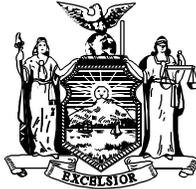


H. CARL McCALL
STATE COMPTROLLER



A.E. SMITH STATE OFFICE BUILDING
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

February 20, 1998

Ms. Bernadette Castro
Commissioner
Office of Parks, Recreation
& Historic Preservation
Empire State Plaza, Agency Building 1
Albany, NY 12238

Re: Bayside Historical Society
Report 96-R-5

Dear Ms. Castro:

Pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law, we audited the books and records of the Bayside Historical Society (BHS) for the period of November 1, 1987 through March 31, 1997. Our audit related to reimbursements claimed by BHS under the following contracts awarded by the Natural Heritage Trust¹ (NHT) and the New York State Office of Parks, Recreation and Historic Preservation (OPRHP):

<u>Contract</u>	<u>Period</u>	<u>Amount</u>
C-870033 (NHT)	11/1/87 - 12/31/89	\$ 75,000
C-896013 (NHT)	4/1/89 - 12/31/93	250,000
C-906175 (NHT)	4/1/90 - 9/30/96	80,000
C-916006 (OPRHP)	4/1/92 - 3/31/97	30,000

The objectives of our financial-related audit were to determine whether costs claimed by BHS were allowable, had been documented adequately, and had been incurred for services funded under the contractual agreements we were auditing. To accomplish these objectives, we reviewed the contractual agreements, BHS's books and records of expenditures, internal controls over charges to the contracts, and the level of BHS's compliance with contractual terms.

¹The Natural Heritage Trust is an OPRHP program. It is a public benefit corporation created under the Public Authorities Law in 1968 to receive and administer funds to advance conservation, outdoor recreation, and historic preservation.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of BHS that are included within our audit scope. Further, these standards require that we review and report on BHS's internal control structure and its compliance with those laws, rules and regulations that are relevant to the BHS operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

In planning and performing our audit procedures, we considered BHS's internal control structure. Our consideration was limited to a preliminary review of this structure that would enable us to understand the control environment and the way in which transactions flowed through the systems supporting BHS's claims. Because we did not intend to rely on the internal control structure in performing our work, our assessment did not extend beyond the preliminary review phase. Instead, we appropriately extended our substantive audit tests.

In conducting our audit, we performed tests of BHS's compliance with certain terms of the contracts. Our objective in performing these tests was to obtain reasonable assurance about the allowability of amounts BHS had received from NHT and OPRHP, not to provide an opinion on BHS's overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, BHS complied in all material respects with those provisions referred to in the preceding paragraph, except as noted in Section B of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that BHS had not complied, in all material respects, with those provisions.

A. Background and Contract Terms

Founded in 1964, BHS is a not-for-profit organization chartered by the New York State Board of Regents to discover, preserve, and disseminate knowledge of the history of Bayside, New York. In addition to assisting with school activities, conducting house and walking tours, and collecting materials that pertain to the history of Bayside, BHS is working to preserve the Old Officers' Club (Club) located on the grounds of Fort Totten in Queens. The Club, which is owned by the U.S. Department of the Defense (DOD), was built in 1870 as a school for the Army Corps of Engineers. Listed on the New York State and National Register of Historic Places and designated a New York City landmark, the Club, upon restoration, is to serve as a community resource center and BHS's headquarters.

Between November 1, 1987 and June 30, 1995, BHS received \$435,000 from Legislative Member Items through the four previously-listed contracts to be used for Club renovations and other BHS-related expenses. A regular recipient of member-item funding, BHS received such funds before our audit period began and currently has a member-item contract with OPRHP. Although the State

Legislature has selected BHS to receive member-item funding, OPRHP is responsible for approving and administering the related contracts. According to contract terms, the funds were to be expended primarily on capital improvements to the Club building, including a new roof and boiler, electrical work, and some interior work. BHS was also to use contract funds for related administrative expenses, including rental and utility costs paid to the Federal government.

B. Results of Audit

Although BHS receives its State funding from the State Legislature through the member item process, OPRHP is responsible for approving and administering the related contracts. At a minimum, OPRHP should monitor BHS's performance via periodic site visits. The evaluation of BHS's performance should take into consideration the quality of the work performed, the timeliness of the completion of contract deliverables, the adequacy of cost and performance records and other supporting documentation, and the extent to which the performance is commensurate with the amount the contractor has been paid. All vouchers presented for payment should be reviewed by the person monitoring the contract. No payment should be made unless the work is satisfactory and in accordance with the terms of the contract. We found, however, that OPRHP did not adequately administer these contracts.

