

**Report To
The Mayor and City Council on
City Comptroller Audit Operations
Fiscal Year 2004**

March 1, 2005

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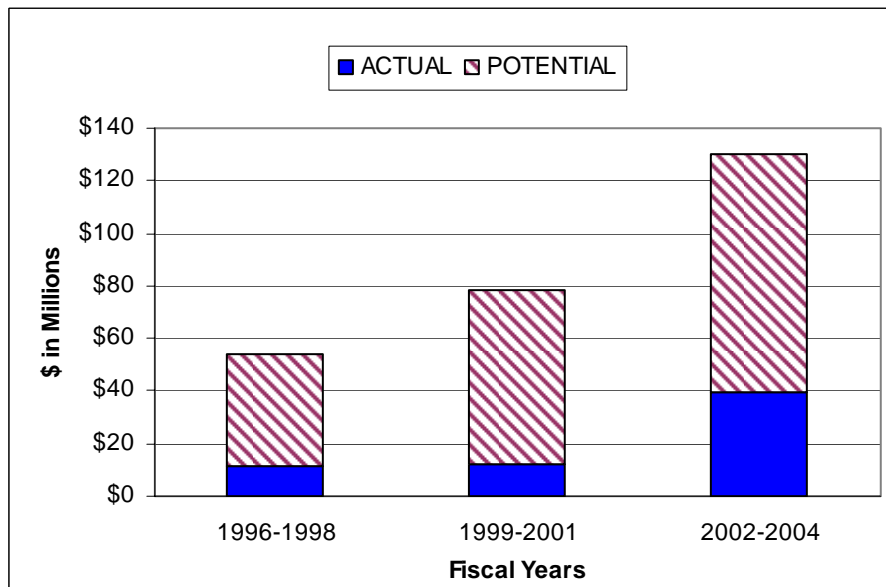
March 1, 2005

Mayor Bloomberg, Speaker Miller, and Members of the City Council:

I am pleased to transmit the New York City Comptroller's Charter-mandated report on audit operations for Fiscal Year 2004. The audit bureaus issued 101 audits and special reports during the fiscal year. This annual report contains the major findings and recommendations of audits issued by my audit bureaus over that period.

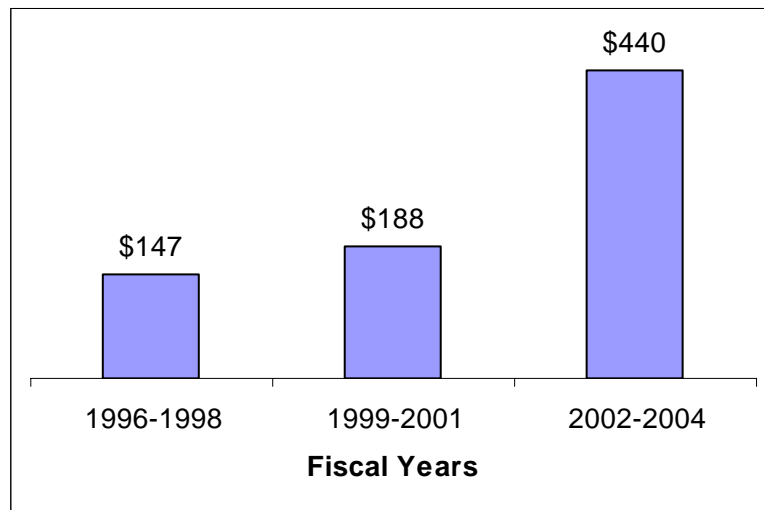
Audits completed in Fiscal Year 2004 resulted in \$20.6 million in actual revenue and savings and \$20.3 million in potential revenue and savings. Moreover, audits concluded over the past three fiscal years have generated \$129.5 million in actual and potential revenue and savings, the highest amount over a three-year period in the last nine fiscal years. These results represent a 233 percent increase in actual revenue and savings and a 36 percent increase in potential revenue and savings over the amounts achieved during the 1999-2001 fiscal years. The following chart illustrates the actual and potential revenue and savings generated by the audit bureaus during Fiscal Years 1996-1998, Fiscal Years 1999-2001 and Fiscal Years 2002-2004.

**Chart 1
Actual and Potential Revenue and Savings**



To ensure the most efficient use of available resources, I have instructed my audit bureaus to concentrate on audits of City operations that show the most dramatic potential for risk of revenue loss, cost overruns, and mismanagement. The result has been a greater amount of revenue and savings generated per audit. Of the 336 audits and special reports completed by my auditors during Fiscal Years 2002, 2003 and 2004, the average actual and potential revenue and savings per audit has increased dramatically when compared to the Fiscal Year 1996-1998 and 1999-2001 periods, as shown in the following chart.

Chart 2
Actual and Potential Revenue and Savings
Per Audit (\$ in thousands)



In Fiscal Year 2004, my audits covered a myriad of topics, including revenue identification and collection, cost savings, program performance, asset management, internal controls, and information technology. Synopses of the most prominent audits in some of these areas are included below.

My audit bureaus issued many significant audits during the fiscal year. I am particularly proud of my audit of the procurement process of the Department of Education (DOE) in the award of a vending machine license to the Snapple Beverage Group (Snapple). The audit disclosed that the process was fundamentally flawed. The agreement provided Snapple an exclusive vending machine opportunity for about 1,200 City schools and guaranteed that Snapple would pay a minimum of \$40.2 million to DOE between September 1, 2003, and August 31, 2008. The auditors discovered that during the process there were minimal solicitation efforts, an inadequate request for proposals package, and a defective bid evaluation and selection process. The audit also disclosed that Octagon, the agent authorized to handle the marketing of the vending machine opportunity, stands to realize exorbitant compensation for its services.

Brief descriptions of audits that generated the most actual and potential revenue and savings follow:

- An audit of the Department of Transportation identified \$18,063,487 in the City’s share of real property transfer and mortgage recording tax receipts in a fiduciary account—“Urban Account Payments to Franchised Private Bus Operators”—that should have been transferred to the City’s General Fund.
- An audit of the Department of Parks and Recreation (Parks) revealed that Parks does not effectively monitor its concessionaires to ensure that they comply with the capital improvement provisions of their concession agreements. In that regard, Parks has inadequate internal controls over capital improvements required to be completed by concessionaires. The audit found that: improvements totaling nearly \$10 million were not completed at 37 of the 58 concessions inspected by the auditors; the City lost at least \$290,000 in concessionaire fees that had the improvements been made would have enabled concession operations to generate revenue; and 10 of the 37 concessionaires who had not completed their capital improvements claimed that Parks had authorized them to modify or cancel the improvements specified in their agreements. However, neither the concessionaires nor Parks could provide evidence of requests or approvals for such changes.
- An audit of the Department of Consumer Affairs identified \$2.1 million in excess moneys the Department allowed to accumulate in the Home Improvement Contractors Fund account that could be used to satisfy contractor fines due the City.
- An audit of the compliance of Viacom Outdoor with its franchise agreement with the City disclosed that it did not ensure that all bus-stop shelter advertising contracts were sequentially numbered to guarantee proper tracking and accountability. Consequently, the auditors were unable to determine whether all of Viacom’s bus-stop shelter advertising contracts were accounted for in its books and records; all appropriate revenue was reported; and all fees were paid to the City. Based on the available records, the auditors determined that Viacom underreported gross revenue and took questionable deductions, which resulted in as much as \$1,195,789 in additional franchise fees and interest owed the City.
- An audit of the Taxi and Limousine Commission (TLC) found that TLC allowed \$97.3 million in fines to remain uncollected. Based on these findings, the auditors estimated that TLC could collect at least \$3.89 million of the outstanding fines if it made the collection of unpaid fines a priority and implemented rigorous collection efforts.
- An audit of Lutheran Social Services of Metropolitan New York for its foster care programs under contract with the Administration for Children’s Services (ACS) disclosed that it owes the City approximately \$897,737, because advances from the City exceeded allowable program costs.
- An audit of the payments of commercial rent taxes by Economic Development Corporation (EDC) concessionaires found that concessionaires and subtenants of concessionaires owe the City \$268,392 in Commercial Rent Tax (CRT), interest, and penalties. The audit also disclosed that had EDC effectively coordinated with the

Department of Finance in identifying concessionaires who are required to pay CRT, it is likely that the CRT due from these entities would have been collected.

- Audits of two foster care providers — Miracle Makers, Inc. and Sheltering Arms Children’s Service — under contract with the Administration for Children’s Services (ACS) disclosed that they owe the City approximately \$464,250 because advances from the City exceeded allowable program costs.
- An audit of the New York City Fire Department found that, based on a review of the 800 uniformed positions in the 10 largest administrative units in the Department, the City could save approximately \$1.7 million annually by civilianizing 47 positions currently held by uniformed employees.

Brief descriptions of audits that disclosed the most significant service delivery issues follow:

- An audit of the Department of Homeless Services (DHS) disclosed that it did not comply with the City Charter and Procurement Policy Board Rules when entering into informal agreements with operators of conditional housing facilities. The auditors visited six hotels and 17 apartment buildings in which homeless families reside. The hotels, as well as 10 of the apartment buildings inspected, generally were in satisfactory condition. However, the remaining seven apartment buildings, all operated by Gin Realty, had conditions that may pose a threat to the health and safety of the occupants placed there by DHS. Specifically, 30 of 41 apartments visited in these seven buildings had unsafe and unsanitary conditions, which included roach infestation, peeling paint, leaking faucets, water damage and mold on ceilings and walls, missing or broken tiles, and holes in walls and ceilings.
- An audit of the Department of Education’s (DOE) school safety plans for 10 elementary schools revealed that the 2003 and 2004 school safety plans reviewed did not meet DOE deadlines for completion and approval, and the 2003 school safety plans for the 10 schools did not meet many of the DOE deadlines. Moreover, since the schools were unable to access the online system to update their 2003 plans until November 21, 2003, the 2004 school safety plans for the 10 schools had not been submitted to DOE Regional Safety Administrators for initial review, as required.
- An audit of the effectiveness of the Complaint Inspection Program for food establishments by the Department of Health and Mental Hygiene disclosed that the Program is ineffective in following up on complaints against food establishments. Specifically, the audit noted that 40 percent of the complaints sampled received no follow-up by inspectors; that the time it took to conduct inspections of the complaints ranged from the same day to 344 days later; and that 44 percent of the food-borne illness complaints were never forwarded to the Office of Environmental Investigations, as required.
- An audit of the Workforce Investment Act (WIA) Program administered by the Department of Small Business Services (DSBS) disclosed that the DSBS has not ensured that the City has been allocated all of the Federal WIA funds to which it was

entitled for its adult and dislocated worker job training and placement programs. (During Fiscal Year 2003, the City received approximately \$96 million in Federal WIA funds.) In addition, prior to the audit New York City was the only one of 33 local workforce investment areas in the State lacking a certification for its one-stop career center system. The audit noted that the lack of such a certification had limited the ability of local organizations and businesses, as well as of DSBS, to qualify for various grants.

- An audit of the administration of the resident employment program by the New York City Housing Authority (NYCHA) disclosed that NYCHA generally does not have effective controls to ensure that the program is operating as intended. Accordingly, NYCHA management has not developed formal procedures for the program and has not coordinated the efforts of Resident Employment Services (RES) and the administering departments in monitoring contractor compliance with program requirements. Consequently, contractors did not submit REP hiring summaries documenting that the required number of NYCHA residents were hired. Additionally, based on the hiring summaries reviewed, the auditors discovered that only 74 percent of individuals identified as resident hires were in fact legal NYCHA residents.

Audits of internal controls and inventory management at a number of agencies identified significant deficiencies in expense justification, documentation, and asset management, as follows:

- An audit of the internal controls of the Police Department (NYPD) over handgun licensing disclosed that the Licensing Division was operating without written policies and procedures. As a result, some tasks may not have been properly communicated and consistently followed by Division Personnel and therefore there was no assurance that new personnel would have adequate guidance in carrying out their assigned tasks. In addition, the controls over the cancellation of licenses were inadequate and inconsistent. The audit also noted that 160 individuals on the Social Security Administration deceased list had active handgun licenses, according to NYPD's Automated License Processing System.
- An audit of the Economic Development Corporation (EDC) for "Other General Expenses" disclosed instances in which EDC did not: maintain appropriate documentation to support expenses; justify that the expenses were business-related; follow its guidelines for awarding sole source contracts; obtain bids for procurements; and ensure that all payments to consultants were documented. Specifically, the auditors questioned 38 percent of the expenses reviewed because EDC was unable to provide documentation showing that the items or services paid for were reasonable, justified, and supported with adequate documentation. These questionable expenses included: purchases on behalf of the Mayor's Office and the Office of Management and Budget, which were for purchases of: three Chevy Tahoes and related accessories; 100 engraved "keys to the City"; an alarm for the Mayor's Office; hotel accommodations; meals in New York City for an official of the Office of Management and Budget; and two parties for Corporation personnel.

- An audit of the controls over the processing and collection of permit fees by the Department of Environmental Protection (DEP) disclosed that controls over the processing of permit applications and the collection of permit fees at the Bureaus of Customer Service and Water and Sewer were inadequate, ineffective, and, in some cases, nonexistent. The audit revealed that controls over permits issued and fees collected were so deficient that the auditors were unable to determine with reasonable assurance the actual amount of revenue that should have been collected for Fiscal Year 2003.
- Audits of the inventory controls of the Department of Correction (DOC) over its food and non-food items at the Rikers Island storehouses disclosed that the Department had inadequate controls over its inventory. The audit also noted that DOC failed to establish adequate oversight and procedures for managing its inventories. The audit disclosed that personnel at the storehouses had insufficient knowledge of the internal controls required to: manage an efficient warehouse operation; record and maintain accurate computerized perpetual inventory records; and properly store and account for inventory items. Examples of ineffective controls over inventory are the overstocking of items such as 4,935 cases of bay leaves, which would take approximately 20 years to deplete; and 1,392 cases of diapers, when no more than 15 babies are allowed to live on Rikers Island at the same time.
- Two follow-up audits of the Human Resources Administration (HRA) computer inventory revealed that HRA's inventory procedures still have major deficiencies and that HRA did not implement seven of the nine prior report recommendations, including that it account for approximately \$2.5 million in missing computer equipment.

Given the significant reliance of City agencies on computer systems and the increasing amount of taxpayer dollars spent on information technology, I have continued to dedicate a portion of the bureaus' resources to audits of system-development projects. Many of these audits identified cost overruns, missed deadlines, and systems that simply did not meet agency needs. Brief descriptions of two such audits follow:

- An audit of the development and implementation of the Omniform system by the New York City Police Department (NYPD) disclosed that NYPD did not resolve certain issues critical to system operations that it identified when developing the system in 2001. In addition, NYPD did not have acceptance certificates for each deliverable in its files, even though it approved the final project. Further, certain system users surveyed by the auditors indicated that they would like to see changes made to the system. Also, NYPD did not hire a quality-assurance consultant when developing the system and it had no formal disaster recovery plan to enable the timely resumption of agency operations in the event of a disaster, as required by Comptroller's Directive #18.
- An audit of the development and implementation of the Department of Investigation (DOI) Livescan Fingerprint system disclosed that DOI could not demonstrate that the Cardscan subsystem is operational, even though it stated that it had implemented all

of the four system components included in the original contract. Moreover, DOI did not have an independent quality-assurance test of the system, nor did it follow a system-development life-cycle methodology. Also, the audit disclosed that the disaster recovery plan was not complete.

In closing, I am proud of the success of the audit bureaus over the past three years, where my audits identified \$129.6 million in actual and potential revenue and savings, and documented many instances of program inefficiency and mismanagement. In that regard, I will continue to deliver on my commitment to finding ways to enhance revenue, uncover waste and abuse, and improve agency operations.

Very truly yours,

A handwritten signature in black ink, reading "William C. Thompson, Jr." The signature is written in a cursive style with a large, stylized initial 'W'.

William C. Thompson, Jr.

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SUMMARY OF AUDIT RESULTS

Actual savings and revenues identified in Fiscal Year 2004 totaled \$20.6 million.

Potential cost avoidance, savings and revenues identified in Fiscal Year 2004 totaled \$21.7 million. It should be noted that these are estimates of what could be achieved if all of the audit recommendations are implemented. Of this \$21.7 million:

- \$20.3 million represents potential cost savings or revenues from a variety of management and financial audit findings.
- \$1.4 million represents potential cost avoidance resulting from audits of claims totaling \$1.77 million.

The Comptroller's Bureau of Management Audit, Bureau of Financial Audit, and Bureau of Engineering issued 101 audits and special studies in Fiscal Year 2004. Audits of managerial lump sums and welfare fund payments, were also performed.

This report is divided into two sections: one for audits and studies of City agencies and public authorities, and one for audits and studies of private entities that received funding from or generated revenue for the City. The audits were performed in accordance with Generally Accepted Government Auditing Standards, as required by the New York City Charter.

Many of the audit recommendations have been implemented, either in whole or in part. Information on implementation status (described in the "Audit Follow-up" section of each audit summary) was provided by the various agencies in response to our follow-up inquiries.

AGENCY

AUDIT TITLE

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ECONOMIC IMPACT OF AUDITS OF GOVERNMENT AND NON-GOVERNMENT AGENCIES
ACTUAL/ POTENTIAL SAVINGS/REVENUE & POTENTIAL COST AVOIDANCE
FROM AUDITS FOR FISCAL YEAR 2004

| <u>AUDIT TYPE</u> | <u>FISCAL YEAR 2004 NUMBER OF REPORTS</u> | <u>FISCAL YEAR 2004 ACTUAL SAVINGS/ REVENUE</u> | <u>FISCAL YEAR 2004 POTENTIAL SAVINGS/ REVENUE(1)</u> | <u>FISCAL YEAR 2004 POTENTIAL COST AVOIDANCE</u> | <u>TOTAL</u> |
|---|--|--|--|---|---------------------|
| Government Agencies | | | | | |
| Audits | 73 | \$18,749,314 | \$19,995,778 | \$0 | \$38,745,092 |
| Managerial Lump Sum Reviews | NA | \$266,389 | \$0 | \$0 | \$266,389 |
| High Risk Voucher Reviews | NA | \$254,251 | \$331,512 | \$0 | \$585,763 |
| Total Government Agencies | 73 | \$19,269,954 | \$20,327,290 | \$0 | \$39,597,244 |
| Non-Government Agencies | 28 | \$1,343,970 | \$0 | \$1,394,911 | \$2,738,881 |
| Grand Total Government and Non-Government Agencies | 101 | \$20,613,924 | \$20,327,290 | \$1,394,911 | \$42,336,125 |

(1) The potential savings/revenue amounts are estimates that could be achieved if audit recommendations are implemented.

SECTION I

GOVERNMENT AGENCIES

OFFICE OF THE ACTUARY (OA)

Audit Report on the Financial Practices of the Office of the Actuary

Audit # ME04-077A

Comptroller's Audit Library # 7584

Issued: June 30, 2004

Monetary Effect: None

Introduction

The Office of the Actuary (OA) was established on July 1, 1990, by the boards of trustees of the various retirement systems to provide technical advice and actuarial support. OA performs annual valuations of the assets and liabilities of the City's five actuarial retirement systems and other non-actuarial pension funds. It also computes employer contributions and members' benefits, determines suitability of actuarial assumptions, and recommends changes when necessary. It provides services and information to City agencies, legislative bodies, and active and retired employees. In Fiscal Year 2003, it budgeted \$2,620,169 in personal service expenditures for 41 positions and \$959,012 for other than personal service expenditures.

This audit determined whether the OA had adequate controls over its timekeeping, payroll, purchasing, and inventory operations in relation to the Procurement Policy Board Rules, the Department of Investigation Standards for Inventory Control and Management, and the Comptroller's Directives. The audit covered Fiscal Year 2003.

Results

The audit found that OA had inadequate controls in relation to the following timekeeping, payroll, purchasing, and inventory operations. Specifically, OA: had no segregation of duties for timekeeping and payroll operations; had no segregation of duties for purchasing operations; lacked adequate inventory safeguards; did not consistently prepare purchase requisitions and receiving reports; used some miscellaneous vouchers incorrectly; did not handle certain imprest fund purchases properly; and did not properly review and approve employee time reports.

However, the audit found that OA had adequate controls in relation to the approval of overtime and leave, the solicitation of bids, and the assignment of purchases to the correct object codes.

To address these issues, the audit made 10 recommendations, including that OA should:

- Prepare and implement written procedures to ensure that duties within the purchasing and the timekeeping and payroll functions are sufficiently segregated.
- Perform a complete inventory and develop a list of all physical assets.
- Regularly update the inventory list and conduct periodic counts of all physical assets.
- Ensure that a requisition is prepared and maintained for each purchase.
- Ensure that a receiving report is prepared and maintained in each voucher package.

- Ensure that all Employee Time Reports are signed by the preparer, the supervisor, and the Payroll Management System data-entry operator.

OA officials disagreed with some of the audit's findings and conclusions, but generally agreed with the audit's recommendations.

Audit Follow-up

OA reported that it has either implemented or is in the process of implementing all of the audit's recommendations.

BRONX BOROUGH PRESIDENT'S OFFICE

Audit Report on the Financial and Operating Practices of the Bronx Borough President's Office

Audit # FP03-158A

Comptroller's Audit Library # 7553

Issued: May 3, 2004

Monetary Effect: None

Introduction

This audit determined whether the Bronx Borough President's Office complied with applicable payroll, personnel, timekeeping, purchasing, and inventory procedures, as set forth in the Comptroller's *Internal Control and Accountability Directives* (Comptroller's Directives) Department of Citywide Administrative Services (DCAS) personnel rules and leave regulations, and the Procurement Policy Board (PPB) rules. The scope of this audit covered the period July 1, 2001, to June 30, 2002.

Results

The Bronx Borough President's Office generally adhered to the requirements of the applicable Comptroller's Directives, DCAS personnel rules and leave regulations, and the applicable PPB rules. In addition, the audit disclosed no instances in which moneys were improperly used.

However, the Borough President's Office did not always comply with certain provisions of DCAS personnel and leave regulations or with Comptroller's Directive 24. Specifically, the Borough President's Office did not ensure that employees' compensatory time balances were accurately recorded; that time records had the required signatures; that employees used compensatory time within the 120-day limit; that employees were paid within the salary range of their Career and Salary Plan; that each page of the voucher packages sampled was stamped "vouchered" as required by Directive 24; that all sampled vouchers had the correct object codes; and that inventory records were complete and accurate.

To address these issues the report made seven recommendations, including that the Borough President's Office should:

- Make appropriate adjustments to employee leave balances based on the audit findings.
- Ensure that timekeeping documents are carefully reviewed by appropriate supervisory personnel.
- Ensure that all purchase documents are stamped "vouchered" and that all purchases are charged to correct object codes.
- Ensure that complete and accurate inventory records are maintained.

The Bronx Borough President's Office response described steps that it has taken or will take to implement the report's seven recommendations.

Audit Follow-up

The Bronx Borough President's Office reported that all of the audit recommendations have been implemented.

MANHATTAN BOROUGH PRESIDENT'S OFFICE

Audit Report on the Financial and Operating Practices of the Manhattan Borough President's Office

Audit # MJ04-133A

Comptroller's Audit Library # 7583

Issued: June 29, 2004

Monetary Effect: None

Introduction

This audit determined whether the Manhattan Borough President's Office complied with applicable payroll, timekeeping, purchasing, and inventory procedures, as set forth in the Office of Payroll Administration policies and procedures, the Procurement Policy Board (PPB) rules, and the Comptroller's *Internal Control and Accountability Directives* (Comptroller's Directives). The scope of this audit covered the period July 1, 2002 to June 30, 2003.

Results

The Borough President's Office generally adhered to the Comptroller's Directives, the PPB rules, and the Office of Payroll Administration policies and procedures with respect to payroll, timekeeping, and purchasing. In addition, the audit disclosed no instances in which moneys were improperly used.

However, there were instances in which the Office did not comply with certain provisions of Comptroller's Directives #3, #11, #23, and #25, and the City Time and Leave Regulations and Payroll Management System guidelines. Nor did the Borough President's Office ensure that all employees' wages were within the salary ranges of their Career and Salary Plan titles. Finally, the Office lacked complete records of its computer inventory. The weaknesses found were generally minor, with the exception of those involving lack of documentation with regard to discretionary grants and incompleteness of computer inventory records. However, those two findings do not, in the context of the audit objectives and scope of work reviewed, detract from the audit's overall conclusion that the Borough President's Office generally complied with applicable payroll, timekeeping, and purchasing procedures.

The audit made nine recommendations to the Borough President's Office, some of which are listed below. The Manhattan Borough President's Office should:

- Maintain proper documentation indicating that all approvals were obtained before disbursing discretionary grant funds and that the grantees were monitored for compliance with the terms of the grants.
- Ensure that all computer equipment is included in the inventory list and accurately identified as to serial number, inventory tag, and location.
- Ensure that a person who has no other imprest fund responsibilities prepares the imprest fund bank reconciliations, and require that person to sign off on the reconciliations.
- Ensure that it uses miscellaneous payment vouchers for only allowable purposes, as described in Comptroller's Directive #25.

In its response, the Office agreed with the audit's recommendations.

Audit Follow-up

The Manhattan Borough President's Office reported that it has implemented all of the audit's recommendations.

QUEENS BOROUGH PRESIDENT'S OFFICE

Audit Report on the Financial and Operating Practices of the Queens Borough President's Office

Audit # FP04-057A

Comptroller's Audit Library # 7603

Issued: June 30, 2004

Monetary Effect: None

Introduction

This audit determined whether the Queens Borough President's Office complied with applicable payroll, timekeeping, purchasing, and inventory procedures, as set forth in the Comptroller's *Internal Control and Accountability Directives* (Comptroller's Directives) Department of Citywide Administrative Services (DCAS) personnel rules and leave regulations; applicable Procurement Policy Board (PPB) rules; and the Department of Investigation *Standards for Inventory Control and Management*. The scope of this audit covered the period July 1, 2002, to June 30, 2003.

Results

The Queens Borough President's Office generally adhered to the requirements of Comptroller's Directives 3, 13, 23, 24, and 25, DCAS personnel rules and leave regulations, applicable PPB rules, and the Department of Investigation Standards for Inventory Control and Management. However, there were minor instances in which the Office did not follow certain aspects of DCAS personnel rules and leave regulations, Comptroller's Directives 23 and 24, and the Department of Investigation Standards for Inventory Control and Management.

With regard to timekeeping and payroll, the Borough President's Office did not always ensure that timekeeping records were complete, accurate and properly approved; that employees submitted leave authorization forms for time earned; that provisions of the DCAS *Employee Lateness Policy* were followed; that employees' salaries were within the salary ranges of their Career and Salary Plan titles; and that City regulations for sick leave were enforced.

With regard to purchasing, the Borough President's Office did not always ensure that voucher packages were stamped "vouchered," as required by Comptroller's Directive 24; vouchers were charged to correct object codes; and that supporting documentation was maintained for grant expenditures.

The audit also disclosed that the Office did not maintain complete and accurate inventory records for its equipment and five computer printers purchased in June 2002 were never used.

To address these issues, the audit made 10 recommendations, including that the Queens Borough President's Office:

- Ensure that all time sheets and leave authorization forms are signed by employees and approved by a supervisor.
- Ensure that it follows the procedures outlined in the DCAS *Employees Lateness Policy* and its own lateness policy.

- Ensure that all purchase documents are stamped “vouchered” and that all purchases are charged to correct object codes.
- Ensure that all discretionary grant expenditures are supported by appropriate documentation.
- Ensure that complete and accurate inventory records are maintained.

In its response, the Borough President's Office described the steps that it has taken or will take to implement eight of the report's ten recommendations. The Borough President's Office did not agree with the findings and corresponding recommendations pertaining to discretionary grant expenditures not documented and questionable purchases of five printers that were never used.

Audit Follow-up

The Queens Borough President's Office reported that it has either implemented or is in the process of implementing all of the audit's recommendations.

DEPARTMENT OF BUILDINGS (DOB)

Audit Report on the Effectiveness of the Department of Buildings in Investigating Safety-Related Complaints in a Timely Manner

Audit # MJ03-093A

Comptroller's Audit Library # 7556

Issued: May 26, 2004

Monetary Effect: None

Introduction

The Department of Buildings (DOB) enforces the City building and electrical codes and is responsible for the approval, permitting, and inspection of construction work, plumbing, and elevators. This audit determined whether DOB responded to complaints within agency time guidelines. The audit also reviewed DOB's follow-up efforts when violations are identified. The audit scope covered Fiscal Years 2002 and 2003. The audit focused on Priority A and, to a lesser extent, Priority B complaints.

Results

DOB generally responded to Priority A complaints within agency time guidelines. Based on sample results, the audit projected that in Fiscal Year 2002 DOB responded to 83 percent of the Priority A complaints within the agency's 1.5-day standard. (Days refer to business days.) However, DOB took an average of 9.5 days to respond to the sampled complaints—a delay attributable to a reduction in inspection staff and to the agency's emergency efforts related to September 11, 2001. For the first quarter of Fiscal Year 2003, DOB reported that it improved its timeliness, investigating 91 percent of complaints within the 1.5-day standard. (A review of a sample of Fiscal Year 2003 complaints appeared to support this assertion.) However, for Fiscal Year 2002 DOB responded to only 71 percent of the sampled 300 Priority B complaints within the agency's 25-day standard. On average, DOB took almost 32 days to respond to the sampled complaints.

Regarding DOB's follow-up efforts when violations were identified, the audit found that such efforts were minimal, if performed at all. The audit found no evidence that DOB followed up on any of the violations issued for sampled complaints, including violations for conditions deemed hazardous. Moreover, the agency did not comply with its procedures for following up on violations for hazardous conditions, and had no procedures for following up on other violations. As a result, DOB does not consistently ensure that reportable conditions are corrected, or take punitive measures if they are not.

The audit made five recommendations. DOB should:

- Design and implement procedures whereby open Environmental Control Board ECB violations—especially those for hazardous conditions—are followed up, as required by DOB procedures.
- Require that supervisors periodically (e.g., monthly) review outstanding violations and ensure that DOB takes necessary steps to reinspect or to issue court summons.

