



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

WILLIAM C. THOMPSON, JR.
Comptroller

**Audit Report on the Controls of the
New York City Department of Finance Over Its
Neighborhood Payment Center Program**

MH01-180A

June 17, 2002

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EXECUTIVE SUMMARY

Background

In September 1997, the Department of Finance (DOF) entered into a contract with Cashpoint Inc. (Cashpoint) to provide Neighborhood Payment Centers (NPCs) to accept cash, checks, or money orders in payment of funds that customers owe the City of New York. DOF does not pay Cashpoint for this service. The program started with 12 NPCs, and by June 1999 there were 200 NPCs, the contract minimum. As of July 2001, there were 415 NPCs. DOF and Cashpoint meet monthly to discuss the program and to ensure that it is working in accordance with DOF goals and objectives.

In Fiscal Year 1998, DOF authorized the NPCs to accept payments for parking summonses. In Fiscal Year 1999, DOF added payment of real estate taxes to the NPC program. In Fiscal Year 2000, the Department of Environmental Protection (DEP) authorized NPCs to collect payments for water and sewer bills. In Fiscal Year 2001, NPCs collected total payments of \$37.2 million in 383,814 transactions for parking summonses, real estate taxes, and water bills.

When a customer pays a bill at an NPC, the customer also pays a \$1.00 convenience fee for each transaction. The NPC cashier collects the bill payment and the convenience fee, and then enters the payment details in Cashpoint's computer system, which automatically generates a receipt. At the close of each business day, a manager at each NPC deposits the check payments directly into DOF's bank account. The manager deposits the cash payments in the NPC's own bank account. Cashpoint "sweeps" all the NPC bank accounts for the daily cash collections into its own Cashpoint account. It then electronically transfers the cash payments and collection data for parking violations and real estate taxes to

the DOF bank account. The NPC manager deposits water and sewer bill payments in a separate City account for the Department of Environmental Protection.

Cashpoint oversees all the NPCs in this program and is ultimately responsible for transmitting the money that is collected at all the NPCs to the City's bank accounts by noon the next business day. Cashpoint's accounting department reconciles all NPC collections to Cashpoint's computer system daily.

Objectives, Scope, and Methodology

Our objectives were to determine: 1) whether payments collected at the Neighborhood Payment Centers are accurately recorded and promptly deposited in DOF accounts; 2) whether DOF maintains adequate internal controls over payments accepted and remitted by Neighborhood Payment Centers; 3) whether DOF monitors the individual Neighborhood Payment Centers to ensure that the program provides adequate and effective services to its customers; and 4) whether Cashpoint complies with certain provisions of its contract with the city.

The scope of our audit was Fiscal Year 2001. We interviewed various DOF officials and the President of Cashpoint, Inc. We visited 50 randomly selected NPC sites and posed basic questions regarding the NPC program to site employees. To determine whether employees were aware of their site's participation in the NPC program, we telephoned an additional 92 randomly selected NPCs and spoke with site employees. We analyzed transaction data and the results of our telephone inquiries to determine whether there was a correlation between the employee response to our questions and sites with a low number of transactions. In addition, we reviewed customer complaint report from Cashpoint's Telephone Customer Service and interviewed various DOF Helpline staff.

To determine the accuracy of payments for parking violations recorded in the City Summons Tracking and Accounts Receivable System (STARS), we randomly selected five NPCs from the 150 NPCs with the most transactions and money collected and sampled 30 parking violation transactions from April 2001 at each of the five NPCs. We reviewed record-keeping procedures at the sites, DOF's April 2001 reconciliation documents, and DOF's reimbursement records relating to over-deposits made by Cashpoint.

To determine whether the program was easily accessible to customers throughout the City, we mapped the locations of the 415 NPCs that were active as of July 2001.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in

accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, § 93, of the New York City Charter.

Results in Brief

The audit determined that overall, DOF has effective controls over the NPC program. DOF has ensured that:

- The collection of payments for summonses are accurately recorded in the STARS database. Based on our review of 143 sampled parking summons transactions at five NPCs, we concluded that the data on Cashpoint's system matched the data (the summons number and the dollar amount) on the original parking summons and in the STARS database.
- Moneys are promptly deposited. Our review of DOF's Chase Transmission Report files found that Cashpoint transmitted the total daily collections within the specified time during Fiscal Year 2001. On two occasions, although the money was deposited on time, the collection data file was transmitted late.
- DOF performs daily reconciliations for the NPC program to ensure that the number of transactions and the dollar amount of parking summonses and real estate taxes collected and transmitted by Cashpoint match the number of transactions and the dollar amount deposited in the City's bank account.
- DOF tested the software with sample data files at the first 100 NPCs to become part of the program to ensure that Cashpoint's software controls were adequate at the beginning of the contract in 1997. Although DOF did not visit or test each of the remaining NPCs, the Director of MIS reported that DOF reviews internal control reports, discusses new software releases, and tests the changes.
- NPCs are accessible to customers throughout the five boroughs. We plotted the locations of the 415 NPCs throughout the five boroughs and found that most of the geographic areas are covered by an NPC site. The contract required a minimum of 200 NPCs by June 1999; Cashpoint provided 415 NPCs as of July 2001.
- Cashpoint is in compliance with contract requirements regarding timely deposits, record retention, submission of insurance certificates and fidelity bonds, receipt information, provision of technical assistance, and report delivery.

However, there were several weaknesses that should be addressed, as follows:

- DOF's monitoring of the NPC program does not reach the level of the individual NPC. Although DOF receives monthly reports from Cashpoint that show the number of transactions and dollars collected by individual NPCs, these reports do not list NPCs with no transactions in the month, nor do they list monthly comparisons for each NPC throughout the year. As a result, DOF has no means to analyze individual NPC business volume (transactions and dollars) over time. Moreover, DOF staff does not visit or call the NPCs to verify whether services required in the contract are provided.

