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STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

July 15, 1996

Mr. Robert E. Boyle
Chairman
New York Convention Center
Operating Corporation
655 West 34th Street
New York, NY 10001-1188

Re: Report No. 96-F-13

Dear Mr. Boyle:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5, of the State Constitution and Title 27, Section 2569, of the State Public Authorities Law, we reviewed the actions taken by officials of the New York Convention Center Operating Corporation (Corporation), as of June 7, 1996, to implement the recommendations in two prior audits, Reports 94-S-20 and 95-S-25, which were issued May 3, 1995. These audits examined equipment control practices and management activities and controls at the Jacob K. Javits Convention Center (Center).

Background

The Corporation was established in 1979, as a public benefit corporation by the New York State Legislature through Title 27 of the Public Authorities Law. The Corporation was created to operate and maintain the Center, which opened in April 1986.

The Corporation's Board of Directors is made up of 13 members, 7 of whom are appointed by the Governor. The President of the State Senate and the Speaker of the State Assembly each appoints two members; the Minority Leader of the State Senate and the Minority Leader of the Assembly each names one. The Directors serve for terms of three years and receive no salary. The Governor designates one member as Chairman of the Board.

In January 1986, the Corporation signed a management agreement with Ogden Allied Management Corporation (Ogden) that made the company responsible for the Center's day-to-day management. In October 1991, the Corporation elected to terminate this management contract, and to assume all of the activities formerly handled by Ogden, effective January 1992. Since that time, the Corporation's financial status has shown a steady decline. Its net profit for the 1991-92 fiscal

year was \$1,421,575; in 1992-93, that figure declined to \$134,693. The Corporation reported a net loss of \$926,069 in 1993-94 and by the end of 1994-95, the net loss was \$1,603,442. According to the Corporation's new management team, financial health is returning to the Center; 1995-96 losses will be about \$300,000 and they expect to make a profit next year. On March 31, 1995, the Corporation reported that it had furniture, fixtures, and equipment on hand originally purchased at a cost of \$5.55 million. Currently, there are approximately 300 full-time employees.

Summary Conclusion

Corporation officials have made major changes, and have fully implemented the recommendations from our prior audit reports. Our two prior audit reports concluded that the Corporation does not have adequate control over its equipment inventories, and that Corporation officials have not managed the Center in a manner that is prudent and businesslike enough to provide appropriate public accountability. In Report 94-S-20, we found that perpetual inventory records are not maintained, periodic physical inventory counts are not made, and most items have not been marked with identification numbers or ownership labels. In addition, security for both the Center and exhibitors' property should be improved, particularly in terms of unauthorized access to the facility.

In Report No. 95-S-25, we found a disturbing pattern of management override of established policies and procedures, including apparent violations of the Internal Control Act of 1987 that led us to question whether inappropriate hiring and vendor favoritism have occurred. We also concluded that the Board was not getting sufficient information and that the Board was not taking a sufficiently assertive role in monitoring the Corporation's operations.

In April 1995, a new management team took over at the Center. In our follow-up review, we found that the new Corporation management team has instituted inventory control procedures and taken a physical count. During our tour, we observed that Corporation equipment items were marked with identification numbers and working locks had been installed on doors to storage areas.

In addition, the Board is now approving contracts as called for in the Procurement Guidelines, and management is providing the Board with the information it needs to provide for appropriate governance and guidance. The Board approved the Corporation's guidelines, which provide that the new Inspector General/Internal Control Officer will report jointly to the Chief Executive Officer and the Board. All prior leases have been terminated and now space has been leased based on vendors' past performance records (i.e., their payment history and the size of an exhibit or sales area they had used in the past). Our limited review did not identify the type of prior problems in personnel and payroll practices or purchasing guidelines. Corporation officials have established an operating budget for each department.

Summary of Status of Implementation

Corporation officials have fully implemented 25 of the 26 recommendations from our prior audits, and one is no longer applicable.

Follow-up Observations

Equipment Control Practices (Report 94-S-20)

Recommendation 1

Establish and maintain a system of equipment inventory control.

Status - Fully Implemented

Agency Action - Corporation officials hired an outside contractor to perform a physical inventory. They also authorized an inventory of all office space and accounted for all fixed assets. Appropriate equipment control procedures have been implemented.

Recommendation 2

Make a periodic review of unutilized and underutilized equipment to determine which equipment is in need of repair or should be reported surplus.

Status - Fully Implemented

Agency Action - The Corporation makes note of any equipment that is either unutilized or underutilized, and assesses each piece for disposal or repair. Procedures and processes have been implemented to ensure control and status of the targeted equipment.

