New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Selected Aspects of Discretionary Spending

Roosevelt Island Operating Corporation

Report 2013-S-11 September 2014

Executive Summary

Purpose

To determine whether Roosevelt Island Operating Corporation's discretionary spending complied with its guidelines and expenses were reasonable, adequately supported, and properly approved. Our audit covers from April 1, 2010 through December 31, 2012.

Background

The Roosevelt Island Operating Corporation of the State of New York (RIOC) is a public benefit corporation and a political subdivision of the State of New York. RIOC was created by the New York State Legislature in 1984 to take responsibility, pursuant to a General Development Plan (GDP), for the development and operation of the 147 acres comprising the former Welfare Island, located in New York City's East River. RIOC assumed the role of the New York State Urban Development Corporation as lessee under a 99-year Master Lease (running until 2068) from the City of New York.

During our audit period, we identified approximately $1.7 million of RIOC spending that was discretionary in nature. Each public authority should have formal policies and procedures specifying the types of discretionary costs that are appropriate and the dollar thresholds, supporting documentation, and formal approvals that are necessary to be accountable for such costs.

Key Findings

- We reviewed 156 payments totaling $144,856 and questioned 98 payments totaling $83,419. Included in the expenditures we questioned were payments for personal travel, out-of-state and conferences in another country, training of non-RIOC employees, and gifts to non-employees.
- RIOC lacked written policies and procedures clarifying what constituted appropriate discretionary spending and specifying permissible dollar thresholds, necessary justifications, and required formal approvals and supporting documentation. The absence of such internal controls increases the risk that not all discretionary spending is necessary and appropriate for the mission of the authority.

Key Recommendations

- Exercise increased restraint over discretionary spending and discontinue any spending that is not consistent with RIOC's mission.
- Establish written policies and procedures for discretionary spending, including requirements for necessary justifications, dollar thresholds, formal approvals, and supporting documentation.

Other Related Audit/Report of Interest

Battery Park City Authority: Selected Aspects of Discretionary Spending (2012-S-158)
State University Construction Fund: Selected Aspects of Discretionary Spending (2013-S-14)

State of New York
Office of the State Comptroller

Division of State Government Accountability

September 30, 2014

Darryl C. Towns
Chairperson
Roosevelt Island Operating Corporation
Roosevelt Island, NY 10044

Dear Mr. Towns:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage their resources efficiently and effectively. By so doing, it provides accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the Roosevelt Island Operating Corporation entitled *Selected Aspects of Discretionary Spending.* This audit was performed pursuant to the State Comptroller's authority under Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

Table of Contents

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Background

Certain public authority costs pertain directly to the operating purpose of the entity. For example, a transportation authority expense to pay for vehicle fleet maintenance is an operating cost. However, a public authority may also incur “discretionary” costs to pay for expenses that indirectly support the primary operating purpose. For example, discretionary costs may include expenses for travel and entertainment, and employee professional development. Expenses must not be incurred for the personal benefit of the board of directors, management, or staff. Each public authority should have formal policies and procedures specifying the types of discretionary costs that are appropriate and the dollar thresholds, supporting documentation, and formal approvals that are necessary for such costs.

This guidance is affirmed by the New York State Authorities Budget Office (ABO) in its November 2012 Recommended Practices, which states that boards of directors and authority management have an obligation to authorize the expenditure of funds only for purposes that relate to and support the mission of the authority. The fiduciary duty of the board includes adopting policies that safeguard assets and resources of the authority and protect against the use of funds for purposes that do not advance its core purpose and objectives. It is particularly important for the board to develop a policy on the proper use of authority discretionary funds that clarifies for all employees what would and would not be considered appropriate expenditures.

The Roosevelt Island Operating Corporation of the State of New York (RIOC) is a public benefit corporation and a political subdivision of the State of New York. RIOC was created by the New York State Legislature in 1984 to take responsibility, pursuant to a General Development Plan (GDP), for the development and operation of the 147 acres comprising the former Welfare Island, located in New York City’s East River. RIOC assumed the role of the New York State Urban Development Corporation as lessee under a 99-year Master Lease (running until 2068) from the City of New York.

During our audit period, we identified approximately $1.7 million of RIOC spending that was discretionary in nature. To determine if RIOC’s discretionary expenses were necessary and appropriate, properly approved, and adequately supported with documentation, we examined 156 payments totaling $ 144,856 for the period April 1, 2010 through December 31, 2012.