- Modify BIS (Building Information System) so that new complaint orders are not generated for open violations, especially open violations that are in default.
- Take steps to increase the proportion of inspectors' time spent in the field and reduce the proportion spent in the office performing administrative tasks.
- Remove obsolete procedures, such as DOB Directive #9, from its Web site and agency procedural manuals.

In its response, DOB agreed with four of the audit's five recommendations. The agency disagreed with the recommendation that it modify its BIS so that new complaint orders are not generated for open violations.

Audit Follow-up

DOB reported that it has implemented the four audit recommendations that it agreed with.

DEPARTMENT OF BUILDINGS (DOB)

Audit Report on the Administration of Sidewalk-Shed Permits by the Department of Buildings

Audit # MJ03-145A

Comptroller's Audit Library # 7567

Issued: June 21, 2004

Monetary Effect: None

Introduction

The Department of Buildings (DOB) oversees building construction and alteration, and enforces the City building and electrical codes, the Zoning Resolution, and other laws related to construction. This audit determined whether DOB properly administers permits to erect sidewalk sheds for major construction projects. The audit covered the period July 1, 2002, through March 21, 2004.

Results

DOB has adequate controls in place to provide reasonable assurance that sidewalk sheds at major construction sites have a valid permit when they are erected. An inspection of 175 sidewalk sheds at sites throughout the City determined that each had a valid permit. However, DOB does not follow up on expired sidewalk-shed permits to ensure that the sheds are removed once the permits expire, nor does it have a policy to do so. Of the 125 sites auditors visited whose sidewalk-shed permits had expired, 34 still had sidewalk sheds. However, 15 (44%) of them lacked renewed permits.

In addition, DOB needs to strengthen controls over cash received for renewal permits. Cash receipts received with renewal applications are not deposited immediately, as

recommended by Comptroller's Directive #11. During a walk-through, auditors found cash receipts totaling \$35,600 for renewal and for civil penalties associated with those renewals.

The audit made three recommendations. DOB should:

- Institute a tracking system to identify permits that have expired. On a periodic basis, based on resources available, the agency should randomly select sites for inspectors to visit to ensure that the sidewalk sheds are removed or permit renewals are applied for.
- Visit the addresses listed in Table II of the report to determine whether the sidewalk sheds are still there. For those addresses where there are sidewalk sheds for which permit renewals have not been requested, assess civil penalties in accordance with DOB procedures.
- Deposit all cash receipts on the day they are received or, at the latest, the next business day, as recommended by Comptroller's Directive #11.

In its response, DOB generally agreed with two of the audit's three recommendations. DOB did not address the recommendation to institute a tracking system to identify expired permits.

Audit Follow-up

DOB reported that it has implemented and partially implemented two recommendations and continues to disagree with and will not implement the recommendation to institute a tracking system to identify expired permits.

NEW YORK CITY BUSINESS INTEGRITY COMMISSION

Audit Report on the Payroll, Timekeeping Procedures, and Other than Personal Expenditures of the Business Integrity Commission July 1, 2002–June 30, 2003

Audit # FN04-079A

Comptroller's Audit Library # 7557

Issued: May 26, 2004

Monetary Effect: None

Introduction

The Business Integrity Commission (Commission) has licensing, regulatory, and enforcement functions over the trade waste and shipboard gambling industries, as well as public wholesale markets. The Commission was formed on July 1, 2002, pursuant to Local Law 21, when the City Charter was amended to consolidate the Trade Waste Commission, the Organized Crime Control Commission, the Gambling Control Commission, the Department of Small Business Services, and the public wholesale market responsibilities of the Department of Investigation.

The audit assessed whether the Commission complied with certain City guidelines for payroll, timekeeping, and purchasing. The audit covered the period July 1, 2002, through June 30, 2003.

Results

The Commission generally adhered to City policies and guidelines applicable for payroll and timekeeping.

However, with regard to timekeeping, the Commission did not retain its sign-in/sign-out log for non-managerial employees. In addition, there were 17 instances in which five Security and Enforcement Section employees either did not sign in or did not sign out on the Daily Roll Call Logs, and four instances in which the daily times recorded by employees on the Daily Roll Call Logs did not match the times recorded on the corresponding Employee Time Reports (ETRs).

The audit also noted the following purchasing exceptions: there were four instances, totaling \$54,818, which lacked the documentation that vendors were contacted and bids obtained before awarding those purchases; and there was one purchase of office furniture, totaling \$7,099, for which there was no documentation to establish that the purchase was awarded to the lowest bidder.

The audit made four recommendations, specifically that the Commission:

- Retain its sign-in/sign-out log for non-managerial employees.
- Ensure that Security and Enforcement Section employees sign in and sign out on the Daily Roll Call Log, and that their hours worked are accurately recorded on the Employee Time Reports.
- Comply with the appropriate competitive bidding procedures and documentation requirements specified in the Procurement Policy Board rules.

- Maintain complete procurement files that include copies of vendor names, contact persons, bids, and telephone numbers.

In their response, officials detailed the Commission's timekeeping and procurement practices pertaining to the findings and described the corrective actions they have taken to implement the audit recommendations.

Audit Follow-up

The Business Integrity Commission reported that all of the audit's recommendations have been implemented.

CAMPAIGN FINANCE BOARD (CFB)

Audit Report on Real Estate Tax Charges on Space Leased at 40 Rector Street by the Campaign Finance Board

Audit # MJ04-091A

Comptroller's Audit Library # 7539

Issued: March 3, 2004

Monetary Effect: None

Introduction

This audit determined whether the landlord's real estate charges allocated to the Campaign Finance Board (Board) for space leased at 40 Rector Street were accurate and properly adjusted to account for any reassessments. The New 40 Rector Street Company (the landlord) provided the City the use of office space at 40 Rector Street pursuant to a written lease agreement (the lease), dated October 20, 1994, negotiated by the New York City Department of Citywide Administrative Services (DCAS). The Board occupies 12,796 (2.85%) of the 449,355 square feet at the property.

Results

An examination of the landlord's bills maintained at the Board, along with the payment vouchers listed in FMS, revealed that the landlord did not allocate any additional real estate charges to the Board. During the period, the property was reassessed and the landlord received a reduction in the property's real estate taxes; however, according to the lease, the City was not entitled to a portion of the reduction because it brought the tax amount below that payable in the base year of the lease, Fiscal Year 1996. Accordingly, an adjustment of the tax charges or credits passed on to the Board is inapplicable. (The Board was not liable for any real estate tax escalation charges during the period reviewed, nor did the landlord bill the Board for any such charges.)

Nevertheless, a criminal prosecution now in process may establish that because of an improper under-assessment, the real estate taxes for 40 Rector Street was lower than was to be expected. The market value for this property decreased 64 percent—from \$66.5 million to \$24.2 million—from Fiscal Year 1993 to Fiscal Year 2003. The Comptroller's Office sent a letter to the Department of Finance (DOF) in October 2003 requesting that it reassess this property and apprise us of any action it takes regarding this matter; DOF did not respond to the letter. Nevertheless, in January 2004, DOF reassessed the market value for this property and recorded the tentative Fiscal Year 2005 market value as \$49.9 million—a 94 percent increase over the Fiscal Year 2004 market value of \$25.7 million.

The audit made one recommendation. DCAS should:

- Ensure that future leases have no provision barring the City from receiving a refund or credit if the property's real estate tax bill is reduced below the amount payable in the base year of the lease.

In its response, DCAS disagreed with the audit recommendation, stating that it would intrude on its statutory mandate to negotiate leases.

Audit Follow-up

DCAS reported that it continues to disagree with the audit's recommendation.

ADMINISTRATION FOR CHILDREN'S SERVICES (ACS)

Audit Report on the Days-of-Care and Expenses Reported by Lutheran Social Services of Metropolitan New York for Its Foster Care Programs, July 1, 2000–June 30, 2001

Audit # FM03-146A

Comptroller's Audit Library # 7524

Issued: November 12, 2003

Monetary Effect: Actual Revenue: \$ 40,000

Potential Revenue: \$857,737

Introduction

Lutheran Social Services of Metropolitan New York (Lutheran), a not-for-profit organization, provided foster-care services to approximately 720 individuals in Fiscal Year 2001. Foster-care providers are reimbursed for expenses by the Administration for Children's Services (ACS), based on an interim per diem rate that is limited to the Maximum State Aid Rate established by the New York State Office of Children and Family Services and ACS. During Fiscal Year 2001, ACS advanced Lutheran \$10,459,340 for providing services to individuals in its foster-care programs.

This audit determined whether the final amount of funds due Lutheran for Fiscal Year 2001 was more than or less than the amount it was advanced, based on State and City regulations and days-of-care data.

Results

Lutheran owes ACS \$897,737 because the advances it received from ACS exceeded the allowable program costs. Of this amount, ACS paid Lutheran \$329,188 for expenses for which the City will not receive reimbursement because the expenses were not in accord with the New York State standards of payment for foster care of children. Neither did Lutheran comply with some of the financial provisions of its child care agreement and with State and City regulations. Finally, Lutheran paid its foster parents at rates that were lower than the rates approved by the State.

The audit made eight recommendations. Lutheran should:

- Reimburse ACS \$897,737.
- Report program expenses and days-of-care accurately and in accordance with New York State and ACS regulations, determine the amount by which each foster parent was underpaid for Fiscal Year 2001, and make the appropriate retroactive payments.

In addition, the audit recommended that ACS:

- Recoup \$897,737 from Lutheran.
- Discontinue paying foster-care providers for expenses that were not in accordance with New York State regulations.
- Ensure that Lutheran complies with the report's recommendations.

ACS, which responded on behalf of itself and Lutheran, described the steps that have been taken or will be taken to address the audit's findings and recommendations.

Audit Follow-up

ACS reported that the recommendations have either been implemented or are in the process of being implemented. As of December 2004, ACS had collected \$40,000 of the \$897,737 owed. ACS plans to recover the additional funds due from Lutheran when new and audited Financial Statements are available.

ADMINISTRATION FOR CHILDREN'S SERVICES (ACS)

Audit Report on the Compliance of Miracle Makers, Inc., With Foster and Child Care Payment Regulations July 1, 2000–June 30, 2001

Audit # FN03-125A

Comptroller's Audit Library # 7529

Issued: December 22, 2003

Monetary Effect: Actual Savings: \$115,938

Introduction

Miracle Makers, Inc., is a not-for-profit organization that provides services to children in its Regular Foster Boarding Home, Special Needs Foster Boarding Home, Emergency Foster Boarding Home, Therapeutic Foster Boarding Home, and Group Homes under a contract with the Administration for Children's Services (ACS). Foster-care providers are reimbursed for expenses based on a per diem rate that is limited to the Maximum State Aid Rate established by the New York State Office of Children and Family Services and ACS.

ACS advanced Miracle Makers \$14,046,727 for providing services to 1,210 individuals in its foster-care programs for the period July 1, 2000, to June 30, 2001 (Fiscal Year 2001). In addition, Miracle Makers received \$584,962 from ACS for its Independent Living Skills Program, an educational program, and \$63,000 for its Star Program, an ACS transitional program that redirects funding from foster care to aftercare.

This audit assessed the adequacy of Miracle Makers' internal controls over expenses, revenues, and days-of-care; the appropriateness of its per diem rates; and its compliance with State and City payment and reimbursement standards.

Results

Miracle Makers generally complied with promulgated announcements and regulations of the New York State *Standards of Payment* and the City *Foster-Care Reimbursement Bulletin No. 92-5*. It had an adequate system of internal controls over the recording and reporting of its expenses, revenues, and days-of-care. However, for Fiscal Year 2001, Miracle Makers owes ACS \$102,532, resulting from differences between the funds it received from ACS and the

expenses it incurred to operate its various programs. In addition, Miracle Makers owes ACS \$13,406 pertaining to the unused portion of funds it received in Fiscal Year 2001 from the Star Program. Consequently, Miracle Makers owes ACS \$115,938.

In addition, Miracle Makers included \$76,503 in administrative expenses on its *Report of Actual Expenditures DSS-2652* that should not have been charged to its foster-care programs. However, these disallowances did not result in repayment of funds to ACS because the computed operating per diem rates computed by the auditors exceeded the maximum per diem rates allowed, even after the unallowable expenses were deducted.

The report made six recommendations, including that Miracle Makers:

- Remit \$115,938 in excess funding to ACS.
- Report its days-of-care accurately and in accordance with New York State and ACS regulations, billing ACS for only those children in attendance at its foster-care programs.
- Include only allowable program expenses on its *Report of Actual Expenditures DSS-2652*.

ACS, which responded on behalf of Miracle Makers, stated that both organizations agreed with the audit's findings and recommendations.

Audit Follow-up

ACS reported that Miracle Makers has either implemented or is in the process of implementing all of the audit's recommendations. ACS is deducting \$9,825 per month from Miracle Makers Fiscal Year 2005 advances in order to recoup the \$102,532 in overpayment. ACS had offset the \$13,406 in unused Star Program funds in Fiscal Year 2002.

ADMINISTRATION FOR CHILDREN'S SERVICES (ACS)

Audit Report on the Compliance of Sheltering Arms Children's Service with Foster and Child Care Payment Regulations July 1, 1999–June 30, 2000

Audit # FN04-086A

Comptroller's Audit Library # 7561

Issued: June 18, 2004

Monetary Effect: Actual Savings: \$348,312

Introduction

Sheltering Arms Children's Service (Sheltering Arms), is a not-for-profit organization that provides services to children in its Foster Boarding Home, Group Residence, and two Supervised Independent Living Programs under a contract with the Administration for Children's Services (ACS). Foster-care providers are reimbursed for expenses based on a per diem rate. From July 1, 1999, through June 30, 2000 (Fiscal Year 2000), ACS reimbursed Sheltering Arms \$7.5 million for providing services to 726 individuals in its programs.

This audit assessed the adequacy of Sheltering Arms internal controls over expenses, revenues, and days-of-care; the appropriateness of its per diem rates; and compliance with State and City payment and reimbursement standards.

Results

Sheltering Arms generally complied with promulgated announcements and regulations of the New York State *Standards of Payment for Foster Care of Children* and the City *Foster-Care Reimbursement Bulletin No. 92-5*. Sheltering Arms had an adequate system of internal controls over the recording and reporting of its expenses, revenues, and days-of-care. In addition, Sheltering Arms was reimbursed by ACS for only those expenses appropriately incurred on behalf of its Independent Living Skills Program and Substance Abuse Program.

However, for Fiscal Year 2000, Sheltering Arms owes the City \$348,312 resulting from differences between the funds it received from ACS and the expenses it incurred to operate the various programs that we audited. (These differences do not apply to the Independent Living Skills Program and Substance Abuse Program.)

In addition, Sheltering Arms improperly combined program expenses on its *Report of Actual Expenditures DSS-2652*, rather than segregating these costs by programs, as required by New York State regulations, and included \$149,516 in expenses on its *Report of Actual Expenditures DSS-2652* that should not have been charged to its foster-care programs. The recalculated operating per diem rate, after deducting the disallowed expenses, did not result in any recoupment of funds from the Sheltering Arms Foster Boarding Home, Group Residence, or Supervised Independent Living Program–2. For the Supervised Independent Living Program–1, the disallowances resulted in an audit recoupment amount of \$549, which was included in the \$348,312 assessment.

The audit recommended that Sheltering Arms:

- Remit \$348,312 in excess funding to ACS; report days-of-care accurately and in accordance with New York State and ACS regulations, billing ACS for only those children in attendance at the foster-care programs.
- Include only allowable expenses in its reporting; and report each program's expenses separately in its *Report of Actual Expenditures DSS-2652*.

In addition, the audit recommended that ACS:

- Recoup \$348,312 from Sheltering Arms.
- Ensure that it complies with the report's other recommendations.

ACS responded that Sheltering Arms agreed to remit \$348,312 to the City in accordance with the audit's first recommendation, and that the other recommendations are no longer applicable since, effective April 1, 2004, Sheltering Arms no longer has a foster-care contract with ACS.

Audit Follow-up

ACS reported that Sheltering Arms has a repayment plan in which \$50,000 is paid monthly until the overpayment is recouped. ACS anticipated that the full amount will be paid by the end of February 2005.

ADMINISTRATION FOR CHILDREN'S SERVICES (ACS)

Audit Report on the Susan E. Wagner Day Care Center and Its use of City Funds under Its Contract with the Administration for Children's Services

Audit # MD03-175A

Comptroller's Audit Library # 7565

Issued: June 21, 2004

Monetary Effect: Actual Revenue: \$59,267

Introduction

The Susan E. Wagner Day Care Center (Center) is a not-for-profit organization sponsored by the Northeast Bronx Day Care Center, Inc., (Board). During Fiscal Year 2002, the period covered by the audit, the Center was under contract with the City Administration for Children's Services (ACS) to provide day-care services for approximately 115 pre-school children (2 ½ to 6 years of age). The Center received City funds totaling \$635,277 under this contract.

This audit determined whether the Center appropriately managed the City revenues it received and expended under its ACS contract, maintained safe and sanitary premises for the children under its care, and conducted appropriate background investigations of its employees.

Results

Review of Center operations revealed that the classrooms, play areas, storage, and kitchen areas were generally safe and sanitary. In addition, the files for Center employees contained most of the required documentation, such as evidence of an annual medical exam, reviews of criminal background investigations, and training in recognizing abuse and maltreatment of children.

However, the audit found that the Center did not appropriately manage the City revenues received or expended. Specifically: there was a lack of oversight by the Board of Directors; there was a lack of control over personnel expenditures; there were weaknesses in Center internal controls over other than personal services expenditures; and there was a lack of controls over revenues received from the City.

The audit made 27 recommendations, including the following:

- Board members should vote on salary increases for its employees. The discussion pertaining to salary increases should be documented in Board minutes.

- The Board of Directors should be informed about all Center activities and about investigations of Center activities by government agencies. All Board discussions pertaining to Center activities and investigations should be documented in Board minutes.
- The Board should ensure that it repays ACS the disallowed portion of the Executive Director's salary.
- The Board should ensure that the Executive Director and other employees document the hours worked on each program to properly allocate the salaries to the individual programs.
- The Center should ensure that employees are paid only for hours worked.
- ACS officials should review the salaries of the employees noted in this report and disallow any portion of their salaries that they feel is not attributable to the Center.
- Center officials should ensure that checks are recorded in the general ledger at the time that they are issued.
- Center officials should ensure that they review their bank statements and place a stop order on checks that are outstanding for more than six months.
- Center officials should maintain a separate ACS account to provide a clear audit trail for the receipt of day-care funds and parent funds.
- Center officials should ensure that funds for other than Center programs are transferred in their entirety to the appropriate program account and transferred on a timely basis.

ACS officials, replying also on behalf of the Center, generally agreed with the recommendations and stated that they have taken steps to implement them.

Audit Follow-up

ACS reported that it has either implemented or is in the process of implementing all of the audit's recommendations. The Board has begun repaying ACS the disallowed portion of the Executive Director's salary, which totaled \$59,267, according to an agreed upon repayment schedule.

ADMINISTRATION FOR CHILDREN'S SERVICES (ACS)

Audit Report on Capital Improvements at Day Care Centers Required by Landlords' Lease Agreements with the Administration for Children's Services

Audit # ME03-118A

Comptroller's Audit Library # 7536

Issued: February 18, 2004

Monetary Effect: None

Introduction

This audit tested the adequacy of monitoring by the Administration for Children's Services (ACS) of the design phases of lease upgrades at City-leased day-care centers. In Fiscal Year 2001, ACS administered a total of 493 day-care centers, of which 133 were in privately owned facilities. The Department of Citywide Administrative Services (DCAS) enters into lease agreements on behalf of ACS with landlords of these privately owned facilities. The lease agreements require that landlords make improvements to their properties. The ACS Lease Renewal Upgrade (LRU) unit is responsible for approving the design and monitoring the construction of the upgrades.

The objective of this audit was to determine whether ACS ensured that the design phases of lease upgrades at day-care centers were completed in a reasonably timely manner. The period covered by this audit was Fiscal Year 2001.

Results

ACS oversight of the design phases for lease renewal upgrades needs improvement. The design phase begins at the receipt of the lease agreement from DCAS and continues to the beginning of construction. None of the 20 upgrades in the audit sample were completed in accordance with the time frames in the standard lease agreement. ACS officials stated that those time frames may be unrealistic, but ACS has not developed its own timeliness criteria. Nor has it developed an effective tracking system to monitor the progress of lease renewal upgrades during the design phase. The audit found that:

- ACS lacks documentation of critical events during the design phase, such as its approvals of the architect, of the upgrade design, and of the general contractor for the upgrade work.
- DCAS's lease agreements with landlords of privately owned facilities have not provided ACS with sufficient control to ensure that the landlords complete the LRUs in a timely manner.
- ACS provided inadequate oversight. This permitted extensive delays in various stages of the LRU design phase, such as delays by landlords in submitting asbestos abatement plans, delays by ACS in assigning engineers to review design documents, and inadequate communication between responsible ACS units.

To address these issues, the audit made seven recommendations, among them that ACS:

- Establish a standardized method to organize the case files and to document the completion of each step of the LRU process.

- Continue working with DCAS to improve the lease agreements in order to give ACS more leverage to see that LRUs are completed in a timely fashion.
- Develop criteria to track the timeliness of landlord design-phase actions, ACS reviews of design documents, and landlord responses to ACS review comments.
- Continue its efforts to ensure that engineers are assigned to the LRU unit to promptly review landlords' construction design documents.
- Establish better communication between the LRU and Program Operations units in obtaining temporary space for the day-care centers to use during the construction phase of the lease renewal upgrades.

In its response, ACS agreed with all of the audit's findings and recommendations.

Audit Follow-up

ACS reported that it has either implemented or is in the process of implementing all of the audit's recommendations.

OFFICE OF COLLECTIVE BARGAINING

Audit Report on the Payroll, Timekeeping Procedures, and Other Than Personal Expenditures of the Office of Collective Bargaining July 1, 2002–June 30, 2003

Audit # FN04-080A

Comptroller's Audit Library # 7545

Issued: March 26, 2004

Monetary Effect: None

Introduction

The Office of Collective Bargaining, an independent non-mayoral agency, was established in 1967 by the Collective Bargaining Local Law (Chapter 3 of Title 12 of the Administrative Code) and implemented by Executive Order 52. The Office of Collective Bargaining provides for the certification of collective bargaining representatives, acts as a mediator and arbitrator in resolving labor-relations disputes and controversies between the City and its employees, and interprets the City collective bargaining law.

The audit assessed whether the Office of Collective Bargaining is complying with certain City guidelines for payroll, timekeeping, and purchasing, and whether expenses were reasonable, justified, and properly documented.

Results

The Office of Collective Bargaining generally adhered to and is complying with its own and City policies and guidelines applicable for payroll and timekeeping. Moreover, it generally complied with the City's Procurement Policy Board rules and the Comptroller's Directives when processing its purchase orders and agency encumbrances.

However, minor timekeeping exceptions were noted: none of the Employee Time Reports (ETRs) reviewed contained appropriate approvals; there were 23 instances, totaling 50 hours and 35 minutes, in which the appropriate time for hours not worked was not deducted from five employees' leave balances; and five employees in 16 instances indicated on their time sheets that "no lunch" was taken. This was in violation of §162 of the New York State Labor Law, which states that "every person in any establishment or occupation covered by the Labor Law must be afforded a meal period."

The audit made five recommendations—that the Office of Collective Bargaining should ensure that:

- All time records are properly reviewed for accuracy.
- Appropriate adjustments are made to employee leave balances based on the audit findings.
- All ETRs contain appropriate signatures indicating that they have been reviewed and approved.
- Employees take the required meal period.
- All time leave and lateness be properly recorded in the Payroll Management System.

Office of Collective Bargaining officials disagreed with some of the noted discrepancies in the report, but offered no documentation to address the reported findings. However, the Office acknowledged the audit findings in general and described the corrective actions it has implemented in response to the audit recommendations.

Audit Follow-up

The Office of Collective Bargaining reported that it has fully implemented four recommendations and partially implemented one. The Office of Collective Bargaining only took corrective action on the discrepancies noted in the audit for those instances they determined were problems.

BRONX COMMUNITY BOARDS 1-12

Audit Report on the Financial and Operating Practices of the 12 Bronx Community Boards

Audit # FP03-157A

Comptroller's Audit Library # 7530

Issued: December 22, 2003

Monetary Effect: None

Introduction

This audit determined whether the 12 Bronx Community Boards (the Boards) complied with applicable payroll, timekeeping, purchasing, and inventory procedures, as set forth in the Mayor's Office Community Assistance Unit *Procedural Guidelines for Community Boards*, the Office of Payroll Administration policies and procedures, the Procurement Policy Board (PPB) rules, and the Comptroller's Internal Control and Accountability Directives (Comptroller's Directives). The scope of this audit covered the period July 1, 2001 to June 30, 2002.

Results

The boards generally adhered to the payroll, timekeeping, purchasing, and inventory requirements of the *Procedural Guidelines for Community Boards*, Office of Payroll Administration policies and procedures, PPB rules, and Comptroller's Directives. However, there were instances in which the boards did not comply with certain of those procedures.

With regard to timekeeping, employees at three boards did not always sign in or out when arriving to and departing from work; at four Boards there were discrepancies in certain time records; at two Boards requests for leave use or earning of compensatory time lacked evidence of supervisory approval; at four Boards employees were undercharged and overcharged for sick and annual leave used; at one Board; an employee was credited for more compensatory time than actually earned; and at one Board one employee exceeded the number of undocumented sick leave instances allowed in a six-month period.

With regard to purchasing, the audit found that at four boards vouchers were not always stamped "vouchered"; and one board's imprest fund checks were not stamped or inscribed "void after 90 days," as required.

The audit also disclosed that eight boards did not maintain complete and accurate inventory records for their equipment. In addition, six of those eight boards did not ensure that all equipment was properly tagged for identification. Moreover, seven pieces of equipment purchased by one board as far back as June 1998 were never used, and one board did not maintain adequate records for a fund-raising bank account. Consequently, it could not be determined whether all donations received were actually deposited. Further, invoices for \$9,252 in disbursements from the fund-raising account were unavailable for review, leading to questions about the propriety of these payments.

The Boards' responses described steps that they have taken or will take to implement the report's 15 recommendations. The Bronx Borough President's Office stated that it is in agreement with the findings and will implement the recommendations.

Audit Follow-up

Bronx Community Board #1 reported that it has implemented four of the five recommendations addressed to Community Board #1. The remaining 11 community boards reported that they have implemented all of the audit recommendations.

BROOKLYN COMMUNITY BOARDS 1-18

Audit Report on the Financial and Operating Practices of the 18 Brooklyn Community Boards

Audit # FP04-085A

Comptroller's Audit Library # 7580

Issued: June 28, 2004

Monetary Effect: None

Introduction

This audit determined whether the 18 Brooklyn Community Boards (the Boards) complied with applicable payroll, timekeeping, purchasing, and inventory procedures, as set forth in the Comptroller's *Internal Control and Accountability Directives* (Comptroller's Directives). Department of Citywide Administrative Services (DCAS) personnel rules and leave regulations; Procurement Policy Board (PPB) rules; and the Department of Investigation *Standards for Inventory Control and Management*. The scope of this audit covered the period July 1, 2002 to June 30, 2003.

Results

The Boards generally adhered to the requirements of Comptroller's Directives 3, 13, 24, and 25, DCAS personnel rules and leave regulations, applicable PPB rules, and the Department of Investigation Standards for Inventory Control and Management. However, there were minor instances in which the Boards did not follow certain aspects of DCAS personnel rules and leave regulations or the Department of Investigation Standards for Inventory Control and Management.

With regard to timekeeping and payroll, one employee exceeded the number of undocumented sick leave instances allowed in a six-month period; one District Manager's time reports were not always signed by the Chairperson, and that District Manager was not charged for two days of leave use; the salaries of three Board employees were less than the minimum pay rates for their civil service titles; and one employee received excess compensation upon separation from City service.

The audit also disclosed that 16 boards did not maintain complete and accurate inventory records of their equipment, and one board (Board #13) purchased equipment as far back as 2001 that was never used.

Twelve of the 18 community boards formally responded to the audit. Eleven of those 12 boards described the steps they have taken or will take to implement the report's recommendations. Three of those 11 boards indicated that although they were unaware of the Department of Investigation Inventory Control Standards, they will implement the report's recommendations to maintain complete and accurate inventory records and ensure that all items are tagged. Board #13 did not agree that it bought unneeded equipment, since the items were purchased in anticipation of moving to a new office .

Audit Follow-up

Brooklyn Community Boards # 3, 5, 7, 9, 10, 12, 13, 14, 15, 16, 17, and 18 have implemented the audit's recommendations. Board #s 1 and 8 did not have recommendations addressed to them. Board # 2, 4, 6, and 11 provided no follow-up information. In addition, the Brooklyn Borough President's Office declined to respond.

QUEENS COMMUNITY BOARDS 1-14

Audit Report on the Financial and Operating Practices of the 14 Queens Community Boards

Audit # FP04-075A

Comptroller's Audit Library # 7579

Issued: June 28, 2004

Monetary Effect: None

Introduction

This audit determined whether the 14 Queens Community Boards (the Boards) complied with applicable payroll, timekeeping, purchasing, and inventory procedures, as set forth in the Comptroller's *Internal Control and Accountability Directives* (Comptroller's Directives); Department of Citywide Administrative Services (DCAS) personnel rules and leave regulations; Procurement Policy Board (PPB) rules; and the Department of Investigation *Standards for Inventory Control and Management*. The scope of this audit covered the period July 1, 2002, to June 30, 2003.

Results

The Boards generally adhered to the requirements of Comptroller's Directives 3, 13, 24, 25, and 27, DCAS personnel rules and leave regulations, applicable PPB rules, and the Department of Investigation Standards for Inventory Control and Management. However, there were minor instances in which the Boards did not follow certain aspects of DCAS personnel rules and leave regulations, applicable PPB rules, and the Department of Investigation's Standards for Inventory Control and Management.

