



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

WILLIAM C. THOMPSON, JR.
Comptroller

**Audit Report on the
New York Yankees Rental Credits
for the Second Quarter of 2001
(April 1, 2001, to June 30, 2001)**

FR02-124A

June 13, 2002

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INTRODUCTION

Background

In accordance with the August 8, 1972, lease agreement between the New York Yankees (the Yankees) and the City of New York (the City), the Comptroller's Office is required to audit all rental credits claimed by the Yankees for maintaining Yankee Stadium. Under the terms of the lease, the Yankees are responsible for maintaining the City-owned stadium. The costs incurred by the Yankees for maintaining the stadium are offset against the rental income due the City from the Yankees for the stadium lease. Therefore, every approved dollar spent in maintaining the stadium and accounted for as a rental credit results in a dollar-for-dollar decrease in the rent due to the City.

The general rule for eligible work is that the City pays to maintain all areas of the stadium except Yankees offices, concession space, the receiving room, the Commissary, the restaurant space (Yankee Club, Yankee Dining Room, Pinstripe Pub, and Stadium Club). The City also pays for materials used to maintain the stadium; however, it does not pay for uniforms or tools.

The rental credits are subject to the approval of the Comptroller's Office. According to the lease, the Yankees are required to submit to the Comptroller, not more than once a month, all documentation necessary for the audit of these rental credits. However, the Yankees and the Comptroller's Office have agreed that the Yankees will submit the maintenance credits and supporting documentation on a quarterly basis instead.

Furthermore, the Comptroller's Office has agreed to audit the quarterly submissions and to present its findings to the Yankees in a preliminary draft report and at an exit conference before issuing a draft report. Within two weeks of the issuance of the draft report, the Yankees will submit any documentation previously omitted to the Comptroller's Office to support any rental credits claimed. Once the Comptroller's Office receives and reviews this documentation, it will issue a final report.

Objectives

The objectives of this audit were to:

- verify the adequacy of the documentation supporting the submitted labor and materials charges,
- ascertain the eligibility for reimbursement of the invoices in accordance with the lease in the form of rental credits, and
- verify the accuracy of the computations and to ensure that non-City charges are not credited toward the rent due under the lease for the period April 1, 2001, through June 30, 2001.

Scope and Methodology

The Comptroller's Bureau of Financial Audit and Bureau of Engineering examined 100 percent of the labor and materials charges, and the supporting documentation submitted by the Yankees.

Financial auditors audited the billings of two subcontractors—River Payroll (Cleaning Services), under Schedule A-1, and PEM Electric, under Schedule A-2—for sufficient documentation in the form of invoices, time sheets, and activity reports to determine whether these billings for labor and materials were justified under the lease.

The Bureau of Engineering is responsible for the audit of all other vendor invoices covered under Schedules A-3 through A-6 with the schedule headings of Miranda Fuel, Brown & Silver, Stadium Repairs, and Other Expenses. The Bureau's findings are included in this report.

The audit scope covered the period April 1, 2001, through June 30, 2001. Financial auditors audited all source documents for each month of the quarter submitted under Schedule A-1 (River Payroll) and Schedule A-2 (PEM Electric) for reimbursement through the rental credits. These documents included time sheets, payroll reports, and invoices to support the costs of labor and materials charged to the City.

In addition, we verified the charges for materials under Schedule A-2 (PEM Electric) for appropriateness and reasonableness. The settlement agreement of October 29, 1993, designated the Yankees as agents of the City. Therefore, maintenance credits for sales tax are not accepted as credits against rental income. In this regard, we verified that charges for materials did not include sales tax.

We verified all retroactive salary adjustments for accuracy against supporting documentation or relevant agreements.

We documented all recurring unreasonable charges for rental credits on a spreadsheet with our comments, and included them as appendices to this report. We calculated all dollar amounts on the supporting schedules for accuracy and reconciled these amounts with the total amounts listed on the lead schedule for all vendors from Schedule A-1 through A-6.

