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STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

February 4, 1998

Mr. Jerome H. Blue, Ph.D.
President/Chief Operating Officer
Roosevelt Island Operating Corporation
591 Main Street
Roosevelt Island, NY 10044

Re: Report 97-F-51

Dear Dr. Blue:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution, we have reviewed the actions taken by officials of the Roosevelt Island Operating Corporation as of January 1, 1998 to implement the recommendations contained in our prior report 94-S-59 issued March 15, 1996. Our prior audit examined selected operating practices of the Roosevelt Island Operating Corporation.

Background

Roosevelt Island Operating Corporation (RIOC) manages a planned, mixed-income urban community located on the 144-acre Roosevelt Island (Island), which is in the East River between Manhattan and Queens Counties. Pursuant to Title 16, Chapter 26 of the New York Unconsolidated Laws, RIOC was organized in 1984 as a public benefit corporation responsible for the development, operation, security and maintenance of the Island. With oversight by a nine-member Board of Directors (Board) appointed by the Governor and approved by the New York State Senate, RIOC serves as the provider of many municipal services on the Island. RIOC has a staff of 86 employees. It operates transportation, provides security, performs snow removal, repairs the streets and sidewalks, and maintains the common grounds. RIOC receives revenues from such sources as commercial space leases, parking fees, bus and aerial tramway (tram) fares, as well as fees from the housing companies that operate apartments and Co-ops on the Island. The RIOC budget for 1997-1998 shows total revenues of \$9.34 million and total expenditures of \$7.85 million, including \$3.9 million in salaries and fringe benefits.

Summary Conclusion

Our prior audit found weaknesses in the internal control structure over several areas including collecting and depositing revenues and negotiating and documenting changes to commercial leases.

In addition, the RIOC administration needed to take other steps as part of its efforts to address tram operating deficits. We found that progress has been made in implementing some of the prior report recommendations.

Summary of Status of Prior Recommendations

Of the 13 prior report recommendations, RIOC has fully implemented 6, partially implemented 3 and not implemented 4 recommendations.

Follow-up Observations

AERIAL TRAMWAY

Recommendation 1

Consider reducing the hours of tram operation.

Status - Partially Implemented

RIOC Action - RIOC revised the estimated tram operation budget figures based upon the assumption of curtailing the tram operations to the hours from 6:30 a.m. to 10:00 p.m. While RIOC has determined the number and percentage of riders who take the tram for an average 4-hour interval throughout the day, RIOC has not conducted a formal study to determine the effect of tram operation reductions on residents. Efforts to reduce the tram hours of operation have been opposed by Island residents and as of September 1997, operating hours have yet to be changed.

Auditors' Comments - Our prior audit report showed the potential cost savings associated with reducing the hours of tram operations. As our prior audit report also pointed out, formal studies to determine how tram reductions would affect residents need to be done as part of the consideration for reducing the hours of tram operation.

Recommendation 2

Eliminate the console operator positions.

Status - Implemented

RIOC Action - In late 1996, RIOC eliminated the three full-time console operator positions resulting in a reported savings of \$171,753.

Recommendation 3

Collect overdue revenue reimbursements for discounted tram transportation provided to students, and establish a system for obtaining these reimbursements, as well as reimbursements for senior and disabled citizens, on a regular basis.

Status - Partially Implemented

RIOC Action - RIOC collected reimbursements for discounted senior and disabled citizen fares from the NYC Department of Transportation in April 1996, covering the period October, November and December 1995. We were informed that in November 1997 the NYC Office of Management and Budget forwarded \$137,922 in reimbursement to RIOC for the period from January 1996 through June 1997.

The NYC Board of Education (BOE) continues to refuse to reimburse RIOC for the students who use the tram. On June 9, 1997, RIOC notified tram riders who have student transportation passes that these passes will no longer be issued by RIOC unless the students have been approved as eligible for reimbursement by the BOE Office of Pupil Transportation. Subsequent to our fieldwork, RIOC advised us that they are now pursuing collection of funds through the City of New York proper, not the Board of Education.

Auditors' Comments - RIOC should expedite the preparation of revised requests for reimbursement from the NYC Department of Transportation and should seek reimbursement from the City of New York for students who have been approved as eligible for reimbursement.

Recommendation 4

Consider taking over the operation of the tram from the contractor.

Status - Implemented

RIOC Action - RIOC officials have determined that it would not be prudent to assume direct control over the operation of the tram. The officials stated that RIOC has benefits from its current contractor which would no longer be available if RIOC were to assume direct responsibility for the tram's operation. The contractor has the experience and the ability to obtain electrical and mechanical engineering services, as well as parts and supplies, at lower costs than obtained by prior RIOC tram contractors. Also, the contractor is responsible for negotiating collective bargaining agreements with the tram's labor union, thus saving RIOC the cost of retaining outside labor counsel.

