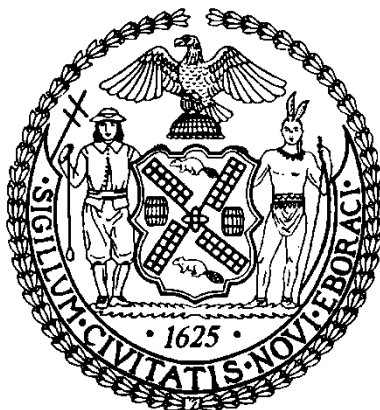


**CITY OF NEW YORK
OFFICE OF THE COMPTROLLER**

**John C. Liu
Comptroller**

FINANCIAL AUDIT

**Tina Kim
Deputy Comptroller for Audit**



**Audit Report on Coney Island Development
Corporation's Financial and Operating
Practices and Its Compliance with Its
EDC Funding Agreement**

FM11-070A

November 7, 2011



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

John C. Liu
COMPTROLLER

November 7, 2011

To the Residents of the City of New York:

My office has audited the financial and operating practices of Coney Island Development Corporation (CIDC) and its compliance with its New York City Economic Development Corporation (EDC) funding agreement. We audit entities such as these as a means of ensuring that they accurately account for their program funds and conduct their economic activities in accordance with their funding agreements.

CIDC is a not-for-profit local development corporation which was established in September 2003 to build on the City's efforts to revitalize and enhance the Coney Island section of Brooklyn into a year-round, world-class recreational oceanfront destination. Beginning in December 2006, CIDC has carried out its responsibilities through a funding agreement with EDC. Because CIDC does not have its own staff or office space, it also contracts with EDC, through a separate service agreement, to provide personnel, office space, and equipment to perform the day-to-day operations of CIDC. In Fiscal Year 2010, EDC charged CIDC \$208,317 for these contracted services. Of the \$357,120 EDC provided during Fiscal Year 2010, CIDC spent \$349,175.

The audit found that CIDC's program funds were properly accounted for and its economic activities were conducted in accordance with their funding agreement. However, we found that EDC, on behalf of CIDC, paid \$20,856 in inappropriate or questionable expenditures and could enhance the controls over CIDC's operations to ensure that all transactions are properly authorized and processed in accordance with procedures.

The audit recommends that EDC should ensure all payments processed have sufficient documentation to show that the expenses were legitimately business-related; pay credit card charges on time; ensure segregation of duties is in place when expenses are approved; adhere to its accounting policies and procedures; and reimburse CIDC \$17,180 for inappropriate and unnecessary expenses disbursed.

The results of the audit have been discussed with EDC and CIDC officials, and their comments have been considered in preparing this report. CIDC's complete written response is attached to this report. If you have any questions concerning this report, please email my audit bureau at audit@comptroller.nyc.gov.

Sincerely,

John C. Liu

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

**Audit Report on the Coney Island Development
Corporation's Financial and Operating Practices
and Its Compliance with Its EDC Funding Agreement**

FM11-070A

AUDIT REPORT IN BRIEF

The Coney Island Development Corporation (CIDC) is a not-for-profit local development corporation which was established in September 2003 to build on the City's efforts to revitalize and enhance the Coney Island section of Brooklyn so that it can become a year-round, world-class recreational oceanfront destination. Beginning in December 2006, CIDC has carried out its responsibilities through a funding agreement with the New York City Economic Development Corporation (EDC). Under the agreement for Fiscal Year 2010, EDC provided \$357,120 for CIDC's general operating expenses to CIDC. Because CIDC does not have its own staff or office space, it also contracts with EDC, through a separate service agreement, to provide personnel, office space, and equipment to perform the day-to-day operations of CIDC. In Fiscal Year 2010, EDC charged CIDC \$208,317 for these contracted services. Of the \$357,120, CIDC spent \$349,175 during Fiscal Year 2010.

The audit determined whether CIDC accurately accounted for program funds and conducted its economic activities in accordance with the funding agreement.