Audit Findings and Recommendations

We did not question 43 payments totaling $56,834. However, we questioned 98 payments totaling $83,419 because they were not properly approved, were not reasonable, and/or were not adequately documented or because no policy existed to determine the appropriateness of the expense. The remaining 15 payments totaling $4,603 raised other questions related to appropriateness, which are discussed in the section entitled Other Matters.

Not in Compliance With Procedures and Policy

There were 21 payments where RIOC procedures were not followed:

- 17 payments totaling $5,612 pertained to employee travel costs for which RIOC could not provide support demonstrating the benefit to the authority. For example, $2,634 related to three employees who attended a conference in the Netherlands where two of them made a presentation. However, RIOC officials could not support why the third employee went to the conference at a cost of $2,279. RIOC also paid $355 for the two employees who made the presentation and extended their stay beyond the conference dates. The two employees did not reimburse RIOC for these additional costs.
- Four payments totaling $16,219 made to a vendor for public and media relations services were not properly procured through the competitive process. Instead, RIOC obtained these services by twice extending an existing emergency contract and then issuing a backdated contract to cover the services.

No Procedures

There were 77 payments not covered by RIOC's procedures:

- Six payments totaling $29,001 were for training costs. However, RIOC lacked a policy to clarify how it determines and documents what training is appropriate for its employees to fulfill its mission. For example, RIOC paid $14,560 for three sessions of "Customer Service" training and $12,000 for 11 sessions of "Horticulture" training. RIOC officials could not demonstrate how these training programs were appropriate or what procedures they used to select the vendors. RIOC also could not document why it paid to send an outside contractor's employees to the Customer Service training. Finally, we found RIOC paid $3,175 for an employee to obtain a management certification that was required for a potential promotion. However, the employee did not attend the course. RIOC did not request a refund in a timely manner, waiting 667 days, and ultimately received only a partial refund of $734.
- Three payments totaling $4,143 were for purchases of promotional items such as magnet squares, movie banners, and table throws. RIOC has no procedures related to promotional items, but RIOC officials asserted that these items fell within their General Development Plan (GDP). We found the GDP did provide for certain items, such as tee shirts given to event staff and teams, but there is no mention of the need for these other types of

promotional items.

- Sixty-four payments totaling $27,420 were for food. RIOC had no policy and procedures in place pertaining to discretionary costs for food. For example, seven payments totaling $15,216 were for retirement and holiday parties and staff appreciation luncheons. Generally, high-level employees initiated these food purchases, so that no approval was requested or required. There was no documentation to support that the meals were necessary or that costs were reasonable.
- Four additional payments totaling $1,024 represented floral arrangements and food purchased for undocumented business meetings. These events were unrelated to RIOC's primary purpose or mission.

Other Matters

We also identified 15 other payments totaling $4,603 that represent, at a minimum, questionable use of the Authority's resources.

- Nine payments were made by a few employees who used the corporate credit card on several occasions to pay for personal purchases from places such as Apple iTunes, Best Buy, and Enterprise, and for personal meals. RIOC's credit card policy prohibits the use of the card for non-business purchases. A RIOC official stated that these transactions were incidental, were committed by mistake, and eventually repaid by the employees. However, the fact that some staff repeatedly did not follow the policy calls into question whether their acts were unintentional.
- Three payments totaling $3,638 were for purchases of six high-definition televisions. Officials told us that they purchased these televisions for use in monitoring RIOC's buses. However, RIOC was unable to locate two of the six televisions, and our auditors found three of the other four were being used for other purposes.
- Three remaining payments totaling $262 represented gifts, one of which was for a Board member. RIOC officials could not explain why these purchases had been made using the corporate credit card except to say that former RIOC executives had requested them.

Recommendations

1. Exercise increased restraint over discretionary spending and discontinue any spending that is not consistent with RIOC's primary purpose or mission.

2. Establish written policies and procedures for discretionary costs, including requirements for necessary justifications, cost thresholds, formal approvals, and supporting documentation.

3. Improve accountability for small equipment assets.

Audit Scope and Methodology

We audited to determine whether Roosevelt Island Operating Corporation's (RIOC) discretionary spending complied with its policies, procedures, and guidelines, and whether expenses were reasonable, adequately supported, and properly approved. Our audit covers from April 1, 2010 through December 31, 2012.