INTERNAL CONTROLS

Recommendation 5

Develop procedures for the review of a tenant's financial status when a request is made for a rent reduction.

Status - Partially Implemented

RIOC Action - To address this issue, a Commercial Tenant Economic Hardship (CTEH) application form, by which tenants may apply for a rent reduction, was established in August 1996. Tenants who believe they are eligible for a reduction in rent may file this form which must be reviewed by RIOC counsel and must be approved by the Board. However, RIOC has not developed any written procedures to review a commercial tenant's financial status when a request is made for a rent reduction. In addition, the CTEH application does not require the tenant to request a specific amount of rent reduction. Also, RIOC has not established set guidelines or criteria for approving or disapproving the applications.

Auditors' Comments - RIOC needs to develop supporting procedures for the CTEH application form and request process to fully comply with our prior recommendations.

Recommendation 6

Ensure that all changes in commercial leases are documented, formalized and approved by RIOC's Board of Directors.

Status - Not Implemented

RIOC Action - We found that changes to the terms of three of the four leases reviewed were not supported with records of approved rent reduction amendments. RIOC officials have addressed this issue and intend to implement the recommendation.

Auditors' Comments - Any changes to leases must be properly approved, formalized and documented as previously recommended.

Recommendation 7

Ensure that the amounts billed to commercial tenants adhere to the terms of the signed leases, or valid approved rent reduction amendments.

Status - Not Implemented

RIOC Action - We found the amounts billed to the tenants did not reflect the lease agreements for three of the four leases we reviewed. There were no valid or approved rent reduction amendments to the leases. RIOC officials have addressed this issue and intend to implement the recommendation.

Auditors' Comments - The tenants should be billed at the contracted for monthly rates as documented in leases and supporting amendments.

Recommendation 8

Correct balances of commercial tenants' accounts receivable and pursue collection of valid outstanding balances.

Status - Not Implemented

RIOC Action - Our review indicated that three of four sampled accounts receivable amounts were not accurate. For 513 Back Page and HCK Recreation the accounts receivable amounts should have been higher to reflect the correct lease amount. For R.I. Cards, the account receivable amount may be higher or lower depending on the gross sales amount which was inappropriately disregarded. We also noted that tenants are not billed for late fees as required in the lease agreements. RIOC was not actively pursuing collection of the outstanding balances for any of the four leases reviewed. RIOC officials expressed their intention to implement this recommendation.

Auditors' Comments - RIOC should maintain accurate accounts receivable balances, bill the tenants for late charges as empowered in the lease provisions, and pursue collection of the outstanding balances.

Recommendation 9

Account for and deposit all tram token sale receipts daily.

Status - Not Implemented

RIOC Action - Based on our review of six Daily Revenue Reports, we found that the receipts from the tram token sales are not deposited daily. Our sample revealed that the cash was deposited from 1 to 27 days and an average of 14 days after collection.

Auditors' Comments - All receipts should be deposited daily.

Recommendation 10

Ensure that the tram employee who collects revenues is properly bonded for the collection

of bus and parking revenues.

Status - Implemented

RIOC Action - Section 8.03 of the Tramway Operating and Management Agreement by and between RIOC and INTE-FAC Corporation, dated April 1, 1996 states that all employees who are authorized to receive, collect or handle any funds are covered by a fidelity bond.

Recommendation 11

Ensure that bus passengers are required to use exact change and that all bus receipts are handled properly.

Status - Implemented

RIOC Action - The policy to accept only exact fare on the buses was issued during the field work of our prior audit. Our observations of the bus drivers and passengers on several bus rides indicated that the recommendation has been implemented and enforced by the drivers.

Recommendation 12

Adhere to RIOC bidding procedures and properly document awards made on a non-competitive basis, as well as to bidders who did not submit the lowest bid.

Status - Implemented

RIOC Action - Based on three contracts reviewed, it appears that RIOC is properly documenting awards made on a non-competitive basis or to bidders who did not submit the lowest bid.

Recommendation 13

Ensure that the procurement contract records are complete and accurate.

Status - Implemented

RIOC Action - Based upon three contracts reviewed, it appears that RIOC's procurement contract records are complete and accurate.

Major contributors to this report were Tom Trypuc, Karl Koller, Bebe Belkin and Arthur Lebowitz.

We would appreciate your response to this report within 30 days, indicating any action planned or taken to address any unresolved matters discussed in this report. We wish to thank the management and staff of RIOC for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Jerry Barber
Audit Director

cc: Donna Arduin, DOB