



*The City of New York
Office of the Comptroller
Bureau of Financial Audit*

WILLIAM C. THOMPSON, JR.
Comptroller

**Audit Report on the Funds Raised by the
Marketing Division of the
New York City Department of Parks and Recreation
and Maintained by the City Parks Foundation**

FM01-167A

April 19, 2002

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Department of Parks and Recreation and
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EXECUTIVE SUMMARY

Background

The New York City Department of Parks and Recreation (Parks) maintains 28,000 acres of City parkland and provides the public with a variety of recreational opportunities through its ball fields, tennis courts, beaches, swimming pools, recreation centers, etc. Parks is also responsible for 500,000 street trees and 2 million park trees. Parks activities are funded through the general operating fund of the City Treasury.

In addition to the funds received from the City, certain Parks divisions raise “private” funds from individuals and organizations that are instructed to make their checks payable to the City Parks Foundation (Foundation). Mainly, three units within Parks raise these funds: the Urban Park Service Division, the Tree Trust Program, and the Marketing & Special Events Division. The funds are deposited in a Foundation bank account and spent at Parks’s direction. These funds are pooled with the Foundation’s own funds and are included on its financial statements as Foundation grants and contributions. Each month, the Foundation submits a report to Parks detailing private funds raised and expended by Parks.

Funds raised by Parks at their City recreational centers, borough offices, and other Parks facilities are forwarded to the Foundation, but are deposited into a custodial account. Like the private funds noted above, custodial account funds are spent at Parks’s direction. However, unlike the private funds above, custodial account funds are deposited into a separate Foundation bank account and are disclosed separately on the Foundation’s financial statements.

This audit report is the third of four reports covering private funds raised by Parks and maintained by the Foundation. Specifically, this report discusses our examination of funds raised by the Marketing & Special Events Division (the Division), forwarded on to the Foundation, and then spent by the Foundation as directed by the Division.

The Division promotes and oversees special events held in City parks, such as Easter and Halloween celebrations, beach volleyball tournaments, and a variety of other recreational and educational programs that are provided to the public at no charge. The Division solicits “donations” from corporate sponsors to finance these public events. In addition, the Division issues Special Event Permits to businesses, organizations, or individuals requesting permission to hold private events in City parks.

In 1999, the Division received donations totaling \$1,022,816. Of this amount, \$645,444 was from corporate sponsors of public events, and the remaining \$377,372 was received from permitted event organizers.

Objectives, Scope, and Methodology

Our audit objectives were to review the Division’s fund raising practices and its internal controls governing the receipt and expenditure of these funds, including: the propriety of Division employees raising private funds that are deposited with the Foundation; the adequacy of the internal controls over the processing, recording, reporting, and expending of these funds; and the accuracy of the accounting for and the recording and reporting of these funds.

Our audit covered the period from July 1, 1998, to June 30, 1999. To review internal controls, we interviewed Foundation and Division officials to obtain an understanding of the procedures for recording, reporting, and expending private funds. Based on our interviews, we determined that the Foundation and the Division did not have sufficient controls in place to ensure that all funds raised are properly safeguarded and that the funds are expended in accordance with Parks guidelines. Consequently, we examined 100 percent of the transactions, except for payroll transactions. For payroll, we reviewed transactions for the period February 14–27, 1999.

In May 2001, a standard fee structure for special event permits was incorporated in the City Administrative Code that required special event fees to be deposited in the City Treasury. Therefore, we expanded the scope of this audit. We examined fees collected by the Division during the month of July 2001 to determine whether Parks charged the appropriate fees and deposited the amounts collected in the City Treasury.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included those tests of the records

and other auditing procedures we considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, § 93 of the New York City Charter.

Results in Brief

The Division inappropriately solicited \$377,312 in "donations" by charging permit fees to businesses, organizations, and individuals in exchange for permission to hold private events in City parks. Moreover, the Division bypassed the City Treasury by depositing \$645,444 in "private" funds with the Foundation during fiscal year 1999.

In addition, the Division did not reconcile its records of funds received and deposited with the Foundation to the monthly financial reports it received from the Foundation. As a result, the Division was unaware that it did not receive credit for a \$250,000 payment from a corporate sponsor.

