

# AUDIT REPORT

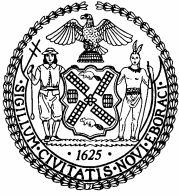


CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
BUREAU OF FINANCIAL AUDIT  
**WILLIAM C. THOMPSON, JR., COMPTROLLER**

## **Audit Report on the New York City Fire Department's Administration of Its Bank Accounts**

*FM06-131A*

**June 8, 2007**



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

WILLIAM C. THOMPSON, JR.  
COMPTROLLER

**To the Citizens of the City of New York**

Ladies and Gentlemen:

In accordance with the responsibilities of the Comptroller contained in Chapter 5, §93, of the New York City Charter, my office has audited the New York City Fire Department's administration of its private bank accounts.

City agencies are permitted to establish private bank accounts to maintain funds apart from the City's general fund. To do so, agencies must obtain approval from the Department of Finance and comply with its procedures. The Fire Department administers 10 private bank accounts to maintain funds. We audit accounts such as these to ensure that public funds held in private bank accounts for a particular purpose are accounted for and used as intended.

The results of our audit, which are presented in this report, have been discussed with FDNY officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at [audit@Comptroller.nyc.gov](mailto:audit@Comptroller.nyc.gov) or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in cursive script that reads "William C. Thompson, Jr.".

William C. Thompson, Jr.

WCT/fh

**Report: FM06-131A**  
**Filed: June 8, 2007**

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

**Audit Report on the New York City Fire Department's  
Administration of Its Bank Accounts**

**FM06-131A**

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**AUDIT REPORT IN BRIEF**

The audit determined whether the New York City Fire Department (FDNY) properly administers its private bank accounts in accordance with applicable rules and regulations.

City agencies are permitted to establish private bank accounts to maintain funds apart from the City's general fund. In order to do so, agencies must obtain approval from the Department of Finance and comply with its procedures. In addition, agencies must register the accounts with the Comptroller's Bureau of Accountancy and comply with Comptroller's Office annual reporting requirements.

The (FDNY) administers the following 10 private bank accounts: Main Imprest Fund, Local Buildings Repair Program, Repairs and Transportation, Firehouse Expense Fund, OITS Travel Advance, the Commissioner's Medal Fund (Medal Fund), Fire Prevention Fund, Health and Hospital Corporation (HHC) Capital Corporation Account, FDNY Miscellaneous Accounts, and the Life Insurance Fund. The accumulated ending balance for these ten bank accounts as of June 30, 2006, was \$3,088,375.

**Audit Findings and Conclusions**

The FDNY generally administered its 10 bank accounts in accordance with applicable rules and regulations and Comptroller's Directives. We did, however, identify minor exceptions in our review of the Main Imprest Fund, for which controls could be improved. Specifically, the FDNY improperly allocated to the fund \$2,391 for transportation-related expenditures (e.g., \$206 for out-of-service vehicle repairs, and \$196 for tire replacement). These funds should be disbursed from the Repairs and Transportation account. In addition, the FDNY improperly processed a recurring monthly reimbursement of \$45 (totaling \$540 for Fiscal Year 2006) for internet access, which does not comply with Comptroller's Directive #3.

Furthermore, notwithstanding the FDNY's general compliance with applicable rules for bank accounts, we believe that it should consider establishing a fiduciary account within the

City's Financial Management System to replace its Medal Fund, so as to enhance the controls over the funds deposited in this account. Comptroller's Directive #27 permits agencies to establish accounts in a custodial capacity, to be used for a specific purpose as prescribed by the agency or the donor. By maintaining these funds in a City fiduciary account, the FDNY can ensure that its internal control mechanisms and financial accountability are consistent with those in effect for all City agencies.

### **Audit Recommendations**

We made three recommendations to the FDNY to address these issues. The FDNY should:

1. Classify expenditures appropriately, using the proper imprest fund account.
2. Comply with Comptroller's Directive #3 and discontinue reimbursements for Internet access.
3. Consult with the Comptroller's Bureau of Accountancy on the establishment of a fiduciary account, within the City's Financial Management System, to replace the Medal Fund account.