The Bureau of Engineering audited all of the billings on Schedules A-3 through A-6 for accuracy and eligibility for reimbursement. The Bureau of Engineering used the following steps to allow or to disallow rental credits:

- To verify the cost of an item, an invoice and check must be submitted.
- To receive maintenance credit toward rent, the Yankees must provide pre-authorization and acceptance reports from Department of Parks and Recreation (Parks) for the work or services performed.

Without the submission of the above supporting documentation, maintenance costs submitted as credits against rental income are disallowed.

These audits are lease-mandated; thereby requiring the Yankees to submit all source documents to the Comptroller's Office in order to receive credits toward rental income due to the City.

We did not conduct an entrance conference or evaluate the Yankees' internal controls over the process and procedures for payment of the invoices for maintenance. However, we verified that all documents contained valid certification from Parks' designees at Yankee Stadium as proof that labor costs were incurred and that material was purchased and received.

The audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included all tests we considered necessary under the circumstances. The 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.

Discussion of Audit Results

The matters covered in this report were discussed with officials from the New York Yankees and from Parks during and at the conclusion of this audit. A preliminary report was issued on March 19, 2002. On April 22, 2002, Yankee officials waived their right to an exit conference. Parks, however, submitted documentation supporting a portion of the credits that we were disallowing as rental credits because of lack of its approval. On April 26, 2001, we issued a draft report with a request for comments.

Our draft report disallowed rental credits totaling \$148,161.16. After review of documentation provided by Parks and the Yankees subsequent to the draft report, we allowed additional rental credits of \$23,462.89. This resulted in our final disallowance of \$124,698.27, of which the Yankees accepted \$121,841.95 as a Yankees cost. The remaining disallowance of \$2,856.32, under schedule A-1, consists of charges related to Yankees assignments. These credits are not chargeable to the City. In this regard, Parks should ensure that the Yankees deduct \$124,698.27 from their rental credits.

This final report reflects our changes based on additional documentation submitted by the Yankees and by Parks. The Yankees' response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

Overstatement of Rental Credits

Rental credits audited under the schedules submitted for the second quarter of 2001 were overstated by \$124,698.27, as summarized below:

Table I

Disallowance Schedule*

Schedule	Billed	Allowed	Disallowed
A-1 (River Payroll)	\$532,623.18	\$453,113.62	\$79,509.56
A-2 (PEM Electric)	775,505.11	731,821.42	43,683.69
A-3 (Miranda Fuel)	54,351.70	54,351.70	0.00
A-4 (Brown & Silver)	10,449.70	10,449.70	0.00
A-5 (Stadium Repairs)	481,875.82	480,887.20	988.62
A-6 (Other Expenses)	7,959.37	7,442.97	516.40
Total	\$1,862,764.88	\$1,738,066.61	\$124,698.27

* All calculations are rounded to two decimal points

A summary of the maintenance credit billings, as submitted by the Yankees, and our disallowances for each vendor are presented in Appendix I, including all the vendors under Schedules A-1 through A-6 for each month of the audit period.

The River Payroll disallowance of \$79,509.56 consists of the following:

- \$45,951.02—for previously claimed security services. The Yankees submitted the same invoices, covering the period January 26, 2001 through March 29, 2001 with its 1st quarter 2001 rental credits. The Yankees accepted the \$45,951.02 disallowance as a Yankees cost.
- \$15,684.50—for excess security costs for the period March 30, 2001 through June 28, 2001. Based on the hourly rates stated in the agreement between the Yankees and Burns International Security (Burns), and on the staffing levels approved by Parks, the Yankees should have billed the City for only \$54,639.05 instead of the \$70,323.55 actually billed. The Yankees accepted the \$15,684.50 disallowance as a Yankees cost.
- \$7,871.26—for the retroactive welfare contribution adjustments made to Local 30 for the period of 1/3/99 to 1/28/2001, that were not supported by adequate documentation. The Yankees accepted the \$7,871.26 disallowance as a Yankee cost.