It should be noted that during this audit, the City Council held hearings regarding Parks's practice of soliciting donations from organizations wishing to hold private events in City parks. At those hearings, the former Parks Commissioner proposed amending the City Administrative Code by adding a new section that provides for a standard fee structure for special events. Subsequently, this fee structure was published in the City Record and was incorporated in the Administrative Code in May 2001. In addition, Parks informed us that since the beginning of fiscal year 2002, funds raised from private and sponsored events have been deposited in the City Treasury. Our review of transactions for July 2001 confirmed that the City Treasury is now receiving these funds.

This report makes the following recommendations:

Parks should:

1. Ensure that any remaining Division funds on deposit with the Foundation are transferred to the City Treasury.
2. Monitor the Division to ensure that it adheres to the new guidelines set forth in the City Administrative Code.

The Foundation should:

3. Cease accepting monies from the Division and forward all balances it manages on behalf of the Division to the Parks Budget Office.

Discussion of Agency Comments

The matters covered in this report were discussed with Parks and Foundation officials during and at the conclusion of this audit. A preliminary draft was sent to Parks and Foundation officials and discussed at an exit conference held on March 18, 2002. On March 22, 2002, we submitted a draft report to Parks and Foundation officials with a request for comments. Parks submitted a written response on March 22, 2002 in which it stated that it agreed with our findings and had implemented the recommendations. The Foundation's written response, received on March 25, 2002, stated that it had complied with the recommendation addressed to the Foundation. The full texts of the Parks and the Foundation responses are included as addenda to this report.

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INTRODUCTION

Background

The New York City Department of Parks and Recreation (Parks) seeks to maintain a clean and safe parks system, providing the public with a greener City and a variety of recreational opportunities. The City's 28,000-acre municipal park system includes 614 turf ball fields, 550 tennis courts, 43 swimming pools, 35 recreation centers, 14 miles of beaches, 13 golf courses, 6 ice rinks, 4 major stadiums, and 4 zoos. Parks is also responsible for more than 500,000 street trees and more than 2 million park trees.

Parks activities are funded through the general operating fund of the City Treasury. Parks is assigned an annual budget, and its activities are subject to all City rules and regulations. In addition to the funds received from the City, certain Parks divisions raise "private" funds from individuals and organizations who are instructed by Parks employees to make their checks payable to the City Parks Foundation (Foundation).

The Foundation is a not-for-profit corporation that was established in 1989. On June 5, 1991, the Foundation entered into a formal agreement with Parks that allowed the Foundation to assist and support Parks in the restoration, maintenance, and management of City parks. The Foundation supports its activities by soliciting donations from corporations and individuals.

Private funds are raised mainly by three units within Parks: the Urban Park Service Division, the Tree Trust Program, and the Marketing & Special Events Division. The funds are deposited in a Foundation bank account and spent at Parks's direction. These funds are pooled with the Foundation's own funds and are included on its financial statements as Foundation grants and contributions. Each month, the Foundation submits a report to Parks detailing the amount of private funds raised and expended by Parks.

Funds raised by Parks at their recreational centers, borough offices, and other Parks facilities are forwarded to the Foundation, but are deposited in a separate custodial account. Like the private funds, custodial account funds are spent at Parks's direction. However, unlike the private funds, custodial account funds are disclosed separately on the Foundation's financial statements.

This audit report is the third of four reports on the private funds raised by Parks and maintained by the Foundation.¹ Specifically, this report examines funds raised by the Marketing & Special Events Division (the Division).

The Division, established in 1995, promotes and oversees special events held in City Parks. Specifically, it organizes such events as Easter and Halloween celebrations, beach volleyball tournaments, and a variety of other recreational and educational programs that are provided to the public at no charge. The Division solicits "donations" from corporate sponsors to finance these public events. In addition, the Division issues a Special Event Permit to a business, organization, or individual that requests permission to hold a private event in a City park and pays a fee.

In 1999, the Division received donations totaling \$1,022,816. Of this amount, \$645,444 was from corporate sponsors of public events, and the remaining \$377,372 was received from permitted event organizers.