With regard to timekeeping and payroll, four employees at three boards exceeded the number of undocumented sick leave instances allowed in a six-month period, and one employee's salary exceeded the maximum pay rate for her civil service title.

With regard to accounting for revenue, the audit found that funds were improperly maintained in a fiduciary account and a payment received by one Community Board from the organization that operated the board's street fair was incorrectly categorized as a refund of expenditures rather than as revenue on the City's books and records. In addition, the audit found that one board's imprest fund checks were not stamped or inscribed "void after 90 days," as required.

The audit also disclosed that eight boards did not maintain complete and accurate inventory records for their equipment. In addition, seven of those eight boards did not ensure that all equipment was properly tagged for identification.

In response to the audit, officials of the Boards and the Borough President's Office described steps that they have taken or will take to implement the report's 10 recommendations.

Audit Follow-up

Queens Community Board # 1, 2, 5, 6, 7, 8, 9, 10, 11, and 14 reported that they have implemented the audit recommendations. No recommendations were addressed to Board # 3, 4, and 13. Board #12 provided no follow-up information.

NEW YORK CITY COMPTROLLER'S OFFICE

Cost Allocation Plan Fiscal Year 2003

Report # FM04-072S

Comptroller's Audit Library # N/A

Issued: January 7, 2004

Monetary Effect: None

Introduction

The Cost Allocation Plan of the City of New York is used to identify and distribute allowable indirect costs of certain support services to City agencies. A portion of these costs may eventually be passed on to programs eligible for federal funding, and thus be reimbursed to the City.

The Comptroller's Office review of its own costs resulted in a summary schedule that was sent to the Office of Management and Budget (OMB) for inclusion in the Cost Allocation Plan. The schedule indicated, by bureau, the percentage of staff time spent providing services to various City agencies during Fiscal Year 2003.

Results

A letter report was issued to the OMB indicating various statistics for inclusion in its annual Cost Allocation Plan.

CONFLICTS OF INTEREST BOARD (COIB)

Audit Report on the Payroll, Timekeeping, and Purchasing Practices of the Conflicts of Interest Board

Audit # MG04-129A

Comptroller's Audit Library # 7560

Issued: June 15, 2004

Monetary Effect: None

Introduction

The Conflicts of Interest Board (COIB) was created by Chapter 68 of the New York City Charter as the ethics board for the City. The COIB is charged with interpreting and enforcing the Conflicts of Interest Law and the City's Financial Disclosure Law (§12-110 of the Administrative Code). As part of its operation, the COIB is responsible for educating City employees regarding ethical standards, issuing advisory opinions to prospective, current, and former City employees, reviewing current and prior opinions of its predecessor agency, the Board of Ethics, and receiving and reviewing financial disclosure statements.

This audit determined whether the COIB maintains adequate internal controls over its personnel, payroll, timekeeping, small purchases, and physical assets, in compliance with applicable City rules and regulations. These rules and regulations included those set forth in *Comptroller's Internal Control and Accountability Directives*, New York City leave regulations for managerial and non-managerial employees, and Procurement Policy Board rules. The audit scope period was Fiscal Year 2003 and 2004 through April 16, 2004.

Results

Our audit determined that the COIB maintains adequate internal controls over its timekeeping, payroll, and small purchases. Those controls are applied and adhered to consistently. With the exception of its physical-assets inventory, we determined that in all material aspects, the COIB complies with the requirements outlined in Comptroller's Directives #1, #3, #6, #13, and #24, as well as with the PPB rule governing small purchases (Chapter 3, §3-08) and leave regulations for managerial and non-managerial employees.

We determined that the COIB paid employees for the proper number of hours worked, maintained properly executed and authorized leave forms, and correctly processed leave transactions on employee Payroll Management System (PMS) records. In addition, we determined that purchases were properly accounted for and legitimate and necessary for COIB operations, and purchases made using the imprest fund were appropriately documented. Furthermore, the imprest fund checking account was properly reconciled each monthly, and all transactions were appropriately handled.

While we determined that for the most part the COIB's physical assets were satisfactorily safeguarded from theft, we also determined that the COIB did not maintain a complete and accurate inventory of its physical assets. After we advised COIB officials of our findings, they took appropriate actions to correct this weakness. Also, we found that the annual salaries for two management employees slightly exceeded the allowed maximum level, as established by the *Pay Plan Schedule for Management Employees (PPME)*.

To address these issues, the audit made three recommendations: that the COIB should:

- Ensure that all changes to equipment (additions, deletions, relocation, etc.) are reflected in the agency's central equipment inventory record as they occur.
- Make the necessary payroll adjustments to ensure that employees are paid within established salary ranges.
- Ensure in the future that all salary changes remain within allowed limits.

COIB officials agreed with the audit findings and agreed to implement all three of the audit recommendations.

Audit Follow-up

The COIB reported that it has implemented all of the audit's recommendations.

DEPARTMENT OF CONSUMER AFFAIRS (DCA)

Audit Report on the Department of Consumer Affairs' Administration of Its Fiduciary Accounts

Audit # FM03-154A

Comptroller's Audit Library # 7531

Issued: January 15, 2004

Monetary Effect: Actual Revenue: \$56,970

Potential Revenue: \$2 million

Introduction

Fiduciary accounts are used to record financial resources held and administered in trust by the City, the principal and income of which benefit individuals, private organizations, or other non-City government entities. The custodial nature of these assets prohibits their use in the direct support of the City's own programs. The Comptroller's Office, in conjunction with the Mayor's Office of Management and Budget, establishes fiduciary accounts at the request of various organizations, including City agencies and public benefit corporations. Each account is maintained and controlled by the requesting entity.

Six fiduciary accounts have been established for the Department of Consumer Affairs (DCA): the Bingo Trust Fund, the Home Improvement Contractor (HIC) Fund, the Tow Truck Fund, the Tow Truck Escrow account, the Legal Escrow account, and the Adjudication Escrow account. As of June 30, 2003, a total of \$3,170,780 was on deposit in these accounts.

This audit determined whether DCA had adequate controls over depositing and disbursing funds for its six fiduciary accounts; and whether DCA accurately recorded revenues and expenses and ensured that account funds were used in accordance with fiduciary agreements.

Results

The audit found that DCA has adequate controls over the deposits and disbursements of funds for the Bingo Trust Fund, the HIC Fund, the Tow Truck Fund, the Legal Escrow account, and the Adjudication Escrow account. DCA also accurately recorded revenues and expenses and generally used the funds in the Bingo Trust Fund, the Tow Truck Fund, the Legal Escrow account, and the Adjudication Escrow account in accordance with the conditions of the respective fiduciary agreements. However, DCA does not have procedures in place to allow it to track funds deposited in the Legal Escrow and Adjudication Escrow accounts; and it does not regularly ensure that revenues are posted to the correct fiduciary account.

In addition, according to the Rules of the City of New York, DCA may make disbursements from the Home Improvement Contractors Fund (HIC) to pay awards to aggrieved consumers and to satisfy outstanding DCA fines. However, DCA allowed \$2.6 million in excess moneys to accumulate in the HIC account instead of satisfying \$2.1 million in contractors' fines owed to the City. Finally, no opinion was given on the administration of the Tow Truck Escrow account, since the account has been dormant for several years.

The audit recommended that DCA:

- Establish procedures to track deposits made in the Legal Escrow and Adjudication Escrow accounts and, once judgments have been rendered, distribute the funds accordingly.

- Reconcile the current balance in Legal Escrow and Adjudication Escrow accounts to determine how much of the balance in each account are funds pertaining to pending cases, and transfer the remaining balances to the appropriate parties according to the rendered judgments.
- Ensure that revenue transactions are posted to the appropriate fiduciary account and adjust all incorrectly posted transactions.
- Determine whether the Tow Truck Escrow account is necessary. If it is not necessary, the account should be closed and the remaining balance should be transferred to the City.
- Transfer money from the HIC Fund to the general fund to satisfy outstanding fines, while ensuring that an appropriate reserve is maintained to pay awards to aggrieved consumers. In that regard, the Department should determine whether the current \$200 biannual fee charged to contractors is sufficient to ensure that an appropriate fund reserve is maintained.

In its response, DCA described the steps that have been taken or will be taken to address the audit's recommendations.

Audit Follow-up

DCA reported that all of the audit's recommendations have been implemented. DCA has determined that the Tow Truck Escrow account is no longer necessary, and has transferred \$6,342.90 to the general fund. In addition, as a result of its biannual analysis, DCA has transferred \$50,627.41 from the HIC Fund to the general fund as payment for outstanding fines.

BOARD OF CORRECTION (BOC)

Audit Report on the Payroll, Timekeeping, and Purchasing Practices of the Board of Correction

Audit # MG04-090A

Comptroller's Audit Library # 7546

Issued: April 7, 2004

Monetary Effect: None

Introduction

The Board of Correction (BOC) is empowered to evaluate the performance of the Department of Correction. The BOC promulgates minimum standards for the custody, correction, health and mental health care, treatment, supervision, and discipline of all inmates held in City correctional facilities, and conducts inspections of these facilities to ensure compliance. Also, the BOC reviews grievances by inmates and employees of the Department of Correction, conducts hearings, studies, or investigations of any matter within the jurisdiction of the Department of Correction, and report its findings and recommendations to appropriate authorities, such as the Mayor, the City Council, and the Commissioner of the Department of Correction.

This audit determined whether the BOC complied with applicable personnel, payroll, timekeeping, and small-procurement policies and procedures established by the agency, and those set forth in *Comptroller's Internal Control and Accountability Directives*, leave regulations for managerial and non-managerial employees, and Procurement Policy Board Rules.

Results

The Board of Correction generally adhered to many of the requirements outlined in Comptroller's Directives #1, #3, #6, #13, and #24, as well as with many of the regulations of the leave regulations for managerial and non-managerial employees. Furthermore, the audit determined that the BOC's physical assets (e.g., computers and fax machines) are adequately safeguarded and accurately reflected in its physical assets inventory records.

However, the audit found that the BOC did not have adequate oversight controls over timekeeping and purchasing activities, and that this has resulted in related deficiencies. For example, with respect to timekeeping practices, the BOC did not have completed leave request forms to support 264 (57%) of the 460 total (annual and sick) leave occurrences during the months of July 2002 through December 2002, and June 2003. For the same period, it also incorrectly classified and charged 103.5 (65%) of the 159.25 total sick-leave hours used by five employees as "medically documented" when the hours should have been classified as "undocumented" sick leave. Also, the BOC did not have medical documentation, as required, from two employees who had more than five undocumented sick leave occurrences during a six-month period. Furthermore, in Fiscal Year 2003, the BOC allowed one employee to charge 75.5 hours to sick leave for the illness or disability of a family member—61.5 hours in excess of the allowed annual 14-hour limit for this type of leave.

Regarding purchasing practices, this audit revealed that the BOC did not cancel all the voucher packages prepared in Fiscal Year 2003 by stamping them "vouchered" or "paid," and that this resulted in the \$146.06 overpayment of an invoice. The audit also determined that the

BOC processed employee expense reimbursement requests, although the forms were missing the required employee and supervisory signatures.

The audit made nine recommendations, including that the BOC should:

- Implement oversight control procedures requiring that all timekeeping data and payment voucher packages be independently reviewed and verified prior to the authorization to process the transactions by the Executive Director or other BOC staff member for correctness.
- Require and ensure that employees submit medical documentation (a doctor's note) when they use three or more consecutive days of sick leave or when they have more than five sick leave occurrences in a six-month period, in accordance with §3.0 b (2) of the leave regulations for managerial and non-managerial employees.
- Require that all payment voucher packages, including all supporting documents (i.e., invoices, receiving slips, and purchase orders) are canceled and marked "vouchered," or "paid," to avoid duplicate payments. In addition, the payment voucher (or check) number, date of payment, and any other relevant information should be noted on the invoice or payment voucher.
- Ensure that all expense reimbursement request forms submitted by employees are appropriately signed prior to authorizing the reimbursement by both the employee and a supervisor or other authorized BOC employee.

BOC officials agreed with all the audit recommendations. However, BOC stated that the recommendation to implement oversight control procedures could not be done due to a lack of staffing resources.

Audit Follow-up

BOC reported that it has fully implemented seven recommendations, partially implemented one recommendation, and is unable to implement the remaining recommendation. BOC is waiting to hear from the Department of Information Technology and Telecommunications (DoITT) as to whether it will provide internet service so that BOC can discontinue paying monthly internet service charges from the Imprest Fund. Moreover, BOC is still unable to implement oversight control procedures because there is no staff person who can take on additional responsibilities.

DEPARTMENT OF CORRECTION (DOC)

Audit Report on the Inventory Controls of the Department of Correction over its Non-Food Items at the Rikers Island Storehouses

Audit # MG03-165A

Comptroller's Audit Library # 7591

Issued: June 30, 2004

Monetary Effect: None

Introduction

The Department of Correction (DOC) manages 15 inmate jails (facilities), 10 of which are on Rikers Island. DOC also operates and maintains storehouses on Rikers Island for food and non-food items that support the needs of the facilities and inmates. In Fiscal Year 2003, DOC purchased non-food items totaling \$11,687,539.

This audit determined whether DOC has adequate inventory controls at its Rikers Island non-food storehouse facilities, which were managed by Division I and the Support Services Division (SSD). The audit covered Fiscal Year 2003 through September 2003.

Results

This audit found that DOC has inadequate controls over its non-food inventory and has significant weaknesses in the recording and maintenance of the inventory managed by Division I and SSD. In addition:

- The Division I computerized perpetual inventory records did not accurately identify inventory items, and SSD does not maintain perpetual inventory records;
- Division I and SSD inventory counts were deficient;
- Division I and SSD personnel do not investigate discrepancies between inventory records and inventory on hand;
- Division I and SSD storehouses were overstocked and contained obsolete and damaged items;
- Division I and SSD maintained inventory in damaged containers, in condemned areas of storehouse, and in outdoor storage areas exposed to the weather.
- Division I purchases made through the Federal Surplus Program lacked oversight.

The report made 17 recommendations, some of which are listed below. DOC should:

- Seek funding to hire an outside consultant who specializes in or is knowledgeable about warehousing, inventory controls, perpetual inventory record-keeping, and inventory-related computer software programs, and who is capable of providing training in these areas to the DOC staff.
- Upgrade the *Inventory Control Policy and Procedure Manual* to address the use of a computerized inventory system for all non-food inventories maintained by DOC.

- Ensure that all variances in the inventory re properly investigated. Thereafter, enforce the requirement that all missing items or unexplained inventory variances be reported to the Inspector General's office.
- Require that SSD maintain computerized perpetual inventory records for all inventory maintained by its shops.
- Assess all non-food inventory stored on Rikers Island to determine whether everything in inventory is needed and whether more items should be disposed of. Also, DOC should not purchase any additional items that are overstocked until reaching the minimum quantity needed to operate.
- Determine whether it is cost effective for Division I to continue to participate in the Federal Surplus Program, taking into consideration the cost of salaries, overtime, traveling expenses, usefulness of the types of inventory that the Federal Surplus Program offers, inventory disposal costs, and other related costs.

In its response, DOC generally agreed with the audit findings and stated that it planned to implement all 17 recommendations.

Audit Follow-up

DOC reported that it has either implemented or is in the process of implementing all of the audit's recommendations.

DEPARTMENT OF CORRECTION (DOC)

Audit Report on the Inventory Controls of the Department of Correction over its Food Items at the Rikers Island Storehouses

Audit # MG03-180A

Comptroller's Audit Library # 7595

Issued: June 30, 2004

Monetary Effect: None

Introduction

The Department of Correction (DOC) manages 15 inmate jails (facilities), 10 of which are on Rikers Island. DOC also operates and maintains storehouses on Rikers Island for food and non-food items that support the needs of the facilities and inmates. Division II, the subject of this audit report, supplies all food items for DOC facilities. In Fiscal Year 2003, the Nutritional Services Division (NSD) of DOC purchased food items totaling \$16,839,916.

This audit determined whether DOC has adequate controls over its food inventory at its Rikers Island storehouses, which were managed by Division II. The audit covered Fiscal Year 2003 through October 2003.

Results

This audit found that DOC has inadequate controls over its inventory of dry and frozen foods maintained by Division II, and has significant weaknesses in the recording and accounting of the inventory. In addition, we found: significant variances between the records in CBORD, the computer system used for recording the inventory, and the physical inventory count conducted in September. Variances were never investigated and reconciled. DOC failed to establish adequate oversight and procedures for managing its food inventories. It appears that DOC does not have the expertise to assess the suitability of the CBORD system or to provide training for its staff. Several items were overstocked—mostly spices and dry foods.

This audit made eight recommendations, including that DOC should:

- Seek funding to hire an outside consultant who specializes in or is familiar with inventory recording and tracking processes as well as with CBORD and other food-management inventory systems, and who is capable of providing training in these areas to the DOC staff. The consultant should be provided with the resources to overhaul and redesign the agency’s food inventory system.
- Define and assign responsibilities for identifying, investigating, and reporting inventory discrepancies. This information should be included in DOC policy and procedure manuals that govern food maintenance.
- Provide training in inventory control techniques to the management and staff; and also train the management and staff in the proper use of the computerized inventory system to ensure that all items in inventory can be accounted for in inventory records.
- Identify all overstocked items so that no purchases of these items are made until appropriate inventory levels had been reached.

In its response, DOC generally agreed with seven of the eight recommendations. DOC officials did not specifically address the recommendation regarding defining and assigning responsibilities for identifying, investigating, and reporting inventory discrepancies; instead, they addressed the audit finding by giving reasons why, in specific incidences, inventory discrepancies occurred.

Audit Follow-up

DOC reported that it has either implemented or is in the process of implementing all of the audit’s recommendations.

DEPARTMENT OF CORRECTION (DOC)

Audit Report on the Compliance of the Department of Correction with Comptroller's Directive 10, *Charges to the Capital Projects Fund*, for the Purchase of Equipment

Audit # MH04-104A

Comptroller's Audit Library # 7562

Issued: June 18, 2004

Monetary Effect: None

Introduction

To manage its penitentiary facilities, the Department of Correction (DOC) expends millions of dollars on capital projects and procurements. This audit determined whether DOC capital equipment purchases were made in compliance with City Comptroller's Directive 10, *Charges to the Capital Projects Fund*. DOC spent a total of \$11.1 million on capital equipment purchases in Fiscal Years 2002 and 2003, the period covered by the audit.

Results

In general, DOC purchases of capital equipment were made in compliance with Directive 10. During Fiscal Years 2002 and 2003, DOC issued 319 purchase orders for a total of \$11.1 million. The 20 projects associated with those purchases all met the requirements of Directive 10. The audit determined that items purchased with 304 (95%) of the 319 capital purchase orders met the eligibility criteria described in Directive 10.

However, the audit found other matters of concern that were not related to Directive 10, specifically, that DOC incorrectly coded *equipment*, on its purchase orders, as materials and supplies used for construction projects. The audit determined that 95 (30%) of the 319 purchases, totaling \$1.4 million, were incorrectly coded as equipment. The items purchased were for such materials and supplies as plumbing supplies, electrical supplies, tiles, and lumber, and were incorrectly coded with the object code 2200, the object code for capital equipment. These purchases should have been coded with the object code 2110, for construction. Furthermore, DOC maintained no inventory listing of capital assets, as recommended by Comptroller's Directive #1.

The audit made the following three recommendations. DOC should:

- Continue to ensure that all equipment purchased with capital funds meets the eligibility requirements of Directive 10. Questionable purchases should be referred to the Office of Management and Budget or to the Capital Unit of the Bureau of Accountancy at the Comptroller's Office for a determination of capital-eligibility.
- Code all purchases of construction materials and supplies with the construction object code and not the equipment object code.
- Maintain a complete inventory listing of all capital assets. A physical inventory should be conducted yearly to ensure that the inventory records are accurate.

In its response, DOC officials generally agreed with the three recommendations made in the audit report.

Audit Follow-up

DOC reported that it has implemented all of the audit's recommendations.

ECONOMIC DEVELOPMENT CORPORATION (EDC)

Audit Report on the Payment of Commercial Rent Taxes by Economic Development Corporation Concessionaires

Audit # FP03-068A

Comptroller's Audit Library # 7523

Issued: November 12, 2003

Monetary Effect: Potential Revenue: \$382,874

Introduction

This audit determined whether the Economic Development Corporation (EDC) monitors Commercial Rent Tax (CRT) payments by its concessionaires and whether it coordinates its efforts with those of the Department of Finance (DOF) to identify those concessionaires who are required to pay the tax, and assists the Department of Finance in collecting the tax.

CRT is imposed on tenants who occupy or use premises south of the centerline of 96th Street in Manhattan for the purpose of carrying on any trade, business, profession, or commercial activity.

Results

The audit disclosed that as of October 15, 2003, four concessionaires and three subtenants of two other concessionaires owe the City a total of \$268,392 in CRT, interest, and penalties. Three of the concessionaires (Express Industries Group, Inc., Wall Street Racquet Club, Inc., and Maggio Beef Corp.) that owe CRT are no longer EDC concessionaires. Had EDC effectively coordinated with DOF in identifying concessionaires who are required to pay CRT, it is likely that the CRT due from these entities would have been collected. In addition, the four concessionaires who failed to pay CRT, as well as nine other concessionaires who were required to file CRT returns, did not file the returns for at least the last three tax years. In fact, only three concessionaires filed and paid CRT on a timely basis.

In addition, a review of the subtenants of EDC concessionaire Seaport Marketplace, Inc., found that The Glazier Group, Inc., owner of Bridgewater, operates four other restaurants below 96th Street in Manhattan, including Michael Jordan's Steak House, The Monkey Bar, Twenty Four Fifth, and The Strip House. Although those restaurants are not EDC concessions, the audit noted that The Glazier Group, Inc., did not file CRT returns and pay the taxes for those establishments for at least the last three tax years. For Michael Jordan's Steak House alone, The Glazier Group Inc., owes \$114,482 in CRT, interest, and penalties for the audit period. The calculation of the amount due from Michael Jordan's Steak House was based on rent information provided by the Metropolitan Transportation Authority, owner of the restaurant-site property.

The audit made six recommendations. EDC should:

- Alert DOF when a concessionaire's rent exceeds the CRT threshold, to ensure that the concessionaire complies with filing requirements and pays all taxes due.
- Provide the necessary documentation to enable DOF to collect the CRT owed by concessionaires.

- Consider non-payment of CRT when making decisions on whether to renew or enter into new leases with concessionaires.

The audit also recommended that DOF:

- Pursue collection of the amounts owed by the concessionaires and subtenants cited in this report.
- Notify EDC of concessionaires who owe CRT, and consider requesting that any security deposits from the concessionaires be used to satisfy the amounts due.
- Attach liens to the business property of those concessionaires who owe CRT.

In their responses, both EDC and DOF officials described steps that have been taken or will be taken to address the audit's findings and recommendations.

Audit Follow-up

EDC reported that it has implemented the audit's recommendations.

DOF reported that it has established procedures to implement the audit's recommendations.

ECONOMIC DEVELOPMENT CORPORATION (EDC)

Audit Report on the Financial Practices of the Economic Development Corporation for "Other General Expenses" Fiscal Years 2001 and 2002

Audit # FR03-120A

Comptroller's Audit Library # 7521

Issued: October 8, 2003

Monetary Effect: None

Introduction

The Economic Development Corporation (EDC) is a local development corporation organized in accordance with the not-for-profit corporation law of the State of New York. The City and EDC have entered into two contracts under which EDC administers economic development programs relating to the attraction, retention, and acquisition, rehabilitation, and improvement of commercial and industrial enterprises within the City.

The audit assessed whether reimbursements to EDC employees for "travel and out-of-pocket expenses" and other charges to the "Other General Expenses" account were in accord with EDC contracts with the City, and whether the expenses were reasonable, justified, and properly documented.

Results

EDC complied with some of its policies for processing payments. Specifically, payments were dated and included the required taxpayer identification numbers; vouchers were marked

“paid”; vouchers were assigned individual general ledger accounting codes; check requests and reimbursement forms were submitted within the stipulated 60-day period; and payment requests contained the approval of the Department head.

However, the audit disclosed that EDC did not maintain appropriate documentation to either support or justify \$288,405 (38%) of the expenses reviewed. These questionable expenses included \$129,879 for three Chevy Tahoes purchased on behalf of the Mayor’s Office; \$11,222 for a dinner event for its outgoing President; \$7,000 for a Vice President’s farewell dinner; \$6,514 for lodging for a City official without documentation or justification for the expense; and a lack of justification to support \$1,253 in travel reimbursements to an employee. In addition, EDC did not always comply with its competitive bidding requirements and did not ensure that one of its consultants provided adequate documentation to support \$124,082 in payments.

Moreover, EDC provided no records or documentation to support the validity of a \$1,368,304 write-off from its Bad Debts Account in Fiscal Year 2002; improperly paid approximately \$2,950 in sales and occupancy taxes; and misstated its “Miscellaneous Expense” and its “Section 208 Planning” accounts.

The audit made 14 recommendations including that EDC should:

- Ensure that all expenses are reasonable, necessary, and in accordance with its contractual agreements with the City.
- Ensure that sole-source agreements are awarded in accordance with the Master and Maritime Contracts.
- Obtain bids and enter into formal contracts for purchases of goods and services exceeding \$25,000.
- Obtain all appropriate documentation, such as invoices, time sheets, receipts, and canceled checks, before approving payments to consultants.
- Submit appropriate documentation for consulting contracts to the Deputy Mayor for approval.
- Ensure that its does not pay sales tax.

EDC officials disagreed with many of the audit findings. They contended that all expenses were reasonable and necessary. All consultant payments were made in accordance with the agreements, and the cited write-off was in accordance Generally Accepted Accounting Principles. Nevertheless, EDC agreed with nine of the audit’s 14 recommendations and stated that greater efforts will be made to ensure compliance with its policies.

Audit Follow-up

EDC reported that of the 14 recommendations in the audit, it implemented nine recommendations as stated in the audit and a tenth recommendation by an alternate method, and would not implement four recommendations.

Of the four recommendations with which it disagreed, EDC stated that consultants are paid in accordance with its Master Agreement with the City; that it ensures all documentation is included in the voucher packages; and that all check stubs contain the descriptive field, contract reference fields, and invoice and purchase order numbers. EDC stated that it therefore meets the

intent and requirements of the Master Contract, that all original invoices were maintained to support payment, and that it adhered to Generally Accepted Accounting Principles to justify writing off its uncollectible receivables.

DEPARTMENT OF EDUCATION (DOE)

Audit Report on the Administration of the WNYE-TV Fiduciary Account by the Department of Education

Audit # FM04-100A

Comptroller's Audit Library # 7572

Issued: June 21, 2004

Monetary Effect: None

Introduction

Fiduciary accounts are used to record financial resources held and administered in trust by the City of New York, the principal and income of which benefit individuals, private organizations, or other non-City government entities. The custodial nature of these assets prohibits their use in the direct support of the City's own programs. The Comptroller's Office, in conjunction with the Mayor's Office of Management and Budget, establishes fiduciary accounts at the request of various organizations, including City agencies and public benefit corporations. Each account is maintained and controlled by the requesting entity.

WNYE operates a public television station (Channel 25) and a public radio station (FM 91.5) owned by the Department of Education (DOE), formerly the Board of Education. In 1998, at the request of DOE, an interest-bearing fiduciary account—WNYE-TV Cablevision Agreement—was established through an agreement between WNYE-TV and CSC Holdings, Inc. (Cablevision). Under the agreement, WNYE-TV received a one-time payment of \$2.4 million in exchange for waiving its right to have WNYE-TV programming aired on certain Cablevision channels from July 1, 1998, through June 30, 2002.

As of June 30, 2002, \$2.9 million was on deposit in the WNYE-TV fiduciary account. On July 11, 2002, DOE transferred \$600,000 from the fiduciary account into WNYE-TV's operating account.

This audit determined whether DOE accurately accounts for the funds in the WNYE-TV fiduciary account and ensures that these funds are used for the operation of WNYE-TV.

Results

DOE accurately accounts for WNYE-TV fiduciary funds and ensures that these funds are used for the operation of WNYE-TV, in accordance with the fiduciary agreement. Since the audit found that DOE complies with the fiduciary agreement, no recommendations were included in this report. DOE officials did not formally respond to the report.

DEPARTMENT OF EDUCATION (DOE)

Audit Report on the Compliance of United Cerebral Palsy of New York City, Inc., with Its Contracts with the Department of Education

Audit # MD03-119A

Comptroller's Audit Library # 7522

Issued: November 12, 2003

Monetary Effect: None

Introduction

The Department of Education (DOE) entered into two contracts with United Cerebral Palsy of New York City, Inc. (UCP), to evaluate and provide special education services to preschool and school-age students. DOE's actual Fiscal Year 2002 expenses for those contracts were \$6,687,000 for the preschool contract and \$2,677,000 for the school-age contract.

UCP operates self-contained, full-day, center-based preschool and school-age programs for students who have been recommended for special education by DOE. The four UCP preschool sites are in Manhattan, the Bronx, Brooklyn, and Staten Island.

This audit determined whether UCP is in compliance with the terms of the contracts with DOE that relate to the provision of special education services to preschool and school-age students and whether UCP takes adequate safety and security measures to protect its students and staff.

Results

UCP generally complied with the terms of the contracts with the DOE that relate to the provision of special education services to preschool and school-age students, as well as providing adequate security and safety measures to protect its students and staff.

However, there were fire-safety concerns at the Manhattan preschool and poor security at the Bronx preschool.

The monthly fire drill reports for the Manhattan preschool indicate that, "the fourth floor corridors are congested with furniture." During our tour of the Manhattan preschool, we again found that the fourth floor hallway had wheelchairs and that other articles of adaptive equipment were left in the hallways. These objects could obstruct the immediate and safe passage of students and staff members in the event of an evacuation or emergency, as well as prevent the self-closing doors from automatically closing when fire alarms ring.

The Bronx preschool does not have adequate security services. There were no uniformed security guards at its parking lots or building entrances. During our visits, we were not required to wear visitor ID tags. Given its large grounds and the current climate of security alert, additional security measures must be taken to ensure the safety of students and the staff, even though these measures are not required in the UCP contracts.

