MANAGEMENT LETTER

New York City Economic Development Corporation
(a component unit of The City of New York)
Year Ended June 30, 2012

Ernst & Young LLP

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New York, New York

In planning and performing our audit of the financial statements of New York City Economic Development Corporation (the "Corporation," or "NYCEDC") as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and the other matters:

Apple Tenant Reserve

Apple's policy has been to reserve 100% of any tenant receivable balance over 120 days old. While testing Apple's June 30th year end reserve for tenant receivables, we noted that the calculation included credit balances or prepayments on rent received over 120 days in advance as an offset to the amount of the receivables. We suggest that Management review the reserve calculation at year end to verify that all credit balances are excluded when calculating the required reserve.

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Management Response
Accounting agrees. This has been a long-standing procedure, whereby prepayments have been excluded from the reserve. However, due to the, unusual nature of these prepayments being more than 120 days old, a calculation error was made. Going forward Accounting will enhance the review process of the allowance calculation.

Apple Unearned Revenue

During our testing of Apple's unearned revenue, we noted that on November 3, 2011, ESDC transferred approximately $69.9 million to Apple. Approximately, $20.0 million of these funds was identified as the Site 8 North Project Fee and, accordingly, restricted for the use of the 42nd Street Revitalization Project. We noted that the language in the documents that restricts the use of the $20.0 million for this project is not specific as to the types of expenses for which the funds can be used. Because of the lack of clarity as to the specific use of these funds, Apple has not applied them to any expenses since their receipt. We suggest that Management consult with the Legal Department to clarify the available uses for these funds.

Management Response
Asset Management reached out to Legal to determine allowable usage of the remaining funds. Per Legal, these funds could be used for the following projects: streetscape, theater, or other improvements that relate to the Project. Accounting has been instructed to keep these amounts restricted pursuant to the agreement and advice of counsel.

The following comments were noted last year as part of our audit process and have not been remediated and remain open:

Apple Lease Portfolio

In conjunction with the testing performed of the Apple Industrial Corporation ("Apple") lease portfolio, the following conditions were identified:

- Three instances were noted where information included on the MRI profiles relating to the lease terms were either incomplete or different than the information contained in the lease abstract.

- Three instances were noted where tenants were not in compliance with insurance requirements.

- One instance was noted where insufficient security deposit was obtained from tenant.

- For one tenant, the MRI rent roll is inconsistent with actual properties occupied.

- One instance was noted where an inactive account was not timely written off.

- One instance was noted where the tenant's monthly heat maintenance was improperly changed due to a misinterpretation of the lease document.

These conditions can lead to incorrect customer billings and the potential for lost revenues. We suggest that Management take steps to improve the accuracy and timing of lease information provided to all relevant departments.

Management Response
Accounting and Asset Management always look to ensure the timely and accurate reporting of lease information within the MRI System. Accounting and Asset Management will continue to improve MRI functionality and review data integrity within MRI itself on a continuous basis. These data integrity validations will include, but not be limited to the following:

- Automate security deposit based on escalating lease

- Ensure insurance information is updated in lease abstracts

- Write-off uncollectible balances on a timely basis

Timely Revenue Recognition

During 2006, the Corporation (through Apple), as administrator, entered into a joint operations agreement with CSX Transportation, Norfolk Southern Railway Co. and Consolidated Rail Corp., (jointly as operators). Per the agreement, the Corporation is required to collect service fees that once collected are deposited into a Maintenance and Insurance Escrow Account. Funds held in the escrow are to be used by the Corporation to pay for maintenance expenses of the Staten Island Railroad ("SIRR") as they arise. It is the Corporation policy to recognize the associated service fees as revenue as the expenses are incurred. During our testing, we noted expenses that were incurred during 2010 and 2011 for which the related revenue was not recognized until the 2012 fiscal year. This occurred because of the lag time between when the expense is incurred and when Asset Management notifies Accounting of the transactions. We suggest that Accounting obtain a quarterly update on the SIRR expenses incurred so that they can record the expense and related revenue in the appropriate period.