Audit Findings and Conclusions

EDC properly accounted for CIDC's revenues and expenses and conducted economic activities in accordance with the funding agreement. However, we found that EDC paid \$20,856 in inappropriate or questionable expenditures (approximately 6 percent of the total expenditures) and could enhance the controls over CIDC's operations to ensure that all transactions are properly authorized and processed in accordance with procedures.

Audit Recommendations

We recommend that EDC, on behalf of CIDC, should:

- Ensure all payments processed have sufficient documentation to justify that the expenses are necessary and business-related.
- Pay credit card charges on time to avoid unnecessary finance and late charges.
- Ensure segregation of duties is in place when approving expenses of all CIDC representatives.
- Adhere to its accounting policies and procedures by ensuring that all expenses are supported by original receipts and/or invoices before processing payments.

EDC should also:

- Reimburse CIDC \$17,180 for inappropriate and unnecessary expenses disbursed (i.e., web camera rental, printing and mailing expenses, finance and late charges, a parking violation ticket, and payment towards a farewell party for an EDC employee).

Agency Response

In its response received on October 4, 2011, CIDC strongly disagreed with the Comptroller's findings of \$20,856 in inappropriate or questionable expenses and internal control weaknesses. CIDC stated that that all of these expenses were incurred in the regular course of business, were in furtherance of CIDC's adopted mission statement, and were in full compliance with the policies and procedures of CIDC and EDC. CIDC's response did not cause us to change our opinion or reported findings.

INTRODUCTION

Background

Coney Island has always been a well-known entertainment and amusement destination. According to a New York State Comptroller report titled “*An Economic Snapshot of Coney Island and Brighton Beach*” issued in July 2011, the Coney Island area has begun a sharp recovery from the recession during 2010 and is growing faster economically compared to the City overall.

In September 2003, the Mayor of the City of New York, the City Council, and the Brooklyn Borough President formed a not-for-profit local development corporation known as the Coney Island Development Corporation (CIDC). CIDC’s mission is to enhance the Coney Island section of Brooklyn so that it becomes a year-round, world-class recreational oceanfront destination through business development, job creation, new housing, and unique cultural events.

EDC, on behalf of the City, has been providing funds to pay for CIDC’s general operating costs through annual funding agreements since December 2006. (Table I shows EDC’s annual funding to CIDC.)

Table I

**Funds Provided through
Funding Agreements since December 1, 2006**

Period	Amount
December 1, 2006 – June 30, 2007	\$ 350,000
July 1, 2007 – June 30, 2008	400,000
July 1, 2008 – June 30, 2009	400,000
July 1, 2009 – June 30, 2010	357,120
Total	\$1,507,120

In Fiscal Year 2010 (July 1, 2009, to June 30, 2010), CIDC received all of its income from EDC (\$357,120 through a funding agreement and \$7,824 in in-kind services). Although CIDC was established as a separate not-for-profit entity, it does not have its own staff or office space. To compensate, on July 1, 2009, CIDC entered into a separate service agreement with EDC to act as an independent contractor, providing staff, office space, and equipment to perform the day-to-day operations of CIDC. Based on the Fiscal Year 2010 service agreement, the contract fee for these services should not exceed \$230,000. EDC charged CIDC \$208,317 for these services. (See Table II for a breakdown of services.)

Table II

Breakdown of EDC Contract Fees

Types of Charges	Amount
Personnel	\$152,228
Fringe Benefits	53,450
Supplies and Printing	545
Telephone	1,712
Travel	358
Miscellaneous	24
Total	\$208,317

Objectives

The audit’s objectives were to determine whether CIDC:

- accurately accounted for its program funds, and
- conducted its economic activities in accordance with the funding agreement.

Scope and Methodology Statement

We conducted this 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93 of the New York City Charter.

The scope of this audit was Fiscal Year 2010 (July 1, 2009, to June 30, 2010). Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with CIDC and EDC officials during and at the conclusion of this audit. A preliminary draft report was sent to these officials and discussed at an exit conference held on August 30, 2011. On September 20, 2011, we submitted a draft report to CIDC and EDC officials with a request for comments. On October 4, 2011, we received a written response from CIDC officials. CIDC disagreed with certain of the audit’s findings, conclusions, and recommendations.

