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**Thomas P. DiNapoli  
COMPTROLLER**



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**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE  
GOVERNMENT ACCOUNTABILITY**

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**GOVERNORS ISLAND  
PRESERVATION AND  
EDUCATION  
CORPORATION**

**MANAGEMENT OF THE  
GOVERNORS ISLAND  
REDEVELOPMENT  
PROCESS**

**Report 2005-S-43**

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## AUDIT OBJECTIVES

Our objectives were to determine the status of the Governors Island redevelopment effort and if the Governors Island Preservation and Education Corporation (GIPEC) has complied with provisions of the property transfer agreements in a timely manner. We also sought to determine if GIPEC established internal controls to ensure the efficient and effective use of the operational funding provided by New York State and New York City.

## AUDIT RESULTS - SUMMARY

GIPEC did not meet the City and State's goal to have a master plan by February 2006 for developing the Governor's Island (Island). Though it has been over three years since GIPEC received control of the Island, it is questionable whether a plan will be in place by December 2007, the federal target date for producing a master plan for the Island.

While the Island does provide for various public activities such as tours, featured events, art displays, etc., the master plan delay precludes the public from the full range of educational, recreational, and cultural benefits envisioned when the Island was returned to New York in 2003. We found much of the delay was caused by several factors. Specifically, GIPEC was slow to get organized, start the planning process, and hire critical staff to manage the planning effort. GIPEC also revised its own timelines and changed directions several times in the past few years. Some of this change was productive and some of it was not.

For example, in June 2004, GIPEC held a planning workshop that was to obtain public input about development efforts. In March 2005, GIPEC decided to issue a Request for Expression of Interest (RFEI) in the

development of the Island. However a GIPEC consultant hired to coordinate the RFEI process, indicated that the results did not provide any additional insights or ideas to the planning process.

Overall, GIPEC has adopted adequate internal controls to ensure the efficient and effective use of its operational funding. However, we found several major problems in the accuracy of GIPEC's financial information and problems in how financial records were maintained. This may be due in part to the fact that sufficient steps were not taken by GIPEC's Board to ensure that GIPEC's top financial management employees have the required experience and qualifications for their responsibilities. We found that two high-level GIPEC employees, the Vice President of Finance and Administration and the Contracts Administrator, did not meet the minimum criteria established for their positions.

Our report contains six recommendations to help improve GIPEC's management of the Island redevelopment process. GIPEC officials generally did not agree with the report's conclusions. They indicated that many of the points made in the audit were not factual and that the report placed undue significance on compliance with arbitrary dates over the more important goal of insuring the best possible redevelopment plan for the Island.

All report observations, and the recommendations that flow from them, are based upon factual information. The fact remains that the Island was transferred to GIPEC in early 2003. It is now 2007 and there is still no specific plan for the Island's redevelopment in spite of the expectation that such a plan would be developed "expeditiously." This delay precludes the public from enjoying the full benefits

anticipated when the Federal government returned the Island to New York.

This report, dated June 5, 2007, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

## BACKGROUND

Governors Island (Island) is a 172-acre island located in the middle of New York Harbor over which New York State ceded control to the federal government in 1800 to provide for the defense of the nation. Over the years, there had been many discussions about the federal government returning part or the entire Island to New York State. On September 13, 2002, when it became clear that the federal government was ready to make the transfer, New York State created GIPEC as a subsidiary of the New York State Empire State Development Corporation (ESDC). ESDC is a public-benefit corporation that engages in various types of economic development activities. It is authorized by law to issue bonds to finance these activities and create subsidiary corporations to oversee and perform specific economic development activities. GIPEC is governed by a 12-member Board of Directors (Board), appointed by the Governor and the New York City Mayor. The Island itself is operated by a staff of 12 with an annual budget of about \$11 million.

In early 2003, the federal government transferred ownership of 150 acres of the Island to New York City (City) and New York State (State) via GIPEC. At the same time, it transferred the remaining 22 acres on the northern section of the Island to the

National Park Service to be preserved as the Governors Island National Monument. The transfer agreements with the federal government call for GIPEC to be responsible for the planning, redevelopment and operation of the 150 acres of property. The federal agreements prohibit the development of residential housing on the Island, as well as industrial, casino and most parking and power generation uses. They also stipulate that at least 40 acres are to be used for parkland, 20 acres for educational purposes, and 30 acres for park space, educational purposes, an esplanade, museums, historic sites, transportation uses, cultural facilities, etc. The remaining space can be used for these or various other uses (e.g., office space, health facilities), as long as they comply with the allowable uses cited in the agreements.