Objectives

Our audit objectives were to review the Division's fund raising practices and its internal controls governing the receipt and expenditure of these funds, including:

- the propriety of Division employees raising private funds and depositing them with the Foundation;
- the adequacy of the internal controls over the processing, recording, reporting, and expending of these funds; and
- the accuracy of the accounting for and the recording and reporting of these funds.

¹ Two of the other three audit reports discuss the private funds raised through the Urban Park Service Division (Audit Number FM00-171A, issued on May 31, 2001), and through the Tree Trust Program (Audit Number FM01-165A, issued on June 28, 2001). Our last report, on the Custodial Account, will discuss the appropriateness of collecting and expending funds raised by Parks at their recreational centers, borough offices, and other Parks facilities. That report will be issued soon.

Scope and Methodology

To obtain an understanding of the relationship between Parks and the Foundation, we interviewed officials from both entities. We gathered background information on the Foundation and identified specific areas within Parks that raise private funds maintained by the Foundation.² Based on our interviews we developed detailed audit tests to satisfy the audit objectives.

To review internal controls, we interviewed Foundation and Division officials and obtained an understanding of the procedures for recording, reporting and expending Division funds. Based on these interviews, we determined that the Foundation and the Division did not have sufficient controls in place to ensure that all funds raised are properly safeguarded and that the funds are expended in accordance with Parks's guidelines. Consequently, we examined 100 percent of the transactions (except payroll transactions) for fiscal year 1999, the initial scope of this audit.

Parks officials informed us that beginning in fiscal year 2002, funds raised from private events have been deposited in the City Treasury. In addition, in May 2001 a standard fee structure for special event permits was incorporated in the City Administrative Code. Therefore, we expanded the scope of this audit. We examined fees collected by the Division during the month of July 2001 to determine whether Parks charged the appropriate fees and deposited the amounts collected into the City Treasury.

To determine the nature of funds raised by the Division, we interviewed Parks officials to obtain an understanding of its policies and procedures for soliciting funds. To determine whether the Foundation accurately recorded, reported, and accounted for the funds raised by the Division, we traced transactions on the general ledger to supporting documents, including sponsorship agreements, permits, deposit sheets, canceled checks, and correspondence between Parks and sponsors. In addition, we examined expense vouchers, vendor invoices, bid sheets, and other related documentation to determine whether Parks followed its written policies and procedures for using Division funds.

To determine whether payroll disbursements were recorded properly on Foundation records, we reviewed payroll transactions for one-pay period (February 14–27, 1999) and traced amounts recorded on the general ledger to the Payroll Summary Report.

* * * * *

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included those tests of the records and other auditing procedures we considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, § 93 of the New York City Charter.

² Since our audit scope covered only the funds raised by Parks and maintained by the Foundation, we were not provided access to all of the Foundation's financial records.

Discussion of Agency Comments

The matters covered in this report were discussed with Parks and Foundation officials during and at the conclusion of this audit. A preliminary draft was sent to Parks and Foundation officials and discussed at an exit conference held on March 18, 2002. On March 22, 2002, we submitted a draft report to Parks and Foundation officials with a request for comments. Parks submitted a written response on March 22, 2002 in which it stated that it agreed with our findings and had implemented the recommendations. The Foundation's written response, received on March 25, 2002, stated that it had complied with the recommendation addressed to the Foundation. The full texts of the Parks and the Foundation responses are included as addenda to this report.

OFFICE OF THE COMPTROLLER
NEW YORK CITY

DATE FILED: April 19, 2002

FINDINGS AND RECOMMENDATIONS

The Division inappropriately solicited “donations” by charging permit fees to businesses, organizations, and individuals in exchange for permission to hold private events in City parks. Soliciting these donations and fees appears to violate the City Administrative Code.

Moreover, the Division inappropriately bypassed the City Treasury by depositing privately-raised funds with the Foundation. Since the Parks Department used City employees and resources to raise these funds, we consider the funds to be City revenue, subject to all City guidelines in terms of how they are accounted for and expended. As such, these funds clearly should have been deposited in the City Treasury.

In general, expenses charged to Division funds were reasonable and appropriate. However, the Division did not reconcile its records of funds received and deposited with the Foundation to the monthly financial reports it received from the Foundation. As a result, the Division was unaware that it did not receive credit for a \$250,000 payment from a corporate sponsor.

