
**Thomas P. DiNapoli
COMPTROLLER**



Audit Objectives 2

Audit Results - Summary 2

Background 2

**Audit Findings and
Recommendations 3**

 Heliport Billing Activities 3

 Heliport Deficit 3

 Recommendations 5

Audit Scope and Methodology 5

Authority 6

Reporting Requirements 6

Contributors to the Report 6

Appendix A - Auditee Response 7

**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**NEW YORK CITY
ECONOMIC
DEVELOPMENT
CORPORATION**

**DOWNTOWN HELIPORT -
REVENUE OPERATIONS**

Report 2007-N-5

AUDIT OBJECTIVES

Our objectives were to determine whether the Downtown Heliport recorded and reported revenue collections accurately, and remitted the appropriate rental fees to the New York City Economic Development Corporation. The audit covered the period January 1, 2004 to May 31, 2006.

AUDIT RESULTS - SUMMARY

The Downtown Heliport (Heliport), located in lower Manhattan, is one of three public heliports in New York City. It is managed by the Port Authority of New York and New Jersey (Port Authority) pursuant to a lease agreement (agreement) with the New York City Economic Development Corporation (EDC).

Heliport revenues are derived primarily from helicopter landing, parking, and fuel activities. The agreement requires the Port Authority to remit an annual minimum rental fee to EDC of \$100,000. However, when the Heliport's net revenue after certain adjustments exceeds this minimum amount, additional rent is due.

For calendar years 2004 and 2005 combined, the Port Authority reported \$3.8 million in gross revenue from Heliport operations. Based on our tests of Heliport records, we concluded that the Port Authority is charging helicopter carriers appropriate fees and reporting revenues accurately. [Page 3]

However, Heliport financial statements reported respective deficits of \$588,755 and \$790,494 for these two years after applying direct and indirect expenses. As such, the Port Authority only remitted the \$100,000 minimum required rent for each of these years. [Page 3]

The agreement between the Port Authority and EDC requires that all records in support of the revenues and expenses of the Heliport be maintained for at least six years. We asked Port Authority officials to provide us with support and justification for selected expenses contributing to the reported deficits. Although they were able to support the majority of expenses we inquired about, certain expenses appear excessive. [Pages 3-5]

Our report contains two recommendations. In response to our draft report, EDC officials stated that they are considering our recommendations, and that they plan to put the contract for Heliport management out to bid before year's end.

This report, dated December 21, 2007, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

The Downtown Heliport, located in lower Manhattan, is one of three public heliports in New York City. It is managed by the Port Authority of New York and New Jersey pursuant to a lease agreement (agreement) with the New York City Economic Development Corporation.

The Heliport hosts thousands of landings and take-offs each year. Most of the helicopter operators (carriers) using this facility provide sightseeing, corporate, or charter flights. The Heliport also hosts passenger shuttles to Kennedy Airport.

Heliport revenues are derived primarily from fees charged to carriers for landing, parking, and other associated helicopter-related activities. During calendar years 2004 and 2005, the Port Authority reported \$3.8 million in gross revenue from Heliport operations and paid EDC \$200,000 in rental fees.

AUDIT FINDINGS AND RECOMMENDATIONS

Heliport Billing Activities

The Heliport's agreement requires its fees charged to carriers to be posted publicly. EDC officials do not have to approve the fees. We found that the Port Authority did publicly post its fees.

Port Authority staff manually enters all billable helicopter activity into a daily activity log. In 2005, in addition to maintaining the manual log, the Port Authority started to input helicopter activity directly into its computer system. The Port Authority uses the entered information to generate monthly invoices for issuance to carriers. Based on our audit testing, we found that the Port Authority accurately recorded helicopter activity in its records and charged carriers the appropriate fees during the audit period.

To determine whether the Port Authority recorded billable helicopter activity accurately, we observed several hours of helicopter landings and departures, and compared our observations to the information recorded in the Port Authority's manual logs. No inconsistencies were found.

During the period January 1, 2004 to March 31, 2006, the Port Authority issued 1,045 invoices to carriers. To determine whether carriers were properly billed (invoiced) for the services identified in the computer system and log, we selected a random sample of 27

of these invoices totaling \$96,973, and determined that the amounts billed agreed with the associated activity logs and fee schedules. Finally, we traced payments on these invoices to the Heliport's general ledger and determined that the proper amount of revenue was recorded in the accounting records and associated financial statements.

Heliport Deficit

The agreement requires the Port Authority to remit an annual base rent of \$100,000 to EDC. In addition, the Port Authority may be required to remit additional rent, as outlined in the agreement, if the Heliport's net revenue (gross revenue less expenses), after certain adjustments, exceeds the base rent amount. For calendar years 2004 and 2005, the Heliport's financial statements reported deficits of \$588,755 and \$790,494, respectively. As such, the Port Authority remitted only the \$100,000 base rent to the EDC for each of these years.