The audit made two recommendations:

- DOE and UCP officials should ensure that the school hallways are free of any kind of obstruction that might hinder the safe and immediate evacuation of the students and staff members in an emergency.
- UCP should develop ways to improve security at the Bronx preschool site.

DOE officials stated, “The DOE brought the Report’s concerns and recommendations to the attention of the New York State Education Department’s Vocational and Educational Services for Individuals with Disabilities (VESID), the agency that is charged with responsibility for approving and monitoring special education schools.

“The DOE will work with VESID, as has been the practice, to share critical information about our providers as it comes to the DOE’s attention.”

In their comments, UCP officials stated that they have taken steps to address the fire safety concerns at the Manhattan preschool.

However, UCP officials objected to our finding of the lack of adequate security at the Bronx preschool site, stating that “its security policies . . . are commensurate with contract language and satisfactory for the requirements of the site.”

Audit Follow-up

DOE reported that the audit recommendation was implemented, as stated in its draft response.

UCP reported that the physical environment of the Manhattan Children’s Program is in compliance with Department of Health regulations.

DEPARTMENT OF EDUCATION (DOE)

Audit Report on the Department of Education’s School Safety Plans for 10 Elementary Schools

Audit # MD03-178A

Comptroller’s Audit Library # 7554

Issued: May 19, 2004

Monetary Effect: None

Introduction

This audit determined whether the Department of Education (DOE) had comprehensive safety plans in place at 10 elementary schools to ensure the safety and security of students and staff members, and whether safety- and evacuation-plan information is communicated to parents. This audit covered school years 2003 and 2004.

Results

This audit found that 10 sampled DOE schools had comprehensive safety plans in place and that they were in compliance with applicable safety plan regulations. Also, the DOE Office of School Safety and Planning (OSSP) tracks the completion and approval of school plans on line through its computer system. However, we found the following conditions:

- The 2003 and 2004 school safety plans that were reviewed did not meet DOE deadlines for completion and approval. The 2003 school safety plans for the 10 sampled schools did not meet many of the DOE deadlines. Moreover, the 2004 safety plans had not been submitted to DOE Regional Safety Administrators for initial review, since the schools were unable to access the on-line system to update their 2003 plans until November 21, 2003.
- At eight of the 10 sampled schools, parents were not notified of safety- and evacuation-plan information.
- Various violations of parts of the school safety plans were disclosed during school visits to the 10 sampled schools.
- Although defibrillators are not prescribed for inclusion in school safety plans, all 10 sampled schools lacked them, in violation of Commissioner's Regulation §136.4, of 2002, which requires all schools to have them.

The audit report made 11 recommendations that may be applicable to other schools. The most significant are that DOE should:

- Ensure that safety plans are completed or updated and approved by all parties in a timely manner, as required by the Chancellor's Regulations.
- Ensure that parents are informed of important safety- and evacuation-plan information, including evacuation sites in case of emergency.
- Ensure that custodians or their designees check all exit doors daily for compliance with applicable regulations.
- Instruct all school personnel, including custodians and teachers, to keep hazardous chemicals in locked storage and under proper ventilation.
- Ensure that every school has sufficient automated external defibrillators for use during emergencies and that proper training is provided to operators, as required by State law.

DOE officials stated that they already had taken steps to implement or partially implement eight recommendations, disagreed with one recommendation, and did not address two recommendations.

Audit Follow-up

DOE did not provide follow-up information.

DEPARTMENT OF EDUCATION (DOE)

Audit of the Travel Expenses of the Department of Education's Central Office

Audit # MD04-063A

Comptroller's Audit Library # 7555

Issued: May 25, 2004

Monetary Effect: None

Introduction

The Department of Education (DOE) budgeted a total of \$10.5 million for travel expenditures during Fiscal Year 2003, the period covered by this audit. Of this amount, \$3 million was spent by the Central Office as follows: \$2.5 million for City-based expenditures; \$.5 million for out-of-town expenditures. Central Office travel expenses appeared to be primarily for teacher training, teacher recruitment, meetings, conferences, and transportation.

Each Central Office unit that incurs travel expenditures is responsible for preparing imprest voucher packages. Most unit voucher packages are sent to the Central Business Office for final processing.

This audit determined the adequacy of DOE's internal controls over the travel expenses of its Central Office and whether these travel expenses were necessary, reasonable, and for authorized individuals.

Results

Expenditures incurred were in accordance with Comptroller's Directive #6, the *Education Department Standard Operating Procedures Manual* (SOP Manual), and with the DOE internal expense guidebook. The sampled expenditures were necessary, reasonable, and for authorized individuals. For the most part, sampled expenditures were properly documented and approved by appropriate individuals.

However, DOE units do not always adhere to the written procedures in place for the approval of travel expenses. This has resulted in inconsistencies in the processing of vouchers for payments. Two vouchers, totaling \$49,044, indicated food expenses (\$30,600) in excess of the per-person amount allowed. Two vouchers for E-Z Pass expenditures (one for \$20,000 and the other for \$39,000) were processed for payment, even though they did not have all the required information or supporting documentation attached to the voucher at the time that they were submitted. One voucher, for \$71,400, issued for the payment of 1,020 monthly Metrocards, lacked the names of the individuals who were issued the cards. Four voucher packages, totaling \$2,983, lacked supporting documentation. One purchase order for out-of-town expenses, totaling \$807, lacked management authorization. One voucher package for out-of-town expenses, totaling \$1,239, lacked an OP221 form.

In addition, five vouchers, totaling \$256,930, were charged to incorrect object codes. The use of incorrect object codes can compromise management's ability to properly plan future budgets.

The audit recommended that DOE:

- Ensure that its travel expenditures adhere to the established written procedures of Comptroller's Directive #6, the expense guidebook and the SOP Manual.
- Consider designating one office to be responsible for the final processing of Central Office travel vouchers.
- Ensure that all expenditures are charged to the correct object codes.

DOE officials agreed with two of the three audit recommendations and have taken steps to implement them. DOE disagreed with the recommendation to designate one office to be responsible for the final processing of travel vouchers.

Audit Follow-up

DOE reported that it has implemented the two recommendations that it agreed with.

DEPARTMENT OF EDUCATION (DOE)

Audit Report on the Process by Which the Department of Education Awarded a Vending Machine License to the Snapple Beverage Group

Audit # ME04-123A

Comptroller's Audit Library # 7541

Issued: March 18, 2004

Monetary Effect: None

Introduction

This audit of the Department of Education (DOE) reviewed the appropriateness of the processes by which DOE awarded a vending machine agreement to the Snapple Beverage Group, Inc. (Snapple) and authorized Octagon, Inc. (Octagon) to serve as its marketing agent.

In June 2003, DOE informed the schools that all existing vending machines selling beverages should be removed by the beginning of the 2003-2004 school year to allow for a centralized vending process. DOE centralized the vending process due to a new Chancellor regulation (Regulation A-812) on the nutritional content of the food and beverages being sold to students and the need for better controls over vending arrangements. In addition, DOE had an interest in establishing a concession and sponsorship arrangement with a beverage company.

On June 23, 2003, DOE, based on a request for proposals (RFP) issued in 2001, signed an interim authorization for Octagon to serve as DOE's agent for a vending machine marketing and administration program. On behalf of DOE, Octagon implemented a vendor selection process in July and August to select a beverage company for the school vending machine opportunity.

On September 9, 2003, DOE signed an interim agreement giving Snapple the exclusive right to sell water and 100 percent fruit juice products in vending machines to be installed in the public schools. The agreement guaranteed that Snapple would pay a minimum of \$40.2 million

to DOE between September 1, 2003, and August 31, 2008. Also on September 9, 2003, the Marketing Development Corporation (MDC) signed a letter of intent with Snapple for the exclusive right to sell water, iced tea, and chocolate beverages in vending machines to be installed in City buildings. That agreement guaranteed that Snapple would pay a minimum of \$126 million to the City between January 1, 2004, and December 31, 2008.

Results

The process that DOE followed in awarding Snapple an exclusive vending machine opportunity in approximately 1,200 City schools was fundamentally flawed. Specifically, the audit concluded that there had been minimal solicitation efforts, an inadequate request for proposals packages, no pre-proposal conference, inconsistent explanations to potential bidders about the scope of the opportunity, and a defective bid evaluation and selection process. In addition, although DOE's process for choosing the marketing agent to implement the selection process for the school vending opportunity was generally adequate from the announcement of the marketing RFP through to the selection of an agent, the process became questionable in that the ownership of the significant party of the selected marketing agent changed before it was authorized to work for DOE. Furthermore, the agent, Octagon, subsequently authorized to handle the marketing of the vending machine opportunity, stands to realize exorbitant compensation for its services.

To address these issues, the audit made 10 recommendations, among them that DOE should:

- Not pursue a school vending machine contract with Snapple in connection with the completed vendor selection process. Rather, DOE should conduct a new selection process for this opportunity that ensures a fair and reasonable result.
- Ensure that any concession and sponsorship opportunities be handled through a well-structured request for proposals process in which there is extensive public notification of potential bidders, an RFP package presenting detailed specifications and clear standards for evaluating the proposals, a pre-proposal conference to ensure that all bidders receive consistent information about the opportunity, and a written assessment of the competing proposals based on the evaluation standards identified in the RFP.
- Either reopen an RFP process or, at the very least, require a revised proposal before entering into an agreement with a company that has experienced a change of ownership after being selected through an RFP process. DOE should also prepare a written justification for entering into an agreement with such a company.
- Restructure and greatly reduce Octagon's compensation for its marketing and administration work on the school vending machine opportunity.
- Not award any new marketing assignments to Octagon in relation to the 2001 marketing RFP.
- Before hiring a marketing agent for similar work in the future, seriously consider the benefits of implementing the concession and sponsorship RFP process itself or of seeking the assistance of other City agencies.

In its response, DOE challenged many of the audit's findings and recommendations. DOE's main contention is that since it was seeking a concession and sponsorship partnership

with a beverage company rather than procuring a good or service, it did not need to follow a formal request-for-proposals process. The audit maintained that DOE should have provided written guidance to Octagon on how to proceed with the vendor-selection process. A private marketing agent, even one well-versed in private sector marketing, needs close oversight when handling the marketing of a public-sector opportunity. In awarding business opportunities, the public sector-environment requires a heightened commitment to both the reality and perception of fairness that the private sector typically does not demand. Therefore, the audit concluded that DOE would have been better served had it required Octagon to follow the DOE *Request for Proposals* manual in the vendor selection process.

Audit Follow-up

DOE reported that it has not changed its position regarding the audit’s findings, recommendations, and conclusion.

DEPARTMENT OF ENVIRONMENTAL PROTECTION (DEP)

Follow-up Audit Report on the Department of Environmental Protection Data Center

Audit # 7F04-065

Comptroller's Audit Library # 7542

Issued: March 19, 2004

Monetary Effect: None

Introduction

The Department of Environmental Protection (DEP) supplies 1.35 billion gallons of drinking water to more than seven million City residents and to one million water users in four upstate counties. DEP treats an average of 1.27 billion gallons of wastewater daily at 23 treatment facilities. It finances the maintenance, growth, and rehabilitation of the water and sewer systems through revenue from water and sewer fees paid by consumers. It enforces provisions of the City Administrative Code that regulate air, noise, hazardous materials, and asbestos abatement.

DEP's central data center supports the agency's local area network and connects to smaller agency data centers operated for such bureaus as Wastewater Treatment, Environmental Engineering, and Water and Sewer Operations. The DEP Information Technology (IT) division is responsible for developing, maintaining, and supporting application software and for operating the data center. DEP has several smaller IT divisions that are responsible for specific operational bureaus within the agency.

This follow-up audit determined the implementation status of the 14 recommendations made in a previous audit entitled, *Audit Report on the Department of Environmental Protection Data Center* (Audit #7A02-069, issued May 21, 2002).

Results

DEP implemented nine of the 14 recommendations made in the previous audit and did not implement five. It made some improvements in its data center's physical and system security—a swipe-card system has been installed to restrict access to the data center and a surveillance camera has been installed to monitor the data center 24 hours a day, seven days a week; the data center's Uninterruptable Power Supply is tested periodically; and the agency has terminated log-in access for inactive users and improved its system-access controls. However, the center still lacks a fire extinguishing system, there are generic log-on accounts that still need to be eliminated, and a formal procedure has not been created that requires that the access-violation report be reviewed. Neither has DEP has developed a formal disaster recovery plan to ensure business continuity. Moreover, its computer equipment inventory records are not kept up-to-date.

The follow-up audit made five recommendations. DEP should:

- Install a fire extinguishing system in the data center.
- Reevaluate current generic log-on accounts and eliminate any that are unnecessary.

- Establish formal procedures to document and report network access violations, and review and follow up on all reported access violations.
- Complete and formally approve a disaster recovery plan for the network and software. Once the plan is completed and approved, DEP should periodically test it and document the results to ensure that the plan functions as intended and is adequate to quickly resume computer operations without material loss of data.
- Maintain a complete and accurate list of all computer equipment and perform an annual inventory to ensure that all equipment items on hand are included on the inventory records.

DEP agreed with the report's recommendations.

Audit Follow-up

DEP reported that it has either implemented or is in the process of implementing all of the audit's recommendations.

DEPARTMENT OF ENVIRONMENTAL PROTECTION (DEP)

Audit Report on Controls over the Processing and Collection of Permit Fees by the Department of Environmental Protection

Audit # MH03-167A

Comptroller's Audit Library # 7589

Issued: June 30, 2004

Monetary Effect: None

Introduction

The Department of Environmental Protection (DEP) maintains the water and sewer system, acting as an agent of the Water Board (Water Board), which pays DEP to operate the water system. DEP has two bureaus that deal with water and water-related permits: the Bureau of Water and Sewer Operations (Water and Sewer) and the Bureau of Customer Service (Customer Service). It collects water and water-related revenue on behalf of the Water Board, a separate entity. In Fiscal Year 2003, the audit scope, those two bureaus approved 40,656 permit applications. The combined permit fees and permit-related fees collected totaled \$6.7 million.

This audit determined whether DEP's Water and Sewer offices and Customer Service offices have adequate controls over the processing of water-permit applications and the collecting of permit fees and certain permit-related fees.

Results

The audit found that DEP controls over the processing of permit applications and the collection of permit fees at Customer Service and Water and Sewer are inadequate, ineffective,

and—in some cases—nonexistent. There is little or no oversight by management to ensure that the controls are adequate or that they are even applied. There are no written guidelines to ensure use of specific procedures and their consistent implementation. Borough offices often function as separate entities with their own sets of procedures.

Some of the weaknesses found in Customer Service included a lack of daily reconciliations of permits issued to fees collected, a lack of monthly bank reconciliations, no controls over returned checks, and inadequate oversight over plumbers with outstanding water-meter permits. Some of the weaknesses found at Water and Sewer included permits issued in violation of City Interim Sewer Rules, checks not deposited on a timely basis, lack of a tracking system for sewer permits, and poor record-keeping of applications, permits, and supporting documents.

The audit report made 26 recommendations, including that DEP should:

- Complete the policies-and-procedures manual, addressing all processes and functions involved in processing permit applications and collecting permit fees at both Water and Sewer and Customer Service offices. DEP should disseminate the completed manual to all offices and follow up with appropriate staff training.
- Require a supervisory review and a daily reconciliation of all permits issued and fees collected and deposited.
- Coordinate its efforts with the Water Board Treasury Department to ensure that monthly bank reconciliations are performed of permit fees .
- Establish procedures for tracking and collecting checks that were returned for insufficient funds.
- Establish procedures that prohibit new permits to be issued to plumbers who have unpaid balances in their accounts or who have had uncollectible balances written off.
- Send out inspectors to spot-check premises after a permit has expired to determine whether a water meter was installed. If the meter was installed, ensure that the Customer Information System (CIS) is updated and that customers are billed for water use.
- Develop written procedures for processing permit-related revenue generated by the Bureau of Water and Sewer. Those procedures should include the recording, handling, depositing, and reconciling of permit-related revenue fees by several employees.
- Explore the feasibility of modifying the CIS to include the recording of permit-related revenue collected by the Bureau of Water and Sewer. If it is not possible to modify CIS, track those fees through a different computer system so that these fees are no longer recorded in FMS.
- Perform a brief preliminary review of the SD1 & 2 and Site Connection Proposal forms at the beginning of the review process. If at that time the application package is found to be complete, the accompanying check should be deposited without any further delay.

DEP agreed to implement 23 of the 26 recommendations, partially agreed with two recommendations, and disagreed with one recommendation.

Audit Follow-up

DEP reported that it has either implemented or is in the process of implementing the recommendations that it agreed or partially agreed with. DEP, however, continues to disagree with and will not implement the recommendation to program CIS to prevent one individual from entering both the permit application information and the fee payment for the permit.

DEPARTMENT OF ENVIRONMENTAL PROTECTION (DEP)

Follow-up Audit Report on the Inventory Controls and Purchasing Practices of the Department of Environmental Protection's Bureau of Water and Sewer Operations

Audit # MJ04-087F

Comptroller's Audit Library # 7577

Issued: June 28, 2004

Monetary Effect: None

Introduction

This follow-up audit determined whether the Bureau of Water and Sewer Operations (Bureau) of the Department of Environmental Protection (DEP) implemented the three recommendations made in a previous audit of the Bureau's controls over inventory. DEP is responsible for managing the City's water supply and wastewater treatment systems. The Bureau is primarily responsible for the operation, maintenance, and protection of the City's drinking water and wastewater collection (sewer) systems. The Bureau currently maintains two storehouses: one primarily for capital items, in Queens; and one primarily for expense items, in Brooklyn. In Fiscal Year 2003, the Bureau had a year-end inventory balance of \$11,652,195.

Results

Of the three recommendations from the previous audit, DEP partially implemented the recommendation to create an inventory project team and re-engineer the Bureau inventory system. Since DEP decided to create its own project team, the recommendation to seek funding to hire an outside consultant was no longer applicable. The third recommendation, to achieve inventory reductions totaling \$1.07 million by improving capital commodity inventory turnover rates, was not implemented.

This follow-up audit found that DEP made some improvements in the Bureau's oversight of inventory. The agency relinquished more than \$5 million worth of inventory, and is better managing its inventory of capital commodities (excluding accessories). However, some weaknesses remain. A count of 225 randomly selected items revealed discrepancies for 101 items between the reported amount and the amount on hand. Most of those items (90) were from the Brooklyn storehouse. Inventory transactions at the Brooklyn storehouse were not entered in a timely manner, if at all. The audit found inventory balances that were affected by incorrect unit value, as well as significant inventory adjustments that were not adequately explained in the

inventory records. The Bureau did not count accessories stored at the Queens pipe yard, although it assigned them a value equal to more than 20 percent of the inventory stored at that location. DEP did not track minimum or maximum stock levels or inventory turnover rates. The audit found that as a result of timing errors in recording inventory transactions and numerous errors in the Bureau's year-end inventory valuation, only limited reliance can be placed on the year-end inventory figures reported by the Bureau.

The audit made one recommendation that was made in the previous report but was not fully implemented. DEP should:

Create an inventory project team, reporting to the Commissioner or a high-level deputy commissioner, whose function would be to overhaul and redesign the Bureau's inventory system. In reengineering the system, this team should incorporate the inventory standards encompassed in the Department of Investigation's *Standards for Inventory Control and Management* and in Comptroller's Directive #1. The ultimate goal of this project would be an inventory control system that: (1) is accurate (i.e., records match on-hand balances); (2) is timely (i.e., records are adjusted to immediately reflect disbursements and receipts); (3) is useful (i.e., reorder points are defined and are realistic); (4) is all-encompassing (i.e., the system tracks all items that are supposed to be tracked); and (5) allows for the calculation of inventory turnover rates to achieve cost reductions through increased turnover. If DEP does not have the management capacity necessary for an in-house inventory reengineering project, it should seek funding to engage a consultant to address these problems.

In its response, DEP generally agreed with the audit's recommendation.

Audit Follow-up

DEP reported that it has implemented most of the recommendation and plans to complete implementation by April 2005.

EQUAL EMPLOYMENT PRACTICES COMMISSION (EEPC)

Audit Report on the Operating Procedures of the Equal Employment Practices Commission

Audit # MD04-078A

Comptroller's Audit Library # 7569

Issued: June 22, 2004

Monetary Effect: None

Introduction

The Equal Employment Practices Commission (EEPC) was created in 1990 as an independent City agency responsible for reviewing, evaluating, and monitoring the equal employment practices, programs, policies, and procedures of all City agencies. The City Charter mandates that the EEPC audit and evaluate the employment practices and procedures of each City agency at least once every four years and whenever requested by the City Civil Service Commission or the Human Rights Commission.

This audit determined whether the EEPC met its City Charter mandate to audit the equal employment practices and procedures of each City agency at least once every four years and whether the EEPC complied with its own procedures regarding timekeeping for employees and payment of commissioners' compensation.

The EEPC's actual expenditures for Fiscal Year 2003, the period covered by the audit, totaled \$429,524 for Personal Services and \$45,142 for Other Than Personal Services.

Results

The EEPC complied with its procedures regarding timekeeping for employees and payment of commissioners' compensation. The employee time sheets were properly processed. All meetings attended by the commissioners were for EEPC-related activities, and the commissioners were compensated the correct amount for attending the meetings.

However, the EEPC has not met its Charter mandate to audit every City agency once every four years. Neither does the EEPC maintain a four-year plan under which agencies are to be audited within each cycle.

The audit recommended that the EEPC should:

- Request funds from the Mayor's Office for the additional staff members needed to meet the Charter mandate.
- Develop a comprehensive four-year plan that takes into consideration auditing larger agencies or those with a prior history of EEPC issues.
- Review all complaints filed against City agencies when deciding which agencies to audit.

EEPC officials agreed with the audit's finding that they are not meeting their Charter mandate. However, they stated that they will not be able to do so until they have the necessary staff.

Audit Follow-up

The EEPC reported that it has requested from the Mayor's Office and the City Council, and will continue to request, the necessary funds to meet their City Charter mandate. In addition, however, EEPC reported that it is unable to implement the remaining two recommendations.

NEW YORK CITY FIRE DEPARTMENT (FDNY)

Audit Report on Opportunities for Savings through Civilianization in Administrative Units of the Fire Department

Audit # ME03-173A

Comptroller's Audit Library # 7578

Issued: June 28, 2004

Monetary Effect: Potential Savings: \$1.7 million

Introduction

This audit of the Fire Department (FDNY) reviewed opportunities for savings from civilianizing positions in administrative units of the Department.

The FDNY mission is to protect the life and property of City residents and visitors from fire and critical health threats through its five primary operations: response to fire emergencies; response to medical emergencies; fire prevention, including inspection and code enforcement; criminal and cause-and-origin investigation; and fire-safety education. To accomplish its mission, FDNY has about 11,000 uniformed firefighters and officers, 2,800 emergency medical employees and 1,500 civilian support personnel. FDNY administrative units perform such functions as firefighter training, fire investigation, and fire prevention, as well as health, personnel, and equipment-maintenance services. It has the following uniformed titles: firefighter, fire marshal, supervising fire marshal, lieutenant, captain, battalion chief, deputy chief, and chief (which also includes the positions of deputy assistant chief and assistant chief).

The audit focused on the 10 largest administrative units in the Fire Department. The audit determined the number of uniformed firefighter positions in those units that were essentially civilian in nature and calculated the cost savings that FDNY could achieve by reassigning those firefighters to positions requiring the special skills of uniformed firefighters.

Results

The audit found that the Fire Department has made efforts to civilianize uniformed positions in various units over the years. Those efforts, although not systematic, have resulted in the civilianization of some positions in the Department.

Nevertheless, based on a review of the 800 uniformed positions in the 10 largest administrative units in the FDNY, the audit concluded that 47 full-duty uniformed positions were essentially civilian in nature. The audit determined that the civilianization of these positions could achieve an annual savings of about \$1.7 million. Those savings could be realized gradually. As uniformed personnel resign, retire, or otherwise leave the Department, lower-salary civilian personnel could be hired or transferred to those units to begin to assume some of the civilian-type functions currently being performed by uniformed officers.

The audit also determined that many light-duty firefighters were assigned to positions that did not require the special skills of trained uniformed firefighters. Firefighters on light duty are those who were injured, either on or off the job, or have medical conditions that prevent them from performing all the duties of trained firefighters. While light-duty firefighters cannot be

civilianized, the audit concluded that FDNY could make a better effort to assign light-duty firefighters to work that is more in line with their special skills.

The audit recommended that the Fire Department:

- Review and civilianize 47 full-duty uniformed positions in the 10 largest administrative units.
- Conduct a comprehensive review of all its administrative units to identify additional civilianizable positions that would generate cost savings.
- Conduct a study to identify other tasks that could be assigned to light-duty firefighters, especially those on extended light duty, that would make the best use of the firefighters' training and experience, while remaining consistent with their medical condition.

Fire Department officials generally agreed with the audit's findings and recommendations. FDNY partially agreed with the recommendation that it review and civilianize 47 full-duty uniformed positions in the 10 largest administrative units. FDNY agreed to "take the necessary steps" to either civilianize 19 of the positions or fill them with light-duty personnel. FDNY further stated that it "will also perform an in-depth review of the remaining 28 identified positions." FDNY also agreed with the recommendation that it conduct a comprehensive review of all its administrative units to identify additional civilianizable positions that could generate cost savings. In addition, FDNY agreed with the recommendation that it attempt to identify other tasks that could be assigned to light-duty firefighters that would make the best use of the firefighters' training and experience.

Audit Follow-up

FDNY reported that of the 19 positions that it agreed should be civilianized, 12 have been civilianized or filled with light-duty personnel and seven are being processed. FDNY further reported that it is reviewing the remaining 28 of the 47 positions that the audit concluded should be civilianized, and that it is conducting comprehensive reviews of all uniformed positions in administrative units.

DEPARTMENT OF HEALTH AND MENTAL HYGIENE (DOHMH)

Follow-up Audit Report on the Department of Health and Mental Hygiene Wide Area Network

Audit # 7F04-139

Comptroller's Audit Library # 7585

Issued: June 2004

Monetary Effect: None

Introduction

The Department of Health and Mental Hygiene's (DOHMH) mission is to protect the health and mental health of all City residents through health-promotion and disease-prevention programs, and enforcement of City health regulations. DOHMH supports both mainframe and wide area network (WAN) applications for its day-to-day business activities. The WAN connects users in 42 buildings. Each location has one or more floors containing computer equipment that provide users with access to the network.

This follow-up audit determined the implementation status of the eight recommendations made in a previous audit entitled, Audit Report of the Department of Health Wide Area Network (Audit # 7A01-067, issued June 20, 2001). Audit fieldwork began in March 2004 and ended in May 2004.

Results

The previous audit made eight recommendations to DOHMH, of which five have been implemented, two have been partially implemented, and one has not been implemented. The three recommendations that were either partially implemented or not implemented pertain to installing fire-detection and -suppression systems, as well as video cameras, at all its data centers and improving the disaster-recovery plan by listing the key personnel who may be required in any backup or recovery scenario. The follow-up audit recommended that DOHMH:

- Install a state-of-the-art fire detection and suppression system in each of its data centers.
- Include the names, addresses, and telephone numbers of all people who may be required in any backup or recovery scenario in its disaster recovery plan.
- Install additional video cameras in its Worth Street data center and the laboratory, make the back-up site's cameras operational, and ensure that the data centers are sufficiently lighted so that transmitted images may be seen.

DOHMH agreed with two of the audit's three recommendations. It did not agree to install additional video cameras.

Audit Follow-up

DOHMH reported that it is in the process of implementing the two audit recommendations that it agreed with. However, although DOHMH is improving the lighting at the data centers, it has determined that present camera coverage is adequate.

DEPARTMENT OF HEALTH AND MENTAL HYGIENE (DOHMH)

Audit on the Effectiveness of the Complaint Inspection Program for Food Establishments by the Department of Health and Mental Hygiene

Audit # MD04-103A

Comptroller's Audit Library # 7590

Issued: June 30, 2004

Monetary Effect: None

Introduction

This audit determined whether the Department of Health and Mental Hygiene (DOHMH) Complaint Inspection Program effectively followed up on complaints against food establishments.

Results

DOHMH Complaint Inspection Program is ineffective in following up on complaints against food establishments, as follows:

- Of the 186 complaints in our sample during Fiscal Year 2003, 74 (40 percent) were not followed up by inspectors either by telephone calls or physical visits.
- Of the 112 complaints in our sample during Fiscal Year 2003 that were followed up, the time it took to conduct inspections ranged from the same day to 344 days (almost a year) later.
- Of the 763 food-borne-illness complaints recorded during Fiscal Year 2003, 335 (45 percent) were never forwarded to the DOHMH Office of Environmental Investigations (OEI), as required. Those complaints were sent directly to the DOHMH Bureau of Food Safety and Community Sanitation (BFSCS).

We note that inspection reports used in response to complaints were adequately filled out and that inspectors signed off to attest to the completeness of the data. We did not find that a particular inspector continually found complaints to be unfounded.

To address these issues, the audit made eight recommendations, the most significant of which are that BFSCS should:

- Establish formal procedures to govern the Complaint Inspection Program.
- Modify its database to better track the status of complaints and inspections in response to complaints.
- Establish the length of time it should take inspectors to follow up on complaints against food establishments, based on priority and risk to public health. The complaints should be responded to within the predetermined time, and should be monitored.
- Ensure that all confirmed and alleged food-borne illness complaints received have first been forwarded to OEI for investigation.

DOHMH officials agreed with seven of the audit's eight recommendations. They disagreed with the recommendation to consider the results of our survey of Department of Health officials from other localities or conduct its own survey when establishing the length of time it

should take to follow up on complaints against food establishments. DOHMH stated that it “has already established a 24 hour (immediate) response target for all ‘emergency’ or Priority One complaints.”

Audit Follow-up

DOHMH reported that it has either implemented or is in the process of implementing the seven audit recommendations that it agreed with.