In its response, CIDC "...strongly disagreed with the Comptroller's findings of \$20,856 in 'inappropriate or questionable' expenses." CIDC further stated that all of these expenses were incurred in the regular course of business, were in furtherance of CIDC's adopted mission statement, and were in full compliance with the policies and procedures of CIDC and EDC. CIDC also disagreed with the Comptroller's finding of internal control weaknesses. CIDC's president said that "All of the disputed expenses included sufficient documentation and were properly reviewed and approved, in accordance with the CIDC's policies and procedures."

CIDC and EDC are formally structured to operate as two separate corporate entities. However, EDC funds CIDC operations through an EDC-prepared funding agreement and manages its daily operations, using EDC provided personnel, through an EDC-prepared service agreement. Under the service agreement, EDC is reimbursed approximately 58 percent of CIDC's budget. In return, EDC processes all of CIDC transactions, and manages the day-to-day operations of CIDC, as CIDC has no employees and uses EDC as an independent contractor to provide the required services in order to avoid a potential conflict-of-interest. This arrangement gives the appearance that both these entities are acting independently of each other, but they are not for a number of reasons: EDC provides funding to CIDC; EDC processes CIDC transactions according to EDC's policies and procedures; and it appears EDC has control over the daily operations of CIDC.

Thus, not all of the transactions processed by EDC against CIDC's budget may be at arm's length (independent), because we found a number of transactions, amounting to 6 percent of CIDC expenditures, to be inappropriate or questionable. By their nature, these transactions should have more appropriately been charged against EDC's budget rather than CIDC's budget. As CIDC grows larger and its budget increases, it needs to have total autonomy from EDC, with separate staffing and personnel to manage day-to-day operations and process transactions against its budget. This autonomy would allow CIDC to operate as a truly separate entity from EDC instead of the current arrangement that tends to blur the relationship between the two presumed separate entities.

EDC structured itself as an independent contractor to provide services to CIDC. However, CIDC's board of directors is required by the New York State Public Authorities Act of 2009 to ensure that there are no conflicts of interest, which may occur in business or financial relationships or in other situations disallowed by New York City Charter, Chapter 68. At a minimum, serious consideration should be given to whether there needs to be two separate corporate entities achieving a common goal.

The full text of the response received from CIDC is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

EDC properly accounted for CIDC's revenues and expenses and conducted economic activities in accordance with the funding agreement. However, we found that EDC paid \$20,856 in inappropriate or questionable expenditures (approximately 6 percent of the total expenditures) and could enhance the controls over CIDC's operations to ensure that all transactions are properly authorized and processed in accordance with procedures.

\$20,856 in Inappropriate or Questionable Expenses

Our audit found that during Fiscal Year 2010, EDC expended funds on behalf of CIDC for items that were inappropriate, questionable, unnecessary, lacked documentation to substantiate a legitimate business purpose, or exceeded dollar limitations stated in EDC's accounting policies and procedures.¹ In addition to reviewing CIDC's invoices, checks, and other supporting documentation, we also reviewed CIDC's board minutes and website and conducted additional Internet research in an effort to obtain information that could reasonably justify these expenses as business-related. As a result, we found 66 instances, totaling \$20,856 (approximately 6 percent of the total expenditures), of inappropriate or questionable expenditures. Table III summarizes the types of expenditures and the amounts we questioned based on our review.

Table III

Inappropriate or Questionable Expenses

DESCRIPTION	# of Instances	AMOUNT
Inappropriate Expenses	13	\$17,180
Meal and Travel Expenses	49	3,603
Miscellaneous	4	73
TOTAL	66	\$20,856

EDC processed \$17,180 in inappropriate expenses during Fiscal Year 2010. Specifically, we question the need for the three-month rental of a web camera, costing \$10,200, paid with CIDC funds. According to the payment requisition documents provided by EDC officials, the web camera was rented for a three-month period to monitor the construction progress of an amusement park being built on the property owned by the City.² Because the City owns the land and the amusement park operator has a lease agreement with EDC to build and operate the amusement park at Coney Island, we believe EDC should bear the cost of the web camera rental.

