

AUDIT REPORT

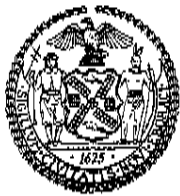


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Business Integrity Commission's Administration of the Shipboard Gambling Fiduciary Accounts

FM05-061A

April 5, 2005



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

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the responsibilities of the Comptroller contained in Chapter 5, § 93, of the New York City Charter, my office has conducted an audit to determine whether the Business Integrity Commission accurately accounts for the revenues and expenses of the fiduciary accounts, and ensures that all funds are used in accordance with the fiduciary agreement.

The results of our audit, which are presented in this report, have been discussed with officials of the Commission and the Law Department (the custodian of the accounts), and their comments have been considered in preparing this report.

Audits such as this provide a means of ensuring that City agencies have adequate controls over fiduciary accounts and that moneys in these accounts are used in accordance with applicable rules and regulations.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please contact my audit bureau at 212-669-3747 or e-mail us at audit@Comptroller.nyc.gov.

Very truly yours,

A handwritten signature in black ink, reading "William C. Thompson, Jr.".

William C. Thompson, Jr.

WCT/GR

Report: FM05-061A
Filed: April 5, 2005

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

**Audit Report on the Business Integrity Commission's
Administration of the
Shipboard Gambling Fiduciary Accounts**

FM05-061A

AUDIT REPORT IN BRIEF

This audit determined whether the Business Integrity Commission (Commission) accurately accounts for the revenues and expenses of its Shipboard Gambling fiduciary accounts and ensures that all funds are used in accordance with the fiduciary agreement.

Fiduciary accounts are used to record financial resources held and administered in trust by the City of New York. The principal and income of these accounts is intended to benefit individuals, private organizations, or other non-City government entities. The Commission is responsible for administering two fiduciary accounts that were established to receive deposits from private parties interested in operating shipboard gambling businesses in the City, or in providing goods and services to those businesses.¹ The accounts, were established in January 1998 by the Law Department in accordance with Local Law 57—a 1997 amendment to Title 20 of the Administrative Code of the City of New York.

The Law Department is the custodian of the two accounts, and it deposits and disburses account funds when notified by the Commission or (in the past) its predecessors. For Fiscal Year 2004, the Law Department reported a balance of \$627,580 in the Business and Employees account, and a balance of \$124,301 in the Vendor License account. According to Commission officials, shipboard gambling has been inactive since Fiscal Year 2002.

¹ The Commission's predecessors were the Gambling Control Commission, established in 1997 to regulate shipboard gambling, and the Trade Waste Commission established in 2000. In July 2002, the Gambling Control Commission was consolidated into the Organized Crime Control Commission and was renamed the Business Integrity Commission.

Audit Findings and Conclusions

The Commission generally expended funds from both fiduciary accounts in accordance with the fiduciary agreement. However, the Commission did not adequately account for or reconcile the two accounts in a timely fashion. Moreover, the Commission has not issued refunds to entities whose investigations are complete, and who deposited into the account funds greater than the City's investigative costs.

Our reconciliation of the two accounts disclosed:

- The City was not reimbursed for \$656,741 for the cost of investigations: \$549,789 from the Business and Employees account; and \$106,951 from the Vendor License account.
- Only \$629,239 in the two accounts is available to reimburse the City. The Business and Employees Account has \$627,580 on deposit. Of this amount \$528,642 is available to reimburse the City and the remaining \$98,938 is to be returned to applicants whose investigations are complete and who deposited into the account funds greater than the City's investigative costs. Similarly, the Vendor Account has \$124,301 on deposit; \$100,597 is available to reimburse the City, \$23,669 is to be returned to the applicants.
- Sufficient funds were not collected to cover investigations in connection with 18 applicants. For three other applicants refunds were issued before the City received appropriate reimbursement of the investigative costs incurred. Consequently, funds on account for these applicants fall short of the investigative costs incurred by \$27,502.

Audit Recommendations

To address these issues, we recommended that the Commission, in conjunction with the Law Department should:

- Transfer the \$629,239 balance in the fiduciary accounts to the City's General Fund.
- Attempt to recover the \$27,502 due the City from applicants who deposited insufficient funds to cover the cost of investigations conducted by the City.
- Reconcile both fiduciary accounts. Any remaining balance in the accounts, after deducting expenses due the City, should be returned to the applicants.