The transfer agreements call for the City and State to adopt a master plan for developing the Island on or before December 31, 2007. Since the City and State would be working together on creating the plan, both agreed to a Memorandum of Understanding (MOU) on February 12, 2003. In agreeing to this MOU, the City and State were more ambitious, indicating that the plan would be in place within three years (i.e., by February 2006). While the federal agreements and the MOU include target completion dates, there are no penalties if these milestones are not met.

The MOU also sets forth schedules for City and State funding, totaling \$32 million, to be used to fund the Island's security, utilities, ferry operation and infrastructure maintenance, through early 2006. On December 19, 2005, the City and State completed their respective payments. The Island has since been guaranteed an additional \$60 million from the State and the City to cover the three year period beginning April 1, 2006.

## AUDIT FINDINGS AND RECOMMENDATIONS

### *Status of Redevelopment Efforts*

GIPEC did not meet the City and State's goal of developing a plan by February 2006. Though it has been over three years since GIPEC received control of the Island, it is questionable whether a plan will be in place by December 2007. We found much of the delay was caused by several factors. Specifically, GIPEC was slow to get organized, start the planning process, and hire critical staff to manage the planning effort. GIPEC also revised its own timelines and changed directions several times in the past few years. Some of this change was productive and some of it was not.

While the Island does provide for various public activities such as tours, featured events, art displays, etc., the master plan delay precludes the public from the full range of educational, recreational and cultural benefits envisioned from the Island.

#### **Redevelopment Planning Timelines**

Although the agreements with the federal government do not require a completed development plan before the end of 2007, the State and the City originally planned to complete the process by February 2006.

A timeline was developed in September 2003 and called for a traditional master planning approach to the project beginning with an environmental review process to be completed by January 2004. This was to be followed by a master planning Request for Proposals (RFP) to be issued in May 2004, and a completed plan approved in spring 2005. In spring 2004, GIPEC hired a consulting firm to perform various aspects of the project's planning phase. At this point,

the planning effort was still expected to be largely complete by the fall of 2004, with a final plan adopted by the end of that year. However, GIPEC introduced two different activities to pursue - a planning workshop in June 2004 to obtain public input about development and the issuance of a RFEI in March 2005.

The Governors Island Park Planning Workshop was held at Governors Island on June 12, 2004. The stated purpose of this community workshop was "...to engage the public... in the planning process... through a series of facilitated discussions...". The workshop was sponsored by the Governors Island Alliance, a civic advocacy coalition. It was undertaken in cooperation with GIPEC and the National Park Service. The workshop included over 150 park activists, community representatives, and design and park professionals.

Following the workshop, GIPEC performed transportation, utility and park objective studies. It then decided that the traditional master planning approach was infeasible for the Island given the goal of developing an economically self-sustaining project. So GIPEC changed course, abandoning its original plan for an immediate RFP and, instead, issued an RFEI in order to ensure that there would be sufficient interest in developing the Island when RFPs were ultimately issued. ESDC and GIPEC officials told us this change was necessary to ensure that the organization did not get all the way through the planning process, only to find that there was no real market interest for the final vision created for the Island.

We found this change in direction delayed the planning process by at least one year. In fact, the RFEI was not developed and issued to interested parties until March 2005 with responses due back to GIPEC at the end of

June 2005. GIPEC then spent the summer of 2005 reviewing the 96 responses received from developers, investors and potential tenants. We were told by a consultant hired to coordinate the RFEI process that responses to the RFEI did not offer any additional insights or ideas to the planning process.

In September 2005, after the start of our audit, the GIPEC Board adopted a revised timeline which projected that the development plan would not be ready until sometime between October 2007 and April 2008. Similarly, the environmental review, which was originally slated for January 2004, was now rescheduled for completion during the same October to April time period.

In February 2006, almost two years after the target date in the original plan, GIPEC issued the actual RFP to gather specific development proposals. GIPEC hopes to review and evaluate the resulting proposals and then narrow down the pool of respondents by the end of 2006. Officials noted, however, that the environmental review process cannot begin until after the RFP review and selection process is completed. Since GIPEC estimates that this environmental review process will take between 12 and 18 months to complete, it is difficult to envision how a final plan can be adopted in time to meet the December 2007 target date stipulated in the transfer agreements.