¹ EDC follows its own policies and procedures when processing CIDC expenses.

² EDC purchased approximately 6.5 acres of land from a private developer, Thor Equities, in November 2009. Subsequently, EDC issued a Request-for-Proposal for amusement and entertainment operators, and the contract was awarded to Central Amusement International, LLC. In May 2010, Luna Park, a 3.1-acre amusement park, was built.

Further, EDC inappropriately processed \$6,389 in printing and mailing expenses without documentation indicating the two mass mailings were for legitimate business purposes. At our August 30, 2011, exit conference, EDC's Chief Financial Officer provided two letters and claimed the expenses were justified as promotion expenses. However, the July 30, 2009, letter was a thank-you letter to the residents and friends of Coney Island for their support and input regarding Coney Island rezoning and the recognition of the leadership by various City officials. Moreover, the second letter, dated August 11, 2009, was sent because CIDC's former president failed to include "some of the critical partners" in the previous July 30, 2009, thank-you letter. Consequently, the former CIDC president spent an additional \$3,195 for the second mailing. Clearly, the two mailings were not for promoting Coney Island as EDC's Chief Financial Officer claimed, and CIDC's funds should not have been used for this purpose.

EDC also processed \$591 in other inappropriate and unnecessary expenses, including \$422 for finance charges due to late payments of CIDC's corporate credit card bills, \$115 for a parking violation ticket, and \$54 for half the cost of a farewell party for an EDC employee.

Similarly, EDC paid \$3,603 in travel and meal expenses and \$73 in miscellaneous expenses without a description of business purposes or expenses that exceeded the suggested dollar limitations stated in its procedures.

Internal Control Weaknesses

EDC needs to strengthen its controls to ensure that all transactions processed on behalf of CIDC are properly authorized and processed in accordance with its policy and procedures. Specifically, we found that EDC:

- Did not obtain proper approvals before processing certain corporate credit card payments of CIDC's former President. Our review of CIDC's corporate credit card payments found that CIDC's former President inappropriately approved \$9,954 of her \$12,466 credit card expenses in Fiscal Year 2010. Because the former President was the only authorized user of the card, she should not approve her own expenditures. Segregation of duties is the basic internal control that can prevent fraud and errors.
- Did not always have sufficient documentation when processing payments. We found that 26 transactions, totaling \$1,973, were processed without sufficient documentation in Fiscal Year 2010. For example, we found that \$631 in travel-related meal expenses were paid without sufficient supporting documentation (i.e., original invoices or receipts or descriptions of business purposes). According to EDC's Travel and Meal Allowance policy, an employee should provide the original receipts for all travel and business meal expenses. In addition, the policy states that employees are required to provide a description of the business purpose and the names and affiliations of parties entertained, place, date, and duration of the discussion if the meal is before or after the business discussion. Maintaining proper documentation would ensure funds are used appropriately.

Transactions processed without proper supporting documentation or approval may result in inappropriate or unauthorized spending of these public monies. Further, because Coney Island is beginning to flourish and the likelihood that CIDC's funding will increase through donations, grants, and City funds, EDC needs to ensure that all funds related to CIDC are safeguarded, spent in accordance with EDC accounting policy and procedures, and are solely for business-related purposes.

RECOMMENDATIONS

EDC, on behalf of CIDC, should:

1. Ensure all payments processed by EDC officials have sufficient documents to justify the expenses are necessary and business-related.
2. Pay credit card charges on time to avoid unnecessary finance and late charges.
3. Ensure segregation of duties is in place when approving expenses of all CIDC representatives.
4. Adhere to its accounting policies and procedures by ensuring that all CIDC expenses are supported by original receipts and/or invoices before processing payments.

CIDC's Response to Recommendations 1-4: "As has been [the] normal course, and as we believe was the case during the entire audit period, CIDC and NYCEDC will continue to ensure that all funds related to CIDC are safeguarded, spent in accordance with NYCEDC accounting policies and procedures, and are solely for business-related purposes."