INTRODUCTION

Background

Fiduciary accounts are used to record financial resources held and administered in trust by the City of New York. The principal and income of these accounts is intended to benefit individuals, private organizations, or other non-City government entities. The New York City Comptroller's Office, in conjunction with the Office of Management and Budget (OMB) establishes fiduciary accounts at the request of various organizations, including City agencies and public benefit corporations.

The Business Integrity Commission (Commission) is responsible for administering two fiduciary accounts that were established to receive deposits from private parties interested in operating shipboard gambling businesses in the City, or in providing goods and services to those businesses.² The accounts, were established in January 1998 by the Law Department in accordance with Local Law 57—a 1997 amendment to Title 20 of the Administrative Code of the City of New York. The Business and Employees account is for application fees for licensing shipboard gambling businesses and employees; the Vendor License account is for fees for processing vendor licenses. The fees collected are to cover the costs of investigations and processing the applications of shipboard business owners and vendors.

To obtain a license, an applicant must submit an application and a monetary deposit, and be investigated by the Police Department. The cost of an investigation is calculated at an hourly rate of \$130. During the scope of this audit, seven vessels and 196 vendor applications were processed to do business in shipboard gambling offshore from the City.

The Law Department is the custodian of the two accounts, and it deposits and disburses account funds when notified by the Commission or (in the past) its predecessors. For Fiscal Year 2004, the Law Department reported a balance of \$627,580 in the Business and Employees account, and a balance of \$124,301 in the Vendor License account. According to Commission officials, shipboard gambling has been inactive since Fiscal Year 2002.

Objectives

Our audit objectives were to determine whether the Commission:

- accurately accounts for the revenues and expenses of the fiduciary accounts; and
- ensures that all funds are used in accordance with the fiduciary agreement.

² The Commission's predecessors were the Gambling Control Commission, established in 1997 to regulate shipboard gambling, and the Trade Waste Commission established in 2000. In July 2002, the Gambling Control Commission was consolidated into the Organized Crime Control Commission and was renamed the Business Integrity Commission.

Scope and Methodology

The audit covered the period from January 1, 1998, to July 30, 2004. To understand how shipboard gambling funds are managed and the internal controls over receipts and disbursements, we interviewed officials of the Office of Management and Budget (OMB), the Law Department, and the Commission. We documented our understanding of the internal controls in a flowchart and through written narratives. We also evaluated the adequacy of the internal controls to determine whether revenues and expenses in the fiduciary accounts were accurately recorded, and whether funds were used in accordance with the fiduciary agreement.

To gain an understanding of the regulations for the reporting and accounting of funds deposited in fiduciary accounts, we reviewed Comptroller's Directive 27, "Fiduciary Accounts Procedures for Requesting, Controlling and Monitoring." In addition, to understand the Commission's duties and responsibilities, we reviewed Chapter 63 of the New York City Charter. For an understanding of the regulations governing the shipboard gambling application and licensing process, we reviewed Local Law 57 and reviewed a transcript of the Gambling Control Commission's first meeting.

To verify both account balances and check the accuracy of the amounts recorded on the Law Department reconciliation spreadsheet, we recalculated the balances in the Law Department records, and traced them to the balances in the Financial Management System (FMS).

To determine whether total investigation hours reported on the Commission's billing report summary could be relied upon, and to be reasonably assured that reported hours corresponded to investigators' time records, we judgmentally selected the investigator (for each of the seven vessels), with the greatest number of reported work hours. We then compared the number of hours on the time sheet with the hours indicated on the Commission's billing report.

Lastly, to determine the total cost of investigations to be reimbursed to the City, we calculated the investigation hours for each vessel and vendor, and applied the \$130-per-hour rate.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City Comptroller 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 Law Department and Commission 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 February 28, 2005. On February 18, 2005, we submitted a draft report to these officials with a request for comments. Written responses were received from the Law Department on March 15, 2005 and the Commission on March 17, 2005.

In its response, the Commission agreed with the report’s recommendations to transfer the applicable balances from the fiduciary accounts to the general fund and recover funds from applicants who deposited insufficient funds in the fiduciary account. However, the Commission did not agree with the recommendation to return funds to applicants whose deposits exceeded the costs of their investigations. The Law Department responded that it “will continue its fiduciary responsibility in regard to these accounts, specifically depositing and disbursing account funds at the instruction of the Business Integrity Commission and reconciling account balances with bank records.”