- \$5,345.37—for hours worked on Yankee assignments, which were listed on the time records as “Seat Rail,” “Bathroom Crews,” “Basketball Courts,” and “Parking Lot Assignment.” These expenses, under the terms of the lease, are chargeable to the Yankees and cannot be offset as maintenance credits against rental income. The Yankees accepted \$2,766.03 of the disallowance as a Yankees cost.
- \$2,650.02—for contributions to various funds and payroll taxes that are related to our River Payroll disallowances listed here.¹ The Yankees accepted \$2,373.04 of the disallowance as a Yankees cost.
- \$597.26—for six employees who did not fill in their sign-out time and/or who did not initial their timesheets at the end of their work shifts. The Yankees accepted the \$597.26 disallowance as a Yankees cost.
- \$570.30—for the cost of “lunch-not-taken.” §162 of New York State Labor Law states that “every person in any establishment or occupation covered by the Labor Law must be afforded a meal period of at least thirty minutes.” Furthermore, Article VI of the Agreement between Local 54 S.E.I.U., AFL-CIO, and River Operating Company, Inc. (River Payroll), states, in part: “Hours of work each day shall be exclusive of a daily lunch period of not more than one (1) hour.” In addition, according to a letter to us dated June 9, 1997, Parks stated that it informed the Yankees that effective January 1, 1996, it would not accept “lunch not taken” labor cost credits that were not approved in advance. The Yankees accepted the \$570.30 disallowance as a Yankees cost.
- \$428.20—for payments made at a higher rate than are allowable under the Local 30 agreement. The Yankees paid certain employees at a time-and-a-half pay instead of straight time pay and double-time pay instead of time-and-a-half pay for the hours worked. The Yankees accepted the \$428.20 disallowance as a Yankees cost.
- \$248.31—for wages paid to three employees whose timesheets appear to be altered. These changes were not approved or initialed. The Yankees accepted the \$248.31 disallowance as a Yankees cost.
- \$163.32—for labor hours not worked that, under the terms of the lease, cannot be offset against rental income. The Yankees accepted the \$163.32 disallowance as a Yankees cost.

Appendix II gives details of the above disallowances.

The PEM Electric disallowance of \$43,683.69 consists of unreasonable labor costs of \$33,804.43 and unreasonable materials charges of \$9,879.26.

The disallowed labor costs include:

¹ Includes Welfare, Pension, and Annuity Funds.

- \$7,515.03—for eleven employees who did not fill in their sign-out time or who did not initial their timesheets at the end of their work shifts. The Yankees accepted the \$7,515.03 disallowance as a Yankees cost.
- \$5,914.78—for incorrect hourly rates paid to a foreman and all electricians. Based on the Yankee payroll codes, these employees were paid at a higher rate than allowable under the agreement between PEM Electrical Corporation and Local Union #3. The Yankees accepted the \$5,914.78 disallowance as a Yankees cost.
- \$5,643.07—for the cost of “lunch-not-taken.” The Yankees accepted the \$5,643.07 disallowance as a Yankees cost.
- \$5,386.50—for hours worked on Yankee assignments that were improperly charged to the City. The PEM Electric maintenance report identifies these labor hours as Yankee assignments and as such, they cannot be offset as maintenance credits against rental income. The Yankees accepted the \$5,386.50 disallowance as a Yankees cost.
- \$4,083.46—for labor hours not worked that, under the terms of the lease, cannot be offset against rental income due the City. The Yankees accepted the \$4,083.46 disallowance as a Yankees cost.
- \$3,106.99—for the irreconcilable difference between the labor charges reported on to the Yankee billings and the amount computed from the labor hours recorded on the PEM Electric's Maintenance Report. The Yankees accepted the \$3,106.99 disallowance as a Yankees cost.
- \$1,077.30—for labor hours charged to the City that were not supported on the employees' timesheets. The Yankees accepted the \$1,077.30 disallowance as a Yankees cost.
- \$1,077.30— for a duplicate labor hours claimed. The Yankees charged the City for the same hours worked for one employee on March 29, 2001, and March 30, 2001. The employee's name and his hours appeared twice on PEM's “Weekly Maintenance Report.” The Yankees accepted the \$1,077.30 disallowance as a Yankees cost.

Appendix III gives details of the above disallowances for PEM Electric labor hours.