Due to concerns regarding these and other matters, we sent a letter dated January 12, 2001, to Parks notifying them of these issues and similar issues identified by the group of audits, regarding the Urban Park Service Division, the Tree Trust Program, and Custodial Accounts, rather than waiting until each audit was completed. (The portion of the letter pertaining to the Division is included in this report as APPENDIX I.)

It should be noted that during this audit, the City Council held hearings regarding Parks’s practice of soliciting donations from organizations wishing to hold private events in City parks. At those hearings, the former Parks Commissioner proposed amending the City Administrative Code by adding a new section that provides for a standard fee structure for special events. Subsequently, this fee structure was published in the City Record and was incorporated in the Administrative Code in May 2001. In addition, Parks informed us that since the beginning of fiscal year 2002, funds raised from private and sponsored events have been deposited in the City Treasury. Our review of transactions for July 2001 confirmed that the City Treasury is now receiving these funds.

The Division Inappropriately Solicited Donations for Private Events

In fiscal year 1999, the Division inappropriately solicited \$377,372 in donations from businesses, organizations, and individuals requesting permission to hold private events in City parks. Soliciting donations from these businesses and organizations appears to violate the City Administrative Code.

Under the City Administrative Code, individuals or groups that want to hold a special event in a City park must pay a permit fee of \$25. Accordingly, Parks should not

have solicited donations (ranging from \$1,000 to \$45,000) from businesses, organizations, and individuals that requested special event permits.

For example, on May 11, 1999, Parks issued a permit to the Gay Men's Health Crisis (GMHC) allowing them to hold the "Aids Walk" in Central Park on May 16, 1999. As part of the permit agreement, GMHC agreed to make a "donation" of \$40,000, which it paid to the Foundation on May 14, 1999.

In another example, in September 2000, Parks officials required that the National Museum of Catholic Art and History make a "donation" of \$20,000 to the Foundation for permission to hold an event in an East Harlem park. Museum officials refused to make the \$20,000 donation and brought this matter to the attention of City Council Speaker Peter Vallone, who called for the previously-mentioned City Council hearings. Consequently, a standard fee structure for special events was incorporated in the Administrative Code in May 2001. Our tests of fee transactions for July 2001 confirmed that Parks charged fees in accordance with the Administrative Code.

The Division Inappropriately Deposited City Funds with the Foundation

The Division inappropriately bypassed the City Treasury by depositing \$645,444 in privately raised funds with the Foundation during fiscal year 1999. As previously stated, the Division organizes public events and raises funds by soliciting donations from corporate sponsors. Since these funds were raised by City employees using City resources, we consider the funds to be City revenue subject to all City guidelines in terms of how they are accounted for and expended. As such, these funds clearly should have been deposited in the City Treasury.

For example, on March 19, 1997, Parks signed a multi-year sponsorship agreement with Rollerblade, Inc., to fund a skating program valued at \$1.6 million (\$600,000 in cash donations and \$1,000,000 in equipment). In return, Rollerblade, Inc., was allowed to display its company logo and distribute promotional materials at these events. Contrary to City guidelines, these funds were deposited with the Foundation.

As another example, Infogames Entertainment Inc. (Infogames) agreed to co-sponsor Parks's annual Easter event held in Central Park. To help fund the event, Infogames submitted a \$40,000 check to Parks, which was deposited with the Foundation. In return, Infogames was allowed to display its company logo and distribute promotional materials at this event.

As stated earlier, Parks officials informed us that beginning in fiscal year 2002, funds raised from private events have been deposited in the City Treasury. Our examination of fees for July 2001 confirmed that Parks deposited the Infogames donation in the City Treasury.

Internal Control Issue

The Division did not reconcile its records of funds received and deposited with the Foundation to the monthly financial reports it received from the Foundation. As a result, the Division was unaware that it did not receive credit for a \$250,000 payment received from Rollerblade, Inc. These funds were posted in error to the Foundation's own ledger account. After we informed Foundation officials of this error, they immediately transferred \$250,000 to the Division's ledger account.