## INTRODUCTION

### Background

City agencies are permitted to establish private bank accounts to maintain funds apart from the City's general fund. In order to do so, agencies must obtain approval from the Department of Finance and comply with its procedures. In addition, agencies must register the accounts with the Comptroller's Bureau of Accountancy and comply with Comptroller's Office annual reporting requirements.

The Fire Department of New York (FDNY) administers the following 10 private bank accounts: Main Imprest Fund, Local Buildings Repair Program, Repairs and Transportation, Firehouse Expense Fund, OITS Travel Advance, Medal Fund, Fire Prevention Fund, Health and Hospital Corporation (HHC) Capital Corporation Account, FDNY Miscellaneous Accounts, and the Life Insurance Fund. The accumulated ending balance for these ten bank accounts as of June 30, 2006, was \$3,088,375. See Table I below for a detailed list of the accounts and their balances beginning Fiscal Year 2005 and ending Fiscal Year 2006.

**Table I**  
**Fire Department Bank Accounts Beginning and Ending Balances**  
**Fiscal Years 2005 and 2006**

ACCOUNT	FY 2005 Beginning Balance	FY 2006 Ending Balance
Main Imprest Fund	\$6,478	\$8,090
Local Buildings Repair (Imprest Fund)	\$5,536	\$5,977
Repairs and Transportation (Imprest Fund)	\$3,987	\$2,605
Firehouse Expense Fund (Imprest Fund)	\$6,673	\$2,865
OITS Travel Advance	\$6,210	\$6,252
Medal Fund	\$33,954	\$19,420
Fire Prevention Revenue	\$0	\$98,674
*HHC Capital Corporation (Revenue Account)	\$0	\$0
**FDNY Miscellaneous Accounts (City Treasury Account)	\$0	\$0
Life Insurance Fund	\$1,495,641	\$2,944,492
<b>Total</b>	<b>\$1,558,479</b>	<b>\$3,088,375</b>

\* Transferred to a private bank account administered by HHC

\*\* Directly deposited to City Treasury

## **Objective**

Our audit objective was to determine whether the FDNY properly administers its private bank accounts in accordance with applicable rules and regulations.

## **Scope and Methodology**

This audit covered Fiscal Years 2005 and 2006. To achieve our audit objectives, we reviewed the following Comptroller's Directives outlining control and operating procedures that City agencies must follow in administering private bank accounts:

- Directive #1, "Principles of Internal Controls";
- Directive #3, "Procedures for the Administration of Imprest Funds";
- Directive #11, "Cash Accountability and Control"; and
- Directive #27, "Fiduciary Accounts Procedures for Requesting, Controlling and Monitoring."

To understand the procedures that agencies must comply with when establishing private bank accounts, we reviewed Department of Finance policies and procedures. In addition, we obtained the Department of Finance's list of all designated banks and contacts.

To determine whether we received a complete and accurate list of all bank accounts associated with the FDNY, we sent a letter to FDNY officials on June 22, 2006, that requested they confirm the information on the list. In addition, we compared the listing of bank accounts submitted to us by the FDNY, to the agency's bank account records on file with the Department of Finance and the Comptroller's Bureau of Accountancy (Accountancy) to determine whether there were any undisclosed accounts.

Specifically, we compared a preliminary list of FDNY bank accounts received from Accountancy with the certified list we obtained from the FDNY to determine whether there were any differences. Our review found that one account—the Welfare Fund checking account—was not listed on the certified list provided by the FDNY because according to FDNY officials the account was no longer active. Subsequently, FDNY officials did confirm that the account was indeed closed, and we obtained the check for the ending balance used to close the account as well as the bank statement showing an ending balance of zero.