Over the course of our audit, GIPEC officials have maintained that an approved development plan is still possible by December 2007, while at the same time stressing that the target date for the plan is arbitrary and, in their opinion, not binding. They point out that the deed to the Island states that the planning is "expected," not required, to be adopted and approved by that date and that there are no penalties or consequences if GIPEC fails to complete the

planning process on time. However, these continuous delays preclude the public from experiencing the full range of educational, recreational, and cultural benefits envisioned when the federal government returned the Island to New York in 2003.

### **GIPEC Board Activities and Personnel**

One major reason why GIPEC faces delays now is that it took a lot of time getting organized and putting staff into place. There were also several changes in leadership during GIPEC's first three years of existence.

GIPEC was created on September 13, 2002 and held its first Board meeting later that month. However, it only lasted 10 minutes and the meeting minutes make no reference to any planning activities or the appointment of any GIPEC personnel. In fact, GIPEC did not hire anyone until April 2003, when the Board held its second meeting and appointed its Vice President; seven months after GIPEC's inception and three months after it took control of the Island. This Board meeting lasted less than 30 minutes and the only planning-related activity discussed was the establishment of the Governors Island Advisory Council to provide advice on matters relating to Island redevelopment. The Board minutes do not indicate whether anyone was actually appointed to the Council.

At the Board's third meeting in August 2003, almost a year after GIPEC's creation, a President was appointed. The minutes for this 12-minute meeting make no reference to any planning activities.

The clear lack of discussion regarding any planning activity in the Board minutes and the short duration of the meetings in GIPEC's first year indicates that the Board was not ensuring that necessary steps were taken towards planning and redevelopment. That,

coupled with the length of time that it took to hire staff would at least partially explain why the planning process got off to such a slow start.

The Board did fill six more positions the following year in 2004. Another two employees were hired in 2005 - the Vice President of Planning, Design and Preservation, and a new Interim President, and finally a permanent President was hired in 2006.

GIPEC officials state that during its first year there was not much activity that would require Board meetings. We agree that there was not a lot of activity during GIPEC's first year. However, by the end of its first year, only three employees had been hired. Had the Board been more active and hired GIPEC employees sooner, more action and planning on Governors Island redevelopment could have taken place.

### **Recommendations**

1. Produce a realistic timeline for the adoption of a master plan for redevelopment of the Island and take the necessary steps to adhere to the timeline.
2. Schedule Board meetings on a more consistent basis so that the redevelopment progress can be monitored more frequently.

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### *Fiscal Operations*

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### **Financial Reports**

As a subsidiary of ESDC, GIPEC is not required to maintain financial statements. However, having an accurate, reliable set of financial statements provides management, as well as external users, with information on the entity's economic resources, obligations, and

results of operation. They assist managers in making informed economic decisions, thereby serving as a means of gauging the organization's financial strength. Conversely, an organization that lacks reliable financial statements may not have adequate information to make informed financial decisions and, therefore, may jeopardize its entire operation.

Financial information is maintained by GIPEC, but we found several problems in the accuracy of reports and how financial information is kept. Overall, we found GIPEC does not have a complete picture of its finances. For example, GIPEC's Vice President of Finance tracks financial transactions through GIPEC-prepared electronic spreadsheets, which compare budgeted to actual revenues and expenditures. We found that these are not an accurate report of GIPEC's financial activity.

Most GIPEC-prepared financial data is based on vendor invoice amounts, not the actual payments made. For example, in some cases the spreadsheets show expenses that have not been paid and do not include other expenses that have been paid. This is due to the fact that ESDC makes most payments on GIPEC's behalf and GIPEC officials are sometimes not aware of these payments. In addition, GIPEC-prepared numbers do not indicate what is owed to vendors. More communication is needed between ESDC and GIPEC so there is a better understanding of what is being paid on GIPEC's behalf.

We also identified two major problems with ESDC-prepared financial information relating to GIPEC:

- GIPEC's fiscal year ends on March 31st. ESDC did not prepare GIPEC financial statements for the seven months ended March 31, 2003,

GIPEC's first fiscal period, nor for the years ended March 31, 2004 and March 31, 2005. Therefore, GIPEC did not have complete information to make informed decisions about its operations during those periods. For example, as of March 31, 2004, GIPEC should have received a total of \$17 million from the State and the City and had actually received by that date only \$13.5 million. GIPEC had no written financial statements indicating the \$3.5 million receivable.

- ESDC-prepared financial reports do not reflect many New York City Economic Development Corporation transactions paid on GIPEC's behalf. For example, they do not include expenses totaling \$4.1 million reportedly paid to a vendor for Island renovations, ferry operations and other services from inception through November 30, 2003.