OPRHP has not performed regular site visits or periodically reviewed the progress of the renovation work and condition of the site. The restoration and renovation of the Club has been a multi-year project, costing in excess of \$400,000; yet neither BHS nor OPRHP officials have been able to provide us with a cost estimate for the renovation work, or an estimated completion date. We found a reference to a cost estimate in a 1992 OPRHP letter that stated, "the project was originally scoped for \$500,000 in 1988 and has expanded to \$1,206,588 to be implemented as a multi-phased project." However, there is no official, documented estimate of project cost or completion date. OPRHP officials indicated that, since BHS has relied on relatively small legislative grants to accomplish this project, it would be difficult for BHS officials to provide an accurate cost estimate or projected completion date. Nonetheless, OPRHP officials stated that they will request from BHS a conceptual plan with current estimated costs for the entire restoration project.

We also identified expenditures that OPRHP has reimbursed, but we have questioned, primarily because they have not been documented adequately. Proper review of contract claims should have identified these items:

- The Executive Director was paid \$10,000 under contract C-906175, and \$2,250 under contract C-896013. However, the only documentation available to support these payments (aside from the canceled checks) was a contractual agreement she had with BHS. According to the agreement, the Director was to represent BHS at various events. BHS had no records of the dates she worked or the actual activities she performed on those days. (OPRHP officials indicated that future grant contracts will require BHS to account for the dates and activities of contract-funded BHS employees.)

- Electrical work to be performed under contract C-916006 was limited by contract language to the Club's "ballroom (#201)." However, we found that the actual work performed also included the Club's library (#202) and hospitality area (#203). BHS claimed and was reimbursed the total budget amount of \$8,725 for this work. (OPRHP officials indicated that BHS used the funding for the intended purpose, electrical work, and that in future contracts the work area will not be so strictly limited.)
- A \$15,500 claim for carpentry work made under contract C-896013 was supported by invoices that were vague about when the work was done and how long it took to perform the tasks. (OPRHP officials indicated that they will require BHS invoice data to state more specifically when work was performed and the amount of time it took to complete the task.)

We also found that BHS did not always expend all the contract funds allocated for the project during the initially-approved contract periods. Rather than allow the unexpended funds to lapse when the contract term ended, OPRHP apparently would submit vouchers to the Office of the State Comptroller (OSC) authorizing payments for those amounts to BHS. For instance, a February 1996 letter from OPRHP to a member of the State Legislature stated that BHS "lost" the entire 1992 contract encumbrance of \$30,000 because it failed to submit proposals indicating how the funds would be spent, despite several attempts by OPRHP to persuade the group to act. The letter went on to state that OPRHP had "saved" \$40,000 for BHS from a 1990 grant by processing a voucher in that amount before the funds lapsed, despite a lack of BHS documentation that the amount had been expended. The OPRHP letter noted, "at this point, we have not received documentation for the expenses covered by the grant, which is not a tenable position for us." This action was contrary to the contract terms, which generally required that final payment would not be made until the project was completed, an accounting of the funds was received, and an inspection of the site was performed by OPRHP.

In other years, OPRHP submitted similar vouchers for BHS to save funds from lapsing. For instance, on September 8, 1995, OPRHP submitted a voucher to OSC to pay BHS \$6,500, indicating on the voucher, "FINAL PAYMENT LAPSING FUNDS." The voucher amount represented the net amount due under contract C-916006, which was budgeted for \$30,000. This contract was effective April 1, 1992, and was scheduled to end June 30, 1995, after being extended several times. However, by the time OPRHP submitted the final \$6,500 voucher to OSC in September 1995, BHS had submitted claims under this contract totaling just \$12,225. It was not until between September 1996 and December 1996 that BHS expended the \$17,775 contract balance. In November 1996, OPRHP extended the terms of the contract through March 31, 1997, thereby authorizing these expenditures retroactively. (OPRHP officials indicated that future contracts with BHS will be monitored closely to ensure prompt approvals to contract changes.)

We also observed that BHS did not always follow proper bidding practices when advertising for requests for bids. For instance, a Request for Proposal (RFP) advertisement for general

contractors who had landmark building-restoration experience and who were interested in bidding on masonry and concrete work was placed in the “help-wanted” section of a local newspaper, rather than in the “bid” section where contractors would normally look for such work. Around the same time, they also advertised for HVAC systems work in the “help-wanted” section of a newspaper. (OPRHP officials stated that in the future, to ensure that proper procedures are followed, they will review procurement documentation before BHS lets any contracts.)

We also observed that BHS’s lease with DOD for the Club expires in 1998; after that date, BHS has no assurance about the status of the building. A major portion of Fort Totten, including the Club, has already been “surplused” by the Department of the Army. The area is no longer of any use to the Army, and it could be sold at auction or turned over to another group. The final decision about the entire area rests with the Local Redevelopment Authority, which is taking proposals on the various site utilizations. While the Club is a historical landmark, it is possible that BHS could lose control of the building to another organization with other objectives. The BHS contracts are silent concerning projected uses of the renovated building, and there is no requirement that it be open to the public. (OPRHP officials stated that future contracts will address the use of the site.)

Finally, we determined that a \$3,130 refund - the result of claims and payments made by OPRHP in excess of BHS's documented expenditures (see Exhibit B) - is due the State.