Recommendations

Parks should:

1. Ensure that any remaining Division funds on deposit with the Foundation are transferred to the City Treasury.

Parks Response: "All remaining Division Funds have been transferred to the City Treasury."

2. Monitor the Division to ensure that it adheres to the new guidelines set forth in the City Administrative Code.

Parks Response: "We have and will continue to monitor the Division to ensure that it adheres to the new guidelines set forth in the City Administrative Code."

The Foundation should:

3. Cease accepting monies from the Division and forward all balances it manages on behalf of the Division to the Parks Budget Office.

Foundation Response: "CPF is already in compliance with the report's recommendation. . . . As of March 2001, CPF ceased accepting monies from the Marketing Division and has already forwarded all balances to the Parks Budget Office."

**Excerpt from letter dated January 12, 2001
relating to questionable practices on how
Parks raises “private” funds**

III) SPECIAL EVENTS ACCOUNT

This account contains funds generated by Parks’ Marketing Division, whose main purpose is to propose, develop, monitor, and execute events in City Parks. The Marketing Division solicits corporate sponsorship for the events. In these cases, a budget is created, funds are obtained from the sponsor and forwarded to CPF, and spent at the Marketing Division’s direction.

All funds received by the Marketing Division as a result of such activities are forwarded to CPF for deposit into a CPF bank account. CPF then disburses these funds to pay for various expenses incurred by the Marketing Division, as directed by the Marketing Division. According to CPF’s records, \$595,750 in funds raised by the Marketing Division was deposited into a CPF account during fiscal year 1999. During fiscal year 1999, \$426,185 in expenses was paid out of this account.

We are concerned about the propriety of a City agency unit whose function depends primarily on the soliciting of funds for Parks programs from private entities and about the deposit of these funds with CPF instead of the City Treasury.

Chapter 68 of the New York City Charter (the City’s Conflicts of Interest Rules) imposes significant constraints on the interaction between public servants and the private sector, particularly when those interactions involve money or financing of any kind, and particularly if the private entity involved has business, or may reasonably be expected to engage in business in the future, with the City.

By establishing a unit of public servants whose primary purpose and success is dependent upon solicitation and fund-raising for CPF (for however noble the purpose), Parks may be doing these employees a great disservice, and may have placed them directly in “harms way,” by creating at least the appearance, if not the actuality, that their conduct might violate one of the many proscriptions against illegal conduct set forth in Chapter 68.

Special Events Revenues

During fiscal year 1999, various corporations provided funds totaling \$595,750 that were deposited with CPF and earmarked for specified events. While these funds are deposited with CPF, they are spent at the direction of Parks.

For example, the Marketing Division solicited Rollerblade Inc. to fund skating events at various City parks. In fiscal year 1999, Rollerblade Inc. gave the City \$250,000, which was deposited with CPF. As another example, the Marketing Division solicited and obtained \$155,500 from various sponsors for a Halloween event in Central Park. As a third example, the Marketing Division obtained \$45,000 from various sponsors for a citywide beach volleyball tournament. Given that the funds for these events were obtained through the efforts of City-paid employees, we question the appropriateness of depositing these funds with CPF. It should be noted that the City's accounting system is equipped to account for private money received for specific programs. Thus, there is no reason for bypassing the City Treasury and depositing these funds with CPF.

Recommendations Related to Special Events Revenues

Parks should:

12. Request an opinion from the City's Law Department, if it does not already have one, establishing the legality of having City-paid employees solicit funds for Parks' events and then forwarding these funds to CPF, rather than depositing them into the City Treasury.

If it is determined that these funds cannot be deposited with CPF, then Parks should:

13. Require that all proceeds be deposited in the City Treasury. In addition, all special events program funds currently on deposit with CPF should be transferred to the City Treasury.

Special Events Expenses

Based on a preliminary review of expenses paid from the Special Events account, it appears that the majority of expenses charged were related to the events that

were sponsored. However, like the other program accounts, Parks does not have a formal written policy for disbursements from this account. Such a policy would help ensure that items purchased are necessary, appropriate approvals are obtained, and that all relevant City procurement guidelines are followed.