The full texts of the responses from the Commission and the Law Department are included as addenda to this report.

FINDINGS

Fiduciary Accounts Not Properly Reconciled

Although funds from both fiduciary accounts were generally expended in accordance with the fiduciary agreement, the Commission did not adequately account for or reconcile the two accounts in a timely fashion. As a result, the City was not reimbursed for its costs of investigations. Moreover, the Commission has not issued refunds to entities whose investigations are complete, and who deposited into the account funds greater than the City's investigative costs.

The shipboard gambling fiduciary agreement states that a major part of the funds deposited into both accounts are to be transferred to the City General Fund "after the Commission performs an accounting of expenses incurred during the processing of each application." The fiduciary agreement further states, "if there is a balance after the application processing expenses are deducted, that balance would be returned to the respective applicant."

Our reconciliation of the two accounts disclosed:

- The City was not reimbursed for \$656,741 for the cost of investigations: \$549,789 from the Business and Employees account; and \$106,951 from the Vendor License account.
- Only \$629,239 in the two accounts is available to reimburse the City. The Business and Employees Account has \$627,580 on deposit. Of this amount \$528,642 is available to reimburse the City and the remaining \$98,938 is to be returned to applicants whose investigations are complete and who deposited into the account funds greater than the City's investigative costs. Similarly, the Vendor Account has \$124,301 on deposit; \$100,597 is available to reimburse the City, \$23,669 is to be returned to the applicants.
- Sufficient funds were not collected to cover investigations in connection with 18 applicants. For three other applicants refunds were issued before the City received appropriate reimbursement of the investigative costs incurred. Consequently, funds on account for these applicants fall short of the investigative costs incurred by \$27,502.

We notified the Commission of these findings in a November 30, 2004 (See Attachment I).³ The Commission responded to our letter on January 11, 2005, stating that: "BIC will collect from this shipboard gambling fiduciary account the cost of investigations performed on vendors applicants. Similarly, BIC will also collect from the Gambling Business and Employees Account the cost of investigations performed on shipboard gambling business applicants."

³In the letter we recommended that the Commission transfer \$629,134 from both accounts to the General Fund. However, based on additional documentation provided by the Commission the amount recommended for transfer was adjusted to \$629,239.

Moreover, the Commission stated that although, “it is true that no applications are being processed at this time, we believe it would be prudent to keep these accounts open. Two companies have expressed interest in keeping their subaccounts open in anticipation of resuming operations under shipboard gambling authorizations they obtained pursuant to the provisions of Local Law 57.” Finally, in regard to recouping outstanding investigative costs from the applicants, the Commission stated that it “will request that businesses owing such costs provide the necessary additional funds for the shipboard gambling fiduciary accounts”. (See Attachment II for a copy of the Commission’s January 11, 2005 letter.)

RECOMMENDATIONS

The Commission, in conjunction with the Law Department, should:

1. Transfer the \$629,239 balance in the fiduciary accounts to the City’s General Fund.

Commission’s Response: “BIC agrees with the recommendation to transfer the applicable balances from the escrow accounts to the City’s General Fund. BIC will collect from the Vendor License Account and the Gambling Business and Employees Account the cost of investigations performed on the applicants. BIC is taking preparatory steps for the reconciliation of the accounts so that the collection and transference into the General Fund can take place.”

2. Attempt to recover the \$27,502 due the City from applicants who deposited insufficient funds to cover the cost of investigations conducted by the City.

Commission’s Response: “BIC agrees with the recommendation to attempt to recoup investigative costs from applicants who have insufficient funds in the escrow accounts. BIC is taking preparatory steps for the reconciliation of the accounts so to begin the recovery process.”

3. Reconcile both fiduciary accounts. Any remaining balance in the accounts, after deducting expenses due the City, should be returned to the applicants.

Commission’s Response: “BIC is working to reconcile the accounts; however, BIC respectfully disagrees with the recommendation to return remaining balances to applicants, after reconciling the fiduciary accounts and deducting expenses due to the City, for reasons set forth in BIC’s letter dated January 11, 2005 . . . which responds to the City Comptroller’s office November 30, 2004 correspondence. However, BIC will continue to evaluate this matter in light of the Comptroller’s recommendation.”



