. The Agency will continue to rely upon the Final Report, Board Materials, and Promotional Materials to assess Carnegie Hall’s fulfillment of the Fund’s public service obligation. If needed, the Agency will request further detail from

Carnegie Hall's general ledger on Fund-related expenditures. Again, for avoidance of doubt, this agreement will be put in writing."

Auditor Comment: Again, as an oversight agency, DCA should conform with the requirements stipulated in the City agreement to ensure the Corporation maintains a separate bank account for the SPF. DCA should not discretionarily employ alternative procedures that override the lease provisions.

The audit recommends that DCAS should:

5. Renegotiate an equitable increase in the City's public service contribution.

DCAS Response: "Given Carnegie Hall's public service commitment to the City which is so readily demonstrated by the Institution's programming, public outreach efforts, and reporting to the Department of Cultural Affairs, DCAS believes that renegotiation of the lease in connection with the renovation is inconsistent with the public policy detailed heretofore. We therefore respectfully decline the recommendation to do so."

Auditor Comment: Despite the Corporation's continual efforts in promoting public services, DCAS should recognize that the economic impact of the substantial change in Studio Towers' use as well as the passage of time since the 1987 lease amendment should warrant an opportunity for the City to renegotiate an equitable increase in the City's public service contribution.

Accordingly, even though DCAS disagrees with our recommendation, it is our opinion that a sensible renegotiation be attempted.

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit was Fiscal Year 2010 (July 1, 2009, through June 30, 2010). To obtain an understanding of the Corporation's contractual obligations with the City, we reviewed the lease agreement between the Corporation and the City. We also reviewed DCA's guidelines issued in 1984 and 1995 for the use and administration of the SPF. In addition, we reviewed the Corporation's consolidated financial statements for the years ending June 30, 2009, and 2010, Statement of Revenues and Expenditures – Neighborhood Concerts for FY 2010, general ledger, concerts attendance report, artists' contracts, fund disbursement vouchers, CH's 2009-2010 Annual Report and Cultural Institutions Group (CIG) Final Report, organizational chart, and its Board of Trustees' minutes. We also conducted meetings with Corporation and DCA officials to obtain an understanding of their oversight of the program activities. We documented our understanding through written narratives.

To determine whether the Corporation properly disbursed funds from the SPF, we judgmentally selected to review the transactions of April 2010, the month with the highest artist fees, recorded in the expense accounts as over \$2,000. We further judgmentally selected to review additional transactions from certain expense accounts. Particularly, we reviewed the contracts, invoices, and other supporting documentation to ascertain the appropriateness of these disbursements. To determine whether these musical programs adequately attracted a broad and diverse segment of the population of the City, we reviewed the neighborhood concerts report and analyzed the performance locations and attendance records for 47 neighborhood concerts.

The result of the above tests, in conjunction with our other audit procedures, while not projected to the respective populations from which the samples were drawn, provided a reasonable basis to satisfy our audit objective.

CARNEGIE HALL

November 30, 2012

Ms. Tina Kim
Deputy Comptroller, Bureau of Audit
Office of the Comptroller
One Centre Street, Room 1100
New York, NY 10007

Re: Carnegie Hall Response to Draft Audit Report, FN12-089A

Dear Ms. Kim,

Thank you for the opportunity to respond to the Comptroller's Draft Audit Report FN12-089A, on compliance with the Special Program Fund within Carnegie Hall's lease agreement with the City of New York. We respectfully disagree with the report's conclusions in their entirety.

Carnegie Hall is engaged in a longstanding partnership with the City of New York, through its Department of Cultural Affairs in support of its mission to present extraordinary music and musicians; to bring the transformative power of music to the widest possible audience; to provide visionary education programs; and to foster the future of music through the cultivation of new works, artists, and audiences. Our broad-reaching music education and community programs and engaging online educational initiatives serve more than 350,000 people of all ages annually in New York, across the US, and around the world. In addition to extensive programs that serve public schools in all five boroughs, Carnegie Hall brings people from all walks of life together through music, presenting dozens of free *Neighborhood Concerts* each season in community venues city-wide and regularly making free musical experiences and workshops available to people in need in healthcare settings, correctional facilities, senior-service organizations, and homeless centers. The public service programs serving New Yorkers offered in FY10 are detailed in the following pages.