EDC should also:

5. Reimburse CIDC \$17,180 for the inappropriate and unnecessary expenses disbursed (i.e., web camera rental, printing and mailing expenses, finance and late charges, a parking violation ticket, and payment towards a farewell party for an EDC employee).

EDC/CIDC Response: "NYCEDC and CIDC disagree....the referenced expenses were fully consistent with CIDC's mission to promote the development of Coney Island to the community, the region and the world. Furthermore, such amounts were provided entirely by NYCEDC to CIDC, in furtherance of these specific expenses to begin with, consistent with the fact that NYCEDC provides the entirety of CIDC's budget out of its programmatic budget. To reimburse CIDC for a specific expenditure would be redundant and unnecessary—effectively recommending that NYCEDC pay twice for a single expenditure."

Auditor Comment: Contrary to its response, EDC did not ensure that all expenses were reasonable, necessary, and fall within CIDC's mission of promoting economic development in Coney Island. We fail to see how paying for a web cam to monitor construction of the amusement area, printing and mailing thank you letters, finance late charges, payment of a

parking violation ticket or payment towards a farewell party for an EDC employee fall within CIDC's mission of promoting economic development in Coney Island. While it may be appropriate for EDC to pay for these expenses as part of its own budget, they are not appropriate for CIDC's expenses. Since CIDC has its own budget it should not incur expenses on behalf of EDC. Therefore, EDC should reimburse CIDC \$17,180 for the inappropriate and unnecessary expenses it charged to CIDC.

DETAILED SCOPE AND METHODOLOGY

We conducted this 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93.

The scope of this audit was Fiscal Year 2010 (July 1, 2009, to June 30, 2010.)

To achieve our audit objectives, we reviewed the funding agreement and service agreement between EDC and CIDC. We also reviewed CIDC's bylaws, organizational charts, code of ethics for directors and officers, general ledger, chart of accounts, and other relevant documents. In addition, we reviewed minutes of the Board of Directors meetings and analyzed certified financial statements for Fiscal Years 2007 to 2010.

To obtain an understanding of CIDC's operations and internal controls, we interviewed EDC's accounting staff and CIDC's President (who is also EDC's Assistant Vice President). We also reviewed EDC's accounting policies and procedures and observed CIDC's payment process through EDC's accounting system, Great Plains.³ We documented our understanding through written narratives, memoranda, and flowchart.

To determine whether CIDC properly reported its expenditures on its financial statements, we traced CIDC's expenditures from its general ledger to its certified financial statements.

To ascertain whether CIDC's expenditures were reasonable and necessary and properly authorized with supporting documents, we judgmentally selected transactions that were \$1,000 or above. We also selected all travel and meal expenses and expenses that were charged to CIDC's corporate credit card. (The selected expenses summed to \$330,651 or 95 percent of \$349,175 of total expenses reported in Fiscal Year 2010.) We then examined payment requisitions and employee reimbursement vouchers with supporting documents to determine whether the expenditures were spent in accordance with the economic activities stated in the funding agreement.

³ Because CIDC does not have its own accounting policies and procedures, it follows EDC's policies and procedures.

October 4, 2011

Ms. Tina Kim
Deputy Comptroller for Audits
The City of New York
Office of the Comptroller
1 Centre Street
New York, New York 10007-2341

Re: Audit Report on Coney Island Development
Corporation's Financial and Operating
Practices and Its Compliance with Its
EDC Funding Agreement
FM11-070A

Dear Ms. Kim:

Thank you for the opportunity to respond to the above referenced Draft Audit Report,
dated September 20th, 2011.

As per your instructions, we have specifically addressed each finding and
recommendation made in the Draft Audit Report. If you or members of your staff have
any questions please feel free to contact Spencer Hobson, NYCEDC's Head of Finance
at (212) 312-3503.