Greg Brooks
DEPUTY COMPTROLLER
POLICY, AUDITS, ACCOUNTANCY & CONTRACTS

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November 30, 2004

The Honorable Gretchen Dykstra
Commissioner
Department of Consumer Affairs
42 Broadway, 8th Floor
New York, NY 10004

The Honorable Michael A. Cardozo
Corporation Counsel
Law Department
100 Church Street
New York, NY 10007-2601

Dear Commissioner Dykstra and Mr. Cardozo:

As you are aware, on August 2, 2004, my office began an audit of the two Shipboard Gambling fiduciary accounts. These accounts were established to deposit funds from private parties interested in operating shipboard gambling businesses or providing goods or services to shipboard gambling businesses operating in New York City. These funds are to be used to reimburse the City for its costs of conducting investigations and issuing licenses.

Although the audit is not complete, I wish to bring a matter to your attention so that you may take appropriate action now, rather than waiting for the completion of the audit process. Specifically, the City has generally not been reimbursed for the cost of its investigations as is provided for in the legislation that created the accounts. Our analysis revealed that as of November 23, 2004, the City is due \$656,571 (see Attachment I) — \$549,789 from the Gaming Business and Employees account (Gaming Account) and \$106,782 from the Vendor License account (Vendor Account). However, our analysis also revealed that there is not enough money in these accounts to reimburse the total amount due the City, as follows:

- The Gaming Account has \$627,580 on deposit. Of this amount \$528,642 is available to reimburse the City and the remaining \$98,938 is to be returned to the entities whose investigations are complete and who deposited into the account more than the City's investigative costs.

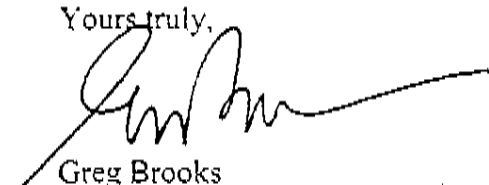
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- The Vendor Account has \$124,301 on deposit; \$100,493 of the \$106,782 due is available to reimburse the City. \$23,773 is to be returned to the entities whose investigations are complete and deposited into the account more than the City's investigative costs into the account.

I recommend that \$629,134, (\$528,642 from the Gaming Account and \$100,493 from the Vendors Account) be transferred to the City Treasury. Further, your agencies should determine whether it is possible to recoup the remaining \$27,437 from the boating entities and vendors whose accounts do not contain sufficient funds to reimburse the City for the investigations performed (any money collected should also be transferred to the City Treasury). Finally, since it is my understanding that applications are no longer being processed, the accounts should be reconciled, any amounts due to outside parties should be returned, and the accounts should be closed.

Please advise me of the actions you plan to take with regard to this matter. Should additional matters arise during the course of this audit that I think warrant your attention, I will advise you accordingly.

Yours truly,



Greg Brooks

cc: Kristen Lasky, Deputy Commissioner of Finance and Administration,
Department of Consumer Affairs
Anna Bacchia, Director of Audit Services, Department of Consumer Affairs
Thomas McCormack, Chairman, Business Integrity Commission
Ilene Chin, Deputy Commissioner of Administration and Operations,
Business Integrity Commission
Anthony Johnson, Deputy Chief of Administration, Law Department
Paul Inselmann, Director of Audit, Law Department
Susan Kupferman, Director, Mayor's Office

Amount Due to City from Investigations

Budget Code 9800: Gambling Businesses and Employees				Boating Entity's		Deposit (plus) Interest Earned	Total Cost of Investigation	Disbursements to Date for Investigations	Amount Disbursed to Entity	Add'l Cost of Investigation to be Disbursed to General Fund	Total Due to City by Entity	Amount to Disburse to Entity
A/C no.												
1-B	AMERICAN CASINO ENTERTAINMENT SERVICES	100,443.16	30,550.26							30,550.26		69,897.90
2-B	PRESIDENT RIVERBOAT CASINOS, INC.	100,443.16	71,407.64							71,407.64		29,040.50
3-B	UNITED STATES CRUISE LINES, INC.	100,443.16	37,998.78					(30,863.94)	(69,584.22)		7,034.84	
4-B & 5-B	LUCKY CRUISES, LLC	200,896.32	208,339.36					(200,896.32)			7,343.14	
6-B	NEW YORK CRUISE LINES, INC.	100,443.16	31,939.23					(27,139.68)	(71,253.48)		6,769.53	
*7-B & 8-B	CASINO NEW YORK LLC BAY CRUISES, LLC	714,843.16	389,142.12					(162,718.16)	(142,446.04)	426,683.96		98,918.44
		\$ 1,337,537.32	\$ 971,197.49	\$				(421,668.10)	(288,288.74)	\$ 518,641.86	\$ 21,147.53	\$
TOTALS										\$ 549,789.39		