It is our view that in offering these extensive educational and community programs, Carnegie Hall has demonstrated its firm commitment to public service and successfully provided the programming envisioned by the Fund.

We look forward to the continued opportunity to work with our partners in government to offer New Yorkers access to extraordinary music.

Yours sincerely,



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Weill Music Institute

Music Beyond Borders

The Weill Music Institute played an essential role in the journey of discovery that Carnegie Hall embarked upon in 2009–2010. Through its free community performances, its work with students and teachers, and its training workshops for young professionals with the world’s finest artists, WMI inspired more than 115,000 people in New York City and around the world—as well as an additional 65,000 people online—to explore the music and culture of other peoples, as well as their own.



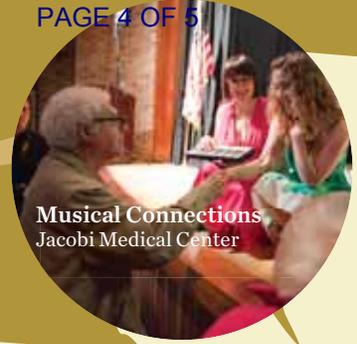
Musical Explorers | April 21



Music Blueprint
Model School
Harlem Stage



Musical Explorers
PS 161



Musical Connections
Jacobi Medical Center

Each dot on the map represents the site of a WMI program held during the 2009–2010 season.

- Community Partnership Program
- Cultural Exchange
- Family Concerts
- Global Encounters
- Link Up
- The McGraw Hill Companies CarnegieKids
- Music Blueprint Model School
- Musical Connections
- Musical Explorers
- Neighborhood Concerts
- Perelman American Roots

Musical Explorers, Music Blueprint Model School, and Cultural Exchange Mexico by Stefan Cohen; Link Up by Pete Checchia; Musical Connections by Chris Lee; Neighborhood Concert by Nan Melville.



Cultural Exchange Mexico
with students from Martin
Van Buren High School



Link Up
Carnegie Hall



Neighborhood
Concert
Snug Harbor
Cultural Center

Programs of the Weill Music Institute also reached teachers and students around the country and throughout the world during the 2009–2010 season. Connecticut, Hawaii, Louisiana, Michigan, Mississippi, Missouri, Nebraska, New Jersey, New York, Pennsylvania, Texas, and West Virginia | India and Mexico

Community and Family Programs

Neighborhood Concert Series Family Concerts

For more than 30 years, Carnegie Hall has brought free concerts for all ages to neighborhoods throughout the five boroughs of New York City in collaboration with museums, colleges, libraries, community centers, churches, and cultural organizations. Performances feature music reflecting both the diverse sounds of the city and Carnegie Hall's quality programming, including classical, jazz, world music, and more. In 2009–2010, the Weill Music Institute presented 45 Neighborhood Concerts.

Community Partnership Program

The Community Partnership Program is designed to embrace, encourage, and enhance a community's musical life through interactive performances and creative projects in collaboration with partner institutions. A centerpiece of this program has been Carnegie Hall's Community Sing events, in which artists invite audience members to draw on their own musical capacity and join their ensemble for an evening. In 2009–2010, five Community Sings took place, featuring Take 6, Lila Downs, Songs of Solomon, Young People's Chorus of New York City, and Fisk Jubilee Singers.

Musical Connections

Musical Connections addresses the needs of people dealing with challenging social and emotional circumstances by providing free musical performances, workshops, and residencies in homeless shelters, correctional facilities, healthcare facilities, and elderly care centers in New York City. As part of the program, selected artists receive regular Professional Development sessions to support them in creating meaningful musical and human connections through their performances. In 2009–2010 (the program's pilot year), there were 55 events including 51 concerts, two creative projects in two juvenile detention facilities, a six-month-long songwriting residency at a homeless shelter, and a Professional Development Day for staff working in homeless shelters.