Lastly, we found that sufficient steps were not taken by GIPEC's Board to ensure that GIPEC's top financial management employees have the required experience and qualifications as enunciated by ESDC's established criteria for their responsibilities. We found that the resumes of two GIPEC employees, the Vice President of Finance and Administration, and the Contracts Administrator, did not meet the criteria listed on their respective position descriptions.

- The Contracts Administrator did not meet the minimum requirements for this position. Knowledge of contract management and government agencies was required. We saw no evidence that the individual in that position possessed this knowledge.

- The Vice President of Finance and Administration did not have the minimum requirements for this position. The minimum requirements called for a Masters or Bachelors degree in finance or business administration. The individual in the position holds a Bachelors of Arts in political science. Furthermore, a working knowledge of finance and accounting techniques, as well as financial reporting procedures was required. We saw no evidence that the hired individual possessed these skills.

In addition, when we reviewed documentation, it showed that only one person was considered for the position of Vice President of Finance and Administration, and two for Contracts Administrator. There is no evidence suggesting that a strong effort was made to search for more qualified individuals.

The ESDC Human Resources Director was not aware of any other credentials that these individuals possessed that might substitute for the education, experience or skills that were lacking. These employees are placed into positions to make decisions that will affect the entire corporation. They are responsible for awarding contracts and overseeing millions of dollars. Since they do not meet certain specific criteria for these positions, there is a risk that these individuals may not take the best course of action, causing funds to be used in an inefficient manner. This could also make GIPEC's overall control environment more vulnerable and thus impact all areas of operation.

GIPEC officials maintain that even though these two individuals did not meet the specific requirements, they have "broad knowledge" to perform the tasks required. Officials also contend that since ESDC was responsible for

overseeing financial matters for GIPEC, the hiring of these people was appropriate for these positions. However, we saw no evidence that these two individuals had broad knowledge. Also, if ESDC is responsible for overseeing all finance functions, it is unclear as to why these positions are necessary.

### **Internal Controls over Disbursements**

From September 2002 to March 2005, eleven vendors were awarded contracts totaling just over \$40 million with GIPEC. We reviewed the three largest contracts, totaling \$31.4 million and, based on ESDC contract procurement policies, found that GIPEC has an adequate competitive process for selecting contractors. We also tested controls over disbursements to determine if they were done in accordance with applicable procedures. These procedures include having invoices on file, ensuring payment request forms were properly filled out and signed, and ensuring disbursements were related to Island redevelopment efforts. Overall, we found that controls over contract payments were adequate.

From GIPEC's inception to March 31, 2005, a total of \$6.7 million was spent by the New York City Economic Development Corporation and ESDC on GIPEC's behalf for services not part of a contract. We tested controls over such disbursements and found that most disbursements were done in accordance with applicable procedures. However, we found that GIPEC did not always verify that services billed were provided and supporting documentation was not retained for all payments.

We identified three payments totaling \$13,129 where controls needed to be improved. For example, a New York City government agency was paid \$12,500 on February 11, 2005 to provide an intern to

GIPEC during the period of September 7, 2004 to May 20, 2005. We found that GIPEC maintained no records reconciling the payment to the services actually provided.

### **Recommendations**

3. ESDC management should prepare complete financial statements for GIPEC so that management can make informed financial decisions.
4. ESDC management should ensure that GIPEC managers have direct access to GIPEC financial data and inform GIPEC of payments being made before they are paid.
5. Verify that all GIPEC managers possess the necessary qualifications for their positions as described in related position description forms, ensure that future positions are adequately advertised, and consider all qualified individuals applying for the position.
6. Reconcile payments to services provided and document that review.

### **AUDIT SCOPE AND METHODOLOGY**

We conducted our performance audit in accordance with generally accepted government auditing standards. We audited GIPEC's redevelopment efforts for the period September 13, 2002 to February 28, 2006. To accomplish our objectives, we reviewed the federal agreements transferring the Island, the MOU between the State and the City, Board minutes, vendor contracts and invoices, and various other records maintained by GIPEC and ESDC. We also interviewed GIPEC and ESDC management, as well as other interested parties, including a former GIPEC President.