Recommendations

1. *Monitor contract activities, making routine field visits to ensure that BHS:*
 - *develops a final cost estimate and estimated completion date for the project,*
 - *accounts properly for all funds and completes the contract project before receiving final payment,*
 - *obtains prior approval for changes to contract provisions, and*
 - *utilizes proper bidding procedures when obtaining services.*
2. *When entering into any future contract with BHS for Club renovations, clearly specify in the contract how the site will be utilized as a historic site and community resource center.*
3. *Obtain a \$3,130 refund from BHS.*

Major contributors to this report were Anthony Carbonelli and Jeremy Mack.

We would appreciate receiving your written response to the report recommendations within 30 days, indicating any actions planned or taken to implement them. We wish to thank the management and staff of the Bayside Historical Society and the Office of Parks, Recreation and Historical Preservation for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

A handwritten signature in black ink that reads "Frank J. Houston". The signature is written in a cursive style with a large, looped "F" and "H".

Frank J. Houston
Audit Director

cc: Richard L. King
Geraldine Spinella

BAYSIDE HISTORICAL SOCIETY
 CONTRACT C-870033
 SUMMARY OF EXPENDITURES
 CLAIMED, DISALLOWED, AND ALLOWED
 NOVEMBER 1, 1987 THROUGH DECEMBER 31, 1989

<u>Expenditures</u>	<u>Claimed</u>	<u>Disallowed [a]</u>	<u>Allowed</u>
Reactivate Electricity	\$ 1,540		\$1,540
Reactivate Boiler	4,900		4,900
Reactivate Sprinkler	3,933		3,933
Wiring Installation	2,000		2,000
Interior Demolition	14,600	\$14,600	
Standby Electrician	836	836	
Architect's Fee	47,250		47,250
Administration	<u>16,464</u>	<u>1,087</u>	<u>15,377</u>
Total Expenditures	<u>\$91,523</u>	<u>\$16,523</u>	75,000
State Payments [b]			<u>75,000</u>
Refund Due the State			<u>\$ 0</u>

Notes:

[a] Represents expenditures that were incurred in the subsequent contract (C-896013) period and included incorrectly by BHS in this contract claim. We allowed these expenditures under contract C-896013 (see Exhibit B).

[b] Maximum allowable amount under the contract terms.

BAYSIDE HISTORICAL SOCIETY
 CONTRACT C-896013
 SUMMARY OF EXPENDITURES
 CLAIMED, DISALLOWED, AND ALLOWED
 APRIL 1, 1989 THROUGH DECEMBER 31, 1993

<u>Expenditures</u>	<u>Claimed</u>	<u>Disallowed</u>	<u>Allowed</u>
Asbestos Removal	\$ 19,800		\$ 19,800
Asbestos Inspection	3,500		3,500
Heating Installation	205,502	\$30,500 [a]	175,002
Rough Carpentry	15,713	166 [a]	15,547
Interior Demolition		(14,600) [b]	14,600
Standby Electrician		(836) [b]	836
Administration	<u>17,773</u>	<u>188</u> [c]	<u>17,585</u>
Total Expenditures	<u>\$262,288</u>	<u>\$15,418</u>	246,870
State Payments [d]			<u>250,000</u>
Refund Due the State			<u>\$ 3,130</u>

Notes:

- [a] Represents claimed expenses that were not documented with canceled checks, invoices, etc.
- [b] Represents expenditures incurred in this contract period and claimed incorrectly by BHS under the prior contract C-870033 (see Exhibit A).
- [c] Represents net difference between \$1,275 in claimed expenses that were not documented, and \$1,087 in expenditures incurred in this contract period and claimed incorrectly by BHS under the prior contract C-870033 (see Exhibit A).
- [d] Maximum allowable amount under the contract terms.

BAYSIDE HISTORICAL SOCIETY
CONTRACT C-906175
SUMMARY OF EXPENDITURES
CLAIMED AND ALLOWED
APRIL 1, 1990 THROUGH SEPTEMBER 30, 1996

<u>Expenditures</u>	<u>Claimed and Allowed</u>
Roof Installation	\$20,335
Roof Installation - Architect	2,010
Architect's Fee	30,000
Electrical Work	2,850
Administration	<u>24,805</u>
Total Expenditures	80,000
State Payments	<u>80,000</u>
Refund Due the State	\$ <u><u>0</u></u>

EXHIBIT D

BAYSIDE HISTORICAL SOCIETY
CONTRACT C-916006
SUMMARY OF EXPENDITURES
CLAIMED AND ALLOWED
APRIL 1, 1992 THROUGH MARCH 31, 1997

<u>Expenditures</u>	<u>Claimed and Allowed</u>
Electrical Work	\$22,298
Construction Work	4,202
Administration	<u>3,500</u>
Total Expenditures	30,000
State Payments	<u>30,000</u>
Refund Due the State	<u>\$ 0</u>