November 15, 2009

Zankel

Falu

Falguni Shah, Vocalist
Gaurav Shah, Bansuri,
Harmonium, and Vocals
Soumya Chatterjee, Violin
Aditya Kalyanpur, Tabla
Mark Tewarson, Guitar
Special appearance by
John Popper, Harmonica

December 19, 2009

Stern/Perelman

**The New York Pops:
The Polar Express**

John Morris Russell, Conductor
John Tartaglia, Narrator
Young People's Chorus of
New York City
Francisco J. Núñez, Artistic
Director

March 27, 2010 | Zankel

Time for Three

Zachary De Pue, Violin
Nicolas Kendall, Violin
Ranaan Meyer, Double Bass

May 15, 2010 | Zankel

Polygraph Lounge

Mark Stewart
Rob Schwimmer

June 5, 2010 | Zankel

Ensemble ACJW

“We All Felt Free”

This season, specially selected musicians brought the sounds of Bach, Beethoven, hip-hop, and even Balkan brass music to over 5,500 people with more than 50 events in healthcare centers, correctional facilities, shelters, and elderly care facilities as part of the WMI pilot program Musical Connections.

The response was overwhelming. “For those few hours, we all felt free,” said an inmate at Bedford Hills Correctional Facility who heard Haitian singer Emeline Michel. A concert for children being treated at St. Vincent's Hospital “warmed the hearts of our patients and staff,” noted nurse manager Doret Edmonds.

Beyond Musical Connections, WMI continued its longstanding commitment to making the act of performing a central part of its free Neighborhood Concerts. At five Community Sing events, held in Manhattan and in the Bronx, the audience was a part of the action: Not only did attendees get a chance to speak with the artists, but they also learned music and sang along. During Neighborhood Concerts at Flushing Town Hall and the Abrons Arts Center at the Houston Street Center—part of *Ancient Paths, Modern Voices*—audience members got to try out the traditional instruments that members of the Hong Kong Chinese Orchestra demonstrated for them. These events were but a handful of the 45 Neighborhood Concerts that WMI presented in community venues throughout New York City's five boroughs.



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KATE D. LEVIN
Commissioner

December 3, 2012

H. Tina Kim
Deputy Comptroller, Bureau of Audit
Office of the Comptroller
One Centre Street, Room 1100
New York, NY 10007

Re: DCA Response to Draft Audit Report on the Compliance of the Carnegie Hall Corporation's Special Program Fund of Its City Lease Agreement, FN12-089A

Dear Ms. Kim,

Thank you for the opportunity to respond to the above-referenced Draft Audit Report ("Draft Report"). The Department of Cultural Affairs ("DCA" or the "Agency") believes that the Draft Report contains a number of inaccuracies and mischaracterizations about the Carnegie Hall Corporation ("Carnegie Hall" or the "Hall") and the Special Program Fund (the "Fund"). It is our hope that this response will clarify the obligations of the Agency and the Hall under the lease and provide context for the public service obligation that Carnegie far exceeded through the presentation of its *Neighborhood Concerts* in fiscal year 2010 ("FY 2010"), and will continue to surpass with more robust educational programming in an expanded facility.

Background

Carnegie Hall opened in 1891 with funding from industrialist Andrew Carnegie, but was purchased by the City of New York (the "City") in 1960 to prevent its demolition and ensure that its rich history and tradition of musical excellence would continue for future generations of New Yorkers and visitors to our City. In that same year, Carnegie Hall was established as a not-for-profit corporation by state legislation to operate the building as an auditorium facility for concerts and cultural activities. This marked the beginning of a public/private partnership that would sustain the institution for years to come. In keeping with that partnership, in 1986 the Hall was added to the Cultural Institutions Group or CIG – the group of City-owned cultural institutions (now numbering 33) that receive a City subsidy toward operations in exchange for mission-related public programming and maintenance of the City's real property. The City's subsidy represents less than 2% of Carnegie Hall's annual operating budget.

City Lease and the Fund

In 1987, the City amended and restated Carnegie Hall's lease to facilitate the construction of an office tower (the "Tower") adjacent the Hall by a private party that would become Carnegie Hall's subtenant and provide a dedicated source of revenue to further the Hall's mission. The lease prescribes that, in lieu of paying \$183,600 in rent to the City for its building, Carnegie Hall shall pay such sums into a separate account for the Fund for the purpose of providing "high quality musical programs designed to attract a broad and diverse segment of the population of the City, and for such other purposes as may be approved by the Agency or any successor agency." City Lease, Article 3(a). The lease further prescribes that Carnegie Hall propose programming and a budget for the Agency's approval in connection with the Fund and permits the addition of other grants, contributions or payments to be added to the Fund so long as the funds are withdrawn with the Agency's approval. See City Lease, Article 3(b) and (c).