Finally, we examined disbursements of ESDC funds through March 31, 2005. For our invoice review, we randomly selected ten sample transactions totaling \$54,183, out of a population of 141 transactions totaling \$3.1 million for the year ended March 31, 2004. For the year ended March 31, 2005, we randomly selected 15 sample transactions totaling \$98,955, out of a population of 339 transactions totaling \$21.2 million. These two populations did not include any known contract-related payments. For the review of contract payments, we selected the three largest contracts paid by ESDC on GIPEC's behalf, awarded between September 2002 and March 2005.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Office of Operations. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

## **AUTHORITY**

The audit was performed pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 6278(3) of McKinney's Unconsolidated Laws.

## **REPORTING REQUIREMENTS**

Draft copies of matters contained in this report were provided to GIPEC officials for their review and comment. Their comments were considered in preparing this report. A complete copy of GIPEC's response is included as Appendix A. Appendix B contains State Comptroller's comments which address matters of disagreement contained in GIPEC's response.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the President of GIPEC shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

## **CONTRIBUTORS TO THE REPORT**

Major contributors to this report include Frank Houston, John Buyce, Gene Brenenson, Jeremy Mack, Kamal Elsayed, Daniel Raczynski and Sue Gold.

**APPENDIX A - AUDITEE RESPONSE**



**Anita W. Laremont**  
Senior Vice President - Legal  
and General Counsel

November 20, 2006

**VIA E-MAIL AND OVERNIGHT MAIL**

Office of the State Comptroller  
Division of State Services  
State Audit Bureau  
123 William Street – 21<sup>st</sup> Floor  
New York, NY 10038

Re: Draft Audit Findings – Draft Audit (2005-S-43)

To Whom It May Concern::

Enclosed is Governor Island Preservation and Education and Corporation's ("GIPEC's) response to the recently issued draft audit findings regarding GIPEC Redevelopment Issues, for your information and review. The primary author of this response was Leslie Koch, President of GIPEC. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely yours,

A handwritten signature in cursive script that reads "Anita W. Laremont".

cc: Eileen Mildemberger  
Leslie Koch  
Paul Kelly

**Empire State Development Corporation**

633 Third Avenue New York, New York 10017-6754 Tel 212 803 3750 Fax 212 803 3775

**Response to  
Draft Audit Findings of the New York State Comptroller's Office  
dated October 20, 2006  
regarding**

**Governors Island Preservation and Education Corporation  
Management of the Governors Island Redevelopment Process**

The following is the response of the Governors Island Preservation and Education Corporation ("GIPEC") and Empire State Development Corporation ("ESDC"), GIPEC's parent company, to the draft Audit findings of the New York State Comptroller's office ("Comptroller's Office") on the Management of the Governors Island Redevelopment Process. The draft audit was received by GIPEC on October 31, 2006.

GIPEC objects to many points of the audit, including: (1) numerous factual misstatements, (2) the fact that GIPEC had previously addressed many of your statements and our prior comments were not incorporated into or reflected in this audit draft, and (3) the numerous conclusory statements that are not supported by any facts and in many instances are in fact contradicted by the audit findings themselves.

GIPEC has provided detailed specific responses to you in three previous written submissions and therefore will focus this response on the main themes in the audit. The draft audit reviews GIPEC activities in multiple sections of the audit. We believe it simpler to address the major audit issues globally and will not respond to the audit in a paragraph by paragraph manner.

The Comptroller's office stated 2 objectives for the audit:

- (1) to determine the status of the Governors Island redevelopment effort and if GIPEC has complied with provisions of the property transfer agreement in a timely manner; and
- (2) to determine if GIPEC established internal controls to ensure the efficient and effective use of the operational funding provided by New York State and City.

Our response will focus on these two major audit themes (1) Redevelopment Efforts, and (2) Internal Controls over Financial Transactions and a third major theme of the draft audit (3) Board of Directors and Staff.

**1. Redevelopment Efforts**

Our primary disagreement with this portion of the audit is that we believe you place much too much emphasis on preliminary, non-binding dates set forth in transfer documents for adoption of a Master Plan. You seem to equate adoption of the "Master Plan" by certain dates as the standard by which to judge the progress of the

redevelopment of Governors Island. We believe your position on this issue (1) fails to recognize the complexity and magnitude of the Governors Island redevelopment project, (2) fails to recognize the significant planning and other work performed to date by GIPEC staff, and (3) places undue and unintended significance upon compliance with arbitrary dates over the more basic and important goal of insuring the best possible redevelopment plan for the Island.