Total Due to City for Cost of Investigation: \$ 549,789.39

* For Account no. 7B and 8B, \$145,416.04 was disbursed to third parties per court order

Budget Code 9801: Vendor Licenses				Key Vendors	Deposit (plus) Interest Earned	Total Cost of Investigation	Amount Disbursed to Entity	Cost of Investigation to be Disbursed to General Fund	Due to City by Key Vendors	Amount to Disburse to Vendors
A/C no.										
1-V	DUCHESS AND LADY ENTERTAINMENT, INC.	3,013.45	513.45				(2,500.00)	513.45	186.53	
2-V	AMERICAN CRUISES LIMITED	3,013.45	3,120.00					3,013.45		94.95
3-V	PAUL-SON GAMING SUPPLIES, INC.	3,013.45	2,918.50					2,918.50	106.53	
4-V	THE BUD JONES CO.	3,013.45	3,120.00					3,013.45		410.63
13-V	TCS AMERICA, INC.	3,010.63	2,600.00					2,600.00	109.37	
14-V	INTERNATIONAL GAME TECHNOLOGY (IGT)	3,010.63	3,120.00					3,010.63	109.37	
15-V	CHC INTERNATIONAL, INC.	3,000.00	3,250.00					3,000.00	250.00	
16,17,18-V	BAY CRUISES, LLC dba SEACO	3,000.00	3,120.00					3,000.00	120.00	
19-V	A.C. COIN & SLOT SRVC. CO.	3,000.00	2,509.00					2,509.00		491.00
20-V	PEERLESS IMPORTERS, INC.	3,000.00	3,120.00					3,000.00	120.00	
21-V	LEHMANN MEATS, INC.	3,000.00	3,120.00					3,000.00	120.00	
22-V	CHIPCO INTL. dba JCM, INC.	3,000.00	3,120.00					3,000.00	120.00	
23-V	GAMING SYSTEMS INTERNATIONAL	3,000.00	2,030.00					2,030.00		920.00
24-V	MANHATTAN CRUISE CHARTER, INC.	3,000.00	2,470.00					2,470.00	530.00	
25-V	A-Z PROTECTION SECURITY, INC.	3,000.00	3,250.00					3,000.00	250.00	
26-V	GRIFFIN INVESTIGATIONS, INC.	3,000.00	3,250.00				(2,430.00)	520.00		400.00
27-V	SHUFFLE MASTER GAMING	3,000.00	3,250.00					2,600.00		409.00
28-V	U.S. FOOD PRODUCTS CORP.	3,000.00	2,600.00					2,600.00	1,608.50	
29-V	GOLD STAR INTERNATIONAL, INC.	3,000.00	2,600.00					3,000.00		
60-V	CHARMER INDUSTRIES, INC.	3,000.00	4,608.50				(2,220.00)	780.00		
62-V	A & M BRONY BAKING	3,000.00	3,120.00					3,000.00	120.00	
63-V	THE OLDE PHILADELPHIA MINT	3,000.00	5,270.00					3,000.00	2,730.00	
64-V	PLUM THIRD STREET CORP.	3,000.00	2,030.00					2,030.00		
65-V	BAIRD CHAIN FOOD CORP.	3,000.00	3,120.00					3,000.00	120.00	
80-V	HUDSON RIVER DAY LINE, INC. for EUROPA	3,000.00	3,120.00					3,000.00	120.00	
81-V	AMERICAN CASINO EQUIPMENT, LTD. **	3,000.00	1,170.00					1,170.00		1,339.00
82-V	MANHATTAN CRUISES, LLC for STAR CRUISES	3,000.00	2,990.00					2,990.00		49.00
96-V	M. SLAVIN & SONS LTD.	3,000.00	3,120.00					3,000.00		
97-V	SIGMA GAME	3,000.00	3,120.00					3,000.00	120.00	
98-V	GDC INC.	3,000.00	3,120.00					3,000.00		