Very truly yours,



Nate Bliss
President,
Coney Island Development Corporation

Attachment

cc: Seth Pinsky
Kyle Kimball
Josh Wallack
Thomas McKnight
Spencer Hobson
Bulent Celik
Hope Mallari

**RESPONSE TO
OFFICE OF THE COMPTROLLER
AUDIT REPORT ON
CONEY ISLAND DEVELOPMENT CORPORATION (CIDC)**

NYCEDC RESPONSE TO FINDINGS OVERVIEW:

We appreciate the opportunity to respond to the Office of the New York City Comptroller's September 20th, 2011 draft financial audit report (the "Report") on Coney Island Development Corporation ("CIDC"). While we recognize the valuable work of the Comptroller's staff and have cooperated fully with the four members of the audit team since the audit commenced over thirteen months ago, we respectfully disagree with certain of the Comptroller's findings, conclusions and recommendations.

Indeed, we are pleased that the Report found that the CIDC "conducted economic activities in accordance with the funding agreement." In fact, the work of CIDC in Coney Island is an overwhelming success story. In partnership with the New York City Economic Development Corporation ("NYCEDC"), the local community, key private and public stakeholders, and various City agencies, we have commenced implementation on an ambitious redevelopment strategy that is already yielding tremendous economic development results.

In the past two years, CIDC has facilitated:

- The development of two new amusement parks—the first new parks in over 50 years in Coney Island;
- The creation over 400 new jobs, the majority of which have been filled with local area residents, thanks in large part to efforts of CIDC;
- Over \$400 million in planned and active City capital investments;
- Over \$35 million in private investment;
- Record-breaking attendance of over 450,000 at the new amusement park, a 25% increase in visitors to the amusement area, and over 14 million visitors to the beach and boardwalk with innovative marketing strategies (including the CIDC website and construction progress webcam);
- Partnerships with the local community to support workforce development, youth empowerment, district enhancements and programming, including the Coney Island Greeters Program, Flicks on the Beach, City-wide advertising campaigns, supplemental street sanitation services through the Doe Fund, and neighborhood beautification projects.

We are pleased that the Comptroller found that "EDC properly accounted for CIDC's revenues and expenses," but question the Comptroller's appreciation of the NYCEDC-CIDC funding relationship as it pertains to the Report's recommendation for reimbursement. CIDC's budget is funded entirely by NYCEDC. The Comptroller's Report recommends that NYCEDC reimburse CIDC for certain amounts, without acknowledging that such amounts were provided entirely by NYCEDC to CIDC, in furtherance of the specific expenses questioned by the Comptroller, to begin with. To reimburse CIDC for a specific expenditure would be to recommend NYCEDC pay twice for a single expenditure.

Moreover, we strongly disagree with the Comptroller's findings of \$20,856 in "inappropriate or questionable" expenses. As we detail below, all of these expenses were incurred in the regular course of business, were in furtherance of the CIDC's adopted mission statement,¹ are directly related to the aforementioned accomplishments of CIDC, and were in full compliance with the policies and procedures of CIDC & NYCEDC.

Lastly, we disagree with the Comptroller's finding of internal control weaknesses. All of the disputed expenses included sufficient documentation and were properly reviewed and approved, in accordance with the CIDC's policies and procedures.

COMPTROLLER AUDIT FINDING 1: "\$20,856 in Inappropriate or Questionable Expenses"

a. CIDC webcam

CIDC Response: CIDC's Webcam is a Legitimate Marketing and Promotional Expense

The purchase and operation of a webcam was a legitimate and important promotional expense of CIDC. The Report suggests that "the web camera was rented for a three-month period to monitor the construction progress of an amusement park being built on the property owned by the City." We clarified and provided documents to show that the webcam was intended, and thus purchased, to serve as a marketing and promotional device. Furthermore, we dispute the suggestion that NYCEDC would rely solely on a webcam as a method of monitoring construction. The webcam, as expected and intended, has proven to be a very successful marketing and promotional tool. Live images from the webcam appear on CIDC's tourist information website², which has received over 2.1 million unique views since the initial expense (the individual webpage on which the camera is featured has had over 100,000 page views).³ Additionally, a time-lapse video of the construction images captured by the webcam of Luna Park was featured on NY1 on May 27, 2010, with a specific credit to CIDC.⁴