The disallowed materials costs include:

- \$8,001.20—for lighting expenses. Based on the documentation provided by the Yankees, we were unable to determine whether these expenses were City charges or Yankee charges. The Yankees accepted \$8,001.20 of the disallowance as a Yankees cost.

- \$912.61—for tools and batteries that, under the term of the lease, are not City costs and cannot be offset against rental income. The Yankees accepted the \$912.61 disallowance as a Yankees cost.
- \$268.42—for the purchases of 100 pairs of glove, 800 cable ties, 100 tie wrap mounts, one clock, four spray paints, and one wall heater with thermostat. We could not determine the purpose for which these items were to be used. The Yankees accepted the \$268.42 disallowance as a Yankees cost.
- \$170.00—for TV parts related to Yankees assignments. These expenses were identified on PEM's maintenance sheets as NY Y charges and should not be charged to the City. The Yankees accepted the \$170.00 disallowance as a Yankees cost.
- \$101.61—for purchases of miscellaneous office supplies that, under the terms of the lease agreement, cannot be charged against the rental credit. The Yankees accepted the \$101.61 disallowance as a Yankees cost.
- \$425.42—4.5 percent of disallowed materials.² The Yankees accepted \$425.42 of the disallowance as a Yankees cost.

Appendix IV gives details of the above disallowances for materials charges.

The Stadium Repairs disallowance of \$988.62 consists of items that, under the terms of the lease, are not a City cost. The Yankees accepted the \$988.62 disallowance as a Yankees cost.

Finally, the Other Expenses disallowance for ineligible City costs of \$516.40 for items that, under the terms of the lease, are not a City cost. The Yankees accepted the \$516.40 disallowance as a Yankees cost.

See Appendices V and V.1 for details on disallowances for schedules A-3 through A-6.

² The PEM Electrical and Maintenance Agreement with the Yankees, § 2(e), entitles PEM Electric to include a 4.5 percent overhead charge (contract adder) for materials purchased for the maintenance of the stadium.

Recommendations

The Yankees should:

1. Deduct \$124,698.27 from the total rental credits for maintenance for the second quarter of 2001.
2. Ensure that all maintenance credits claimed are properly supported by sufficient documentation and appropriate approvals from DPR before submitting rental credits to the Comptroller's Office. This procedure would enable the Comptroller's Office to review and approve the rental credits more expeditiously. It would also enable the Yankees to conform to the lease requirements.

Parks should:

3. Ensure that the Yankees comply with Recommendation #1.
4. Direct its representatives at the stadium to ensure that all maintenance credits claimed are properly supported by sufficient documentation and appropriate approvals from Parks before submitting rental credit to the Comptroller's Office. This procedure would enable the Comptroller's Office to review and approve the rental credits more expeditiously. It would also enable the Yankees to conform to the lease requirements.

New York Yankees

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June 5, 2002

Mr. Gary Rose
Director of Financial Audit & Support Services
1 Centre Street
Room 1300 North
New York, NY 10007

RE: Audit Report on the New York Yankees Rental Credits- 2nd quarter 2001

Dear Mr. Rose:

In response to the draft report, the New York Yankees are accepting \$121,841.95 and rejecting \$26,319.21.

Should you have any questions, please feel free to contact Joe Hecht at 718-579-4490.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert Brown", with a long horizontal flourish extending to the right.

Robert Brown

RBjrh

Cc: Lawrence Baum
Yasmin Tejani

New York Yankees 2nd quarter 2001 response

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	<u>Amount</u>	<u>Amount</u>	<u>Total</u>
	<u>Accepted</u>	<u>Rejected</u>	<u>Amount</u>
A-1	\$76,653.24	\$3,955.30	\$80,608.54
A-2	\$43,683.69	\$5,574.18	\$49,257.87
A-3	\$0.00	\$0.00	\$0.00
A-4	\$0.00	\$957.00	\$957.00
A-5	\$988.62	\$13,516.76	\$14,505.38
A-6	\$516.40	\$2,315.97	\$2,832.37
TOTAL	\$121,841.95	\$26,319.21	\$148,161.16