We interviewed the following individuals:

- FDNY officials, to obtain an understanding of the disbursements and receipts for each type of account and their purposes;
- The senior director of banking relations for the Department of Finance's Treasury Bureau, to understand the Department of Finance's oversight of agency bank accounts;

- Representatives of Accountancy, to understand their responsibilities pertaining to the FDNY's revenue accounts and imprest funds.

Based on the certified list of accounts received from the FDNY, we excluded 173 of the 183 accounts from our audit scope because these accounts are for pension or are variable supplement funds that contain only pension funds, not City funds and therefore are not administered by the FDNY.<sup>1</sup> Of the remaining 10 bank accounts: 4 are imprest funds, 2 are revenue accounts, 2 are fiduciary accounts (designated as "Other" accounts), one is a City Treasury Account used for FDNY miscellaneous revenue, and one is a Life Insurance Fund checking account.

To test the accuracy and validity of account disbursements for three of the four imprest funds—the Local Buildings Repair Program, Repairs and Transportation, and the Main Imprest Fund—we randomly selected 50 checks from each account for Fiscal Year 2006.<sup>2</sup> For each of the 50 sampled payments, we reviewed canceled checks, invoices and receipts on file, and other related documentation to determine whether payments were reasonable and necessary and contained supporting documentation. We also reviewed file records to determine whether: checks were missing from the check number sequence; voided checks were cashed; documentation was altered; checks were outstanding for more than six months; checks had appropriate signatories; and disbursements complied with applicable Comptroller's Directives.

The other imprest fund—Firehouse Expense Fund—is reviewed annually by Accountancy, which analyzes 100 percent of payments issued from the account, and performs a complete review of original receipts and invoices associated with each payment from more than 400 firehouses. After the review, Accountancy issues a letter to the FDNY, notifying it of all exceptions found. We copied supporting documentation in the letter for Fiscal Year 2005, the most recent review, and analyzed the exceptions to form our own opinion about the validity of the exceptions.

Interviews with FDNY personnel disclosed that lockboxes for the two revenue accounts—Fire Prevention and the HHC Capital Corporation Account—were established at the respective financial institutions.<sup>3</sup> All payments made to these accounts are directly processed through the lockboxes. However, the FDNY may occasionally receive cash and/or checks through its cashier's office, which are sent to the lockbox daily. Therefore, for the Fire

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<sup>1</sup>Our determination was based on meetings with the FDNY Chief Accountant and the Assistant Comptroller for Bureau of Asset Management, and on an examination of independent auditor reports for the pension and variable supplement funds for years ending June 30, 2004, and June 30, 2005.

<sup>2</sup>There were 133 checks totaling \$23,533 issued for the Local Buildings Repair Program, of which the 50 sampled checks totaled \$8,709. There were 107 totaling \$15,693 checks issued for Repairs and Transportation, of which the 50 sampled checks totaled \$7,089. For the Main Imprest Fund, there were 548 checks totaling \$68,517 as of 8/9/06 (prior to FY 2006 closing), of which the 50 sampled checks totaled \$7,993. It should be noted that checks issued from Imprest Funds cannot exceed \$250

<sup>3</sup> A lockbox is a banking service in which payments or deposits are collected by the bank at a postal, or drop box, and then processed by a special department in the bank.



Prevention account, we judgmentally selected three months (March, May and June 2006) with the highest recorded receipts collected from the cashier's office. We reconciled the amounts FDNY reported as received to the bank statements to obtain reasonable assurance that the total reported as received by that office was indeed the amount reported by the bank as deposited. Detailed testing of the HHC account was not conducted since the funds are deposited directly with the bank. Both accounts are "pass-throughs"—the Fire Prevention account funds are transferred to the City Treasury; the HHC Capital Corporation account funds are transferred daily to a private bank account administered by HHC.