Furthermore, of the \$10,200 expended on the webcam, \$7,237 is attributable to the purchase and configuration of webcam equipment (one-time expenses). To this day, the webcam continues to serve as an important marketing and promotional tool for Coney Island (long since construction was completed), which demonstrates further that the webcam was not purchased simply for EDC to monitor the construction, as the Comptroller asserts. While the specific payment request may state "to monitor construction progress", it should be clear by now to the Comptroller's staff that the totality of documentation provided demonstrates a clear intention by CIDC for the community, the region, and the world to be able to monitor construction progress through the CIDC website. Moreover, the initial expenses for the purchase of webcam equipment have been amortized over the past 19 months of its service and will continue to serve as a valuable marketing tool for CIDC going forward at a very low cost over the life of its use.

Lastly, the recommendation that NYCEDC reimburse CIDC for the webcam expense overlooks the fact that NYCEDC provides the entirety of CIDC's budget to begin with, through NYCEDC programmatic funds. For NYCEDC to reimburse CIDC for this expenditure would amount to a redundant payment for a single expenditure.

¹ "Coney Island Development Corporation works to make Coney Island a year-round, world-class recreational oceanfront destination through business development, job creation, new housing and unique cultural events."

² See <http://www.coneyislandfunguide.com/Visiting-Coney-Island.htm>

³ Statistics from Google Analytics for www.ConeyIslandFunGuide.com, for period of 4/1/2010 to 9/30/2011

⁴ See http://www.ny1.com/content/top_stories/119408/ny1-exclusive--developers-run-tests-on-new-luna-park-rides

b. CIDC mailings:

CIDC Response: Communication, Transparency with the Community is a central component of in the furtherance of CIDC's mission and is entirely appropriate.

As per its mission, CIDC properly expended printing and mailing expenses for legitimate business purposes. Indeed, CIDC has a list over 5,000 community stakeholders, amusement industry professionals and other individuals who voluntarily signed up on the CIDC's website to receive updates on the revitalization efforts in Coney Island. Such communications provide information regarding important milestones in the multi-year efforts to revitalize the Coney Island area, and it is in keeping with CIDC's mission to engage with the local community and businesses through communication, transparency, and recognition. The Comptroller's finding that CIDC's printing and mailing expenses are not legitimate business purposes disregards the fundamental principle of community engagement in a successful economic development initiative.

c. Other miscellaneous expenses:

With respect to the \$591 in other expenses cited by the Report (less than 0.2% of CIDC's total funding), we disagree with the characterization of these costs. Of that total, \$422 was for credit card finance charges and late payments. We do not dispute the sentiment that such charges should be avoided. The Report also questioned a \$115 expense for a parking violation. As was explained to the auditors, it is CIDC's and NYCEDC's practice to disallow the reimbursement of parking violations; however, in this particular case, the parking ticket was levied on a non-personal, company vehicle during preparations for a CIDC-sponsored workforce development event, and thus it was deemed as appropriate for reimbursement. The approval of the expense was in full compliance with CIDC's policies and procedures and multiple layers of internal control. Lastly, the auditors took issue with a \$54 expense for "half the cost of a farewell party for an NYCEDC employee," despite our clarifying to the auditors that this NYCEDC employee was assigned primarily to support CIDC and that Board Members of CIDC were in attendance. Again, the approval of this expense was in full compliance with CIDC's policies and procedures and multiple layers of internal control.

Finally, all travel and meal expenses by CIDC were duly authorized for legitimate business purposes, and all payments were processed in accordance with CIDC's policies and procedures. The auditors erroneously cited \$3,603 in travel and meal expenses and \$73 in miscellaneous expenses for inadequate documentation. The documentation provided to the auditors provided clear indication of business purposes and all of the expenses fell within CIDC's policy guidelines with regard to reimbursements for Travel and Meal Expenses.

COMPTROLLER AUDIT FINDING 2: "Internal Control Weaknesses"

CIDC Response: CIDC's Internal Controls Are in Keeping with Accepted Accounting Standards

CIDC's disbursement policy requires the original signature of two empowered CIDC officers on any check or payment. We provided the auditors with cancelled checks, internal approval forms, and other documentation to demonstrate adequate internal controls as well as segregation of duties that were in place for all transactions. The Report's suggestion that there was a weakness in internal controls, disregards these effective and GAAP-compliant measures.