\*  
Comment  
1

In addition to the dates set forth in the transfer agreements, you also discuss other timelines proposed by GIPEC. You specifically mention a timeline developed by GIPEC in September 2003 that called for completion of environmental review by January 2004 and a completion of a Master Plan by the spring of 2005. Our first point is that such timeline was part of a draft business plan developed by the GIPEC President. The timeline was always a work in progress and was never formally adopted by GIPEC's Board. You state that in such timeline GIPEC expected that environmental review would be completed by January 2004. Your audit statement to that effect is simply false. Such a review can only begin after a decision is made as to what types of future uses, densities and transportation trips will be generated by a future developed Island. GIPEC never proposed that such process could be completed in four months. Similarly, any characterization that the June 2004 planning workshop constituted a change in direction or slowed down any process is false. GIPEC always anticipated such a workshop and scheduling the workshop did not create any delays.

\*  
Comment  
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\*  
Comment  
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GIPEC readily acknowledges that it has changed timelines based up on its ever evolving knowledge of the Island. We do not view this negatively in any way. Timelines are not legally binding documents. They create no obligations and GIEPC has the right to amend any such timeline as it deems appropriate.

One of the audit recommendations is for GIPEC to set a timeline for completion of a Master Plan and to adhere to such timeline. GIPEC is working towards the development of a Master Plan in a manner that is appropriate given the complexity of the Island and the challenges posed for redevelopment. If we were to provide further timelines, we suspect they would also need to be adjusted as circumstances would warrant.

Our goal for the Island is quality and long term sustainability of development, not expediency. As to the assertion that some of our change in directions has not been productive, we disagree. Everything we have learned to date has expanded our knowledge of the Island and the likely private sector appealability of the Island. We also respectfully assert that someone with a strong background in large public-planning projects would conclude that we have acted thoroughly, responsibly and aggressively in our efforts to date to redevelop the Island.

We have already outlined to you in the past the planning and redevelopment steps we have taken to date. We will not restate such steps again in this Response but will summarize the rationale for the planning work we have performed. In order to best redevelop Governors Island, GIPEC needs to understand as the Island as fully as

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possible, including anticipated infrastructure and transportation needs as well as market information about potential uses and users for the Island. GIPEC retained expert consultant and consultant teams to provide such information. We recognize that even the best advice from consultants cannot substitute for actual market feedback from potential commercial and not-for-profit users for the Island. The results of the RFEI and development RFP have provided much knowledge to GIPEC on how to proceed with the Island, including the challenges to feasible commercial development provided in the Island use restrictions set forth in the deed to GIPEC.

On November 13, 2006 we presented to our Board our vision for Governors Island's future open spaces, including a great promenade around the Island's perimeter; a new major park located on the southern portion of the Island, and improved park design within the northern Historic District. Late last month, GIPEC issued Requests for Statements of Qualification (RFQ) for professional design services for Governors Island's new and historic parklands and waterfront promenade. We also announced at the meeting that GIPEC is working with the New York City Department of Education to provide a future home for the New York Harbor School on Governors Island. The Harbor School was one of the 25 respondents to the RFP issued in February.

The redevelopment of Governors Island is an extremely complicated and challenging task. As we have previously pointed out to you, many large projects in the City, such as the World Trade Center, Battery Park City, Queens West, Hudson River and Brooklyn Bridge Parks, as examples, all have all changed and evolved over the course of time.

GIPEC recognizes the public's goal for access to the Island. We will continue to provide access to the Island in the immediate future while we continue to work to redevelop the Island with the proper mix of public and private uses so that Governors Island can be utilized over the long term for the maximum benefit of all New York State and New York City residents. As we have said many times, achieving world class excellence in the redevelopment of Governors Island is our primary goal. We are not prepared to sacrifice that goal to meet arbitrary deadlines.

## **2. Internal Controls over Financial Transactions**

The second major focus of the audit was whether GIPEC established sufficient internal controls to ensure the efficient and effective use of the operational funding provided to GIPEC by New York State and New York City. We will address the controls themselves in this section and will address Board and staff activity in the following section.

Your audit makes the following three significant findings:

- (i) GIPEC has adopted adequate internal controls to ensure efficient and effective use of its operational funding.

(ii) GIPEC has an adequate competitive process for selecting contractors.

(iii) GIPEC's controls over contract payments were adequate.

These favorable conclusions, which you drew from your own audit, are largely based upon your detailed and extensive review of all of GIPEC invoices over a four year period. During that time GIPEC expended \$32,000,000 in public funding. Your review found issue with just \$629 worth of invoices or 0.0019% of the total value of sums paid. (In fact, as part of an earlier audit response we provided additional documentation evidencing that the \$629 worth of questionable invoices were all properly paid by GIPEC.)