For a number years, the Agency issued letters ("SPF Letters") to the Hall's Executive and Artistic Director setting forth procedures for the use and administration of the Fund and connecting the Fund with public programming that Carnegie Hall planned to produce in the upcoming fiscal year. The last SPF Letter issued to the Hall was dated July 1, 1995 (the "FY96 SPF Letter") and outlined the following four categories of expenditures that could be charged to the Fund: (1) \$83,600 for a minimum of 35 Main Hall and Recital Hall events; (2) \$50,000 for a minimum of 30 neighborhood concerts; (3) \$15,000 for free tickets; and (4) \$35,000 for administrative costs.

By FY 2010, the year at issue in the Draft Report, the use and administration of the Fund had changed in two ways. First, the Agency and the Hall chose to assign the Fund entirely to *Neighborhood Concerts*, Carnegie Hall's free programming series geared to audiences with limited access to live performance venues due to geographic and socioeconomic factors and other circumstances. *Neighborhood Concerts* are held at community venues including cultural institutions, schools, churches, libraries, and homeless shelters. The Hall's partnership with the Department of Homeless Services routinely results in hundreds of homeless attendees for the concert series and invitations are extended to residents of the City's public housing developments and seniors from the Department for the Aging affiliated Senior Centers.

Second, in an effort to streamline reporting on the Fund and provide a comparative analysis against other City-owned cultural institutions, the Agency did not issue an SPF Letter, but instead looked to sources of information it deemed more appropriate and reliable to administer the Fund: (i) the report submitted to the Agency by Carnegie Hall reconciling all City expenditures and summarizing its cultural programming (the "Final Report"); (ii) reports and budgets presented by the Hall's leadership at meetings of its Board of Trustees of which the Agency's Commissioner is an *ex officio* member ("Board Materials"); and (iii) promotional materials produced by the Hall regarding free public programming including *Neighborhood Concerts* ("Promotional Materials").

FY 2010 Neighborhood Concerts

In FY 2010, Carnegie Hall produced 48 *Neighborhood Concerts* at community venues throughout the five boroughs at a cost of \$352,660, 18 more concerts than required by the terms of the FY96 SPF Letter. Because the Fund's annual contribution of \$183,600 was insufficient to cover all expenses for the concert series, Carnegie Hall allocated \$168,880 from its general fund to cover the balance. Indeed, program costs alone for *Neighborhood Concerts* in FY 2010 were \$217,660.

In addition, with dollars from its general fund, Carnegie Hall presented *Musical Connections*, a free concert series designed for audiences facing challenging circumstances, often in some of the City's poorest neighborhoods and public institutions including hospitals and correctional facilities; the *Community Partnership Program*, a series of free interactive concerts where audiences sing along in community venues; *Family Concerts*, a series of jazz, classical and world music concerts with a ticket price of \$9, along with hundreds of school programs, performances, exhibitions, lectures and workshops in its three performance spaces at the legendary hall.

Agency Response to Comptroller Findings

The Draft Report contains two findings to which the Agency must directly respond. First is the Comptroller's finding that DCA did not enforce the lease requirements associated with the Fund, namely: (i) the submission of proposed programs and a budget; (ii) ensuring that musical programs attracted a broad and diverse segment of the population; and (iii) the maintenance of a separate bank account. As set forth below, this finding is largely inconsistent with the terms of the lease and immaterial to the public service that was successfully delivered by Carnegie Hall in FY 2010.

While Article 3 of the lease identifies a program and budget as deliverables for the Hall in connection with the Fund, nothing in Article 3 dictates the format or method of submission. Thus, rather than insisting on a separate submission of these items, the Agency relied upon the Hall's Final Report, a comprehensive report reconciling all City expenditures and summarizing its cultural programming that could be compared against 32 other City-owned institutions; Board Materials presented to the Hall's Board of Trustees and on which the Agency is represented; and Promotional Materials created for the public which outline the Hall's free offerings, including *Neighborhood Concerts*. Given the depth and breadth of information maintained by the Agency with respect to Carnegie Hall, the submission of a program and budget for the Fund would have been duplicative and unnecessary.