To accomplish our objective, we reviewed policies, procedures, and guidelines related to submitting of, and paying for, discretionary expenditures and we interviewed Authority officials. The scope of audit work on internal control focused on gaining an understating of these policies, procedures, and guidelines. We identified three areas of discretionary expenditures that were at a higher risk for inappropriate or questionable payments. For each of these areas, we selected a judgmental sample of payments, based on the nature and amount of the transactions. We reviewed the supporting documentation for these 156 payments, which totaled $144,856.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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. 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 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 2803 of the Public Authorities Law.

Reporting Requirements

We provided a draft copy of this report to RIOC officials for their review and comments. Their comments were considered in preparing this final report and are attached at the end of the report. RIOC officials generally concurred with our recommendations and indicated that steps have already been taken to address them. We did not include a copy of the "Policy for Use of Discretionary Funds" and other internal guidance documents submitted with RIOC's response. However, those documents have been retained on file at the Office of the State Comptroller.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chairperson of the Roosevelt Island Operating Corporation 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 reason why.

Contributors to This Report

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Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Agency Comments

Andrew M. Cuomo
Governor
Charlene M. Indelicato
President/Chief Executive Officer
Donald D. Lewis
Vice President/General Counsel
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Vice President/Chief Financial Officer

ROOSEVELT ISLAND
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September 10, 2014

Ms. Carmen Maldonado
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street - 21st Floor
New York, NY 10038

Dear Ms. Maldonado:

Pursuant to your letter dated August 19, 2014 requesting a formal response to the report of the State Comptroller's audit of selected aspects of RIOC's discretionary spending, please find RIOC's responses to each of the recommendations listed below.

Recommendations

1. Exercise increased restraint over discretionary spending and discontinue any spending that is not consistent with RIOC's primary purpose or mission.

2. Establish written policies and procedures for discretionary costs, including requirements for necessary justifications, cost thresholds, formal approvals, and supporting documentation.

3. Improve accountability for small equipment assets.

Response

RIOC has taken measures to increase restraint over discretionary spending and discontinue any spending that is not consistent with RIOC's mission. On November 07, 2013, RIOC's Board adopted a new Policy for the Use of Discretionary Funds ("Discretionary Policy") and a revised Policy and Procedures Regarding Travel by Personnel ("Travel Policy"). On June 26, 2014, RIOC's Board adopted revised Guidelines Regarding Acquisition and Disposal of Property ("Property Policy") and Guidelines Regarding the Use, Awarding, Monitoring and Reporting of Procurement Contracts ("Procurement Policy"). The Discretionary and Travel Policies specify the types of appropriate discretionary costs, the dollar thresholds, the formal approvals, the requirements for justification including supporting documentation, and other relevant processes necessary to ensure appropriate discretionary spending.

In addition, RIOC restricted credit card purchases by eliminating credit cards previously issued to department heads and maintaining only one corporate credit card under the central control of executive management. The corporate card is used mainly for small emergency purchases and for payments that can only be made with a credit card.

Furthermore, RIOC upgraded its online requisition and purchase order system and implemented approval rules which the system enforces by routing the requests to the designated staff for approval with electronic signature and allowing staff to attach the necessary justification and supporting documentation.

In regards to the second finding under the section "Other Matters", the two "missing" televisions were returned to the vendor, Global Computer, and a credit was issued to RIOC for the return of the television. Attached is an email from Global Computer regarding the credit, copies of the UPS return documents, and copies of the checks reflecting the application of the credit.

To improve accountability for small equipment assets, RIOC's Finance Department has implemented a bar-code control process. RIOC regularly reviews and compares the purchasing and receiving transactions from the source documents against the inventory records and physical assets for completeness, accuracy, and timeliness. RIOC has also implemented an asset disposal/transfer form to document and account for assets that are disposed, transferred, and/or returned. A staff member not involved in inventory periodically performs an independent check of the asset records against the various source documents. Also, RIOC's Finance Department conducts semi-annual physical inventory to track and account for these assets.

Attached are copies of the Discretionary Policy, Travel Policy, Property Policy and Procurement Policy.

If there are matters in this response that you or your staff would like to discuss, please contact me at (212) 832-4540.

Sincerely,

Charlene Indelicato
President and CEO

Enclosures: 5