For the two Other accounts—OITS Travel Advance and the Medal Fund—we tested 100 percent of the receipts and disbursements for each account for Fiscal Year 2005, the latest year for which records were the most complete. We reconciled both accounts using the banks' beginning balance and the canceled checks, memorandums, invoices and other supporting documentation on file with the FDNY. In addition, we performed a detailed analysis to determine whether: checks were missing from the check order sequence; checks contained appropriate signatories and endorsements; appropriate documentation to support each payment was available; and disbursements were made in accordance with the purpose of the account.

We deemed detailed testing of the City Treasury Account to be unnecessary because of the FDNY's limited responsibilities for the account. According to the Accountancy, this account is a central clearinghouse for sub-accounts assigned to each City agency. The FDNY's role is simply to deposit checks received and enter the payments into the City's Financial Management System as a cash receipt. Accountancy is responsible for monitoring and overseeing the accounts' transactions and preparing the accounts' bank reconciliation.

Interviews with the Comptroller's Bureau of Asset Management (Asset Management) and the FDNY revealed that the Fire Department Life Insurance Fund consists of investments, which are managed by Asset Management, and a checking account, which is administered by the FDNY. To understand account oversight, we obtained from the FDNY an annual report it issues to the New York State Superintendent of Insurance entitled the "Annual Statement of the Fund" for Fiscal Year 2005; and the State of New York Insurance Department's April 2, 2003 audit report of the fund, which is issued every five years. Based on the fund's financial activity, we judgmentally selected April 2006; the month with the greatest amount paid to beneficiaries, and confirmed that the total amount was disbursed to beneficiaries. We also determined whether supporting documentation was on file for each disbursement (i.e., canceled checks, death certificates, and notarized list of designated beneficiaries). In addition, we researched each of the deceased using the City's Payroll Management System and FDNY personnel records to determine whether the deceased individuals had indeed been employed by the FDNY. We also used Lexis-Nexis to verify the date of death for these firefighters. Finally, we obtained information for checks missing from the check number sequence to determine whether they were void, damaged, or cashed.

### **Independence Disclosure**

In accordance with §13-380 of the New York City Administrative Code, "the Board of Trustees of the New York Fire Department Pension Funds shall be the head of the New York

Fire Department Life Insurance Fund.” In accordance with §13-302, the Comptroller is one of the 12 trustees and is entitled to cast three of the 24 board votes. The Comptroller is represented on the board by a designee. The Comptroller’s designee was not involved in planning or conducting this audit, or in writing or reviewing the audit report.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

### **Discussion of Audit Results**

The matters covered in this report were discussed with FDNY officials during and at the conclusion of this audit. A preliminary draft report was sent to FDNY officials on February 5, 2007. On February 14, 2007, we received written notice from FDNY officials waiving their right to an exit conference. On February 22, 2007, we submitted a draft report to FDNY officials with a request for comments. A written response was received from FDNY on March 13, 2007. In their response, FDNY officials agreed with the report’s findings and stated that the FDNY will implement two of the three recommendations and “will consider the feasibility of establishing a fiduciary account, within the City’s Financial Management System, to replace the Medal Fund account.”

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

## FINDINGS

The FDNY generally administered its 10 bank accounts in accordance with applicable rules and regulations and Comptroller's Directives. We did, however, identify minor exceptions in our review of the Main Imprest Fund, for which controls could be improved.

Notwithstanding the FDNY's general compliance with applicable rules for bank accounts, we believe that it should consider establishing a fiduciary account within the City's Financial Management System to replace its Medal Fund, so as to enhance the controls over the funds deposited in this account.

These issues are discussed in the following sections of this report.

### **Minor Exceptions**

We identified minor problems with the Main Imprest Fund. Specifically, the FDNY improperly allocated to the fund \$2,391 for transportation-related expenditures (e.g., \$206 for out-of-service vehicle repairs, and \$196 for tire replacement). These funds should be disbursed from the Repairs and Transportation account. In addition, FDNY improperly processed a recurring monthly reimbursement of \$45 (totaling \$540 for Fiscal Year 2006) for internet access. According to Comptroller's Directive #3, "Under no circumstance may imprest funds be used for any improper expenditure including, but not limited to . . . continuing monthly expenditures (e.g., ongoing rental of office equipment, internet or cell phone services)."