Recommendation 3

Determine whether the electrical voltage-monitoring system is necessary, and if so, ensure that its installation is completed.

Status - Fully Implemented

Agency Action - The Corporation's electrical voltage-monitoring system went fully operational in late 1994.

Recommendation 4

Ensure that all security cages and other protective devices for equipment are utilized properly.

Status - Fully Implemented

Agency Action - Corporation policy requires that all security cages and other protective devices be utilized properly and secured. Corporation officials have issued numerous memoranda concerning the security cages.

Recommendation 5

Ensure adequate security for building access and loading areas.

Status - Fully Implemented

Agency Action - Corporation officials have issued numerous memoranda concerning security for the building and loading areas. The memoranda include information on identification badges for employees and visitors. In addition, public security officers are to ensure that doors and locks are operational.

Recommendation 6

Repair locks and knobs on all exterior and interior doors and ensure that they are kept in working order.

Status - Fully Implemented

Agency Action - All high-priority areas have doors with locks and knobs that are kept fully-operational at all times. Low-priority areas are repaired on a non-emergency basis.

Recommendation 7

Provide show managers with written security procedures and include a clause in the show agreements that prescribes the minimum number of security guards to be provided throughout the Center, including the loading dock area.

Status - No Longer Applicable

Agency Action - Corporation officials include language in the show agreements requiring show management to present a proposed security plan to the Director of Public Safety 15 days before the event move-in.

Recommendation 8

Ensure that each PSO on duty is provided with a portable radio.

Status - Fully Implemented

Agency Action - With the newly-purchased 30 radios added to those already in stock, PSOs now have access to an adequate supply to satisfy both replacement and peak requirements.

Recommendation 9

Determine the Center's video security system needs, and install sufficient equipment to provide coverage.

Status - Fully Implemented

Agency Action - The new Vice President of Facilities performed a needs assessment in May 1995 to determine how many security cameras were needed. The Center now operates 25 monitors, 19 video cassette recorders, and 19 cameras.

An Evaluation of Management Activities and Controls (Report 95-S-25)

Recommendation 1

The Board should formally approve procurement contracts as called for in its Procurement Guidelines before they are awarded.

Status - Fully Implemented

Agency Action - The Board approves procurement contracts before they are awarded, as called for in the Procurement Guidelines; and procedures have been established to ensure compliance.

Recommendation 2

The Board should actively oversee Corporation operations so it can provide appropriate governance and guidance.

Status - Fully Implemented

Agency Action - The Corporation's management now provides the Board with the information it needs for appropriate governance and guidance. The Board addressed this issue at its April 26, 1995 meeting.

Recommendation 3

The Board should ensure complete procurement reports are submitted on a timely basis.

Status - Fully Implemented

Agency Action - The Board was advised at its April 26, 1995 meeting that procurement reports will be submitted on a semi-annual and annual basis. At its May 14, 1996 meeting, the Board was given the yearly procurement report for fiscal year 1996 for its review and approval. The report includes each vendor's name and address, the purchase order amount, a description of the selection process, the actual payments made, and the amount remaining against the purchase order commitment.

Recommendation 4

The Board should review and approve the Corporation's Procurement Guidelines annually.

Status - Fully Implemented

Agency Action - Corporation officials submitted the Guidelines for Board approval on May 14, 1996.

Recommendation 5

The Board should review the adequacy of the Corporation's internal control system, and ensure that the CEO establishes an appropriate internal control environment and complies with established policies and procedures.

Status - Fully Implemented

Agency Action - A new management team started at the Corporation in April 1995. Corporation officials performed a complete review of the Center's internal control system and all of its procedures and processes, to determine whether they do comply with established policies and procedures. All new policies and procedures are submitted to the Board for review and approval. Our review of Board minutes indicated the Board's review and approval of new policies and procedures.

Recommendation 6

Require the Inspector General/Internal Control Officer to report directly to the Board.

Status - Fully Implemented

Agency Action - The new Inspector General/Internal Control Officer now jointly reports to the Chief Executive Officer and the Board of Directors. A mission statement was provided to the Board at its April 26, 1995 meeting.

Recommendation 7

Ensure that the Inspector General/Internal Control Officer is independent of the activities he is responsible for overseeing, and that he avoids any conflicts of interest.

Status - Fully Implemented

Agency Action - The Inspector General/Internal Control Officer reports to the Chief Executive Officer and the Board; and will not directly or indirectly manage or have responsibility for any administrative, sales or financial operations outside the traditional duties of an Inspector General/Internal Control Officer.