Management Response
Accounting and Asset Management will work closely to improve timely communication of project expenses for reporting purposes. Accounting will generate quarterly expense reports and obtain Asset Management direction on which expenses are recoverable from the escrow account.

Capital Program

During our testing of the liability for on-going construction projects, the following conditions were noted:

- Four instances totaling $512,000 where retainage was recorded based on letters provided by the contractors; however, retainage amounts for these contracts were already previously recorded.

- Three instances totaling $650,200 where estimated amounts were used to record year-end accruals; however, actual billings, which came in subsequent to year-end, were lower than estimated costs.

- One instance totaling $1.1 million where accrual information provided by the vendor was misstated resulting in an overstated accrual balance.

- Four instances totaling $1.2 million where retainage amounts were accrued even though payment was already released.

Management Response
The accrual and retainage calculation at year-end depends mainly on vendor verifications, which in many instances were incorrectly reported to Accounting. This includes representations of the accrued amount, which in these instances, included retainage, although this was not clearly specified. Going forward, Management will ensure such amounts are clearly specified on the confirmations.

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Also included in this report is Appendix A, which contains the current status of all significant findings reported during the audit of the 2011 financial statements.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the City of New York and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

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September 28, 2012

Status of Prior Year Findings

Finding 2011-01 New York City Public Utility Service Program Billings

Criteria
The NYCEDC Accounting department ("Accounting") is responsible for maintaining a process that provides for an accurate billing calculation for its New York City Public Utility Service ("NYCPUS") program.

Condition:
The NYCPUS program was established to resell power to certain eligible business customers at discounted rates as a means of fostering business growth. NYCPUS purchases hydropower at discounted rates from the New York Power Authority ("NYPA") and this power is delivered locally by Consolidation Edison ("ConEd") to NYCPUS customers. Effective June 2010, the billing calculation process was transferred from the Energy Department to Accounting. Power sales for the year ended June 30, 2011 were $54 million.

In conjunction with our audit of NYCEDC, a detailed review of the NYCPUS program was performed. As a result of the testing performed, the following exceptions were noted:

- For the period from May 1, 2010 through June 30, 2011, NYCEDC failed to pass along a rate increase associated with ConEd energy delivery charges. This rate increase was required to be passed along to NYCPUS customers with an additional 1% operating profit mark-up. As a result, NYCPUS customers were under-billed by approximately $2.5 million.

- NYPA bills NYCPUS based on energy generation and transmission data consisting of power, transmission, energy and ISP charges. These charges are passed-on to NYCPUS customers with an additional 1% operating profit-mark-up. For the period of May 2010 to June 2011, under-billing to NYCPUS customers for NYPA energy generation charges were approximately $600,000.

- NYCPUS customers were over-billed by approximately $45,000 due to calculation errors related to "Apportioned Surcharges" billed by ConEd. Such charges are also passed-on to NYCPUS customers. Accounting had added a 1% mark-up, but these costs are to be passed-on on a "dollar-for-dollar" basis. This error was reported to management during the 2010 review of the NYCPUS program, however customers continued to be billed the 1% mark-up in 2011.

Effect:
As a result of the billing discrepancies noted and the lack of timely review of the billings, total under-billings for FY 2011 were approximately $3 million. As NYCPUS had already received $1.4 million from the most affected customer, the net amount due from NYCPUS customers amounted to approximately $1.6 million.

Cause:
We noted that Accounting did not have adequate review procedures to ensure that amounts billed to customers were in accordance with executed agreements with NYPA, Con Ed and their customers.

Recommendation:
We recommend that Account performs a detailed review monthly of all charges prior to invoicing customers to verify that all billed amounts are accurate. In addition, there should be adequate staff training to ensure that those responsible for preparing the monthly bills understand the intricacies of this complex bill.

View of Responsible Officials and Planned Corrective Action:

NYCEDC agrees with the audit recommendation. The exceptions noted by the auditors were the result of a lapse in renewal of the NYCPUS program which was held up by the late New York State legislation for the annual budget at the end of FY10 into FY11. During the renewal period ConEd and NYPA, as the service providers of the NYCPUS program, sent multiple revisions of customer statements, which increased the billing rate from the discounted to the normal (market) rate. After the New York State legislature approved the extension of the discounted energy program, a new set of rates were established by ConEd and NYPA. Both organizations submitted multiple revisions of billing statements to retroactively apply the new rates to the period of discontinuance.