The most troubling aspect of the first finding is the assertion that the Agency was required to guarantee equitable distribution of the *Neighborhood Concerts* within the five boroughs and monitor attendance levels as a means of ensuring that musical programming was "broad and diverse" as required by Article 3. This assertion is unsupported by the terms of the lease and the facts. First, Article 3 does not specify how musical programs supported by the Fund are to be distributed among the five boroughs, nor does it specify minimum attendance. Accordingly, DCA's oversight of the Fund was not required to and did not include monitoring borough distribution or attendance.

Second, Carnegie Hall's FY 2010 *Neighborhood Concerts* met the "broad and diverse" aspects of the public service requirement of Article 3 from both quantitative and qualitative standpoints.

Although the Comptroller remarks in the Draft Report that fewer concerts occurred in Staten Island and the Bronx, two of the less populous boroughs, and that overall attendance did not reach capacity, the number of concerts presented in a given borough or the level attendance is not, in isolation, an appropriate gauge of whether the concert series satisfied the public service obligation. In choosing its concert venues, Carnegie Hall not only considered location, but whether the partnering venue had the appropriate structure and physical space for the kind of music presented, adequate seating capacity, a shared commitment to engaging broad audiences, and whether, in the absence of a partnership with Carnegie Hall, the venue could present the caliber of artist chosen to perform. In addition, Carnegie Hall cannot reasonably be required to guarantee attendance at *Neighborhood Concerts* in fulfillment of its lease obligation. Rather, the appropriate measurement is whether the goal of providing community residents unique opportunities to experience artists that offer an exceptional quality of musicianship at no cost, was actually met in FY 2010. Carnegie Hall's outreach efforts, the quality and variety of venues, and the extraordinary roster of performers that participated in the series make clear that Carnegie Hall exceeded its obligation.

Although the Hall did not maintain a separate account for the Fund, the absence of a dedicated account did not undermine Carnegie Hall's fulfillment of its obligations under Article 3 in FY 2010. Because the cost of the concert series exceeded the \$183,600 rent allocation, the Hall's accounting for its expenses from its general ledger provided more useful data on the categories of expenses required to produce the concert series. Notably, in a previous audit of Carnegie Hall's lease and its compliance with the requirements of the Fund for fiscal year 1998, the Comptroller relied upon Carnegie Hall's summary of expenses charged to the Fund, its general ledger account detail and underlying invoices, worksheets and payments - comparable information to what was provided to the Comptroller in connection with this current audit. See Audit Report FN00-114A, dated March 27, 2000. Further, in FY98 the Agency did not issue an SPF Letter, but relied instead on Carnegie Hall's Final Report, Board Materials and Promotional Materials to assess whether the obligations of the Fund were met. Nonetheless, the Comptroller concluded that the Hall's expenditure of \$210,164 for free and reduced-rate *Neighborhood Concerts* throughout the City's five boroughs complied with Article 3 of its Lease for FY98.

Turning to the Comptroller's second finding, the Draft Report asserts that the Department of Citywide Administrative Services ("DCAS") should have renegotiated the terms of the public service contribution associated with the Fund in concert with its review of the Hall's renovation of its Studio Towers (the "Studio Towers Project" or "Project"). The Comptroller goes on to characterize the Studio Towers Project as a reclassification of residential space to "exclusively commercial use" intended to "enhance the value of the premises", Draft Report, p. 2, evidencing a fundamental misunderstanding of the City's partnership with Carnegie Hall and its not-for-profit mission.

Contrary to the description in the Draft Report, the Studio Towers Project is intended to create additional spaces for its music-education programs and modernize its back stage to ensure that

the Hall remains a destination for world-renowned artists and educators. Encompassing 167,000 square feet of space and supported by a \$221.7 million fundraising campaign, the Project will create a new Education Wing housing ensemble rooms, practice rooms, teaching studios, along with dedicated archival and research space, and a roof-top terrace and event space to host students, faculty and members of the public. The Project will also upgrade building infrastructure to meet contemporary standards for safety, accessibility and energy efficiency, including LEED Silver standards.