\*  
Comment  
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These facts and your conclusions that GIPEC has adequate controls over its funding, selection of contractors, and payments do not seem to support you more subjective comments as to the quality of GIPEC review processes and staff. In fact we believe that such subjective comments are rendered untrue by your own findings over the last 4 years. We believe that your recommendations and suggestions to GIPEC should follow your factual findings and not contradict them.

\*  
Comment  
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Despite having provided information on our invoice review process many times, we will review the process once again. We believe our invoice review process is an excellent one and provides more than adequate assurances that invoices will be properly processed:

- All work is first initiated by GIPEC.
- Before any contractor is paid for work performed, GIPEC staff personally inspects work to be sure it is properly performed.
- Any invoices received are first reviewed by our Contracts Administrator and Vice President of Finance.
- Depending on the nature of the work, other staff members may also review.
- All invoices are then reviewed by either the Senior Vice President for Operations, who has an MBA, or the Vice President for Planning.
- All invoices are then reviewed by the GIPEC President.
- After sign-off by the GIPEC President, an invoice is sent up to ESDC for its review and payment.

GIPEC believes that having only \$629 in invoice issues out of \$32,000,000 in expenditures over four years is reflective of the sound performance of GIPEC staff and clearly demonstrates the value and accountability of our invoice review process. We fully intend to continue with this invoice review process in the future.

\*  
Comment  
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As for financial statements, you raise some issues with GIPEC's understanding of its own financial position based on the fact that ESDC pays invoices on behalf of GIPEC and there is sometimes a delay between the time a payment is made by ESDC and notice of payment is provided to GIPEC. While we agree that improved communications is a worthy goal, since ESDC pays invoices, there is no danger that an invoice may be paid by GIPEC after payment is made by ESDC. Moreover, your audit found no evidence of any inappropriate actions or financial mismanagement. We will continue to work with ESDC on communications but do not believe that such communications present any risks to our financial position.

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**Comment**  
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Next, we will address the financials that GIPEC itself produces. As GIPEC is a subsidiary of ESDC, its finances are consolidated with those of its parent entity. GIPEC produces its own financials reports so that it can properly account for and monitor the planning and other work being performed by consultants and the repair and capital work being performed by contractors on the Island.

GIPEC staff prepares proposed Budgets for its Board and prepares monthly reconciliation statements of actual versus budgeted expenditures. Internally, GIPEC tracks weekly expenditures made by Turner Construction Company, our facilities manager and chief procurer. Expenditures associated with Turner account for approximately 75% of all GIPEC expenditures.

In the audit state you state that while most payments made to EDC during the first year of GIPEC's operation were done in accordance with applicable procedures that GIPEC did not always verify that services billed were as provided and supporting documentation was not retained for all payments. You should note that EDC was retained as facilities manager only for the first year of operations while GIPEC was staffing up. GIPEC worked with EDC during such first year of operations and we believe all invoices paid to EDC were for work that was properly performed. While there may be an issue of complete record retention for such period, we do not believe there is any payment issue. We have since developed the multi-layer invoice review process described earlier so what may have happened during that start-up period is not applicable to the present activities of GIPEC.

You also point out that an ESDC financial statement failed to reflect a receivable from the State and City. While this may be true, it is important to note that GIPEC is funded almost entirely by State and City appropriations. Accordingly, securing all State and City funding is one of GIPEC's primary activities and GIPEC is keenly aware of the status of all such finding at any time.

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**Comment**  
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You identify \$13,129 worth of invoices where controls needed to be improved. You identify one invoice for \$12,500 for which you obviously missed our previous explanation. The sum was for an intern who worked in our office on Governors Island. She worked for the President who supervised her daily work and signed her timesheets. We believe such measures constituted sufficient controls for such expenditure. As

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**Comment**  
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\* See State Comptroller's Comments, page 18

referenced earlier, this leaves \$629 in expenses as the only expenditures for which you found issue with during the 4 year period of your audit.

### 3. Board of Directors and Staff

Our primary disagreement with your findings as to our Board of Directors is that all your comments apply to the first year and initial period of GIPEC operation. Your Board recommendations have already been in place for a number of years, so we deem those recommendations to be moot.

For example, the audit suggests that Board meetings be scheduled on a more consistent basis so that the redevelopment process can be monitored more closely. As we have previously told you, for the last year and a half (since May 2005) Board meetings have been scheduled and held every 2 months (except for one occasion over the summer of 2006) for a total of 9 Board of Director meetings during that period.