We note that the Heliport's financial statements are prepared internally and are not subject to an independent audit. Without such independent examination, there is increased risk that incorrect financial reporting would go undetected, potentially having an effect on the rent calculation. To help ensure that the appropriate amount of rent is remitted to EDC in accordance with the agreement, we recommend that EDC officials either perform or arrange for periodic independent audits of Heliport financial statements to analyze the validity of reported expenses. We also recommend that EDC officials work with the Port Authority to identify opportunities to reduce or eliminate the Heliport deficit through more effective control of expenses.

When we discussed the Heliport deficits with Port Authority staff, we were informed that, in addition to direct Heliport expenses, the

Heliport's financial statements include its pro-rata share of Port Authority-wide indirect expenses. As such, we asked Port Authority officials for the support and justification for selected Heliport expenses, and the methodology they used to pro-rate indirect expenses. Although they were able to support the majority of expenses we inquired about, several expenses appear excessive.

According to the Heliport's financial statements for 2005, direct payroll expenses for administrative and clerical and emergency services totaled \$1.34 million. Almost 66 percent of this amount (\$879,700) was paid to nine employees who, according to Port Authority records, were reportedly assigned to the Heliport for most of the reporting period. Four of these employees were still assigned to the Heliport during our audit field work, and we observed that they were working at the Heliport. The remaining five of the nine employees, whose salaries aggregated \$467,100 for the reporting period, were no longer assigned to the Heliport. To assess the support for their Heliport assignments, we asked Port Authority officials for the time and attendance records for these individuals. As part of its response, Port Authority officials supplied us with Heliport sign-in sheets supporting the attendance of four of the five individuals requested. The fifth employee, who was paid \$91,400 for the year in question, was noted as being on full-time union assignment. Thus, this amount was being deducted as a Heliport expense where no direct Heliport-related services were being provided.

The Port Authority also deducted various construction-related costs and equipment-related charges on the Heliport's 2005 financial statements. According to the statements, approximately \$161,000 was paid under the expense category "construction standards and inspections," of which \$98,000

was paid to a consulting firm for inspecting the Heliport facility. Port Authority officials were able to provide us with adequate support for the consulting expense.

However, the Port Authority charged the Heliport monthly rates for various motorized vehicles, including a 2002 Toyota Prius, a snow blower, and a 2001 Chevrolet Suburban, that seem excessive when compared with prices on the internet and considering their infrequent use. The 2002 Prius was reportedly loaned to the Heliport for one month at a cost of \$1,767. The vehicle's recorded mileage increase for this one month period was zero. Thus, the Heliport paid \$1,767 for a vehicle it apparently did not use. The snow blower, which we were told was in storage at the time of our visit, was charged to the Heliport at the cost of \$1,200 per month (\$14,400 per year). Lastly, the Heliport was charged \$1,151 per month for the 2001 Suburban.

These seemingly excessive monthly charges warrant a detailed inspection by EDC to ensure that all reported Heliport expenses are legitimate and its monthly rental fee is being calculated with justified and reasonable expenses.

In its response, Port Authority officials stated that the charges they are assessed for vehicles, etc., are based on authorized Port Authority rates and they do not see the basis for our observation that they appear excessive.

According to vehicle sales prices quoted on the internet, Port Authority officials could purchase a 2007 Toyota Prius for about \$22,175, which would amount to a monthly cost of \$370 based on depreciating the vehicle over a useful life of five years. Likewise, Port Authority officials could purchase a 2007 Chevrolet Suburban for about \$40,000,

amounting to a monthly cost of \$667 based on depreciating it over five years.

Unless Port Authority vehicle maintenance costs range from \$500 to \$1,400 per month, it would be cheaper to purchase new vehicles, and charges to the Heliport would be greatly reduced. (Quotes for new commercial snow blowers could not be readily located.)

Also, according to Port Authority officials, the Port Authority's consolidated financial statements are audited annually by an independent CPA firm, and those consolidated statements include Heliport operations.

We note that Heliport financial activities are a small part of the Port Authority's overall multi-million dollar operations. As such, it is unlikely that any of its transactions would be tested in an audit of the consolidated financials. Further, financial statement audits are limited to verifying the support for reported transactions (e.g., expenses). They generally would not address the reasonableness or necessity of the expenses.

In response to our draft report, EDC officials stated that they would initiate periodic independent audits of Heliport expenses using their Internal Audit staff. They also noted that they plan to put the Heliport's management contract out-to-bid before year's end.

Recommendations

1. Perform or arrange for independent audits of the Heliport's financial statements to periodically analyze the expenses presented in the statements.
2. Require Port Authority officials to comprehensively assess the Heliport's financial practices and take steps to turn

its operating deficit into a profit-making operation.

AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. The objectives of our audit were to determine whether the Heliport recorded and reported revenue collections accurately, and remitted the appropriate rental fees to EDC. The audit covered the period January 1, 2004 to May 31, 2006.

To accomplish these objectives, we observed helicopter landings and take-offs, reviewed Heliport activity logs, invoices, fee schedules, and the agreement between EDC and the Port Authority. We also reviewed cash collection records, bank deposits, and available financial statements. In addition, we met with EDC and Port Authority officials and relevant staff.

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

AUTHORITY

This audit was performed according to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; and Article 3 of the General Municipal Law.