Shipboard Gambling Fiduciary Accounts
Amount Due to City from Investigations

Budget Code 9801: Vendor Licenses		Key Vendors		Deposit (plus) Interest Earned	Total Cost of Investigation	Amount Disbursed to Entity	Cost of Investigation to be Disbursed to General Fund	Due to City by Key Vendors	Amount to Disburse to Vendors
A/C no.									
99-V	BERLIN BROS. MARKET, INC.	3,600.00	2,600.00				2,600.00		400.00
100-V	MIKORIN GAMING CORP.	3,600.00	3,600.00				3,600.00	29.00	
123-V	BAY CASINO for FALWORTH SECURITY	3,015.00	3,015.00				3,015.00	40.00	
124-V	BAY CASINO for SILVER HOLDING, INC.	3,015.00	2,970.00				2,970.00		25.00
149-V	TONY'S FISH & SEAFOOD CORP.	3,000.00	2,600.00				2,600.00		400.00
150-V	UB DISTRIBUTORS, LLC	3,400.00	2,900.00				2,900.00		10.00
151-V	CAZAMOVE-OPICI WINE CORP.	3,000.00	3,100.00				3,100.00	120.00	
163-V	GAMBLING LABORATORIES INTERNATIONAL	3,000.00	2,800.00				2,800.00		220.00
167-V	GALLO WINE DISTRIBUTORS, INC.	3,400.00	2,080.00				2,080.00		270.00
174-V	CEMACO PLAYING CARD CO.	3,000.00	689.00				689.00		2,311.00
191-V	GLORY (USA), INC.	3,000.00	1,709.50				1,709.50		1,290.50
195-V	CLEMENTE'S FINE FOODS INC.	3,000.00	1,400.00				1,400.00		1,600.00
197-V	PORT IMPERIAL FERRY CORP. NY WATERWAYS	3,000.00	390.00				390.00		2,610.00
198-V	MANHATTAN BEER DISTRIBUTORS	3,400.00	300.00				300.00		2,610.00
TOTALS		\$ 131,465.69	\$ 106,781.95	\$ (7,300.00)	\$ 100,482.61	\$ 6,289.34	\$ 106,781.95		

** BIC was unable to provide documentation to support the total number of investigation hours for this key vendor

Total due to City for Cost of Investigations from Both Accounts: \$ 656,571.34

SUMMARY	
Total to Disburse from Budget Code 9800:	\$28,641.86
Total to Disburse from Budget Code 9801:	100,492.61
Total due to City by Entity's Vendors:	27,436.87
Total due to City for Cost of Investigations from both accounts:	\$ 656,571.34



BUSINESS INTEGRITY COMMISSION

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January 11, 2005

Greg Brooks
Deputy Comptroller
Policy, Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
1 Centre Street
New York, New York 10007-2341

Dear Mr. Brooks:

I write in response to your letter of November 30, 2004, which is addressed to Commissioner Gretchen Dykstra and to Corporation Counsel Michael A. Cardozo.

First, let me note that correspondence regarding this matter should be sent to the Business Integrity Commission ("BIC") rather than the Department of Consumer Affairs.

Because, as your letter notes, the audit is not complete, I am not providing a comprehensive response at this time. Instead, I simply want to provide some preliminary comments that I trust you will take into account before making the final recommendation.

Your preliminary findings and recommendations address three areas of the audit, and I will address each.

1. Reimbursement to the City for the Cost of Background Investigations

As for the Vendor License Account, BIC will collect from this shipboard gambling fiduciary account the cost of investigations performed on vendors applicants. Similarly, BIC will also collect from the Gambling Business and Employees Account the cost of investigations performed on shipboard gambling business applicants.

2. Closing of the Shipboard Gambling Fiduciary Accounts

Your letter recommends that the shipboard gambling fiduciary accounts be closed, with any amounts due to outside parties returned after the City is reimbursed for the cost of its investigations.

Whereas it is true that no applications are being processed at this time, we believe it would be prudent to keep these accounts open. Two companies have expressed interest in keeping their subaccounts open in anticipation of resuming operations under shipboard gambling authorizations they obtained pursuant to the provisions of Local Law 57 of 1997, which established the City's regulation of the shipboard gambling industry. In addition, within the past year BIC was approached by another company seeking to obtain a license to operate a shipboard gambling business. Since funds are necessary to regulate shipboard gambling operations, we believe the City should retain such funds until such time as companies indicate that they would like to withdraw their applications or otherwise terminate their licenses.