### **Other Issues**

To improve the FDNY's internal controls and accountability for account receipts and disbursements, we recommend that the Medal Fund be discontinued in its present form and therefore, should be established as a fiduciary account within the City's Financial Management System. Our review found that the Medal Fund is funded with interest accumulated from two non-city trust accounts administered by the financial institution holding the funds. The trust agreements for these two accounts indicate that the interest earned is to be used for the specific purpose of purchasing medals.

Comptroller's Directive #27 permits agencies to establish accounts in a custodial capacity, to be used for a specific purpose as prescribed by the agency or the donor. Maintaining funds in a private bank account increases the risk of the misappropriation of funds and the use of expenditures for purposes other than those for which the funds were intended. By maintaining these funds in a City fiduciary account, the FDNY can ensure that its internal control mechanisms and financial accountability are consistent with those in effect for all City agencies.

## RECOMMENDATIONS

The FDNY should:

1. Classify expenditures appropriately, using the proper imprest fund account.

***FDNY Response:*** “The Department agrees and will implement this recommendation.”

2. Comply with Comptroller’s Directive #3 and discontinue reimbursements for Internet access.

***FDNY Response:*** “The Department agrees and will implement this recommendation.”

3. Consult with the Comptroller’s Bureau of Accountancy on the establishment of a fiduciary account, within the City’s Financial Management System, to replace the Medal Fund account.

***FDNY Response:*** “The Department will consider the feasibility of establishing a fiduciary account, within the City’s Financial Management System, to replace the Medal Fund account.”

***Auditor Comment:*** The FDNY should establish a City fiduciary account for these funds rather than simply consider the feasibility of doing so. By maintaining the Medal Fund in a private bank account, the FDNY increases the risk of misappropriation of funds and weakens its ability to properly account for the way in which those funds are disbursed. By maintaining these funds in a City fiduciary account, the FDNY can ensure that its internal control mechanisms and financial accountability are consistent with those in effect for all City agencies



# FIRE DEPARTMENT

9 METROTECH CENTER

BROOKLYN, N.Y. 11201-3857

NICHOLAS SCOPPETTA  
*Fire Commissioner*



March 9, 2007

Mr. John Graham  
Deputy Comptroller  
Audits, Accountancy & Contracts  
Office of the Comptroller  
1 Centre Street  
New York, NY 10007

**Re: Audit Report on the New York City Fire Department's Administration of Its Bank Accounts (FM06-131A).**

Dear Mr. Graham:

Attached is a copy of FDNY's response and Agency Implementation Plan (AIP) to the three recommendations made by the Office of the Comptroller in the above mentioned audit.

Please thank your staff for the time and diligence that they put into this audit – the Department appreciates their efforts, and intends to utilize their recommendations wherever possible.

If you have any questions about our response or AIP, please contact our Chief Compliance Officer, Ray Saylor, at (718) 999-1728.

Sincerely,

A handwritten signature in black ink, appearing to read "Nicholas Scoppetta".

Nicholas Scoppetta

Attachment

cc: Stephen Rush  
Robert Scott  
Ray Saylor

**Audit Report on the New York City Fire Department's Administration of Its Bank Accounts (FM06-131A).**

**Audit Recommendations / FDNY Response – Agency Implementation Plan**

1) Classify expenditures appropriately, using the proper imprest fund account.

*FDNY Response - The Department agrees and will implement this recommendation.*

2) Comply with Comptroller's Directive # 3 and discontinue reimbursements for Internet access.

*FDNY Response - The Department agrees and will implement this recommendation.*

3) Consult with the Comptroller's Bureau of Accountancy on the establishment of a fiduciary account, within the City's Financial Management System, to replace the Medal Fund account.

*FDNY Response- Response - The Department will consider the feasibility of establishing a fiduciary account, within the City's Financial Management System, to replace the Medal Fund account.*