REPORTING REQUIREMENTS

We provided a draft copy of this report to EDC and Port Authority officials for their review and comment. EDC officials stated that they are considering our recommendations, and that they plan to put the contract for Heliport management out to bid before year's end. Port Authority officials disagreed with several of our conclusions. Their comments were considered in preparing

this final report and are included as Appendix A.

Within 90 days of the final release of this report, we request that the President of EDC report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and, where not implemented, the reasons therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include William Challice, Frank Patone, Anthony Carbonelli, Salvatore D'Amato, Anthony Carlo, Unal Sumerkan, Ira Lipper, and Sue Gold.

APPENDIX A - AUDITEE RESPONSE



New York City
Economic Development
Corporation

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August 22, 2007

HAND DELIVERY

Mr. William P. Challice
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street – 21st Floor
New York, NY 10038

Re: Draft Audit Report 2007-N-5 Downtown Heliport Revenue Operations

Dear Mr. Challice:

In response to the recommendations contained in your draft audit report, we offer the following responses:

1. Perform or arrange for independent audits of the Heliport's financial statements to periodically analyze the validity of expenses presented in the Heliport's financial statements.

Response: We plan to request our Internal Audit Department to include in its audit plan an analysis of expenses presented in the Heliport's financial statements.

2. Require Port Authority officials to comprehensively assess the Heliport's financial practices and take steps to turn its operating deficit into a profit-making operation.

Response: We agree that such practices will be considered. However, as stated in previous meetings with your staff, we plan to issue a Request For Proposals (RFP) for a heliport fixed based operator at the Downtown Manhattan Heliport in September 2007. In the interim, we have asked the Port Authority of New York and New Jersey (PANYNJ) to continue to operate the Heliport for up to 6 months pending the selection of an operator.

Also enclosed are the comments from PANYNJ, along with copies of time sheets submitted by PANYNJ to support the personal service expenses in the amount of \$467,100.

If you have any questions, please do not hesitate to contact me at (212) 312-3688.

Sincerely,

A handwritten signature in black ink, appearing to read "Deo Singh".

Deo Singh
Controller



THE PORT AUTHORITY OF NY & NJ

A. Paul Blanco
Chief Financial Officer

August 22, 2007

Mr. William P. Challice
Audit Director
Office of the State Comptroller
Division of State Government Accountability
124 William Street – 21st Floor
New York, NY 10038

Dear Mr. Challice:

We appreciate the opportunity to respond to the audit report forwarded to Mr. Robert C. Lieber, President of the New York City Development Corporation, by your letter dated July 24, 2007.

We believe that the Downtown Manhattan Heliport is operating in full compliance pursuant to its lease with the New York City Economic Development Corporation and that all expenses charged to the Heliport are appropriate and properly documented. In addition, and as noted in your report, the Heliport is charging carriers appropriate fees and accurately reporting its revenues.

Within that context, the following comments relate to specific statements contained in the report.

As detailed further below, we disagree with your statement contained on page 2 that “They (the Port Authority) could not supply us with documentation for many of the expenses”. All documentation requested by the auditors was supplied in support of those expenses, which fell within their tests.

With reference to the statement contained on page 3 that “... the Heliport’s financial statements are prepared internally and are not subject to an independent audit ..., there is increased risk that incorrect financial reporting would go undetected, potentially having an effect on the rent calculation”, we would like to note the following. There is no requirement in the lease that the Statement of Annual Net Revenue for the Heliport be certified by an independent auditor. However, the financial information for Gross Revenues, Operating & Maintenance expenses (total facility expenses) and capital investment for the Imputed Debt Service calculation contained within the Statement of Annual Net Revenue for the Heliport are compiled from the same accounting records used to produce the Port Authority’s Comprehensive Annual Financial Report (CAFR), which is subject to the auditing procedures of the Port Authority’s independent auditors (Deloitte & Touche LLP).

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THE PORT AUTHORITY OF NY & NJ

Mr. William P. Challice

- 2 -

August 22, 2007

Regarding the five employees whose salaries aggregated \$467,100 for the reporting period referenced on page 4, we have attached the time and attendance records for these individuals. These timesheets support the documentation previously supplied, which consisted of a computer-generated schedule from our PeopleSoft payroll and human resources system noting the status and work locations of the requested employees.

*
Comment

We disagree with the statement contained on page 4 that only \$38,000 of the \$98,000 paid to a consulting firm was supported. Complete documentation in support of the entire \$98,000 was provided to the auditors, including a breakdown of the individual cost components of each invoice along with schedules from the vendor in support of amounts billed. A second copy of the documentation, which was previously provided, is appended to our response.

*
Comment

The remaining expenses questioned in your report regards the use of three vehicles. Documentation was supplied showing how the charges for these vehicles were derived and you state that the charges appear to be excessive. As previously noted, the lease rate for these vehicles is a combination of depreciation and maintenance and is calculated and charged back to the different facilities in accordance with stated Port Authority policy. No further questions were presented to us regarding the charges and therefore, we do not understand the basis of your statement.

*
Comment

Sincerely,

A. Paul Bianco
Chief Financial Officer

Attachments

* State Comptroller's Comment: We revised our report, as appropriate, to reflect this information.