The audit stresses the absence of Board minute discussions on planning to mean that the Board of Directors has not been engaged in the planning process. This is not true. Board minutes simply reflect the items that were voted on. We regularly have Operations and Planning Committee meetings with Board members. These meetings are not transcribed, nor should they be. There is an oral President's report given at each Board meeting that generally reviews all planning matters that is also not recoded in minutes because it does not involve a vote of the Board. To jump to the conclusion that there are no planning discussions with Board members based on lack of evidence in Board minutes is neither logically consistent nor true. For the last 18 months, before each such Board meeting there have been meetings with Planning and Operations sub-Committees of the Board.

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Comment  
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As for earlier Board meetings, we want to point out that during the first year after taking title to the Island, while GIPEC staff was familiarizing itself with Island conditions, there were not that many decisions that required any Board action.

On staffing, the audit then addresses the qualifications of GIPEC's Vice President for Finance and its Contacts Administrator and suggests that they may pose a risk to GIPEC's future finances. We find these statements to be absolutely unsupported and in fact refuted by the results of your own audit. We believe a 0.0019% figure for invoices with issues, contrary to your allegations, in fact demonstrates that these two individuals fully performed their respective positions and did so without incident or problem. We believe the facts speak for themselves in evaluating the work they have performed to date for GIPEC.

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Comment  
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Similarly, the extensive invoice review process, including review by the Senior Vice President, President and ESDC provide additional protection for the corporation. It is our position that the track record of these individuals in the past, plus the multi-layer review process set up by GIPEC makes any suggestion that such

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employees pose a risk to GIPEC to be completely without merit and unsupported by any fact or data..

We will continue to insure the qualifications of all our employees and continue our very extensive reconciliation process that insures all our payments for goods and services are properly made

In conclusion, we commit to continue to redevelop Governors Island as promptly as we can without sacrificing quality or the long term viability of the development. We are mindful of our responsibility to the State and City for accounting of our expenditures of public funds and the goals as adopted by our Board for the future of the Island.

Thank you for your review of our response to the draft audit.

## APPENDIX B - STATE COMPTROLLER'S COMMENTS ON AUDITEE RESPONSE

1. GIPEC officials indicate that the dates specified in the Memorandum of Understanding (MOU) between New York City and New York State are arbitrary and not binding. However, in signing the MOU in February 2003, the Governor and Mayor agreed "to preserve, redevelop and operate the Island in a cooperative manner as set forth in this Memorandum of Understanding." GIPEC has not met the City and State's MOU goal of developing a plan "...expeditiously and in any event, within three years of the date of execution of this MOU." Furthermore, per the Federal deed, the grantor and grantee agree that a, "Master Plan is expected to be adopted and approved on or before December 31, 2007." We continue to believe that there has been a lack of significant progress on redevelopment planning. The Island was transferred to GIPEC in early 2003 and now, nearly four years later, there is no specific plan for the Island's redevelopment.
2. The GIPEC President presented the timeline at a Board meeting. The Board minutes do not indicate any disagreement with this timeline. Further, a slide from the GIPEC President's September 2003 Board presentation, supporting the timeline, indicates that the Environmental Impact Statement would be prepared in January 2004.
3. The comment about a change in direction pertaining to the 2004 planning workshop has been deleted from the final report.
4. Our conclusions are based on a review of a sample of GIPEC invoices, as described in the audit scope and methodology section of this report. Furthermore, we identified three payments totaling \$13,129 where controls needed to be improved, not \$629.
5. All report comments, and the recommendations that flow from them, are based upon factual information.
6. We continue to stress the need for improved communications between ESDC and GIPEC to better enable GIPEC officials to make informed financial decisions.
7. The purpose of reporting the receivable on GIPEC financial statements is to ensure that readers of these statements, whether they be GIPEC officials, Board members or other interested parties, can accurately determine GIPEC's financial position.
8. Our audit observation regarding the \$12,500 payment for services that had yet to be completed, concerned the need for GIPEC to reconcile payments to services provided and documenting that process. GIPEC could not document that such a review and reconciliation was done.
9. The primary purpose of board meeting minutes is to create an official record of the events that transpire during a meeting, not merely the items that were voted on.
10. ESDC has established education and experience requirements for employee positions. We would expect that GIPEC employees would possess these qualifications so they can properly perform their job responsibilities.