DEPARTMENT OF HOMELESS SERVICES (DHS)

Audit Report on the Development and Implementation of the Client Tracking System by the Department of Homeless Services

Audit # 7A03-147

Comptroller's Audit Library # 7558

Issued: June 10, 2004

Monetary Effect: None

Introduction

The purpose of the Client Tracking System (CTS) was to replace three subsystems of the Department of Homeless Services (DHS) obsolete "Prime" computer environment—the HOMES, HOMEBILLS, and SCIMS subsystems. HOMES was used to manage family shelters; the HOMEBILLS system was used for provider billing management; and SCIMS provided for single-adult shelter management. CTS was to be developed in two phases. The first phase, which has been completed and was the focus of this audit, resulted in the development of two new subsystems—the CTS (Families) and CTS (Billing) systems. These systems replaced the HOMES and HOMEBILLS systems, respectively.

The audit determined whether CTS met DHS's initial business and system requirements; allowed for future enhancements and upgrades; was procured in accordance with Policy Procurement Board (PPB) rules and other applicable City purchasing guidelines; was developed following a formal system-development methodology; had been integrated in the Department disaster recovery plan; and met user needs. Audit fieldwork was conducted from December 2003 to February 2004.

Results

The audit found that the first phase of CTS satisfied DHS initial business and system requirements, that the system design allows for future enhancements and upgrades, and that the system was procured in accordance with the provisions of §3-09 of the PPB rules. In addition, system users reported that CTS met their needs. However, the Department did not comply with the provisions in the Intergovernmental Procurement Transactions—Interim Process memorandum when procuring consulting services from the companies that developed CTS in conjunction with the DHS in-house staff. That memorandum outlined an interim process for making such purchases, and this was agreed to by the Mayor's Office of Contracts, the Law Department, and the Comptroller's Office. Further, DHS did not develop CTS according to a formal system-development methodology, and it did not engage an independent quality-assurance consultant as recommended by Directive 18. Finally, CTS operations have not been included in DHS's disaster recovery plan.

The audit made five recommendations, namely that DHS:

- Comply with the now-established *Intergovernmental Procurement Transaction* process when procuring goods or services costing in excess of the small-purchase limits on using vendors on State contracts. In addition, the Department should not split purchases as a means of ignoring this process.

- Employ a formal system-development methodology and engage an independent quality-assurance consultant when undertaking the development of new computer systems or making major changes to existing systems, using either in-house resources or external system-development and integration services.
- Update its disaster recovery plan to include CTS operations.
- Ensure that the user concerns identified in this report are addressed. In addition, the Department should periodically conduct user surveys to identify user concerns.
- Review the status of all CTS users and terminate access as appropriate.

DHS officials agreed with the audit's findings and recommendations.

Audit Follow-up

DHS reported that it is in the process of implementing two recommendations. DHS has requested \$400,000 for updating its disaster-recovery plan and intends to conduct a new survey to address user concerns DHS, however, did not report on the remaining three recommendations.

DEPARTMENT OF HOMELESS SERVICES (DHS)

Second Follow-up Audit Report on the Data Processing Controls and Procedures of the Department of Homeless Services

Audit # 7F04-068

Comptroller's Audit Library # 7549

Issued: April 16, 2004

Monetary Effect: None

Introduction

This second follow-up audit determined whether the Department of Homeless Services (DHS) implemented the 12 recommendations made in the previous follow-up audit of data-processing controls. This report discusses in detail the 12 recommendations from the prior audit, as well as the implementation status of each recommendation. The time period reviewed in this audit was August 2003 through December 2003.

In Fiscal Year 2001, the Comptroller's Office conducted a follow-up audit to evaluate the adequacy of the DHS data center's disaster recovery plans, program-change control procedures, data-security procedures, physical-security procedures, and operational procedures for protecting DHS computer assets and information. The audit also assessed DHS compliance with the Comptroller's Internal Control and Accountability Directive 18, Guidelines for the Management, Protection and Control of Agency Information and Information Processing Systems.

Results

Of the 12 recommendations made in the previous follow-up audit, DHS implemented three, partially implemented three, and did not implement six.

The three recommendations that were implemented pertained to: recording new equipment on the Financial Management System (FMS) Fixed Asset Inventory; instituting a time-out function on the network; and obtaining approval the agency's Internet Security Proposal from the Department of Investigation of. The three partially implemented recommendations pertained to documenting all administrative and operational policies and procedures used by Office of Information Technology personnel, establishing an operational alternate processing site, and developing a complete and accurate inventory list of computer hardware and software. The six recommendations not implemented pertained to updating and testing the agency's disaster-recovery plan, monitoring its network for unlicensed software, disabling User IDs of individuals no longer working for the agency, monitoring and reporting system-access violations, and developing written procedures that address program-change controls.

The audit made 10 recommendations. DHS should:

- Complete its *Baseline Procedures Manual* to include all administrative and operational policies and procedures for its computer environment, specifically those regarding network- and Internet-change control.
- Create, implement, and periodically test a disaster-recovery plan that reflects the current system environment.
- Establish an operational alternate data-processing and recovery site.
- Compile an up-to-date, accurate inventory for all computer equipment and software.
- Use the function within Microsoft 2000 to identify and disable unlicensed software.
- Establish and enforce a policy that the OIT Security Administrator match the current list of User IDs on the network to the personnel records, identify inactive employees, and disable the User IDs for those individuals.
- Use the function within Microsoft 2000 to track system-access violations.
- Establish formal procedures to document and report system-access violations, and review and follow up on all reported violations.
- Establish written change-control procedures.
- Establish a special project team, reporting to the Commissioner, whose ultimate goal would be to ensure that the deficiencies noted in this report are addressed and corrected.

In its response, DHS stated: "In our continuing effort to fully implement all the recommendations where feasible, DHS has implemented three recommendations, partially implemented six recommendations, and will not implement one recommendation. DHS' Office of Information Technology . . . reports to the Deputy Commissioner of Policy and Planning who is working with the unit to facilitate the implementation of the recommendations and therefore, the establishment of a special project team is unnecessary."

Audit Follow-up

DHS reported that it has either implemented or is in the process of implementing the nine recommendations that it agreed with.

DEPARTMENT OF HOMELESS SERVICES (DHS)

Audit Report on the Department of Homeless Services Controls Over Payments to Hotels and Scatter Site Housing Operators, July 1, 2001–June 30, 2002

Audit # FM03-123A

Comptroller's Audit Library # 7520

Issued: October 1, 2003

Monetary Effect: None

Introduction

The Department of Homeless Services (DHS) is responsible for providing temporary emergency shelter and support services to eligible homeless families and individuals in a safe and supportive environment. During the period July 1, 2001–June 30, 2002 (Fiscal Year 2002), DHS paid approximately \$96 million to the operators of hotels and scatter-site apartments for the provision of conditional housing to homeless families.

This audit determined whether the DHS maintained adequate controls over funds transferred from the general fund to a DHS bank account for payments to operators who provided conditional housing to families, complied with the City Charter and Procurement Policy Board (PPB) rules when using hotels and scatter-site housing facilities, and ensured that conditional housing facilities were maintained in a safe and sanitary condition.

Results

The audit found that the DHS had adequate controls over payments to operators of conditional housing facilities and that funds transferred from the City general fund were properly accounted for in the DHS bank account. However, DHS did not comply with the City Charter and PPB rules when entering into informal agreements with operators of conditional housing facilities.

Auditors visited 20 units in six hotels and 56 apartments in 17 apartment buildings. Although all the hotels visited and 10 of the 17 apartment buildings were in satisfactory condition, the remaining seven apartment buildings had conditions that may have posed a threat to the health and safety of the occupants placed there by DHS. Specifically, 30 of 41 apartments visited had unsafe and unsanitary conditions, which included roach infestation, peeling paint, leaking faucets, water damage and mold on ceilings and walls, missing or broken tiles, and holes in walls and ceilings.

The audit recommended that DHS procure the services of hotel operators and apartment owners in accordance with the provisions of the City Charter and PPB rules by entering into formal contracts with the operators, ensuring that contracts contain measurable performance standards and penalties for poor performance, and registering the contracts with the Comptroller's Office. The audit also recommended that DHS adhere to its plan to conduct more frequent inspections and to reduce the number of units operated by low-performing landlords.

DHS officials disagreed with the audit finding that their arrangements with the operators violated the City Charter and PPB rules. However, they agreed to implement the audit's recommendations. In that regard, they stated that DHS will enter into contracts with a majority of the facilities now without contracts and will enhance the procedures for monitoring operators of scatter site apartments.

Audit Follow-up

DHS reported that it has either implemented or is in the process of implementing the audit's recommendations.

DEPARTMENT OF HOMELESS SERVICES (DHS)

Audit Report on the Contract of Project Hospitality, Inc., with the Department of Homeless Services to Operate Hospitality House on Staten Island

Audit # ME03-161A

Comptroller's Audit Library # 7552

Issued: April 30, 2004

Monetary Effect: None

Introduction

This audit of the Department of Homeless Services (DHS) reviewed its contract with Project Hospitality, Inc. (Project Hospitality) to provide transitional housing units and related services to homeless families at Hospitality House, a City-owned facility at 100 Central Avenue on Staten Island. DHS is responsible for providing emergency shelter and social services to homeless families in New York City. During Fiscal Year 2003, Project Hospitality, a non-profit organization, received \$2,013,352 in payments from DHS in relation to this contract.

The audit determined whether Project Hospitality was in compliance with key programmatic and financial provisions of its Hospitality House contract with DHS. Those key provisions included permanent housing preparation services, client assessment services, child-care and recreation services, food services, security, maximum stay and discharge regulations, and terms of payment procedures.

Results

During Fiscal Year 2003, Project Hospitality complied with key provisions of its Hospitality House contract with DHS relating to the delivery of services in a secure environment. Project Hospitality also complied with respect to the terms of payment procedures at Hospitality House. The audit found one area of contract noncompliance concerning the need for the consistent presence of a certified first-aid staff member. Moreover, the DHS contract with Project Hospitality did not accurately reflect current New York State regulations and judicial decrees with regard to certain performance requirements.

To address these issues, the audit made the following recommendations:

- DHS should ensure that Project Hospitality has on duty at Hospitality House at all times a staff member certified to administer basic first aid.
- DHS should review its contracts with Project Hospitality and similar homeless shelter service providers to ensure that the contracts reflect current performance requirements.

In its response, DHS agreed with the audit's findings and recommendations.

Audit Follow-up

DHS reported that it has implemented one of the two recommendations. DHS did not address the recommendation that it ensure that Project Hospitality have on duty at Hospitality House at all times a staff member certified to administer first aid.

NEW YORK CITY HOUSING AUTHORITY (NYCHA)

Audit Report on the Administration of the Resident Employment Program by the New York City Housing Authority

Audit # MJ03-143A

Comptroller's Audit Library # 7592

Issued: June 30, 2004

Monetary Effect: None

Introduction

This audit determined whether the Housing Authority (NYCHA) has effective controls to ensure that the Resident Employment Program (REP) is operating as intended. NYCHA's mission is to provide decent and affordable housing for low- and moderate-income residents throughout the five boroughs. The NYCHA Department for Resident Employment Services (RES) administers the agency's Resident Employment Training Programs, which include REP. The scope of this audit was December 2000 through February 2004.

Results

NYCHA generally does not have effective controls to ensure that REP is operating as intended. Specifically, NYCHA management has not developed any formal procedures for the program and has not coordinated the efforts of RES and the administering departments in monitoring contractor compliance with REP. As a result, those persons charged with monitoring contractor compliance do not have a clear understanding of their responsibilities, and no one is held accountable for ensuring that contractors provide accurate information regarding resident hiring.

A review of a sample of 33 contracts revealed that contractors submitted the required REP hiring summaries for only 236 (55%) of the 433 payment packages reviewed. Only 137 (74%) of 185 persons identified as resident hires by contractors for those 33 contracts were in fact legal NYCHA residents. A review of a subsample of nine contracts revealed that 45 (58%) of the 78 hiring summaries, auditors analyzed were not supported by the payroll records, and 34 (44%) of them overstated by 28 percent the amounts paid to hired residents. Overall, only eight percent of the labor expenditures for those contracts was paid to resident hires, according to payroll records obtained by NYCHA. During the course of the audit, management instituted some program changes designed to improve accountability. However, much remains to be done. Until effective accountability is achieved, NYCHA will be hindered in its efforts to ensure that its residents are provided employment opportunities in its capital construction projects.

The audit made six recommendations to NYCHA, some of which are listed below. NYCHA should:

- Design and issue a formal written procedures manual for REP. The procedures should clearly define the responsibilities of all parties involved in REP, and document the internal controls and milestones that management has developed to help ensure that the program's objectives are achieved.

- Ensure that specialists use the correct criterion—the percentage of total labor costs that are paid to NYCHA residents—to evaluate contractor compliance with REP hiring requirements.
- Institute better controls to verify that NYCHA residents whom the contractors reportedly hire are actually on the job and working.

In its response, NYCHA generally agreed with the audit's recommendations.

Audit Follow-up

NYCHA reported that it has implemented four of the six recommendations and is in the process of implementing another one. NYCHA disagrees with, and will not implement, the recommendation to develop an accurate listing of all contracts participating in REP because it believes its current computer system has an up-to-date listing of all contracts.

DEPARTMENT OF HOUSING PRESERVATION AND DEVELOPMENT (HPD)

Audit Report on the Emergency Repair Program of the Department of Housing Preservation and Development July 1, 2000–June 30, 2002

Audit # FN04-061A

Comptroller's Audit Library # 7563

Issued: June 18, 2004

Monetary Effect: None

Introduction

This audit assessed the administration of the Emergency Repair Program (ERP) by the Department of Housing Preservation and Development (HPD). ERP is responsible for correcting confirmed emergency conditions in privately owned and City-owned buildings. The HPD Central Complaint Bureau receives complaints about emergency conditions from tenants and informs the building owner of the allegation. If the condition continues to exist, as verified by the tenant or an HPD employee, the owner is given 24 to 72 hours to make the repair. If the repair is not made, ERP either hires a contractor, using an "Open Market Order," or assigns its own employees, using its "Handyman Work Orders." In either case, once the repair is made, HPD notifies the Department of Finance (Finance) of the cost of the repair. Finance is responsible for billing the owner for the cost of repairs. If the owner fails to pay the bill within 60 days, a lien is placed on the property.

Results

ERP generally followed the HPD *Emergency Repair Program OMO Processing Flow* procedures when paying vendors for services performed and for documenting that the conditions noted in the complaints were corrected. Also, ERP generally followed its established procedures for documenting that the conditions were corrected when agency employees made the needed repairs. Moreover, HPD transferred the relevant information to Finance so that the landlords could be billed for the costs incurred by ERP in correcting the emergency conditions.

However, the audit disclosed that nine voucher packages—five of 456 Handyman Work Order packages and four of 470 Open Market Order packages—were missing from HPD files, and that 14 Open Market Orders lacked authorization signatures or documents.

The audit recommended that HPD ensure that all voucher packages are accounted for by establishing a checklist to record and track voucher packages, and that each voucher package contains all required documents and authorizations.

In its response, HPD described the actions it has taken to address the audit findings and recommendations.

Audit Follow-up

HPD reported that ERP has partially implemented one recommendation by instituting the use of sign-out cards to account for all work order files removed from the file room. The file room staff will monitor this process. HPD reported that the other recommendation has been implemented.

HUMAN RESOURCES ADMINISTRATION (HRA)

Follow-up Audit of Computer Equipment Inventory On-Hand at the Human Resources Administration's Stockrooms

Audit # 7F03-149

Comptroller's Audit Library # 7518

Issued: September 19, 2003

Monetary Effect: None

Introduction

The Human Resources Administration (HRA) helps individuals and families achieve their highest level of self-reliance. HRA has approximately 130 offices throughout the city. It furnishes desktop workstations, laptops, laser printers, servers, hubs, routers, and scanners for its Wide Area Network. HRA currently has approximately 17,000 PCs in addition to peripheral devices and software.

This follow-up audit determined the implementation status of the four recommendations contained in a previous audit entitled, *Audit Report of the Computer Equipment Inventory On-Hand at the Human Resources Administration's Stockrooms* (Audit #7A00-155, issued May 31, 2001).

Results

The previous audit made four recommendations to HRA, of which one has been implemented and three have not. The recommendation that was implemented pertains to HRA's legal action to recoup the value of 97 missing computers identified in the previous audit. The three recommendations that were not implemented pertain to redesigning the HRA inventory system, accounting for all the missing equipment identified in the prior audit, and referring any unresolved discrepancies to the Department of Investigation. Consequently, 445 of the 568 items noted as missing in the prior audit are still unaccounted for.

The follow-up audit made three recommendations that HRA should:

- Reassign its inventory project team to report to the Commissioner.
- Ensure that the project team overhauls and redesigns the HRA inventory system in accordance with the Department of Investigation *Standards for Inventory Control and Management* and Comptroller's Directive #1. The ultimate goal would be an inventory-control system that is (1) accurate (i.e., records match on-hand balances); (2) timely (i.e., records are adjusted to immediately reflect disbursements and receipts); (3) useful (i.e., reorder points are defined and are realistic); and (4) encompassing (i.e., the system tracks items that are supposed to be tracked).
- Continue to investigate the discrepancies noted in the prior audit and maintain documentation showing how the matters were resolved. All unresolved discrepancies should be referred to the Department of Investigation.

HRA disagreed with the audit's findings, but agreed with two of the report's three recommendations.

Audit Follow-up

HRA reported that it has fully implemented one recommendation, is in the process of implementing one recommendation, and disagrees with and will not implement another recommendation. HRA continues to disagree with the recommendation to reassign its project team to the Commissioner. HRA formed an inventory committee in January 2002 that reports to the MIS Deputy Commissioner.

HUMAN RESOURCES ADMINISTRATION (HRA)

Follow-up Audit Report on Computer Equipment Installed at the Human Resources Administration

Audit # 7F03-150

Comptroller's Audit Library # 7519

Issued: September 19, 2003

Monetary Effect: None

Introduction

The Human Resources Administration (HRA) helps individuals and families achieve their highest level of self-reliance. HRA has approximately 130 offices throughout the City. It furnishes desktop workstations, laptops, laser printers, servers, hubs, routers, and scanners for its Wide Area Network. HRA currently has approximately 17,000 PCs in addition to peripheral devices and software.

This follow-up audit determined the implementation status of the five recommendations made in a previous audit entitled, *Audit Report of the Computer Equipment Inventory Installed at the Human Resources Administration* (Audit #7A01-101, issued June 29, 2001). Audit fieldwork began in March 2003 and ended in April 2003.

Results

The previous audit made five recommendations to HRA, of which four have not been implemented and one is no longer applicable. The four recommendations that were not implemented pertain to redesigning its inventory system, referring any unresolved discrepancies noted in the previous audit to the Department of Investigation, including all computer equipment on the inventory database, and following existing procedures to ensure that all equipment inventory records are accurate.

The follow-up audit made five recommendations that HRA should:

- Reassign the inventory project team to report to the Commissioner.
- Ensure that the project team develops an inventory control system for installed computer equipment that is: (1) accurate (i.e., all installed computer equipment is accounted for); (2)

timely (i.e., records are adjusted to immediately reflect receipts, transfers and relinquishments); and (3) encompassing (i.e., the system tracks all items that are supposed to be tracked).

- Refer any unresolved discrepancies to DOI for further investigation.
- Include all Sun Microsystems equipment in the inventory database.
- Ensure that the computer inventory records contain complete and accurate information.

HRA disagreed with this audit's findings, but agreed with four of the audit's five recommendations.

Audit Follow-up

HRA reported that it has implemented two recommendations and is in the process of implementing the remaining two recommendations that it agreed with. HRA, however, continues to disagree with the recommendation to reassign its project team to the Commissioner.

HUMAN RESOURCES ADMINISTRATION (HRA)

Audit Report on Real Estate Tax Charges on Space Leased at 180 Water Street by the Human Resources Administration

Audit # MJ04-127A

Comptroller's Audit Library # 7566

Issued: June 21, 2004

Monetary Effect: None

Introduction

This audit determined whether the landlord's real estate charges allocated to the Human Resources Administration (HRA) for space leased at 180 Water Street were accurate and properly adjusted to account for any reassessments. The 180 Water Street Associates L.P. (landlord) provided the City the use of office space at 180 Water Street pursuant to a written lease agreement (lease), dated June 25, 1997, negotiated by the Department of Citywide Administrative Services (DCAS). HRA occupies approximately 430,000 square feet of rental space at the property.

Results

An examination of the landlord's bills maintained at HRA, along with the payment vouchers listed in FMS, reveals that the landlord's real estate tax charges allocated to HRA were accurate and properly adjusted to account for all of the reassessments that the landlord received during the audit period. The examination further revealed that HRA has adequate controls in place to ensure that the landlord's real estate tax charges allocated to HRA for space leased at 180 Water Street were accurate and properly adjusted to account for real estate tax credits listed in the Department of Finance (DOF) Fairtax database.

However, the audit determined that HRA does not have adequate controls in place to identify real estate tax refunds that the landlord receives as a result of Tax Commission decisions. In July 2003, HRA received a credit from the landlord totaling \$1,034,879, representing a tax refund received by the landlord for Tax Years 2000 through 2002. However, HRA was not aware that it was entitled to this credit until the landlord informed the agency.

The audit made two recommendations to HRA. HRA should:

- Establish a control procedure to identify instances in which leased properties are reassessed due to Tax Commission action. For example, HRA could contact the Tax Commission periodically to determine whether the Commission has reassessed any of the properties that the agency is leasing.
- Follow up with the landlords of leased properties for which real estate tax credits or refunds are granted to ensure that the agency receives its proportionate share of such credits or refunds.

In its response, HRA agreed with the audit recommendations, stating that it has already taken steps to follow up with landlords to whom real estate credits or refunds have been granted to ensure that the agency receives its proportionate share.

Audit Follow-up

HRA reported that it has implemented both of the audit's recommendations.

INDEPENDENT BUDGET OFFICE (IBO)

Audit Report on the Financial Practices of the Independent Budget Office

Audit # ME04-076A

Comptroller's Audit Report # 7564

Issued: June 18, 2004

Monetary Effect: None

Introduction

The Independent Budget Office (IBO) is a publicly funded agency established in 1996 to enhance official and public understanding of the City budget, the largest municipal budget in the country. IBO accomplishes its mission by providing nonpartisan budgetary, economic, and policy analysis for the residents of the city and their elected officials. IBO's principal users are the Public Advocate, the members and committees of the City Council, the Borough Presidents, the City's 59 community boards, the media, and the civic and community organizations.

This audit of the financial practices of IBO determined whether the agency had adequate controls over its timekeeping, payroll, purchasing, and inventory operations. The audit covered Fiscal Year 2003.

In Fiscal Year 2003, IBO's operating budget was \$2,764,085, including \$2,336,147 for personal expenses and \$427,938 for other than personal services. During Fiscal Year 2003, IBO employed 12 managerial and 24 non-managerial employees.

As a City agency, IBO must adhere to City rules for procurement, inventory, timekeeping, and payroll operations. Rules governing those operations include the Procurement Policy Board rules, the Department of Investigation *Standards for Inventory Control and Management*, and Comptroller's Directives.

Results

IBO generally had adequate controls over its timekeeping, payroll, purchasing, and inventory practices. Specifically, IBO had adequate segregation of duties for its timekeeping, payroll, and purchasing operations; appropriately monitored, accounted for, and safeguarded its physical assets; charged purchases to the correct object codes; and solicited bids sufficiently. However, the audit also identified some weaknesses in IBO's operations. The audit found that IBO did not use a purchase requisition for all purchases, did not maintain adequate supporting documentation in the purchase files for some imprest fund and miscellaneous voucher purchases, and did not have adequate controls over employees' daily sign-in sheets.

The report made six recommendations, among them that IBO should:

- Prepare and maintain a purchase requisition, or a similar document, for each purchase.
- Ensure that invoices and receipts are obtained and maintained in the purchase files for each imprest-fund and miscellaneous voucher purchase.
- Maintain a daily timekeeping system to record the attendance, absence, or tardiness of all non-managerial employees.

In its response, IBO generally agreed with the audit's findings and recommendations.

Audit Follow-up

IBO reported that it has taken steps to implement all of the audit’s recommendations.

**DEPARTMENT OF INFORMATION TECHNOLOGY AND TELECOMMUNICATION
(DOITT)**

Audit Report on the Administration of Institutional Network and Crosswalks Funds by the Department of Information, Technology, and Telecommunications

Audit # FM03-084A

Comptroller's Audit Library # 7570

Issued: June 21, 2004

Monetary Effect: None

Introduction

Fiduciary accounts are used to record financial resources held and administered in trust by the City of New York, the principal and income of which benefit individuals, private organizations, or other non-City government entities. The custodial nature of those assets prohibits their use in the direct support of the City's own programs. The Comptroller's Office, in conjunction with the Mayor's Office of Management and Budget, establishes fiduciary accounts at the request of various organizations, including City agencies and public benefit corporations. Each account is maintained and controlled by the requesting entity.

Since 1983, the City has entered into franchise agreements with various companies that granted them the right to provide cable television services. The agreements required the companies to make funds available for the construction and support of the City's Institutional Network (I-NET)—a system that links various government and education networks. The companies are also required to fund Crosswalks—a public-access cable channel. The City Department of Information, Technology and Telecommunication (DoITT) is responsible for administering those funds.

Under the agreements, the companies were required to pay the City approximately \$48 million—\$36.8 million for I-NET, \$10.5 million for Crosswalks, and \$700,000 for the Interconnection Working Group (IWG). Of the \$48 million, \$11.4 million was deposited into fiduciary accounts managed by the City, and \$36.6 million was retained by the companies to be drawn down by the City as needed. As of December 31, 2003, \$29.4 million of the funds were spent, leaving a balance of \$18.6 million—\$11.8 million for I-NET, \$6.4 million for Crosswalks, and \$437,000 for IWG. With regard to those funds retained by the companies, the 1998 agreements with Time Warner and Cablevision state that “expenditures from the fund . . . shall be directed by DoITT in consultation with the Comptroller and Borough President.”

This audit determined whether DoITT accurately records and tracks I-NET and Crosswalks revenues and expenses; and whether DoITT ensures that these funds are spent on items for I-NET and Crosswalks, as specified in the franchise agreements with the cable companies.

Results

DoITT accurately recorded and tracked I-NET and Crosswalks revenues and expenses. DoITT also ensured that funds were spent on items for I-NET and Crosswalks, in accordance with the franchise agreements. However, DoITT did not consult with the Borough Presidents and the Comptroller on the use of I-NET funds, as required by the franchise agreements with the

cable companies. In addition, two of DoITT's five fiduciary accounts, which have a combined balance of \$438,878, have been dormant for several years.

The audit made two recommendations, that DoITT should:

- Consult with the Borough Presidents and the Comptroller on future expenditures of I-NET funds. In that regard, DoITT should provide a list of proposed projects and related costs to the Borough Presidents and the Comptroller for comment.
- Determine in conjunction with the Law Department whether the Interconnection Working Group Fund and the Municipal Cable Network Fund are necessary and legally required. If not, the accounts should be closed in accordance with the provisions of Comptroller's Directive 27, and the funds should be disbursed in accordance with Law Department guidance.

DoITT officials agreed that the agency accurately records and tracks I-NET and Crosswalks revenue and expenses. However, they strongly disagree that DoITT does not comply with its commitment to engage in consultation with the Comptroller and the Borough Presidents regarding expenditures from I-NET funds. In any case, DoITT officials indicated that they are prepared to discuss with the Comptroller's Office new procedures for "consulting" on future I-NET expenditures.

Audit Follow-up

DoITT reported that it is willing to discuss its I-NET expenditure with the Comptroller's Office and is still working with the Law Department to determine the appropriate use of the Interconnection Working Group Fund.

DEPARTMENT OF INVESTIGATION (DOI)**Audit Report on the Development and Implementation of the Department of Investigation
Livescan Fingerprint System**

Audit # 7A04-067

Comptroller's Audit Library # 7547

Issued: April 6, 2004

Monetary Effect: None

Introduction

The Department of Investigation (DOI) assures integrity in City government through investigations and studies. This audit assessed the development and implementation in 2002 by DOI of Livescan, an automated fingerprinting system that captures and transmits fingerprint images electronically. The system has been implemented at DOI and at Police Department precincts throughout the City. It significantly reduces the turnaround time for fingerprint checks and eliminates the need to resubmit to the state fingerprints rejected because of poor image quality.

DOI procured Livescan through a New York State Office of General Services requirements contract and selected Comnetix Computer Systems (Comnetix) to provide the system and five years of maintenance at a cost of \$199,400. Audit fieldwork was conducted from September 2003 through December 2003.

Results

Livescan meets DOI initial business and system requirements for capacity to transmit information to and receive information from the New York State Division of Criminal Justice Services (DCJS). Users surveyed are generally satisfied with the system; the system allows for future changes and periodic upgrades; and DOI complied with the applicable Procurement Policy Board rules when procuring the system. However, although DOI stated that it had implemented all of the four system components included in the original contract, it could not demonstrate that the Cardscan subsystem is operational. Moreover, DOI did not follow a system-development life-cycle methodology, nor did it provide for an independent quality-assurance test of the system. Therefore, it could not be determined whether Livescan would, as a finished product, meet the overall goals as stated in the system justification. Also, DOI included Livescan in its disaster-recovery plan, but the plan is not complete.

The audit also noted that DOI does not ensure that passwords for the Livescan and the DCJS computer system are periodically changed, that the system firewall security is below DOI standards, that security policies are not up-to-date, and that DOI does not adequately monitor security violations. Moreover, DOI lacks an adequate fire-suppression system to protect Livescan. Finally, DOI did not ensure that it has access to the Livescan source-code in the event that Comnetix goes out of business or is otherwise unavailable and programming changes are required.