Recommendation Related to
Special Events Expenses

If it is determined that these funds may continue to be deposited in a CPF bank account, in accordance with Recommendation #11, and assuming our other applicable recommendations are implemented, then Parks should:

14. Immediately establish a formal written policy for Special Event Program account funds indicating what items can be purchased, who is authorized to approve the purchases, and what guidelines are to be followed when expending these funds. We suggest that at the very least Parks seek additional counsel from the Law Department as to the applicability of the City's PPB rules to the expenditure of these funds.



City of New York
Parks & Recreation

**Addendum I - Response from the
City of New York Parks & Recreation**

March 22, 2002

Mr. Roger D. Liwer
Assistant Comptroller for Audits
The City of New York
Office of the Comptroller
1 Centre Street, Room 1100
New York, NY 10007-2341

The Arsenal
Central Park
New York, New York 10021

Adrian Benepe
Commissioner

David L. Stark
Chief Fiscal Officer
(212) 360-8265
david.stark@parks.nyc.gov

Dear Mr. Liwer:

Thank you for the opportunity to review and comment on your report before its public release. We agree with your findings and appreciate your help in implementing effective fund raising practices by Parks' Special Events Division.

Parks has addressed all the audit issues and already implemented the two recommendations. Our comments and response are described in detail after the following recommendations:

Recommendation 1 - **Parks should ensure that any remaining Division funds on deposit with the Foundation are transferred to the City Treasury.**

All remaining Division funds have been transferred to the City Treasury.

Recommendation 2 - **Parks should monitor the Division to ensure that it adheres to the new guidelines set forth in the City Administrative Code.**

We have and will continue to monitor the Division to ensure that it adheres to the new guidelines set forth in the City Administrative Code.

The Foundation Should:

Recommendation 3 - **Cease accepting monies from the Division and forward all balances it manages on behalf of the Division to the Parks Budget Office.**

City Parks Foundation has ceased accepting monies from the Marketing Division and has already forwarded all balances to the Parks Budget Office.

If you have any questions or need further information, please call me at (212) 360-8265.

Sincerely,

David Stark
Chief Fiscal Officer

cc: Adrian Benepe
Robert Garafola
Susan L. Kupferman
Peggy Rose Viera

www.nyc.gov/parks



Addendum II - Response from the
City Parks Foundation

CITY PARKS FOUNDATION

The Arsenal
Central Park
New York, New York 10021
212 360-1399

March 25, 2002

Mr. Roger D. Liwer
Assistant Comptroller for Audits
The City of New York
Office of the Comptroller
Room 1100
One Centre Street
New York, NY 10007-2341

Dear Mr. Liwer:

The City Parks Foundation (CPF) has reviewed the draft of the report issued by your office entitled "Funds Raised by the Marketing Division of the New York City Department of Parks and Recreation..." (FM01-167A).

We would like to state that CPF is already in compliance with the report's recommendation on page 7. As of March, 2001, CPF ceased accepting monies from the Marketing Division and has already forwarded all balances to the Parks Budget Office.

Furthermore, CPF will require the Department of Parks and Recreation to send written notice every three months to confirm to CPF that they continue to be in compliance with the recommendations of this audit report, as well as the recommendations of previous reports concerning the Urban Park Service Division (issued May 31, 2001) and the Tree Trust Program (issued June 28, 2001). A sample of the newly-required written notice is attached.

Thank you for the opportunity to comment on the report.

Sincerely,

David Rivel
Executive Director

Addendum II - Response from the
City Parks Foundation

DRAFT

DATE:

TO: David Rivel, Executive Director
City Parks Foundation

FROM: David Stark, Comptroller
Department of Parks and Recreation

RE: Custodial/Restricted Accounts

This memo is to confirm that during the prior three months, the Department of Parks and Recreation has not deposited into the custodial/restricted accounts maintained by the City Parks Foundation on behalf of the Parks Department any funds that would violate the recommendations of the Office of the Comptroller contained in the following audit reports:

- Urban Park Service Division (FM00-171A, issued May 31, 2001)
- Tree Trust Program (FM01-165A, issued June 28, 2001)
- Marketing Division (FM01-167A, draft issued February 28, 2002)

All funds deposited into the custodial/restricted accounts during the past three months are donations that the City Parks Foundation is managing on behalf of the parks and open spaces of the City of New York.