Recommendation 8

Review the propriety of the leased space and procurement transactions identified in this report, and take action where appropriate.

Status - Fully Implemented

Agency Action - The Vice President of Operations now handles the leasing of all non-event-related rental space. When the current leases expire, the Vice President of Operations will be responsible for negotiating new leases for the rental areas. In July 1995, all existing leases were terminated and space was leased based on vendors' past performance records related to prompt payment of bills and the size of an exhibit or sales space they had used in the past.

Recommendation 9

Adhere to personnel and payroll policies and procedures which the Corporation has established, as follows:

- a. Comply with established procedures relating to position requisitions, job postings, and background checks. Keep appropriate records in personnel files to document these transactions.*
- b. Prepare annual performance appraisals for all Corporation administrative employees.*
- c. Develop a policy to properly document the reasons for salary adjustments (pay raises, decreases, promotions, or terminations).*

Status - Fully Implemented

Agency Action - All established personnel and payroll policies are being adhered to, and processes and procedures have been established to ensure compliance. In addition, Corporation officials indicated that the policy stated in the Employee Handbook is under review.

Auditors' Comments - We performed limited testing in this area, and did not identify any problems.

Recommendation 10

Comply with the Corporation's Manual regarding hiring practices.

Status - Fully Implemented

Agency Action - The Center is in compliance with the employee manual regarding hiring and termination procedures.

Auditors' Comments - We reviewed the files of all administrative personnel hired between the

period April 1995 and March 1996 and found no problems.

Recommendation 11

Review staffing patterns and salaries to ensure that staff are not overpaid for their responsibilities.

Status - Fully Implemented

Agency Action - Corporation officials performed an analysis of responsibilities and appropriate compensation. The process of analyzing positions and determining appropriate compensation has resulted in both increased and decreased compensation, as well as position restructuring.

Recommendation 12

Ensure that all purchasing decisions are handled by the Purchasing Department, and improve internal controls over purchasing by following the Procurement Guidelines, including:

- a. Publicly advertise in the New York State Contract Reporter and select vendors competitively for purchases worth \$5,000 or more. Adequately document the reasons for not advertising all applicable purchases.*
- b. Maintain complete procurement documentation within the Purchasing Department.*
- c. Ensure that all appropriate department heads approve purchase requisitions for their individual departments.*
- d. Ensure that the CEO formally authorizes all purchase orders exceeding \$25,000.*
- e. Ensure that the Treasurer reviews all procurement contracts.*

Status - Fully Implemented

Agency Action - All purchasing decisions are handled by the Purchasing Department, and the Procurement Guidelines are being followed, ensuring that the improved internal controls are in use.

Recommendation 13

Maintain appropriate controls that will ensure the integrity of the bid-opening and bid-evaluation process.

Status - Fully Implemented

Agency Action - Competitive bidding guidelines are in place.

Recommendation 14

Require that all contracts be notarized.

Status - Fully Implemented

Agency Action - The Corporation now utilizes the notary public requirement similar to State contracts.

Recommendation 15

Improve controls over vendor payments by doing the following:

- a. Ensure that all pertinent information for contracts, purchase order agreements, etc., are entered into the computerized accounting system.*
- b. Charge all vendor payments to the appropriate purchase agreement.*
- c. Update the system and purge it of open purchase agreements that have been paid in full.*
- d. Develop a system for monitoring payments and ensuring that they do not exceed contract terms.*

Status - Fully Implemented

Agency Action - The purchasing department enters all approved purchase orders into the computerized accounting system by requesting department. The accounts payable department receives all vendor invoices, and vouchers each invoice in the system against the appropriate purchase order. If there is no purchase order for a particular invoice, it will be rejected. If the system rejects a voucher for not having a purchase order, it is brought to the attention of the Director of Disbursements for his review and disposition. All paid-up purchase orders have been purged from the system. A system for ensuring that payments do not exceed approved amounts has also been implemented.

Recommendation 16

Review the potential overpayments cited in our report and make recoveries where necessary.

Status - Fully Implemented

Agency Action - Corporation officials reviewed the potential overpayments and took corrective action as necessary. For example, officials implemented additional controls and processes to ensure that similar situations do not occur in the future.

Recommendation 17

Prepare budgets for each operating department.

Status - Fully Implemented

Agency Action - Operating budgets have been prepared for each department.

We would appreciate your response to this report within 30 days. We also thank the management and staff of the Corporation for the courtesies and cooperation extended to our staff during this review.

Very truly yours,

Robert H. Attmore
Deputy Comptroller

cc: Patricia A. Woodworth