The audit made nine recommendations, including that DOI:

- Follow a formal systems-development methodology for all future systems-development projects and engage an independent quality-assurance consultant, or assign an employee to monitor and review development work, as well as any system enhancements to Livescan. In addition, DOI should develop formal acceptance-sign-off procedures to ensure that all system requirements are completed.
- Develop procedures to determine whether an event is sufficiently serious to invoke its disaster recovery plan. In addition, DOI should formalize agreements with the vendors to provide software supplies and equipment and with the Department of Information Technology and Telecommunications regarding the alternate processing site. Finally, DOI should periodically test the disaster-recovery plan.
- Upgrade its CISCO PIX firewall version to the standards set by its Citywide Information Security Architecture Formulation and Enforcement unit.
- Establish formal procedures to document and report system-access violations, and review and follow up on all reported violations. In addition, DOI should ensure that maintenance of security documentation is accurate and complete.
- Install a fire-suppression system that will protect the equipment. In addition, DOI should document the fire-prevention procedures in effect at its Chambers Street facility.

DOI agreed with six of the report's nine recommendations. It partially agreed with the remaining three recommendations, but disagreed with their corresponding findings, specifically that DOI did not demonstrate that the Cardscan subsystem is operational, did not follow a formal system-development methodology, and did not develop a complete disaster recovery plan.

Audit Follow-up

DOI reported that it has either implemented or is in the process of implementing eight audit recommendations and has partially implemented the recommendation to formalize agreements with the vendors to provide software supplies and equipment and with Department of Information Technology and Telecommunications regarding the alternate processing site.

DEPARTMENT OF JUVENILE JUSTICE (DJJ)

Follow-up Audit Report on the Department of Juvenile Justice's Data Centers

Audit # 7F04-105

Comptroller's Audit Library # 7540

Issued: March 10, 2004

Monetary Effect: None

Introduction

This follow-up audit determined whether the Department of Juvenile Justice (DJJ) implemented recommendations made in an earlier audit report, *Audit of the City of New York's Department of Juvenile Justice's Data Centers* (Audit # 7A01-146, issued August 6, 2001). The earlier audit evaluated the adequacy of the controls in place at the DJJ data centers and of the DJJ Internet Connectivity Plan. This follow-up audit discussed the seven recommendations made in the previous audit, as well as the implementation status of those recommendations. The audit covered the period October 2003 to December 2003.

Results

Of the seven recommendations, five were implemented, one was partially implemented, and one is no longer applicable. The five recommendations that were implemented dealt with implementing an automatic time-out function, installing software that generates audit trails, maintaining a records of on-site back-up tapes, improving environmental security, and adding a section to the DJJ Internet Security Plan for penetration testing. The recommendation that was partially implemented dealt with DJJ's need to include in its policies and procedures a list of individuals responsible for network program changes, disaster recovery, and security issues. The recommendation that is no longer applicable dealt with the need to install a back-up generator at the Central Office. DJJ reconfigured its network to allow for transfer of its computer operations to any one of its four facilities in the event of a power outage. In addition, this audit identified weaknesses in access controls over the DJJ network, specifically the need to develop written policies and procedures for removing multiple user IDs, inactive IDs, and IDs of individuals no longer working for the agency and to require that its personnel department notify MIS of those employees leaving the agency so that their user IDs can be removed from the system

The audit recommended that DJJ:

- Include in its policies and procedures a list of individuals responsible for network program changes, disaster recovery, and security issues.
- Develop written policies and procedures for removing multiple user IDs, inactive IDs, and IDs of individuals no longer working for the agency.
- Require that its personnel department notify MIS of those employees leaving the agency so that their user IDs can be removed from the system.

DJJ substantially agreed with the audit's recommendations.

Audit Follow-up

The Department of Juvenile Justice reported that it has implemented all of the audit's recommendations.

MULTI-AGENCY (DEPARTMENT OF INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS AND DEPARTMENT OF CITYWIDE ADMINISTRATIVE SERVICES)

Audit Report on Payments Made by New York City to Accenture LLP For Consulting Services
March 2002 – October 2002

Audit # FL04-109A

Comptroller's Audit Library # 7586

Issued: June 30, 2004

Monetary Effect: Actual Savings: \$1,625
 Potential Savings: \$2,491

Introduction

This audit determined whether payments made by the Department of Information Technology and Telecommunications (DoITT); the Department of Citywide Administrative Services (DCAS); and the Mayor's Office of Operations (Operations) to Accenture were reasonable, justified, and adequately supported. The audit covered the period March 2002 through October 2002.

Results

The payments made by DCAS and by Operations to Accenture were reasonable, justified, and adequately supported. However, the audit found problems with the documentation for \$9,144,330 (31 percent) of the \$29,544,952 in payments made by DoITT to Accenture that we reviewed. In addition, the audit found billing errors that resulted in overpayments of \$26,102 (of which \$22,827 was paid by DoITT and \$3,275 was paid by DCAS) and underpayments of \$21,986 (of which \$20,336 was attributable to DoITT projects and \$1,650 to a DCAS project).

The audit recommended that DoITT:

- Ensure that all payments on contracts are based on signed, complete, and approved invoices. The invoices should be supported by appropriate documentation, such as signed and approved time sheets with evidence of review and approval by the project manager (for labor), and vendor invoices and receiving and inspection reports (for materials).
- Reexamine the invoices and supporting documentation for all payments made to Accenture for the 3-1-1, and E-Gov Initiative projects, and determine whether any recoupment action is warranted.
- Recoup the net overpayment of \$2,491 identified in this audit.

The report also recommended that DCAS:

- Reexamine the invoices and supporting documentation for all payments made to Accenture for the NYCAPS project and determine whether any recoupment action is warranted.
- Recoup the \$1,625 overpayment identified during the audit.

DoITT agreed with the report's recommendations; however, it took exception to the report's findings pertaining to questionable payments and missing, questionable, and invalid documentation. Although DCAS agreed with the report's findings, it disagreed with the

recommendation to reexamine the invoices and supporting documentation for all payments made to Accenture. There were no recommendations addressed to Operations.

Audit Follow-up

DCAS reported that it has recouped the \$1,625 overpayment from Accenture. However, DCAS continues to disagree with the recommendation to reexamine the invoices and supporting documentation for all payments made to Accenture.

DoITT reported that it is currently working with Accenture on recouping the \$2,491 that was overpaid and has complied with the remaining audit recommendations.

MULTI-AGENCY (DEPARTMENT OF TRANSPORTATION AND OFFICE OF MANAGEMENT AND BUDGET)

Audit Report on the Administration of the Department of Transportation's "Urban Account Payments to Franchised Private Bus Operators"

Audit # FM04-070A

Comptroller's Audit Library # 7543

Issued: March 19, 2004

Monetary Effect: Actual Revenue: \$18,090,116

Introduction

Fiduciary accounts are used to record financial resources held and administered in trust by the City of New York, the principal and income of which benefit individuals, private organizations, or other non-City government entities. The custodial nature of these assets prohibits their use in the direct support of the City's own programs. The Comptroller's Office, in conjunction with the Mayor's Office of Management and Budget (OMB), establishes fiduciary accounts at the request of various organizations, including City agencies and public benefit corporations. Each account is maintained and controlled by the requesting entity.

In December 1985, at the request of the Mayor's Office, a fiduciary account—the Urban Account Payments to Franchised Private Bus Operators—was established to receive deposits of the City's share of real property transfer and mortgage recording tax receipts, which are to be used for the support of franchise private bus operators. Initially, the then-Bureau of Franchises was responsible for maintaining and controlling this account. In 1990, these responsibilities were transferred from the Bureau of Franchises to the Department of Transportation (DOT). The Department of Finance is responsible for collecting real-property transfer and mortgage-recording tax receipts and calculating the appropriate amounts for deposit in the fiduciary account. As of December 31, 2003, the account had a balance of \$18,063,487.

This audit determined whether DOT accurately recorded the revenues and expenses of the fiduciary account, and whether DOT ensured that account funds were administered in accordance with the fiduciary account agreement and Comptroller's Directive 27. The audit covered Fiscal Year 2003.

Results

The audit found that, with the exception of one minor discrepancy, revenues and expenses were accurately recorded and funds were used in accordance with the fiduciary agreement. However, under Comptroller's Directive 27, revenue such as the City's share of real property transfer and mortgage recording tax receipts intended to support a City program should be deposited directly in the General Fund rather than the fiduciary account. In addition, neither the DOT nor OMB reconciled Finance's revenue reports (which list the amounts to be deposited to the fiduciary account) with information recorded on the Financial Management System. Consequently there is no assurance that all funds were properly credited to the fiduciary account.

The audit made four recommendations that DOT, in conjunction with OMB, should:

- Close the fiduciary account and transfer the \$18,063,487 balance to the City's General Fund.

- Perform monthly reconciliations to ensure that real property transfer and mortgage recording tax receipts are properly recorded.
- Ensure that the \$26,629 in additional mortgage recording tax receipts identified in this report are deposited in the General Fund and properly recorded on FMS.
- Instruct the Department of Finance to deposit the City’s share of real property transfer and mortgage recording tax receipts directly in the General Fund.

OMB, which responded on behalf of itself and DOT, stated that the audit recommendations have been implemented.

Audit Follow-up

OMB reported that all of the audit recommendations have been implemented.

AUDITS OF MANAGERIAL LUMP-SUM PAYMENTS

Monetary Effect: Actual Savings: \$266,388.63

The Bureau of Financial Audit pre-audits lump-sum payments to employees covered by the Management Pay Plan upon their final separation from City employment.

The employees covered by this plan receive a lump-sum payment for accrued annual leave, sick leave, and overtime. The payment is calculated in accordance with Personnel Orders 16/74, 78/3, 24/77, 78/9, 88/5, and 99/6. Employees who were in the Managerial or Executive Pay Plan on December 31, 1977, were given vested rights for their previously accrued annual leave, sick leave, and overtime. After January 1, 1978, the plan became the Management Pay Plan.

The Management Pay Plan covers five categories of employees who are paid in accordance with the appropriate Personnel Orders covering their time balances.

Upon final separation from service, each employee’s agency submits a lump-sum payment claim to the Comptroller for pre-audit.

Those pre-audits resulted in a net decrease totaling \$266,388.63 on all lump-sum claims submitted by agencies in Fiscal Year 2004, as follows:

| | |
|--|-----------------|
| Total number of claims in Fiscal Year 2004 | 315 |
| Total amount of agency-prepared lump-sum claims | \$ 8,003,244.24 |
| Total amount of lump-sum claims approved for payment | \$ 7,736,855.59 |
| Claims correctly prepared by the agency | 154 |
| Claims reduced during pre-audit | 99 |
| Claims increased during pre-audit | 62 |
| Claims denied | 0 |
| Total dollar value of agency overpayments, before pre-audit | \$ 285,973.84 |
| Total dollar value of agency underpayments, before pre-audit | \$ 19,585.21 |
| Net Decrease resulting from pre-audit | \$ 266,388.63 |

AUDITS OF HIGH-RISK WELFARE FUND PAYMENT VOUCHERS

Monetary Effect: Actual Savings: \$254,251
 Potential Savings: \$331,512

The Bureau of Financial Audit ensures that agencies are in compliance with provisions in more than 600 agreements between the City and various unions, covering welfare and annuity benefits for active and retired employees.

Copies of all payment vouchers are submitted to the Comptroller by City agencies in accordance with Comptroller's Directive 8, Special Audit Procedures on High Risk Vouchers.

The payments are reviewed to ensure that they conform to the terms and conditions of all agreements, Office of Labor Relations (OLR) stipulations, Personnel Orders, Office of Collective Bargaining decisions, etc. Audits have revealed the following types of errors:

- Contributions made in error for unauthorized titles or rates
- Contributions made for retirees prior to their actual retirement date
- Duplicate payments for a title or a group of titles under two different agreements or the same agreement

During Fiscal Year 2004, 4,644 vouchers totaling over \$552 million were audited, with these results:

| | <u>NUMBER OF VOUCHERS</u> | <u>AMOUNT</u> |
|-----------------------------------|--------------------------------------|----------------------|
| Total Number of Vouchers Audited: | 4,644 | \$552,435,849 |
| Vouchers Accepted: | 4,233 | \$415,175,604 |
| Vouchers Not Accepted: | 411 | \$137,260,245 |
| Overpayments: | | \$ 585,763 |
| Questionable: | | \$ 0 |
| Underpayments: | | \$ 48,408 |

Collections during Fiscal Year 2004 totaled \$254,251. Agencies recouped this amount either by check from the appropriate fund or by deducting the overpayment from subsequent payment vouchers.

DEPARTMENT OF PARKS AND RECREATION (DPR)

Audit Report on Department of Parks and Recreation Oversight of Capital Improvements by Concessionaires

Audit # EW03-136A

Comptroller's Audit Library # 7532

Issued: January 20, 2004

Monetary Effect: Potential Revenue: \$9,740,138*

Introduction

The Department of Parks and Recreation (DPR) oversees various City concessions for ice rinks, marinas, golf courses, restaurants, etc. Under the terms of their agreements with DPR, many concessionaires are required to make and pay for specific capital improvements to the facilities they operate. The audit covered 58 concession agreements for which capital improvements were required and were in effect during Fiscal Year 2003.

The DPR Revenue Division is responsible for monitoring concessionaires to ensure that required capital improvements are completed. Any modifications to capital improvement requirements require DPR approval. If a concessionaire fails to perform required improvements, DPR may issue a "notice-to-cure," requiring that the concessionaire comply with the provisions of its agreement. If a concessionaire does not comply, DPR may terminate the agreement. After DPR determines that a concessionaire has completed the required improvements, DPR issues a certificate of completion to the concessionaire.

Results

The audit found that DPR does not effectively monitor concessionaires to ensure that they comply with the capital-improvement provisions of their agreements. As a result, capital improvements totaling nearly \$10 million were not completed at 37 of the 58 concessions visited during the audit. In addition, the City lost nearly \$300,000 in concessionaire fees from improvements that would have generated revenue. The audit also found that DPR files did not indicate whether six concessionaires were assessed liquidated damages, as allowed for by agreements, when improvements were not completed on time. Finally, at 12 concessions, the audit found poor conditions, some of which may pose a risk to the public.

The audit made six recommendations that DPR should:

- Establish a project management system to monitor the progress of concessionaires in completing required capital improvements.
- Issue notices to cure to concessionaires who have not completed required capital improvements.
- Ensure that modifications are documented with formal agreements.

City *This amount is considered potential revenue given that if DPR implemented our recommendations the would receive additional improvements valued at \$9,740,138, or if DPR chose to forgo the improvements, the unexpended amounts should be collected by the City, in accordance with the concession agreements.

- Issue certificates of completion to those concessionaires who have completed their capital improvements and, if appropriate, collect moneys due when improvements cost less than the amounts stipulated in the agreements.
- Assess liquidated damages when concessionaires fail to complete capital improvements on time.
- Ensure that concessionaires submit complete documentation needed to determine whether claimed capital improvement work was actually performed.

DPR officials strongly disagreed with the report's findings, stating that "the audit report failed to accurately represent the facts and, as a result, is misleading and flawed." Also, according to the response, "the Report contains numerous inaccuracies, omissions, and other serious errors." However, DPR's response attempted to obfuscate the issues raised in the report by: providing unrelated documentation, focusing on dollars spent rather than on required contractual improvements, including concessions not cited in the report, including misleading photographs, submitting information that contradicts information in its files, ignoring the conditions cited while pointing to improvements not cited in the report, using irrelevant information from prior Comptroller's Office audits, and, claiming documentation was provided when in fact it was not.

Audit Follow-up

DPR reported that it continues to disagree with the audit's recommendations.

DEPARTMENT OF PARKS AND RECREATION (DPR)

Audit Report on the Parks Enforcement Patrol of the Department of Parks and Recreation

Audit # MD03-176A

Comptroller's Audit Library # 7548

Issued: April 9, 2004

Monetary Effect: None

Introduction

The Parks Enforcement Patrol (PEP), a uniformed and unarmed division of the Department of Parks and Recreation (Department) Urban Parks Service, patrol the park system daily, enforcing park rules and regulations, as well as health, traffic, and sanitation codes. PEP officers have the authority to arrest or issue summonses to anyone violating the rules and regulations. In addition, PEP officers handle requests for services that come from the public or from Department Central Communications Division. During Fiscal Year 2003, PEP issued more than 28,000 summonses, made 75 arrests, and handled 8,247 requests for services.

This audit determined whether PEP is in compliance with its policies and procedures as specified in the Urban Parks Service (UPS) Officer's Field Manual, and whether it has adequate operating controls in place for the issuance of summonses and the handling of requests for services. This audit covered Fiscal Year 2003.

Results

This audit found that, in general, PEP is in compliance with its policies and procedures as specified in the Officer's Field Manual. However, the following weaknesses existed: Of the 960 requests for services reported in the PEP June 2003 Monthly Productivity Report, 747 (78%) were not recorded in borough offices' Request for Service Logs or other request-recording documents; two borough offices (Manhattan and the Bronx) show no evidence that they follow up the requests for services that they have recorded; four (16%) of the 25 sampled officers' memo books were missing; and 17 (89%) of 19 inspected officer's memo books lacked required supervisory reviews.

The audit made four recommendations, that Parks officials should ensure that:

- Requests for services are recorded accurately and in timely fashion in Request for Service Logs.
- PEP officers adequately document action taken on requests for services.
- Memo books are completed and adequately safeguarded against loss.
- Memo books are properly reviewed and signed by designated supervisors, as required.

Parks officials agreed to implement our recommendations and stated that they have taken steps to correct the deficiencies found.

Audit Follow-up

Parks reported that all of the recommendations have been implemented.

NEW YORK CITY POLICE DEPARTMENT (NYPD)

Audit Report on the Development and Implementation of the Omniform System by the Police Department

Audit # 7A04-066

Comptroller's Audit Library # 7551

Issued: April 30, 2004

Monetary Effect: None

Introduction

The audit assessed the development and implementation of the Omniform System (Omniform) by the Police Department (NYPD). Omniform replaced NYPD's online booking and complaint systems in a centralized database. The system stores information on arrests and complaints in a centralized database, allows NYPD to eliminate duplicate data entry, and provides better access to data. The information contained in Omniform is available for review, follow-up, and statistical analysis from any of NYPD's Citywide Local Area Network locations, as well as from other authorized agencies. Fieldwork was conducted from July 2003 through December 2003.

Results

Omniform meets the initial business and system requirements and the overall goals as stated in the system justification. In addition, Omniform's system design allows for future enhancements and upgrades, and NYPD followed a formal methodology when developing the system. Also, NYPD complied with Procurement Policy Board rules when it procured the equipment and software for the system.

NYPD, however, has not resolved certain critical issues that it identified in 2001. In addition, acceptance certificates for each deliverable were not in NYPD files, even though the NYPD approved the final project. Further, certain system users indicated that they would like to see changes made to the system. Also, when developing the system, NYPD did not hire a quality-assurance consultant. Moreover, NYPD has no formal disaster-recovery plan to enable the timely resumption of agency operations. Other issues identified during this audit included weaknesses in system-access and change-control procedures as well as problems with system screens.

The audit made eight recommendations, including that NYPD:

- Resolve the three remaining problems that were identified by the 2001 tests by ensuring that Omniform includes: a drop-down box on the Vehicle Screen to permit the user to select the license plate type; a time stamp on the printed complaint report and a field in which to record the date when the complaint was last updated; and the capability to enter information about a weapon in the box for "weapon," even though the report indicates that a weapon was not used.
- Obtain acceptance certificates for all deliverables on all future system development projects.
- Ensure that the user concerns identified in the report are addressed. In this regard, the Department should make Omniform more accessible and user-friendly. In addition, the Department should provide training to those individuals who stated that they had not received

training, and additional training to those individuals who felt they needed it. Finally, the Department should ensure that all data in the system is correct.

- Engage an independent quality-assurance consultant to monitor and review development work and any system enhancements or subsequent work on Omniform and on all future system development projects.
- Develop and complete a formal disaster-recovery plan for Omniform, periodically test it, and document the test results to ensure that the plan functions as intended and is adequate to quickly resume computer operations without material loss of data.

NYPD agreed with one recommendation, partially agreed with one recommendation, and disagreed with another recommendation. In addition, NYPD stated that four recommendations were not necessary because the action, policy or practice called for was planned or existed independent of the audit. Furthermore, NYPD stated that it needs to further analyze and evaluate the remaining recommendation.

Audit Follow-up

NYPD reported that it has implemented one recommendation and is in the process of implementing part of another recommendation as part of 48 enhancements to Omniform that are currently being tested. In addition, NYPD reported that it disagreed with and will not implement one recommendation and part of another, and has determined that four recommendations are unnecessary. Moreover, NYPD has determined the remaining recommendation to engage an independent quality-assurance consultant needs further analysis.

THE NEW YORK CITY POLICE DEPARTMENT (NYPD)

Audit Report on the Internal Controls of the Police Department Over Handgun Licensing

Audit # MH03-159A

Comptroller's Audit Library # 7581

Issued: June 28, 2004

Monetary Effect: None

Introduction

The New York City Police Department (NYPD) License Division is responsible for issuing and maintaining handgun licenses in the City. As of August 31, 2003, there were 40,009 active handgun licenses issued by the NYPD. During 2003, the NYPD License Division collected \$3,199,186.

This audit determined whether the NYPD License Division maintains adequate controls over the collection of handgun licensing fees and maintains adequate controls over the issuance of handgun licenses. The period covered by the audit was Fiscal Years 2001, 2002, and 2003.

Results

The License Division internal controls over the issuance of new handgun licenses and renewal of handgun licenses are adequate. The controls over safeguarding, issuing, and accounting for blank licenses are adequate. In addition, the internal controls over the collection of handgun licensing fees are generally adequate. However, there is a lack of segregation of duties in the Cashier's Unit of the License Division.

Although the controls over the issuance of handgun licenses are adequate, the controls over cancellation of those licenses are inadequate and inconsistent. As a result, the License Division was unable to provide the necessary documentation to account for 171 handguns associated with 89 licenses. Nor does the License Division update information in the Automated License Processing System (ALPS) to reflect the most current information on canceled licenses. The audit found that 293 (49%) of the 600 canceled licenses in the sample were never finalized in ALPS, but could have been finalized since all that was needed was an entry in ALPS.

When handgun licenses are canceled, the Cancellation Unit must obtain evidence that the handguns attached to the canceled licenses are accounted for. If the handgun has not been accounted for, a surrender notice is issued. The audit determined that the License Division has inadequate controls over the recording of surrender notices and none over the tracking of notices. In addition, License Division procedures do not include a comparison of active licensees to Social Security Administration (SSA) death records. The audit found that 160 of the 40,009 active licensees were deceased.

Overall, the License Division has no written policies and procedures. In their absence, some tasks may not be properly communicated and consistently followed.

To address these issues, the audit made 12 recommendations, some of which were that the NYPD License Division should:

- Segregate the duties of collecting, recording, and reconciling the handgun licensing fees among several employees.
- Develop a comprehensive policies-and-procedures manual that addresses all internal processes and functions throughout the License Division, and distribute the manual to appropriate departments and personnel.
- Continue its efforts to ensure that all handguns associated with previous and current canceled licenses are accounted for in a timely manner and that the information is entered in ALPS.
- Ensure that the appropriate staff performs all necessary tasks involved with canceling and finalizing licenses.
- Include in its written procedures specific steps for handling surrender notices to help employees record and track surrender-notice information in a consistent and standardized manner.
- Establish and implement a system to track and follow up on surrender notices on a regular basis.
- Contact the SSA and establish a procedure that periodically compares death records to the NYPD listing of active licenses.

In its response, NYPD officials agreed to implement the 12 recommendations made in the audit report.

Audit Follow-up

NYPD reported that it has either implemented or will attempt to implement all of the audit's recommendations.

BRONX COUNTY PUBLIC ADMINISTRATOR'S OFFICE

Follow-up Audit Report on the Financial and Operating Practices of the Bronx County Public Administrator's Office

Audit # MD04-062F

Comptroller's Audit Library # 7573

Issued: June 24, 2004

Monetary Effect: None

Introduction

The Bronx County Public Administrator's Office (PA) is responsible for administering the estates of decedents in the Bronx who die intestate (without a will) or when no other appropriate individual is willing or qualified to administer the estate. The PA makes funeral arrangements, collects debts, pays creditors, manages decedents' assets, files appropriate tax returns, and searches for possible heirs. As of September 4, 2003, the Bronx PA administered 1,034 open estates valued at \$44.5 million.

This audit determined whether the Bronx PA implemented the recommendations made in an earlier audit, *Audit Report on the Financial and Operating Practices of the Bronx County Public Administrator's Office*, issued June 23, 1999 (Audit #MD99-098A). The earlier audit determined the extent to which the PA complied with the provisions of Article 11 of the Surrogate's Court Procedure Act, the Report and Guidelines of the Administrative Board for the Offices of the Public Administrators, and other applicable City and state laws and regulations. This follow-up report discussed the details of the recommendations of the previous audit report and the status of each recommendation. This audit covered Fiscal Year 2003.

The earlier audit discovered the following problems: inadequate tracking of estate account balances, inadequate Federal Deposit Insurance Corporation insurance coverage for the accounts, unreported payments made to independent contractors that were reportable to the Internal Revenue Service, poor inventory procedures, noncompliance with state reporting requirements and lack of supporting documentation for disbursements.

Results

This follow-up audit found that the PA has improved its procedures regarding the handling of its estates. However, the PA still needs to improve its inventory procedures and correctly report to the IRS all payments made to independent contractors.

Of the 37 recommendations the earlier audit made, 20 were implemented, one was partially implemented, 13 were not implemented, and three are no longer applicable.

To address the issues that still exist, the audit made 14 recommendations, somewhat revised in accordance with the findings of this report. The most significant were that the PA should:

- Ensure that the inventory system is updated to reflect the disposition of assets.
- Conduct an annual physical inventory of decedents' properties.

- Develop and adhere to written procedures for identifying, tracking, and reporting 1099-reportable payments.
- Review its practice of issuing 1099 forms for the PA general counsel's support staff, since the PA is not directly responsible for their compensation.
- Comply with the state law requiring it to report all estates that fall within the state guidelines.
- Contract for an annual audit of its operations in accordance with the Surrogate's Court Procedure Act.

PA officials stated that they took steps to implement or partially implement 11 recommendations, disagreed with one recommendation, and did not address two recommendations.

Audit Follow-up

The Bronx PA reported that it has implemented 13 recommendations. The Bronx PA did not implement the recommendation to contract for an annual audit due to lack of funding. The PA will continue to request additional funding.

OFFICE OF THE PUBLIC ADVOCATE (OPA)

Audit Report on the Financial and Operating Practices of the Office of the Public Advocate

Audit # MH04-135A

Comptroller's Audit Library # 7588

Issued: June 30, 2004

Monetary Effect: None

Introduction

The Office of the Public Advocate (OPA) is headed by an independently elected official who represents the consumers of New York City. OPA reviews and investigates complaints about City services, assesses whether agencies are responsive to the public, and recommends improvements in agency programs and procedures for handling complaints. During Fiscal Year 2003, OPA had an operating budget of \$1.9 million: \$1,627,775 for Personal Services and \$244,949 for Other Than Personal Services expenditures, capital spending of \$393,743 and a budgeted staff of 35 full-time employees.

This audit evaluated OPA's internal controls over its personnel, payroll, timekeeping, small purchases, and physical assets, in compliance with applicable City rules and regulations. It covered the period July 1, 2002, to December 31, 2003.

Results

The audit determined that all employees on the OPA payroll were bona fide and that its purchases were legitimate and necessary for its operations. Overall, however, OPA needs to improve its internal controls over personnel, payroll, timekeeping, purchasing, and physical assets. Specifically, the audit found incomplete personnel files, discrepancies in timekeeping records, incomplete inventory lists, equipment not always identified, vendor invoices paid late, and bids not solicited when required. The deficiencies found in this audit were mainly caused by an inadequate segregation of duties and management oversight. Moreover, OPA employees, including managers, are not always familiar with, nor have they received adequate training in, the appropriate Citywide policies and procedures.

To address these issues the audit made 22 recommendations. The major recommendations are that OPA should:

- File a Financial Integrity Statement annually that includes an update on the status of prior audit recommendations.
- Ensure that key duties and responsibilities in authorizing, processing, and recording within the personnel, payroll, and timekeeping functions are segregated among individuals.
- Provide training in Citywide personnel policies and procedures to management and administrative staff members to ensure that they are followed.
- Increase management oversight to ensure that personnel, payroll, and timekeeping documents are independently reviewed and verified for completeness and correctness by the Director of Administration or another staff member, not involved in the process.
- Maintain employees' leave balances on the City's Payroll Management System (PMS).

- Maintain accurate, detailed inventory records that include an OPA-assigned inventory number, the equipment serial number, the location of the equipment, and the user name.
- Ensure that key duties and responsibilities in authorizing, processing, recording, and reviewing payment voucher packages be separated among individuals. For example, no single individual should be authorized to order merchandise, verify the receipt of goods, and pay the suppliers.
- Ensure adequate management oversight over the purchasing process and have payment voucher packages independently reviewed and verified by the Director of Administration, or another staff member not involved in the purchasing process, for completeness and correctness.
- Obtain at least five bids for all purchases greater than \$5,000, when required, and maintain detailed documentation of the purchasing process, including how the vendor was selected, in a procurement file.

In its response, OPA generally agreed with 20 of the 22 recommendations. It disagreed with the recommendation “to follow the Comptroller’s year-end closing procedures,” claiming that it was already following the procedures. In addition, they did not specifically address the recommendation “to ensure that correct FMS object codes are used by OPA.”

Audit Follow-up

OPA reported that it has either implemented or is in the process of implementing all of the audit’s recommendations.

RETIREMENT SYSTEMS

Non-Pedagogical Pensioners of the Board of Education Retirement System Working for the City after Retirement, January 1, 2001—December 31, 2002

Audit # FL04-110A
Comptroller’s Audit Library # 7576
Issued: June 25, 2004
Monetary Effect: Potential Savings: \$6,124

Introduction

This audit determined whether any Board of Education (non-pedagogical) Retirement System (BERS) retirees were illegally reemployed (“double-dipping” or “disability violating”), and quantified the amounts of improper pension payments to any individuals who appeared to be violators of RSSL §211 and §212, or New York City Charter §1117, during calendar years 2001 and 2002.

Results

Three BERS retirees obtained \$6,124 in pension payments that appeared to be in violation of applicable laws and regulations.