As a result of the multiple revisions coming from the service providers, NYCEDC accounting staff completed a reconciliation process which identified the apparent under-billing per customer. NYCEDC accounting staff recognized the discrepancy and alerted Internal Audit to perform a reconciliation of the billing adjustments.

At the conclusion of this extensive effort, the following corrective action plan was established:

- Most customers have been retroactively invoiced for all rate increases issued by ConEd and NYPA. The revised invoice includes the actual billable amount plus the operating mark-up of 1%. The total uncollected balance of $1.6 million will be collected in full as soon as practical and before the end of this fiscal year.

- As applicable, customers will receive a credit for overbilled invoices relating to erroneous apportioned surcharge calculations. The credit of approximately $45,000 in total will be applied to the future invoices of the appropriate customers.

In concurrence with the recommendations, NYCEDC has reviewed the conditions that led to the billing discrepancies and management will install the following precautionary measures:

- Allocate additional staffing resources which will be dedicated to the calculation and billing to ensure both timely and accurate results.

- Ensure that staff is adequately trained in the billing process to understand and execute accurate billing.

- Improve the supervisory review process for each billing cycle through detailed review and comparison of both energy purchases and program billing.

- Comprehensive updates to the current process manual as discussed in next audit recommendation.

- Regularly scheduled check-ins with NYPA and ConEd to ensure correct procedures and rates are being used and to resolve any discrepancies that may exist.

Management will also work with NYPA and ConEd to explore a different billing format in an effort to cut down on the number of reconciliations that occur, and to create efficiencies in the billing process, thus minimizing opportunities for discrepancies, while increasing the overall level of control.

Current Year Status

This issue has been resolved.

Finding 2011-02 Policies and Procedures

Criteria
A comprehensive policies and procedures manual serves certain basic organizational needs, especially in situations where significant turnover is experienced.

These needs include:

- Operational needs – Policies and procedures ensure that fundamental organizational processes are performed in a consistent way that meets the organization’s needs.

- Risk management – Established policies and procedures are an important control activity in helping an organization manage risk.

- Continuous improvement – Documented procedures improve processes as they help to build important internal communication practices.

- Compliance – Well defined and documented processes and procedures along with the associated records that demonstrate process capability can foster effective internal control system compliance with regulations and standards.

Condition:
We noted that NYCEDC's Accounting Department does not maintain a comprehensive policies and procedures manual. Although the Department does have various written policies and procedures for handling the routine transactions that occur during the year, there is no all-inclusive manual to facilitate the timely recording of transactions, particularly for non-routine or unusual transactions.

Effect:
Due to significant turnover experienced by the Department during the year, certain significant transactions were not recorded on a timely basis due to a lack of familiarity with appropriate procedures for handling large or unusual transactions.

Cause:
The Agency's current policies and procedures manual is outdated and focuses primarily on routine transactions. Policies and procedures for handling most non-routine transactions are not currently addressed.

Recommendation:
We recommend that management develop a comprehensive policies and procedures manual to assist the Accounting Department in fulfilling its corporate responsibilities in a timely manner.

View of Responsible Officials and Planned Corrective Action:

NYCEDC agrees with the audit recommendation. NYCEDC acknowledges the importance of documented policies and procedures in demonstrating sound internal controls. NYCEDC's accounting department has an extensive policies and procedures manual, but we agree it has not been contemporized for current and non-standard procedures.

Management is in the process of procuring an external and independent consultant that will assist in the creation of a revised and updated Policies and Procedures manual for all financial reporting matters. This will include comprehensive instruction on accounting procedures under the current accounting system, as well as updates to all non-routine transactions. Such updates will concentrate on specific types of transactions unique to NYCEDC and its affiliated entities.

Current Year Status

This issue has been resolved.

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