Most important, however, is the marked increase in public service that will result from the additional space created by the Project. Among the uses slated for the new music rooms, rehearsal studios, and classrooms are a variety of educational activities for children; master classes and rehearsals for artists and ensembles; and professional development workshops for educators, teaching artists, and musicians who serve schools and community venues throughout the City. To the extent that the roof-top event space will generate revenue for the Hall through rentals and catered events, such revenue will be used toward not-for-profit operations and mission-driven programming. As a result, DCA does not deem an increase in Carnegie Hall's public service contribution to be necessary.

Agency Response to Comptroller Recommendations

The Comptroller recommends that DCA ensure that the Corporation

1. Submits proposed programs and an annual budget for approval.

Agency Response: Disagree. Rather than demanding a superfluous list of programs and a budget for the Fund, the Agency will continue to rely upon Carnegie Hall's Final Report, Board Materials, and Promotional Materials to determine whether the Fund's public service obligation has been fulfilled by the Hall. For avoidance of doubt, this arrangement will be put in writing.

2. Diversifies the fund programs.

Agency Response: Disagree. As demonstrated by the Final Report, Board Materials, and Promotional Materials, the breadth and depth of the *Neighborhood Concerts* produced to date, have satisfied the requirements of Article 3 of the lease.

3. Distributes the neighborhood concerts equitably within the five boroughs and attains a high level of attendance.

Agency Response: Disagree. There is no requirement in Article 3 of the lease that tasks the Agency with supervision of this kind.

4. Maintains a separate bank account for the Special Program Fund.

Agency Response: Disagree. The Agency will continue to rely upon the Final Report, Board Materials, and Promotional Materials to assess Carnegie Hall's fulfillment of the Fund's public service obligation. If needed, the Agency will request further detail from Carnegie Hall's general ledger on Fund-related expenditures. Again, for avoidance of doubt, this agreement will be put in writing.

This Agency is quite proud of Carnegie Hall's model of public service, its tradition of musical excellence, and its programming which provides New York City residents and visitors with life-enriching musical experiences. Likewise, the Agency is appreciative of Carnegie Hall's generous capital investment in the City's historic building through many prior capital projects and the remarkable Studio Towers Project currently underway which will ensure that incomparable musical performance, music education, and the cultivation of new artists and audiences will continue for many years to come.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Kate D. Levin". The signature is written in a cursive style with a long horizontal stroke at the end.

Kate D. Levin
Commissioner



Edna Wells Handy
Commissioner

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December 3, 2012

H. Tina Kim
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Re: Audit Report on the Compliance of
Carnegie Hall Corporation's Special
Program Fund with its City Lease
Agreement (FN12-089A)

Dear Ms. Kim:

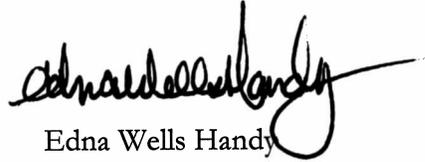
Thank you for the opportunity to respond to the above referenced Audit Report. The Audit Report recommends that DCAS renegotiate the lease agreement between the City and Carnegie Hall in order to require Carnegie Hall to increase its Special Program Fund contribution. This recommendation reflects a fundamental public policy difference with the Auditors and this and past Administrations.

In 1960, New York City purchased the Carnegie Hall building and premises in order to rescue the concert hall from demolition and ensure that its rich history and tradition of musical excellence would continue for future generations of New Yorkers and visitors to our City. Since that time, the City has worked with Carnegie Hall to support its not-for-profit mission through a public/private partnership because we fundamentally believe that institutions like Carnegie Hall enrich the fabric of life in the City of New York. To that end, in 1987, the City restated its lease agreement with Carnegie Hall to assist in providing financial stability through a dedicated revenue source from an office tower on a portion of the property adjacent to the Institution.

The Auditors now suggest that DCAS' review of Carnegie Hall's plans to renovate the building for the purpose of expanding its mission-related programming ought to serve as a means for modifying or renegotiating the lease. Given Carnegie Hall's public service commitment to the City which is so readily demonstrated by the Institution's programming, public outreach efforts, and reporting to the Department of Cultural Affairs, DCAS believes that renegotiation of the lease in connection with the renovation is

inconsistent with the public policy detailed heretofore. We therefore respectfully decline the recommendation to do so.

Sincerely,

A handwritten signature in black ink, appearing to read "Edna Wells Handy", with a long horizontal flourish extending to the right.

Edna Wells Handy