The audit made four recommendations, specifically that BERS officials:

- Investigate the individuals identified as concurrently receiving a pension while reemployed in public service. BERS officials should also commence prompt recoupment action against those individuals found to be illegally collecting pensions.
- Forward to the Department of Investigation, if the circumstances warrant such action, the names of those individuals found to be illegally collecting pensions.
- Ascertain whether previous pension overpayments have been recouped and whether current pensions have been suspended for those individuals who have been cited in previous audits as “double-dippers” or “disability violators.”
- Send special reminders to service retirees under the age of 70 and to all disability retirees that clearly state their responsibilities regarding public service reemployment.

In their response, BERS officials described the actions they have taken to address the report’s recommendations.

Audit Follow-up

BERS reported that it is in the process of recouping funds due to BERS.

RETIREMENT SYSTEMS

Pensioners of the Fire Department Pension Fund Working for the City after Retirement, January 1, 2002—December 31, 2002

Audit # FL04-111A

Comptroller's Audit Library # 7568

Issued: June 11, 2004

Monetary Effect: Potential Savings: \$39,480

Introduction

This audit determined whether any Fire Department Pension Fund (FIRE) retirees were illegally reemployed (“double-dipping” or “disability violating”), and quantified the amounts of improper pension payments to any individuals who appeared to be violators of RSSL §211 and §212, or New York City Charter §1117, during calendar year 2002.

Results

One FIRE retiree obtained \$39,480 in pension payments that appeared to be in violation of §1117 of the New York City Charter.

The audit made four recommendations, specifically that FIRE officials:

- Investigate the individual identified as concurrently receiving a pension while reemployed in public service. FIRE officials should also commence prompt recoupment action against this individual if he is found to be illegally collecting pensions.
- Forward to the Department of Investigation, if the circumstances warrant such action, the name of this individual if he is found to be illegally collecting pensions.
- Ascertain whether previous pension overpayments have been recouped and whether current pensions have been suspended for those individuals who have been cited in previous audits as “double-dippers” or “disability violators.”
- Send special reminders to service retirees under the age of 65 and to all disability retirees that clearly state their responsibilities regarding public service re-employment.

FIRE officials either agreed to implement or stated that FIRE was already in the process of implementing all four recommendations.

Audit Follow-up

FIRE reported that it has either implemented or is in the process of implementing all of the audit's recommendations.

RETIREMENT SYSTEMS

Pensioners of the Police Department Pension Fund Working for the City after Retirement,
January 1, 2002—December 31, 2002

Audit # FL04-112A

Comptroller's Audit Library # 7574

Issued: June 25, 2004

Monetary Effect: Potential Savings: \$107,228

Introduction

This audit determined whether any Police Department Pension Fund (POLICE) retirees were illegally reemployed (“double-dipping” or “disability violating”), and quantified the amounts of improper pension payments to any individuals who appeared to be violators of RSSL §211 and §212, or New York City Charter §1117, during calendar year 2002.

Results

The audit identified 14 POLICE retirees obtained \$107,228 in pension payments that appeared to be in violation of applicable laws and regulations.

The audit made four recommendations, specifically that POLICE officials:

- Investigate the individual identified as concurrently receiving a pension while reemployed in public service. POLICE officials should also commence prompt recoupment action against this individual if he is found to be illegally collecting pensions.
- Forward to the Department of Investigation, if the circumstances warrant such action, the name of this individual if he is found to be illegally collecting pensions.
- Ascertain whether previous pension overpayments have been recouped and whether current pensions have been suspended for those individuals who have been cited in previous audits as “double-dippers” or “disability violators.”
- Send special reminders to service retirees under the age of 65 and to all disability retirees that clearly state their responsibilities regarding public service re-employment.

In their response, POLICE officials described the actions they have taken to address the report's recommendations.

Audit Follow-up

POLICE reported that it is implementing all of the audit's recommendations.

RETIREMENT SYSTEMS

Pensioners of the New York City Employees' Retirement System Working for the City after Retirement, January 1, 2001—December 31, 2002

Audit # FL04-113A

Comptroller's Audit Library # 7599

Issued: June 30, 2004

Monetary Effect: Actual Savings: \$15,124
Potential Savings: \$24,594

Introduction

This audit determined whether any New York City Employees' Retirement System (NYCERS) pensioners may be illegally reemployed ("double-dippers" or "disability violators"), and quantified the amounts of improper pension payments to any individuals who appeared to be violators of RSSL §211 and §212, or New York City Charter §1117, during calendar years 2001 and 2002.

Results

The audit identified three NYCERS retirees obtained \$35,643 in pension payments that appeared to be in violation of applicable laws and regulations.

The report made four recommendations, specifically that NYCERS officials:

- Investigate those individuals identified as concurrently receiving pensions while reemployed in public service. NYCERS officials should also commence prompt recoupment action against those individuals found to be illegally collecting pensions.
- Forward to the Department of Investigation, if the circumstances warrant such action, the names of those individuals found to be illegally collecting pensions.
- Ascertain whether previous pension overpayments have been recouped and whether current pensions have been suspended for those individuals who have been cited in previous audits as "double-dippers" or "disability violators."
- Send special reminders to service retirees under the age of 65, and to all disability retirees, that clearly state their responsibilities regarding public service re-employment.

In their response, NYCERS officials described the actions they have taken to address the report's recommendations.

Audit Follow-up

NYCERS reported that overpayment of \$39,718 has occurred and it has recouped \$15,123.72.

RETIREMENT SYSTEMS

Pedagogical Pensioners of the Teachers' Retirement System Working for the City after Retirement, January 1, 2002—December 31, 2002

Audit # FL04-114A

Comptroller's Audit Library # 7602

Issued: June 30, 2004

Monetary Effect: Potential Savings: \$346,825

Introduction

This audit determined whether any Teachers' Retirement System (TRS) pedagogical pensioners may be illegally reemployed ("double-dippers" or "disability violators"), and quantified the amounts of improper pension payments to any individuals who appeared to be violators of RSSL §211 and §212, or New York City Charter §1117, during calendar year 2002.

Results

The audit identified 40 TRS retirees who obtained \$346,825 in pension payments that appeared to be in violation of applicable laws and regulations.

The audit made four recommendations, specifically that TRS officials:

- Investigate those individuals identified as concurrently receiving pensions while reemployed in public service. TRS officials should also commence prompt recoupment action against those individuals found to be illegally collecting pensions.
- Forward to the Department of Investigation, if the circumstances warrant such action, the names of those individuals found to be illegally collecting pensions.
- Ascertain whether previous pension overpayments have been recouped and whether current pensions have been suspended for those individuals who have been cited in previous audits as "double-dippers" or "disability violators."
- Send special reminders to service retirees under the age of 65 and to all disability retirees that clearly state their responsibilities regarding public service re-employment.

TRS officials either agreed to implement or stated that they were already in the process of implementing the audit's recommendations.

Audit Follow-up

TRS reported that it is in full compliance with all of the audit recommendations.

RETIREMENT SYSTEMS

NYC Pensioners Working for New York State After Retirement, January 1, 2001—December 31, 2002

Audit # FL04-115A

Comptroller's Audit Library # 7597

Issued: June 30, 2004

Monetary Effect: Actual Savings: \$ 20,119

Potential Savings: \$782,170

Introduction

This audit determined whether any New York City pensioners may be illegally reemployed by New York State (“double-dippers” or “disability violators”), and quantified the amounts of improper pension payments to any individuals who appeared to be violators of RSSL §211 and §212, or New York City Charter §1117, during calendar years 2001 and 2002.

Results

The audit identified 44 retirees who obtained \$802,289 in pension payments that appeared to be in violation of applicable laws and regulations. The report made four recommendations, specifically that officials of the five retirement systems:

- Investigate the individuals identified as concurrently receiving pensions while reemployed in New York State public service. City retirement system officials should also commence prompt recoupment action against those individuals found to be illegally collecting pensions.
- Forward to the Department of Investigation, if the circumstances warrant such action, the names of those individuals found to be illegally collecting pensions.
- Ascertain whether previous pension overpayments have been recouped and whether current pensions have been suspended for those individuals who have been cited in previous audits as “double-dippers” or “disability violators.”
- Send special reminders to service retirees under the age of 65 and to all disability retirees that clearly state their responsibilities regarding public service re-employment.

Officials of the retirement systems generally agreed to implement or stated that they were already in the process of implementing the audit's recommendations.

Audit Follow-up

The Teachers' Retirement System reported that it is in full compliance with all of the audit recommendations.

The New York City Employees' Retirement System reported that it has recouped a total of \$20,118.95 for years 2001 and 2002.

The Police Department Pension Fund reported that it is implementing all of the audit's recommendations.

The Fire Department Pension Fund reported that it has either implemented or is in the process of implementing all of the audit's recommendations.

The Board of Education (non-pedagogical) Retirement System reported that it is in the process of recouping funds due to it.

RETIREMENT SYSTEMS

Pensioners Working as Consultants for the City after Retirement, January 1, 2002—December 31, 2002

Audit # FL04-148A

Comptroller's Audit Library # 7593

Issued: June 30, 2004

Monetary Effect: Actual Savings: \$ 1,843

Potential Savings: \$ 115,439

Introduction

This audit determined whether any New York City pensioners may have illegally returned to public service as consultants ("double-dippers" or "disability violators"), and quantified the amounts of any improper pension payments to individuals who appeared to be violators of New York State Retirement and Social Security Law §211 and §212, or New York City Charter §1117, during calendar year 2002.

Results

The audit identified 11 retirees who obtained \$117,282 in pension payments that appeared to be in violation of applicable laws and regulations. The report made three recommendations, specifically that officials of the five retirement systems:

- Investigate those individuals identified as concurrently receiving pensions while receiving payments from the City for providing professional services as consultants. City retirement systems officials should also commence prompt recoupment action against those individuals found to be illegally collecting pensions.
- Forward to the Department of Investigation, if the circumstances warrant such action, the names of individuals found to be illegally collecting pensions.
- Send special reminders to all retirees that clearly state their responsibilities when returning to public service after retirement.

Officials of the retirement systems generally agreed to implement or stated that they were already in the process of implementing the audit's recommendations.

Audit Follow-up

The Teachers' Retirement System reported that it is in full compliance with all of the audit recommendations.

The New York City Employees' Retirement System reported that it has recouped \$1,842.54 for 2001.

The Police Department Pension Fund reported that it is implementing all of the audit's recommendations.

The Fire Department Pension Fund reported that it has either implemented or is in the process of implementing all of the audit's recommendations. FIRE did not find any retirees to be in violation illegally collecting pensions.

The Board of Education (non-pedagogical) Retirement System reported that it is in the process of recouping funds due.

DEPARTMENT OF SMALL BUSINESS SERVICES (DSBS)

Audit Report on the Workforce Investment Act Program of the Department of Small Business Services

Audit # ME03-170A

Comptroller's Audit Library # 7594

Issued: June 30, 2004

Monetary Effect: None

Introduction

This audit determined whether the Department of Small Business Services (DSBS) has ensured that the City received its fair share of federal Workforce Investment Act (WIA) funds, and whether DSBS appropriately verified its performance-based payments to its job training and placement contractors. The audit covered Fiscal Year 2003.

WIA funds allocated to the states support job training and placement programs for dislocated workers, adults and youths. During Fiscal Year 2003, the City received a total of about \$96 million in WIA funds, including about \$18 million for dislocated workers, \$38 million for adults, and \$40 million for youths. DSBS has responsibility for the dislocated-worker and adult programs.

Results

DSBS has not ensured that the City has been allocated all of the federal WIA funds to which it was entitled for its adult and dislocated-worker job-training and placement programs. The audit found that the state's Fiscal Year 2003 allocations to the City for the adult and dislocated-worker programs were accurate. However, because DSBS has not been verifying the accuracy of its WIA allocations, it has not been ensuring over the last several years that it was receiving its fair share of the state's WIA allocations.

In a related matter, the Act contains a hold-harmless provision for adult programs that requires that no local workforce investment area receive less than 90 percent of its average allocation percentage for the two preceding years. Amounts necessary for making hold-harmless payments to some local areas are obtained by ratably reducing the allocations to other local areas. The audit developed a simple and fair alternative to the state's method for ratably reducing those allocations that would have provided DSBS with more than \$388,000 in additional WIA funds.

In addition, until June 14, 2004, New York City was the only one of the 33 local workforce investment areas in the State lacking a certification for its one-stop career center system. The lack of such certification by the state limited the ability of local organizations and businesses, as well as DSBS, to qualify for various grants.

Finally, DSBS has not adequately validated its performance-based payments to its job-training and placement contractors. The claims processing files for dislocated workers contained inadequate supporting documentation for 43 (14%) of the 307 approved claims we reviewed. The claims processing files for adult programs contained inadequate supporting documentation for 29 (29%) of the 100 approved claims we reviewed.

The report made five recommendations, among them that DSBS should:

- Request that the state provide training concerning the methodologies by which WIA allocations are calculated.
- Ensure that it is receiving all the funds to which it is entitled under WIA. DSBS should question the state's hold-harmless methodology that requires the City to pay a disproportionate share of the total hold-harmless payments to held-harmless local workforce investment areas.
- Before paying contractors' claims, ensure that all employment milestone information is properly documented and verified. Subsequent to payment, DSBS should properly maintain its claims-processing files to facilitate payment quality reviews.
- Ensure that the names of the employer representatives who verify employment milestone information and of its validators are consistently recorded in verification documentation.

In its response, DSBS agreed with most of our findings, but disagreed with the finding that DSBS has not adequately validated its performance-based payments to its job-training and placement contractors. DSBS also agreed with two of our recommendations, but was not fully responsive to two other recommendations and was totally unresponsive to one. DSBS emphasized that it resolved one audit finding by obtaining on June 14, 2004, State certification for its one-stop career center system.

Audit Follow-up

DSBS reported that it has partially or fully implemented four of the five recommendations. It did not address the remaining recommendation that it request state training on the methodologies by which WIA allocations are calculated.

DEPARTMENT OF SMALL BUSINESS SERVICES (DSBS)

Audit Report on the Financial and Operating Practices of the 34th Street Business Improvement District

Audit # MH03-171A

Comptroller's Audit Library # 7537

Issued: February 24, 2004

Monetary Effect: None

Introduction

The 34th Street Business Improvement District (34th Street BID) is funded by special assessments levied against district property owners and uses those moneys to enhance and promote the district. The City Department of Small Business Services (DSBS) supervises and oversees the 34th Street BID.

In Fiscal Year 2003, the period covered by the audit, the 34th Street BID was the fourth-largest district in the City, with assessments of \$7,994,000. In its Fiscal Year 2003 financial statements, the 34th Street BID reported revenues of \$9,093,368 and expenditures of \$9,083,497.

The 34th Street BID shares its President, Controller, management and administrative staff, sanitation and security supervisors, outside consultants, and office facilities with the Bryant Park Restoration Corporation (Bryant Park BID). Shared employees are paid separately by both BIDs and shared office expenses are allocated between the two BIDs.

The audit determined whether the 34th Street BID provided the services called for in its District Plan, assessed BID compliance with key terms of its contract with DSBS, and evaluated the adequacy of BID internal controls over its funds and operations.

Results

The 34th Street BID generally provided supplemental services, such as capital improvements (“streetscape”), sanitation, security, and marketing and promotion, called for in its District Plan. The BID complied with most terms of its DSBS contract. It provided the prescribed supplemental services; maintained complete financial records; submitted annual reports to DSBS; and had its annual financial statements certified by an independent certified public accountant. However, it did not comply with the contract in regard to two important areas: (1) subcontracting services, including a lack of written contracts; and (2) establishing a \$500,000 short-term credit line without the required approvals.

The 34th Street BID’s internal controls appeared adequate in that it maintained adequate segregation of duties, and the transactions reviewed appeared to be ordinary and reasonable. Nevertheless, there were weaknesses relating to timekeeping and to allocations between 34th Street and Bryant Park BIDs.

The audit made 10 recommendations, including that the 34th Street BID should:

- Ensure that it complies with the DSBS contract and enforce its procurement policies;
- Enter written contracts for all purchases of goods and services, including consultants, amounting to \$20,000 or more;
- Ensure that management complies with its contract with DSBS and its bylaws by obtaining written approval from the Commissioner of DSBS and the 34th Street BID Board of Directors prior to incurring any indebtedness; and
- Annually advise the Board of Directors of both the 34th Street and Bryant Park BIDs of how the services of each shared employee is allocated between the BIDs and maintain written justification for these allocations.

In their response, 34th Street BID officials generally agreed with the audit’s findings and recommendations.

Audit Follow-up

The 34th Street BID reported that it has either implemented or is in the process of implementing all of the audit’s recommendations.

DEPARTMENT OF SMALL BUSINESS SERVICES (DSBS)

Audit Report on the Financial and Operating Practices of the 14th Street-Union Square Business Improvement District

Audit # MH03-172A

Comptroller's Audit Library # 7528

Issued: December 22, 2003

Monetary Effect: None

Introduction

The 14th Street-Union Square Business Improvement District (BID) is funded by special assessments levied against district property owners and uses those moneys to enhance and promote the district. The City Department of Small Business Services (DSBS) supervises and oversees the Union Square BID. In Fiscal Year 2002 the BID had revenues of \$1,007,588 and expenditures of \$1,047,899.

The audit determined whether the BID provided the services called for in its District Plan, assessed BID compliance with key terms of its contract with DSBS, and evaluated the adequacy of BID internal controls over its funds and operations.

Results

The BID provided such supplemental services as sanitation, security, and marketing and promotion called for in its District Plan. It generally complied with the key provisions of its contract with DSBS. It maintained complete and accurate financial records, submitted annual reports to DSBS, and had its annual financial statements certified by an independent accountant. The BID also complied with the procurement procedures of its contract with DSBS.

In addition, the BID maintained adequate accountability over its receipts and disbursements, had adequate segregation of duties, and properly recorded and authorized transactions. However, there was a weakness in the BID's corporate governance regarding the lack of subcommittee minutes and a weakness in the BID's internal control system concerning uninsured deposits. Moreover, the BID did not maintain daily time records for its salaried staff.

The audit made the following three recommendations. The Union Square BID should:

- Record and prepare minutes of all Board subcommittee meetings, in accordance with its bylaws and DSBS contract.
- Place its funds in collateralized accounts.
- Require its salaried staff to submit weekly time sheets.

In its response, BID officials generally agreed with the audit's findings and recommendations.

Audit Follow-up

The BID reported that it has implemented two recommendations.

It did not specifically address the recommendation requiring submission of weekly time sheets, but stated that “consistent with the BID’s adherence to high standards of practice and procedures, we have a personnel timekeeping system maintained by our executive administrator which tracks time, annual leave and sick leave records for all its salaried staff.”

OFFICE OF SPECIAL NARCOTICS

Audit Report on the Financial and Operating Practices of the Office of Special Narcotics

Audit # FP04-055A

Comptroller's Audit Library # 7575

Issued: June 25, 2004

Monetary Effect: Potential Revenue: \$678

Introduction

This audit determined whether the Office of Special Narcotics complied with applicable payroll, personnel, timekeeping, purchasing, and inventory procedures, as set forth in the Comptroller's *Internal Control and Accountability Directives* (Comptroller's Directives), Department of Citywide Administrative Services (DCAS) personnel rules and leave regulations, Office of Special Narcotics time and leave rules, applicable Procurement Policy Board (PPB) rules, and the Department of Investigation *Standards for Inventory Control and Management*. The scope of this audit covered the period July 1, 2002, to June 30, 2003.

Results

The audit disclosed that the Office of Special Narcotics generally adhered to the requirements of Comptroller's Directives 3, 13, 24, and 25, City Time and Leave Regulations, and its own time and leave rules. In addition, our examination of the Office of Special Narcotics Personal Services and Other than Personal Services expenditures disclosed no instances in which moneys were improperly used.

However, the Office of Special Narcotics did not always ensure that timekeeping records were complete, accurate, and properly approved, that employees submitted leave authorization forms for time used, that employees' salaries were within the salary ranges of their Career and Salary Plan titles; City regulations for sick leave were enforced, that employees' leave balances were within the amounts allowable under City Time and Leave Regulations, that voucher packages were stamped "vouchered" as required by Comptroller's Directive 24, that vouchers were charged to correct object codes, that imprest fund expenditures complied with certain provisions of Comptroller's Directive 3, and that inventory records were complete and accurate. Moreover, the Office of Special Narcotics did not require that its Assistant District Attorneys record their arrival and departure times in accordance with Comptroller's Directive 13.

Our review also disclosed that one employee received a \$678 overpayment when she separated from City service. This error was attributable to accumulated sick leave for which she was not entitled to be paid.

The Office of Special Narcotics agreed with 15 of the report's 16 recommendations. It did not agree with the report's recommendation that Assistant District Attorneys should be required to record their daily arrival and departure times.

Audit Follow-up

The Office of Special Narcotics reported that it has implemented the audit's recommendations that it agreed with.

TAX COMMISSION

Follow-up Audit on the Personnel, Payroll, and Timekeeping Practices of the New York City Tax Commission

Audit # MD04-092F

Comptroller's Audit Library # 7544

Issued: March 24, 2004

Monetary Effect: None

Introduction

This follow-up audit determined whether the Tax Commission (Commission) implemented the recommendations made in a previous audit, *Personnel, Payroll, and Timekeeping Practices of the New York City Tax Commission*, issued May 2, 2001 (Audit #MJ01-115A). The earlier audit determined whether the Commission complied with applicable personnel, payroll, and timekeeping procedures. This follow-up report discusses the details of the recommendations of the previous audit report and the status of each recommendation. This audit covered Fiscal Year 2003.

The previous audit found a number of weaknesses in regard to segregation of duties, timekeeping, and leave use, and annual leave accrual. In addition, the audit found that the Commission did not make a lump-sum payment to a former employee who resigned and left City employment.

Results

This audit found that the Commission has improved its compliance with applicable personnel, payroll, and timekeeping procedures. However, the Commission does not segregate duties concerning its payroll process; and annual and sick leave use was not always approved.

Of the five recommendations the previous audit made to the Commission, three were implemented, one was partially implemented and one was not implemented. To address those issues, the report made the following recommendations, somewhat revised according to the findings of this report.

- Segregate duties concerning payroll, personnel, and timekeeping among the agency's administrative staff.
- Require employees to obtain supervisory approval when using annual and sick leave.
- Adjust the annual leave on the Payroll Management System Leave Balance Report for all employees that are no longer employed to accurately reflect the Commission's liability.

This audit also found that the Commission has no employee policy-and-procedures manual. Accordingly, the report recommended that the Commission:

- Develop an employee manual to address personnel, timekeeping, and payroll policies and procedures, and distribute this manual to all staff.

Commission officials generally agreed with the audit's overall assessments and recommendations.

Audit Follow-up

The Tax Commission reported that it has implemented two recommendations, plans to implement one recommendation, but is unable to implement the remaining recommendation, to segregate payroll, personnel and timekeeping duties, because of limited resources.

TAXI AND LIMOUSINE COMMISSION (TLC)

Audit Report on the Internal Controls of the Taxi and Limousine Commission over the Collection of Fines

Audit # MH02-182A

Comptroller's Audit Library # 7525

Issued: November 24, 2003

Monetary Effect: Potential Revenue: \$3.89–\$7.79 million

Introduction

The Taxi and Limousine Commission (TLC) is responsible for regulating and improving taxi and livery service in New York City. It licenses medallion taxicabs, for-hire vehicles, commuter vans, paratransit vehicles, and certain luxury limousines; it also licenses the owners and the drivers of those vehicles. TLC inspectors and enforcement agents enforce TLC rules and regulations and issue summonses to violators. During Fiscal Year 2002, the scope of the audit, the TLC issued 40,795 summonses to licensed and unlicensed parties, and reported collecting \$7.2 million in fines.

This audit determined whether the TLC maintained adequate controls over the collection of fines. It also determined whether the TLC established and implemented procedures to track and account for unpaid funds and to identify and write off unpaid fines deemed uncollectible. As of February 3, 2003, TLC records showed \$97.3 million in outstanding fines

Results

The TLC had adequate controls over the handling of cash at its adjudication centers. However, it neglected its responsibility to ensure that summonses are enforced and fines are duly collected. TLC procedures were ineffective in tracking and accounting for unpaid fines and in identifying and writing off unpaid fines deemed uncollectible. Of the \$97.3 million in uncollected fines, the audit estimated that TLC could collect between \$3.89 million and \$7.79 million. The integrity, reliability, and completeness of the TLC Agency Management Information System (TAMIS) database were questionable because of inadequate data-entry controls that resulted in dating problems, omission of required licensee data, and unnecessary and unused data fields. Record keeping and storage of summons files were inadequate, and the TLC also lacked written policies and procedures. Moreover, the TLC did not maintain adequate controls over blank summonses distributed to the Police Department Taxi and Bus Unit.

The audit made 18 recommendations, including that TLC should:

- Improve and document controls to ensure that TLC licenses are not approved or renewed for applicants who have unpaid fines.
- Develop and implement aggressive internal collection procedures that include mailing of duns to violators, placing debtors in judgment, and submitting outstanding receivables to the Sheriff's Office and the Law Department when internal collection efforts have been exhausted.

- Consider seeking legislative approval from the City Council for assessing monetary penalties and interest on licensee accounts that have outstanding fines and for the legal authority to place judgments against TLC licensees with unpaid fines.
- Comply with Comptroller's Directive #21 by developing procedures to report its accounts-receivable balance monthly, identify or estimate and write-off fines deemed uncollectible, and report its write-off procedures, along with any write-off amounts, to the Comptroller's Office.
- Conduct a comprehensive review of the TAMIS database with assistance from the Department of Information, Technology and Telecommunications to identify necessary data tables and data fields, remove or label unused data tables and data fields, assess and identify existing programmatic problems and errors, and develop a systematic plan and timeframe for correcting those problems.
- Periodically reconcile all summonses that are distributed to both TLC enforcement agents and Taxi and Bus Unit police officers with the summonses entered on TAMIS, and account for any differences.
- Establish a filing system and record-management policy that will ensure that summons files are properly organized, stored, safeguarded, and preserved.

The TLC generally agreed with 16 of the 18 recommendations. It disagreed with the recommendation to reinstate a procedure that requires respondents to post cash bonds prior to hearings, and with the recommendation to consider seeking legislative approval from the City Council for assessing monetary penalties and interest on licensee accounts that have outstanding fines and for the legal authority to place judgments against TLC licensees with unpaid fines.

Audit Follow-up

TLC reported that it has either implemented or is in the process of implementing the 16 recommendations that it agreed with, and partially implemented the recommendation to seek legislative approval from City Council through an alternate method. The TLC Fiscal Year 2005 Legislative agenda requested the suspension of Division of Motor Vehicles licenses for outstanding TLC debt.

DEPARTMENT OF TRANSPORTATION (DOT)**Audit Report on the Effectiveness of the Department of Transportation in Maintaining Its Automotive Inventory**

Audit # MJ03-152A

Comptroller's Audit Library # 7550

Issued: April 22, 2004

Monetary Effect: None

Introduction

This audit evaluated the effectiveness of the Department of Transportation (DOT) Fleet Services Division (Fleet Services) in maintaining inventory. DOT is responsible for providing for the safe and efficient movement of people, goods, and vehicles throughout the City. In support of this mission, DOT operates approximately 2,700 vehicles, ranging from passenger vehicles to heavy-duty construction equipment. Fleet Services is responsible for managing an inventory of automotive parts for the DOT fleet. The audit scope covered the period July 1, 2001, through January 7, 2004.

Results

DOT Fleet Services is generally effective in maintaining the agency's automotive inventory. The audit revealed that DOT generally maintains inventory records that reflect its inventory on hand, manages its inventory to generally preclude under- and overstocking ; has internal controls that are generally adequate to help prevent and detect errors and irregularities; and adequately safeguards its inventory.

DOT management of its automotive inventory has improved since we last audited this area, in 1994; however, the effectiveness of Fleet Services in maintaining inventory is hindered by inconsistent compliance with agency procedures. It is believed that this contributed to (1) gross discrepancies between perpetual inventory records and the amounts on hand exceeding 50 percent at three of the 11 parts rooms reviewed, (2) 28 percent of Fleet Services inventory being inactive, and possibly obsolete, for at least two years, and (3) a turnover rate of 1.37—below the automotive industry standard rate of 3.9—for active inventory. If DOT improved its inventory turnover rate to 2.37, the audit projected that it could yield a one-time saving of more than \$1.1 million.

Other weaknesses the audit identified included limited evidence that inventory adjustments were authorized, inadequate investigation of physical count discrepancies, inadequate safeguarding of inventory at three parts rooms, mechanics not signing for all parts received, and oil use not being monitored or controlled at five parts rooms.

The audit made 13 recommendations, some of which are listed below. DOT should:

- Ensure that unauthorized personnel are not allowed in the Hamilton Avenue Shop parts room, especially after operating hours.
- Require repair shops to place obsolete items in specially marked bins, to be sent to the central warehouse, as required by DOT procedures.

- Develop a plan showing how it will achieve inventory reductions totaling at least \$1.18 million by improving turnover rates for its working inventory of items and achieving a one-time saving. Fleet Services should monitor the progress of the plan and report the results to DOT higher management.
- Ensure that Fleet Services follows the Department of Investigation standards governing inventory counts. Procedures should include the following steps: (1) count all items at the locations, (2) use the “double-blind” count methodology, and (3) use persons who are not assigned to the locations where the counts take place.
- Ensure that discrepancies between physical inventory-count totals and the perpetual inventory records are investigated by the agency’s auditors (or those independent of inventory operations) before reconciliation adjustments are made, and report significant differences to DOI, as required by DOI Standards.

In its response, DOT generally agreed with the audit’s recommendations.

Audit Follow-up

DOT reported that it has either implemented or is in the process of implementing all of the audit’s recommendations.

SECTION II

NON-GOVERNMENT AUDITS

CLAIMS

During Fiscal year 2004, reports were issued on 14 claims filed against the City totaling \$1,766,720. The accepted amount for the 14 claims totaled \$371,809. This resulted in a potential cost avoidance of \$1,394,911, as shown below:

| | |
|--------------------------|---------------|
| Total Claim Amount | \$ 1,766,720 |
| Less: Accepted Amount | \$ 371,809 |
| Potential Cost Avoidance | \$ 1,394,911* |

*Note: As stated, these cost avoidance figures are only potential. They are based on results of analysis—only the first step in the claim process. As claims are further processed, and as they are concluded via settlement or lawsuits, the actual figures will be different because of other factors that need to be considered at later steps in the claim process.