These same considerations apply to vendor businesses that are not seeking the return of their application fees.

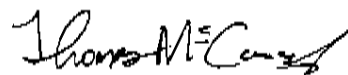
3. Recoupment of Costs

With respect to the recoupment of investigative costs, BIC will request that businesses owing such costs provide the necessary additional funds for the shipboard gambling fiduciary accounts. If a company fails to do so, the matter will be referred to the New York City Law Department for appropriate action.

Of course, BIC also has the authority to withhold licenses and other necessary approvals from any company that wishes to engage in shipboard gambling or vendor activities but has failed to provide the required fees.

If you or your staff would like to discuss these issues further, please contact Deputy Commissioner Ilene Chin at (212) 676-6308

Very truly yours,



Thomas McCormack
Chair

cc: Michael A. Cardozo, Esq.
Gretchen Dykstra
Anthony Johnson
Paul Inselmann
Susan Kupferman



BUSINESS INTEGRITY COMMISSION

100 Church Street • 20th Floor
New York • New York 10007
Tel. (212) 676-6219 • Fax (212) 676-6204

March 17, 2005

Greg Brooks
Deputy Comptroller
Policy, Audits, Accountancy & Contracts
Office of the Comptroller
1 Centre Street
New York, New York 10007-2341

Dear Mr. Brooks:

I write in response to your letter of March 2, 2005, which forwards a draft of the Audit Report on the Business Integrity Commission's Administration of the Shipboard Gambling Fiduciary Accounts #FM05-061A ("Audit Report"). In general, the Business Integrity Commission ("BIC") agrees with the audit's recommendations, except as noted.

1. Recommendation 1 Transfer the \$629,239 balance in the fiduciary accounts to the City's General Fund.

BIC agrees with the recommendation to transfer the applicable balances from the escrow accounts to the City's General Fund. BIC will collect from the Vendor License Account and the Gambling Business and Employees Account the cost of investigations performed on the applicants. BIC is taking preparatory steps for the reconciliation of the accounts so that the collection and transference into the General Fund can take place.

2. Recommendation 2 Attempt to recover the \$27,502 due the City from applicants who deposited insufficient funds to cover the cost of investigations conducted by the City.

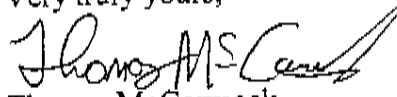
BIC agrees with the recommendation to attempt to recoup investigative costs from applicants who have insufficient funds in the escrow accounts. BIC is taking preparatory steps for the reconciliation of the accounts so to being the recovery process.

3. Recommendation 3 Reconcile both fiduciary accounts. Any remaining balances in the accounts, after deducting expenses due the City should be returned to the applicants.

As previously stated, BIC is working to reconcile the accounts; however, BIC respectfully disagrees with the recommendation to return remaining balances to applicants, after reconciling the fiduciary accounts and deducting expenses due to the City, for reasons set forth in BIC's letter dated January 11, 2005 (Attachment II) which responds to the City Comptroller's office November 30, 2004 correspondence. However, BIC will continue to evaluate this matter in light of the Comptroller's recommendation.

Thank you for the opportunity to respond to the draft audit.

Very truly yours,


Thomas McCormack
Chairman

cc: Anthony Johnson, Deputy Chief of Administration, Law Department
Paul Inselman, Director of Audit, Law Department
Susan Kupferman, Director, Mayor's Office of Operations



THE CITY OF NEW YORK
LAW DEPARTMENT

100 CHURCH STREET
NEW YORK, N.Y. 10007-2601

MICHAEL A. CARDOZO
Corporation Counsel

March 15, 2005

Greg Brooks
Deputy Comptroller
Policy, Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

Dear Mr. Brooks:

I write in response to your draft audit report on the "Business Integrity Commission's Administration of the Shipboard Gambling Fiduciary Accounts" dated March 2, 2005.

The Law Department will continue its fiduciary responsibility in regard to these accounts, specifically depositing and disbursing account funds at the instruction of the Business Integrity Commission and reconciling account balances with bank records.

In regards to your recommendations, we take no position in their merits but rather will perform our function as instructed by the Business Integrity Commission.

Thank you.

Yours truly,

A handwritten signature in black ink, appearing to read "P. Inselmann", followed by a horizontal line.

Paul Inselmann

cc: G. Foster Mills
Malachy Higgins
Anthony Johnson