A-1 RIVER PAYROLL

<u>Description of</u>	<u>Amount</u>	<u>Amount</u>	<u>Total</u>
<u>Disallowance</u>	<u>Accepted</u>	<u>Rejected</u>	<u>Amount</u>
1. Duplicate Billing on Security Service	\$45,951.02	\$0.00	45951.02
2. Excess Security Cost	\$15,684.50	\$0.00	15684.5
3. Undocumented Welfare Funds Adj.	\$7,871.26	\$0.00	7871.26
4. NYY Assignments	\$2,766.03	\$2,579.34	5345.37
5. Incomplete T/S	\$597.26	\$0.00	597.26
6. Lunch Not Taken	\$570.30	\$0.00	570.3
7. Incorrect Labor Charges	\$428.20	\$0.00	428.2
8. Incorrect Hourly Rates	\$0.00	\$982.54	982.54
9. Unauthorized Time Change	\$248.31	\$0.00	248.31
10. Hours Not Worked	\$163.32	\$0.00	163.32
11. Welfare Contribution & P/R Taxes	\$2,373.04	\$393.42	2766.46
TOTAL	\$76,653.24	\$3,955.30	\$80,608.54

A-2 PEM ELECTRIC - LABOR HOURS

Description of <u>Disallowance</u>	Amount <u>Accepted</u>	Amount <u>Rejected</u>	Total <u>Amount</u>
1. Incomplete Timesheets	\$7,515.03	\$0.00	\$7,515.03
2. Incorrect Hourly Rates	\$5,914.78	\$0.00	\$5,914.78
3. Lunch Not Taken	\$5,643.07	\$0.00	\$5,643.07
4. Hours Not Worked	\$4,083.46	\$0.00	\$4,083.46
5. Irreconcilable Difference	\$3,106.99	\$0.00	\$3,106.99
6. NYY Assignments	\$5,386.50	\$0.00	\$5,386.50
7. Unsupported Labor Hours	\$1,077.30	\$0.00	\$1,077.30
8. Duplicate Labor Hours	\$1,077.30	\$0.00	\$1,077.30
TOTAL	\$33,804.43	\$0.00	\$33,804.43

A-2 PEM ELECTRIC - MATERIALS

Description of <u>Disallowance</u>	Amount <u>Accepted</u>	Amount <u>Rejected</u>	Total <u>Amount</u>
1. Lightings	\$8,001.20	\$5,334.14	\$13,335.34
2. Miscellaneous Purchases	\$268.42	\$0.00	\$268.42
3. TV Parts	\$170.00	\$0.00	\$170.00
4. Office Supplies	\$101.61	\$0.00	\$101.61
5. Tools & Batteries	\$912.61	\$0.00	\$912.61
6. Contract Adder (4.5%)	\$425.42	\$240.04	\$665.46
TOTAL	\$9,879.26	\$5,574.18	\$15,453.44

A-3 MIRANDA FUEL

Description of <u>Disallowance</u>	Amount <u>Accepted</u>	Amount <u>Rejected</u>	Total <u>Amount</u>
	\$0.00	\$0.00	\$0.00

A-4 BROWN & SILVER

<u>Description of Disallowance</u>	<u>Amount Accepted</u>	<u>Amount Rejected</u>	<u>Total Amount</u>
(a) Not a City cost	\$0.00	\$957.00	\$957.00
TOTAL	\$0.00	\$957.00	\$957.00

A-5 STADIUM REPAIRS

<u>Description of Disallowance</u>	<u>Amount Accepted</u>	<u>Amount Rejected</u>	<u>Total Amount</u>
(a) Not a City cost	\$988.62	\$6,241.97	\$7,230.59
(l) Approval withheld pending receipt of written notification of increase in monthly charge	\$0.00	\$7,274.79	\$7,274.79
TOTAL	\$988.62	\$13,516.76	\$14,505.38

A-6 OTHER EXPENSES

<u>Description of Disallowance</u>	<u>Amount Accepted</u>	<u>Amount Rejected</u>	<u>Total Amount</u>
(a) Not a City cost	\$516.40	\$2,315.97	\$2,832.37
TOTAL	\$516.40	\$2,315.97	\$2,832.37