A listing of the 14 claims follows:

| REPORT NUMBER | CLAIMANT | DATE ISSUED | CLAIM AMOUNT | ACCEPTED AMOUNT | DISPOSITION SETTLEMENT AMOUNT |
|----------------------|-----------------------------------|--------------------|---------------------|------------------------|--------------------------------------|
| FP03-156A | Claim – Thelma Davis | 7/15/03 | * | * | * |
| FP03-135A | Claim – Student Bus Services | 8/15/03 | * | * | * |
| FP04-053A | Claim – United Rentals | 8/28/03 | * | * | * |
| FP04-107A | Claim – Brooklyn AIDS Task Force | 1/6/04 | * | * | * |
| FP04-106A | Claim – J. P. Morgan-Chase | 1/14/04 | * | * | * |
| FP04-132A | Claim – Alviero Martino USA Corp. | 3/15/04 | * | * | * |
| FP04-122A | Claim – Ron Voller | 3/16/04 | * | * | * |
| FP04-140S | Claim – Carolyn Hester | 4/2/04 | * | * | * |
| FP04-121S | Claim – Richard Cohen | 4/2/04 | * | * | * |
| FP04-142S | Claim – Iris Reynoso | 4/23/04 | * | * | * |
| FP04-131S | Claim – Nicholas Ciaccio | 4/28/04 | * | * | * |
| FP04-144S | Claim – Antje Eichinger | 5/21/04 | * | * | * |
| FP04-145S | Claim – Michael Pomeranc | 5/21/04 | * | * | * |
| FP04-130S | Claim – Zehlem Matzo Bakery | 5/21/04 | * | * | * |
| | FISCAL YEAR 2004 TOTALS | | \$1,766,720 | \$371,809 | \$1,394,911 |

FRANCHISE, CONCESSION, AND LEASE AUDITS

Franchise, concession, and lease agreements between various City agencies and private organizations result in revenues to the City, based on formulas defined in the agreements. City agencies that enter into such agreements include the Department of Parks and Recreation (Parks), the Department of Information, Technology and Telecommunications (DoITT), the Department of Sanitation (DOS), and the Department of Transportation {DOT}. Our audits evaluate the payments made by such entities as sports franchises and hotels. As shown below, Fiscal Year 2004 audits resulted in collecting actual revenues totaling \$527,152. Additional revenue can be collected if all audit recommendations are followed.

| <u>Audit Number</u> | <u>Audit Library No.</u> | <u>Agency/Title</u> | <u>Date Issued</u> | <u>Actual Revenue To Date</u> | <u>Remaining Potential Revenue</u> |
|---------------------|--------------------------|---------------------------------|--------------------|-------------------------------|------------------------------------|
| FN03-162A | 7526 | DoITT – Cablevision /Bronx | 12/22/03 | \$18,232 | -0- |
| FN03-163A | 7527 | DoITT – Cablevision/Brooklyn | 12/22/03 | \$14,804 | -0- |
| FN03-164A | 7534 | DoITT – Cablevision/Advertising | 1/28/04 | \$15,214 | -0- |
| FL03-102A | 7538 | Parks – Crystal Ball Group | 2/26/04 | \$60,000 | -0- |
| FM04-098A | 7571 | DOS – GSF Energy LLC | 6/21/04 | -0- | -0- |
| FM03-139A | 7582 | DOT – Viacom Outdoor | 6/28/04 | \$418,902 | -0- |
| | TOTAL | | | \$527,152 | -0- |

**DEPARTMENT OF INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS
(DOITT)**

Audit Report on the Compliance of Cablevision Systems New York City Corporation for the Bronx With its Franchise Agreement, January 1, 2001—December 31, 2002

Audit # FN03-162A

Comptroller's Audit Library # 7526

Issued: December 22, 2003

Monetary Effect: Actual Revenue: \$18,232

Introduction

In 1998, the City of New York, through the Department of Information Technology and Telecommunications (DoITT) renewed the franchise agreement with Cablevision Systems New York City Corporation for the Bronx (Cablevision-Bronx) for 10 years. The agreement requires that Cablevision-Bronx pay the City five percent of its annual gross revenues, less the mandatory payments that Cablevision-Bronx makes to the New York State Public Service Commission (NYSPSC). Cablevision-Bronx is also required to carry a \$50 million combined insurance policy, maintain a security-fund deposit of \$3,120,000 with the Comptroller's Office, and provide \$4.73 per subscriber annually to the Community Access Organization (CAO).

The audit assessed the adequacy of Cablevision-Bronx's internal controls over the recording and the reporting of gross revenues, whether it accurately reported its total gross revenue and calculated and paid the appropriate franchise fees due to the City on time, and whether it complied with certain non-revenue-related requirements of its franchise agreement. For the audit period, January 1, 2001, through December 31, 2002, Cablevision-Bronx reported gross revenues totaling \$364.1 million, and paid the City franchise fees totaling \$17.8 million. In addition, Cablevision-Bronx paid the NYSPSC \$402,310.

Results

Cablevision-Bronx had an adequate system of internal controls over its recording and reporting of revenues. It accurately reported its revenues to the City, and accurately calculated and paid it fees to the City on time. In addition, Cablevision-Bronx maintained the required \$50 million insurance coverage, which named the City as an additional insured; remitted the appropriate security deposit to the Comptroller's Office; and made all required payments to the NYSPSC and to the CAO. However, Cablevision-Bronx overstated its allowable sales-tax deductions by \$341,020 on its Quarterly Gross Revenue Statements for 2001, and owed the City \$18,232 in additional franchise fees and calculated interest.

The audit made three recommendations including that Cablevision-Bronx pay \$18,232 in additional franchise fee and interest due, and deduct only actual amounts of sales taxes collected from reportable revenue on its Quarterly Gross Revenue Statements.

Both Cablevision-Bronx and DoITT agreed with the audit findings and recommendations. Cablevision-Bronx remitted a check to the City for \$18,232 on December 1, 2003, to satisfy the audit assessment.

Audit Follow-up

Cablevision reported that all of the audit's recommendations have been implemented.

**DEPARTMENT OF INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS
(DOITT)**

Audit Report on the Compliance of Cablevision Systems New York City Corporation for Brooklyn With its Franchise Agreement, January 1, 2001—December 31, 2002

Audit # FN03-163A

Comptroller's Audit Library # 7527

Issued: December 22, 2003

Monetary Effect: Actual Revenue: \$14,804

Introduction

In 1998, the City of New York, through the Department of Information Technology and Telecommunications (DoITT) renewed the franchise agreement with Cablevision Systems New York City Corporation for Brooklyn (Cablevision-Brooklyn) for 10 years. The agreement requires that Cablevision-Brooklyn pay the City five percent of its annual gross revenues, less the mandatory payments that Cablevision-Brooklyn makes to the New York State Public Service Commission (NYSPSC). Cablevision-Brooklyn is also required to carry a \$50 million combined insurance policy; maintain a security fund deposit of \$4,380,000 with the Comptroller's Office; and provide \$4.60 per subscriber annually to the Community Access Organization (CAO).

The audit assessed the adequacy of Cablevision-Brooklyn's internal controls over the recording and the reporting of gross revenue; whether it accurately reported its total gross revenue and calculated and paid the appropriate franchise fees due to the City on time; and whether it complied with certain non-revenue-related requirements of its franchise agreement. For the audit period, January 1, 2001, through December 31, 2002, Cablevision-Brooklyn reported gross revenues totaling \$385.7 million, and paid the City franchise fees totaling \$18.9 million. In addition, Cablevision-Brooklyn paid the NYSPSC \$426,114.

Results

Cablevision-Brooklyn had an adequate system of internal controls over its recording and reporting of revenues. Cablevision-Brooklyn accurately reported its revenues to the City, and accurately calculated and paid it fees to the City on time. In addition, Cablevision—Brooklyn maintained the required \$50 million insurance coverage, which named the City as an additional insured, remitted the appropriate security deposit to the Comptroller's Office, and made all required payments to the NYSPSC and the CAO. However, Cablevision-Brooklyn overstated its allowable sales-tax deductions by \$276,334 on its Quarterly Gross Revenue Statements for 2001, and owed the City \$14,804 in additional franchise fees and calculated interest.

The audit made three recommendations, including that Cablevision-Brooklyn pay \$14,804 in additional franchise fee and interest due and deduct only actual amounts of sales taxes collected from reportable revenue on its Quarterly Gross Revenue Statements to the City.

Both Cablevision and DoITT agreed with the audit findings and recommendations. Cablevision-Brooklyn remitted a check to the City for \$14,804 on December 1, 2003, to satisfy the audit assessment.

Audit Follow-up

Cablevision-Brooklyn reported that all of the audit's recommendations have been implemented.

DEPARTMENT OF INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS (DOITT)

Audit Report on the Compliance of Cablevision Systems New York City Corporation for Advertising Revenue, January 1, 2001—December 31, 2002

Audit # FN03-164A

Comptroller's Audit Library # 7534

Issued: January 28, 2004

Monetary Effect: Actual Revenue: \$15,214

Introduction

In 1984, Cablevision began selling advertising time for its New York City-based cable outlets in Brooklyn and the Bronx through an exclusive advertising representative and sales agent subsidiary, Rainbow Advertising Sales Corporation (RASCO). RASCO is responsible for the marketing and selling of advertising for Cablevision on more than 30 cable networks. Section 9.1.01 of Cablevision's franchise agreement requires that it pay the City five percent of its gross revenues. Cablevision's franchise agreement does, however, allow it to deduct outside advertising commissions and bad debts from its advertising revenue. For the two-year audit period, January 1, 2001, through December 31, 2002, Cablevision reported gross advertising revenues totaling \$25.5 million and paid the City \$1.3 million in franchise fees. The Department of Information Technology and Telecommunications (DoITT) is responsible for monitoring Cablevision's compliance with the terms of its franchise agreement.

The audit determined whether Cablevision calculated and reported accurately its gross advertising revenue to the City and paid the appropriate franchise fees to the City.

Results

Cablevision generally reported its financial data to the City, and paid its corresponding franchise fees in compliance with the terms of the franchise agreement. However, Cablevision

omitted \$167,695 in advertising revenue and \$130,237 for the fair market value of trade (barter) revenue, and owed the City \$15,214 in additional franchise fees and calculated interest.

The audit made three recommendations, including that Cablevision pay \$15,214 in additional franchise fees and interest due and report all advertising revenue and trade revenue, in accordance with its franchise agreement.

Both Cablevision and DoITT agreed with the audit findings and recommendations. Cablevision remitted a check to the City for \$15,214 on January 20, 2004, to satisfy the audit assessment.

Audit Follow-up

Cablevision reported that all of the audit's recommendations have been implemented.

DEPARTMENT OF PARKS AND RECREATION (PARKS)

Audit Report on the Compliance of Crystal Ball Group, Inc. (Terrace on the Park) With its Permit Agreement And its Payment of Fees Due the City, April 1, 1999—March 31, 2002

Audit # FL03-102A

Comptroller's Audit Library # 7538

Issued: February 26, 2004

Monetary Effect: Actual Revenue: \$60,000

Introduction

This audit examined the compliance of Crystal Ball Group, Inc. (Crystal Ball), with its license agreement, awarded by the Department of Parks and Recreation (Parks) for the renovation and operation of the Terrace on the Park (Terrace) restaurant and catering facility in Flushing Meadows-Corona Park, Queens. The agreement required that Crystal Ball pay the City an annual fee of nine percent of its gross receipts for the period October 1, 1998–March 31, 2000, (referred to in the contract as the “construction period”). For the period April 1, 2000–March 31, 2009, Crystal Ball is required to pay the City either a minimum annual operating fee of \$2,000,000 or 20 percent of its gross receipts, whichever is greater. The annual minimum increases to \$2,500,000 for the period April 1, 2009–March 31, 2020, when the agreement concludes. For the 1999, 2000, and 2001 operating years, Crystal Ball reported a total of \$23,363,573 in gross receipts and paid the City \$4,545,409 in fees.

Results

Terrace generally complied with certain non-revenue requirements of its license agreement. By reviewing the insurance certificates, the audit verified that Terrace maintained the required insurance coverage and confirmed that the City was named as an additional insured. Furthermore, the audit verified that Terrace remitted the required security deposit to the City, paid its design review fee, and paid its utility bills.

However, because of weak internal controls over banquet contracts, the City cannot be assured that all banquet revenue was recorded on Crystal Ball’s books and was reported to Parks, and that appropriate fees were paid. Moreover, Crystal Ball took \$524,477 in improper deductions from gross receipts, resulting in \$100,179 in additional fees and related interest and penalties due the City. Finally, Crystal did not expend the amount required under its license agreement for capital improvements. Consequently, Crystal Ball could owe the City as much as \$5,212,125.

To address these issues, the audit recommended that Crystal Ball:

- Issue prenumbered banquet contracts in sequential order. In this regard, Crystal Ball should maintain copies of all contracts (whether completed or canceled) to document reasons for gaps in contract numbers.
- Retain all books and records, including banquet calendars, for six years, in accordance with the license agreement.
- Ensure that revenue is accurately reported to Parks and the appropriate fees are paid, in accordance with the license agreement.

- Ensure that all deductions from gross receipts are in accordance with the license agreement, and pay the City \$100,179 in additional fees and related interest and penalties for the improper deductions cited in this report.
- Make arrangements with Parks to complete the remaining capital improvements according to a specific timetable. When Parks determines that capital improvements are complete, Crystal Ball should pay the City the amount, if any, that capital improvements do not meet if the minimum amounts specified in the license agreement.

Additionally, the audit recommended that Parks should:

- Determine whether additional capital improvements are necessary to meet the requirements of the license agreement. If it is determined that no additional improvements are required, Parks should issue a Certification of Final Completion and collect any unspent funds.
- Issue a Notice to Cure to Crystal Ball requiring that it comply with the audit's recommendations.

With the exception of a portion of the audit findings pertaining to capital improvements, Parks officials agreed with the audit findings and recommendations. In that regard, it issued a Notice to Cure to Crystal Ball requiring that it implement the report's recommendations. Crystal Ball's attorney strongly disagreed with the audit findings. However, the attorney did not provide any documentation to support his position.

Audit Follow-up

Parks reported that Crystal Ball now issues prenumbered banquet contracts in sequential order and that copies of all contracts, related books, records, and banquet calendars are retained, in accordance with the agreement. Finally, Parks stated that on June 8, 2004, it received a check for \$60,000 from Crystal Ball as settlement of the audit assessment. In addition, Parks reported that Crystal Ball has agreed to complete the remaining balance of its capital improvements by December 31, 2005.

DEPARTMENT OF SANITATION (DOS)

Audit Report on the Compliance of GSF Energy, L.L.C. With Certain Provisions of its Concession Agreement

Audit # FM04-098A

Comptroller's Audit Library # 7571

Issued: June 21, 2004

Monetary Effect: None

Introduction

In 1998, the Department of Sanitation (DOS) entered into a 20-year concession agreement with GSF Energy, L.L.C. (GSF) to operate a landfill gas extraction and purification facility at the Fresh Kills Landfill in Staten Island.

The agreement required that GSF annually pay the City \$950,000—payment in lieu of taxes (PILOT)—, bonus payments if production exceeded certain thresholds, and a payment if the amount of gas flared exceeded certain production levels. In addition, GSF was required to pay a \$1,265,000 biannual facility fee. GSF was also required to upgrade the existing purification plant and construct a second plant.

As allowed by the agreement, on January 16, 2003, GSF filed a “Notice of Surrender” in which it sought to terminate its agreement with the City. In the notice, GSF claimed that commercial quantities of gas were no longer obtainable at the landfill, due in part to the deposit of debris from the September 11, 2001, destruction of the World Trade Center. After negotiation between GSF and DOS, the agreement was amended on January 7, 2004.

This audit determined whether GSF properly paid its fees due the City and complied with certain non-revenue provisions of the agreement.

Results

The audit found that GSF generally paid the required fees and complied with certain non-revenue provisions of the agreement. GSF paid the annual concession fee of \$950,000, the biannual facility fee of \$1,265,000, and the \$50,000 due under the PILOT provision. In addition, based on the amount of landfill gas processed, we determined that GSF was not required to make bonus payments for calendar years 1999 through 2002.

Although GSF did not complete the construction of the additional purification plant and did not pay \$200,000 in excess flaring payments due for calendar years 2000 and 2001, it was relieved of these obligations by a revised agreement. Accordingly, the report made no recommendations.

DOS officials agreed with the audit's findings and conclusions. GSF officials did not formally respond to the report.

DEPARTMENT OF TRANSPORTATION (DOT)**Audit Report on the Compliance of Viacom Outdoor With its Franchise Agreement**

Audit # FM03-139A

Comptroller's Audit Library # 7582

Issued: June 28, 2004

Monetary Effect: Actual Revenue: \$418,902

Introduction

Since September 2002, Viacom Outdoor (Viacom) has been responsible for constructing, maintaining, operating, and displaying advertising on bus-stop shelters throughout the five boroughs. Viacom is required to pay the City the greater of 32.5 percent of gross advertising revenues or minimum quarterly payments of \$2,750,000.

Although Viacom's contractual rights and obligations under this agreement expired on December 31, 2002, Viacom, with the City's approval, continued to operate under the terms and conditions of the expired contract until a new agreement is executed. The Department of Transportation administers this agreement.

The audit determined whether Viacom accurately reported all gross advertising revenue in accordance with its City franchise agreement, paid the appropriate fees due the City, paid these fees on time, and complied with certain major non-revenue terms of the agreement.

Results

The audit found that Viacom generally adhered to certain major non-revenue terms of its contract. Specifically, Viacom maintained the minimum number of bus-shelters stipulated in the contract, remitted the required security deposit to the City, provided the appropriate amount of public service announcements free of charge, maintained proper insurance coverage, and generally ensured that shelters were repaired within the times specified in the contract. In addition, all fees paid by Viacom were remitted within 30 days after the expiration of each quarter, as required by the contract.

However, Viacom did not ensure that all bus-stop-shelter advertising contracts were sequentially numbered to ensure proper tracking and accountability. Therefore, the audit could not determine whether all of Viacom's bus-stop-shelter advertising contracts were accounted for in its books and records, whether all appropriate revenue was reported, and whether all fees were paid to the City. Nevertheless, based on the available records, the audit determined that Viacom underreported gross revenue and took questionable deductions. Consequently, Viacom owes the City between \$418,902 and \$1,195,789 in additional franchise fees and interest.

Viacom agreed that certain advertisers were provided free bus-stop-shelter advertising and some advertising was posted without formal contracts and not completely recorded in its system. As a result, Viacom has remitted a check to the City for \$418,902. However, Viacom did not agree that it commingled its books and records in violation of the contract and stated that it has maintained and provided sufficient details with each quarterly payment regarding deductions to gross revenues for any revenue pertaining to its other business ventures.

DOT stated that “it is our understanding that Viacom allocated gross revenue to non-City sources and made the supporting documentation available. . . . We will meet with Viacom officials, review the available documentation, and determine the validity of the deductions. If the deductions were not appropriate we will pursue the collection of additional fees and interest, if any.”

Audit Follow-up

DOT reported that it has collected the \$418,902 in additional fees from Viacom. However, after reviewing additional documentation, DOT reported that no additional fees are warranted.

AUDIT OF RENTAL CREDITS SUBMITTED BY THE NEW YORK YANKEES

According to the terms of their lease with the City, the New York Yankees are entitled to rental credits based on expenditures made for the electrical and physical maintenance of Yankee Stadium. The Comptroller's Office performs audits of labor and material expenses based on the terms of the lease and on the time sheets, invoices, cancelled checks, payroll reports, and union contracts submitted by the Yankees and their maintenance contractors.

In Fiscal Year 2004, we disallowed \$816,818 in rental credits for insufficient documentation, ineligibility of expenses, and errors in calculations. The Yankees accepted \$816,818 of these disallowances.

| Audit No. | Period Covered | Date Issued | Actual Revenue | Potential Revenue | Total |
|--------------|----------------|-------------|------------------|-------------------|------------------|
| FN04-096A | 4th Qtr. 2002 | 01/23/04 | \$ 477,217 | \$0 | \$477,217 |
| FN04-102A | 1st Qtr. 2003 | 02/10/04 | \$133,679 | \$0 | \$133,679 |
| FN04-126A | 2nd Qtr. 2003 | 06/11/04 | \$ 77,012 | \$0 | \$ 77,012 |
| FN04-141A | 3rd Qtr. 2003 | 06/28/04 | \$128,910 | \$0 | \$128,910 |
| TOTAL | | | \$816,818 | \$0 | \$816,818 |

WELFARE FUNDS

Audit Report on the Financial and Operating Practices of the Local 721 Licensed Practical Nurses Welfare Fund, January 1, 2002 – December 31, 2002

Audit # FL04-093A

Comptroller's Audit Library # 7601

Issued: June 30, 2004

Monetary Effect: None

Introduction

This audit determined whether Local 721 Licensed Practical Nurses Welfare Fund (the Fund) complied with applicable procedures and reporting requirements, as set forth in Comptroller's Directive 12, Employee Benefit Funds—Uniform Reporting and Auditing Requirements. The audit covered the period January 1, 2002, through December 31, 2002.

Results

The Fund generally complied with the procedures and reporting requirements of Directive #12, as well as its own related procedures. In addition, the Fund had adequate internal controls over the processing and reporting of contributions received and benefit and administrative expenses paid. However, the Fund had some weaknesses in its financial and operating practices. Specifically, the Fund made improper benefit payments of \$30,559, entered into a contract with a law firm for services that were already available and covered under an existing agreement with another firm, paid claims for dependents whose eligibility was not documented, and does not maintain records for tracking accrual and use of vacation and sick leave for its employees.

In addition, the audit found that the union overcharged the Fund \$9,457 for its share of rent.

The audit recommended that the Fund:

- Ensure that it pays for benefits only for eligible individuals and makes payments in accordance with its guidelines.
- Ensure that rent charges are properly allocated based on the percentage of dedicated space used by the Fund and the union.
- Request that the union reimburse it for the \$9,457 in excess rent paid for calendar year 2002.
- Determine whether it paid excess rent for previous years, and, if appropriate, request reimbursement from the union.
- Ensure that it does not enter into contracts for services already covered under existing agreements.
- Maintain copies of all documentation in members' permanent files to substantiate eligibility of dependents.
- Maintain records of accrual and use of vacation and sick leave for its employees.

The Fund agreed with six of the audit's eight recommendations. The Fund took exception to the audit findings and corresponding recommendations pertaining to payment of benefits for ineligible employees and the absence of records for tracking employee vacation and sick leave balances.

Audit Follow-up

The Fund did not provide follow-up information.

WELFARE FUNDS

Audit Report on the Financial and Operating Practices of the Uniformed Fire Officers Association Family Protection Plan, July 1, 2001 – June 30, 2002

Audit # FL04-094A

Comptroller's Audit Library # 7598

Issued: June 30, 2004

Monetary Effect: None

Introduction

This audit determined whether the Uniformed Fire Officers Association Family Protection Plan (the Plan) complied with applicable procedures and reporting requirements, as set forth in Comptroller's Directive 12, *Employee Benefit Funds – Uniform Reporting and Auditing Requirements*. The audit covered the period July 1, 2001, through June 30, 2002.

Results

The Plan generally complied with the procedures and reporting requirements of Directive 12, as well as its own related procedures. In addition, the Plan generally complied with its benefit-processing and accounting procedures, and those procedures were adequate and proper. Furthermore, the Plan's administrative expenses were generally appropriate and reasonable. All City contributions were accounted for and deposited in the Plan's bank account. Also, the Plan's expenses were accurately recorded in its trial-balance and cash-disbursements journal, and adequate supporting documentation was maintained for most expenses paid. However, there were some weaknesses in the Plan's financial and operating practices, as follows:

- Misstated benefit and administrative expenses on its financial statements and its Directive 12 filing.
- Made questionable reimbursements, totaling \$3,805, to the Chairman of the Board of Trustees (Chairman) and to two Trustees.
- Made improper benefit payments totaling \$4,446.
- Made improper payments totaling \$13,141 for union-related expenses.

- Did not maintain complete and accurate records of those persons for whom it is paying Consolidated Omnibus Budget Reconciliation Act (COBRA) benefits and of the premium payments received from these individuals to pay for the coverage.
- Paid claims for dependents whose eligibility was not documented.
- Did not maintain complete employee attendance records detailing the time-in and time-out and absence or lateness to be charged against earned vacation or sick leave.

The audit recommended that the Plan:

- Ensure that administrative and benefit expenses are recorded accurately on its financial statements, in accordance with Comptroller's Directive 12.
- Recoup \$3,805 in questionable reimbursements from the Chairman and the two Trustees.
- Ensure that it pays for benefits only for eligible individuals, in accordance with its guidelines.
- Discontinue paying union expenses.
- Recoup \$13,141 from the union for the improper payments cited in this report.
- Maintain complete and accurate records of COBRA premium payments received.
- Provide COBRA benefits only to individuals who make the required premium payments.
- Maintain copies of all documentation in members' permanent files to substantiate eligibility of dependents.
- Maintain daily attendance records for its employees.

The Plan generally agreed with the audit's findings and conclusions. However, it stated that some of the reimbursements for travel questioned in the report were appropriate.

Audit Follow-up

The Plan reported that it has fully implemented eight of the nine audit recommendations, including recovering all expenses paid from the fund to the union. The Plan has partially implemented the recommendation to recoup \$3,805 in questionable reimbursements from the Chairman and the two Trustees because the Plan determined that \$2,284.50 was justified and has recovered \$956.50.

WELFARE FUNDS

Audit Report on the Financial and Operating Practices of the Uniformed Fire Officers Association Retired Fire Officers Family Protection Plan, July 1, 2001 – June 30, 2002

Audit # FL04-095A

Comptroller's Audit Library # 7600

Issued: June 30, 2004

Monetary Effect: None

Introduction

This audit determined whether the Uniformed Fire Officers Association Retired Fire Officers Family Protection Plan (the Retiree Plan) complied with applicable procedures and reporting requirements, as set forth in Comptroller's Directive # 12, *Employee Benefit Funds – Uniform Reporting and Auditing Requirements*. The audit covered the period July 1, 2001 through June 30, 2002.

Results

The Retiree Plan generally complied with the procedures and reporting requirements of Directive # 12, as well as its own related procedures. In addition, the Retiree Plan generally complied with its benefit-processing and accounting procedures, and those procedures were adequate and proper. Furthermore, the Retiree Plan's administrative expenses were generally appropriate and reasonable. All City contributions were accounted for and deposited in the Retiree Plan's bank account. Also, the Retiree Plan's expenses were accurately recorded in its trial balance and cash disbursements journal, and adequate supporting documentation was maintained for most expenses paid. However, there were some weaknesses in the Retiree Plan's financial and operating practices, in that the Retiree Plan:

- Misstated benefit and administrative expenses on its financial statements and its Directive # 12 filing.
- Made improper benefit payments totaling \$18,173.
- Did not maintain complete and accurate records of those persons for whom it is paying COBRA benefits and of the premium payments received from those individuals to pay for the coverage.
- Did not solicit proposals from insurance companies to provide life-insurance benefits to its members, as required by §3.9 of Directive # 12. In addition, we have serious concerns regarding the process used to award the contract. As a result, we question the veracity of the analysis and the award of the life insurance contract.
- Paid claims for dependents whose eligibility was not documented.

The audit recommended that the Retiree Plan:

- Ensure that administrative and benefit expenses are recorded accurately on its financial statements, in accordance with Directive #12.
- Ensure that it pays for benefits only for eligible individuals, in accordance with its guidelines.
- Maintain complete and accurate records of COBRA premium payments received.

- Provide COBRA benefits only to individuals who make the required premium payments.
- Terminate its contract with Highmark, and award a new contract for life insurance benefits based on a solicitation that is in compliance with Directive # 12.
- Ensure that it follows the bidding requirements of Directive # 12 for all insurance contracts.
- Maintain copies of all documentation in members’ permanent files to substantiate eligibility of dependents.

The Retiree Plan generally agreed with audit findings and with six of the report’s seven recommendations. It did not agree with the recommendation to terminate and rebid its life insurance contract, stating that such action would not benefit the participants.

Audit Follow-up

The Retiree Plan reported that it has either implemented or is in the process of implementing the six recommendations that it agreed with.

WELFARE FUNDS

Analysis of the Financial and Operating Practices of Union-Administered Benefit Funds Whose Fiscal Years Ended in Calendar Year 2002

Audit # FM04-071S
 Comptroller’s Audit Library # 7596
 Issued: June 30, 2004
 Monetary Effect: None

Introduction

Union-administered benefit funds were established under collective bargaining agreements between the unions and the City of New York. They provide City employees, retirees, and dependents with a variety of supplemental health benefits not provided under City-administered health insurance plans. Certain other benefits are also provided at the discretion of the individual funds (e.g., annuity accounts, life insurance, disability, and legal benefits). This report contains a comparative analysis of 87 welfare, retiree, and annuity funds whose fiscal years ended in calendar year 2002. These funds received approximately \$803.5 million in total City contributions for the fiscal year.

Results

This is the 23rd report by the Comptroller’s Office that reviewed the financial data submitted by the funds. As in previous reports, there were differences in the amounts spent by the funds for administrative purposes. In addition, several funds maintained high reserves while expending lower-than-average amounts for benefits—a possible indication that excessive reserves were accumulated at the expense of members’ benefits. Further, some funds did not

comply with various parts of Comptroller’s Directive # 12 requirements and of fund agreements with the City.

The report contains nine recommendations to address the above weaknesses, including that:

- Trustees of funds with high administrative expenses and low benefits should reduce administrative expenses to improve their levels of benefits to members.
- Trustees of funds with low reserve levels should ensure that their funds maintain sufficient reserves to guard against insolvency.

Audit Follow-up

Not Applicable

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