In addition, when it was suggested that documentation was sometimes insufficient in the processing of payments, CIDC and NYCEDC requested clarification on which payments were insufficiently documented and were told that the Comptroller's staff "no longer provides spreadsheets to clarify such things". Consequently, the level of information that would be deemed sufficient to the Comptroller on those specific items remains unclear. We have determined that all payments processed on behalf of CIDC were properly authorized and processed in accordance with its policies and procedures and were subject to multiple layers of internal control.

RESPONSE TO RECOMMENDATIONS:

Recommendation #1: "Ensure all payments processed by EDC officials have sufficient documents to justify the expenses are necessary and business-related" [sic]

CIDC Response: As has been normal course, and as we believe was the case during the entire audit period, CIDC and NYCEDC will continue to ensure that all funds related to CIDC are safeguarded, spent in accordance with NYCEDC accounting policies and procedures, and are solely for business-related purposes.

Recommendation #2: "Pay credit card charges on time to avoid unnecessary finance and late charges"

CIDC Response: As has been normal course, and as we believe was the case during the entire audit period, CIDC and NYCEDC will continue to ensure that all funds related to CIDC are safeguarded, spent in accordance with NYCEDC accounting policies and procedures, and are solely for business-related purposes.

Recommendation #3: "Ensure segregation of duties is in place when approving expenses of all CIDC representatives."

CIDC Response: As has been normal course, and as we believe was the case during the entire audit period, CIDC and NYCEDC will continue to ensure that all funds related to CIDC are safeguarded, spent in accordance with NYCEDC accounting policies and procedures, and are solely for business-related purposes.

Recommendation #4: "Adhere to its accounting policies and procedures by ensuring that all CIDC expenses are supported by original receipts and/or invoices before processing payments."

CIDC Response: As has been normal course, and as we believe was the case during the entire audit period, CIDC and NYCEDC will continue to ensure that all funds related to CIDC are safeguarded, spent in accordance with NYCEDC accounting policies and procedures, and are solely for business-related purposes.

Recommendation #5: *"NYCEDC should also reimburse CIDC \$17,180 for the inappropriate and unnecessary expenses disbursed (i.e., web camera rental, printing and mailing expenses, finance and late charges, a parking violation ticket, and payment towards a farewell party for an EDC employee)."*

NYCEDC/CIDC Response: NYCEDC and CIDC disagree. As detailed in this response to the Report, the referenced expenses were fully consistent with CIDC's mission to promote the development of Coney Island to the community, the region and the world. Furthermore, such amounts were provided entirely by NYCEDC to CIDC, in furtherance of these specific expenses to begin with, consistent with the fact that NYCEDC provides the entirety of CIDC's budget out of its programmatic budget. To reimburse CIDC for a specific expenditure would be redundant and unnecessary—effectively recommending that NYCEDC pay twice for a single expenditure.

As has been normal course and as we believe was the case during the entire audit period, CIDC and NYCEDC will continue to ensure that all funds related to CIDC are safeguarded, spent in accordance with NYCEDC accounting policies and procedures, and are solely for business-related purposes.

CONCLUSION

In conclusion, we recognize the large investment the Comptroller's office made over the last year to arrive at this Report, and are pleased that the Report acknowledges, with the exception of its findings, that

- 1) NYCEDC properly accounted for the CIDC's revenues and expenses, and that;
- 2) CIDC conducted activities in accordance with the funding agreement and in furtherance of the revitalization of Coney Island.

As indicated, NYCEDC and CIDC generally disagree with the Comptroller's findings, conclusions and recommendations, and affirm that CIDC complied with its funding agreement requirements and its accounting policies and procedures in the furtherance of its mission to "...make Coney Island a year-round, world-class recreational oceanfront destination through business development, job creation, private investment, new housing and unique cultural events."

We believe that Coney Island has been and will continue to be a tremendous economic development success story for the local community, New York City, and the region.