Our site visits or telephone calls to 142 randomly selected active NPCs revealed that employees at eight NPCs (5.6 %) were unaware that their sites accepted payments for parking summonses. Projecting this finding to the 415 active NPCs resulted in the possibility that up to 24 NPCs may have turned away prospective customers because employees at the sites gave out incorrect information.

In addition, to determine whether there was a correlation between underutilized NPCs (i.e., those with few transactions) and employees who were unaware that their site accepted payments for parking summonses, we telephoned 28 active NPCs with the lowest number of transactions in Fiscal Year 2001. Employees at 14 (50%) of the 28 NPCs told us that they did not accept parking summons payments. This is a much higher error rate than that for the 142 randomly sampled NPCs we contacted (discussed immediately above) and may explain why there are so few transactions at these NPCs.

It is in the City's interest to monitor the NPCs with low volumes of business to determine whether there are reasons for the low volume that can be remedied.

- DOF did not comply with PPB rules when it approved, in August 2000, a \$.25 convenience fee increase (from \$.75 to \$1.00) for the first renewal option period. Although Section 4-02(b)(1)(ii) of the PPB Rules permits increases in a contract amount because of additional authorized work, it appears that Cashpoint may not have supplied the additional work necessary under the PPB Rules to warrant a 33 percent increase.

In addition, that PPB Rule states that any changes to the contract amount "require appropriate price and cost analysis to determine reasonableness." It appears that DOF did not perform the requisite

analysis for a fee increase of \$.25 per transaction that increased the value of the contract by almost \$100,000 per year, based on Fiscal Year 2001 calculations.

In a letter dated August 1, 2000, Cashpoint attempted to justify its request to increase the convenience fee. Many of these justifications were, on their face, without merit and could have been easily dismissed by DOF by simply reading the contract.

- Cashpoint's Disaster Recovery Plan for its information systems did not include some items, such as: a priority list for reinstating each component of Cashpoint's information systems; a documentation list that describes the back-up documents that should be at the off-site facility used to store back-up data files in case the originals are destroyed; and procedures to test the Disaster Recovery Plan.
- There is no mechanism at DOF that quantifies and categorizes the customer complaints it receives with regard to the NPC sites. DOF does not maintain records of customer complaints, and therefore, we could not determine how often customers complained about NPCs or the nature of the complaints. Customers can also call Cashpoint's Customer Service line. According to Cashpoint, only nine customers called about the NPC program between September 2000 and October 2001. We could not verify the accuracy of this report since Cashpoint did not provide the back-up documentation we requested.
- Individual NPCs transmitted 240 (0.3%) late batches of deposits out of an estimated 81,075 batches transmitted in Fiscal Year 2001. Most of these batches were no more than five days late. However, the reports provided to DOF do not record the dollar amount of the late batches. Therefore, DOF cannot assess whether the total monetary value of late NPC deposits for the fiscal year is significant.
- Record-keeping procedures varied across the five sampled NPCs we visited. Some of the sampled NPCs kept original summonses in an unorganized fashion and did not frank them, as required by the contract.
- There were several minor areas of non-compliance with contract requirements that may affect the controls over the program. These items include: original summonses that NPCs did not always stamp with the processing date and receipt number (franking); the adequacy of insurance coverage amounts required by the contract; and a missing DOF evaluation in the City Vendor Information Exchange System (VENDEX) for Fiscal Year 2001.

- Over-deposits in DOF's bank account occurred when staff at various NPCs mistakenly used the City's deposit slip instead of NPC's slip when depositing checks from their check-cashing activities. This resulted in a total of \$1.63 million over-deposited in DOF's bank account. However, a further review showed that the frequency of over-depositing is minor, representing only .06 percent of the total estimated deposits made by 415 NPCs in a year. DOF reviews the reconciliation documents to verify the amount of reimbursement requested by Cashpoint, authorizes the reimbursement, and issues a check to Cashpoint for redistribution, thereby correcting the error.

Recommendations:

The audit resulted in eight recommendations. The following are the major recommendations. DOF should:

- Obtain from Cashpoint a listing of all NPCs that shows their six-month or yearly dollar volume of transactions, and canvass those with the lowest number of transactions (including NPCs with no transactions) to determine whether employees of those NPCs are aware that they should accept payments for parking summonses and real estate tax bills.
- Consider logging complaint calls regarding NPCs and the nature of the complaints on a trial basis to determine whether there are trends requiring specific remedies.
- Follow PPB rules when renewing or re-bidding the contract. The value of the contract to the contractor should be taken into consideration.

DOF Response

The matters covered in this report were discussed with officials from DOF during and at the conclusion of this audit. A preliminary draft report was sent to DOF officials and discussed at an exit conference held on May 20, 2002. On May 23, 2002, we submitted a draft report to DOF officials with a request for comments. We received a written response from DOF on June 7, 2002. DOF agreed with all eight recommendations made in this audit. However, it disagreed with the audit's finding that DOF did not comply with Procurement Policy Board rules when it approved a fee increase from \$.75 to \$1.00.

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INTRODUCTION

Background

In September 1997, the Department of Finance (DOF) entered into a contract with Cashpoint Inc. (Cashpoint) to provide Neighborhood Payment Centers (NPCs) to accept cash, checks, or money orders in payment of funds that customers owe the City of New York. Cashpoint is to provide a minimum of 200 NPCs throughout the five boroughs, located in such sites as check-cashing establishments, pharmacies, and convenience stores. DOF does not pay Cashpoint for this service. Rather, customers pay a convenience fee directly to the NPCs for each payment made by the customer, which was \$.70 for each New York City payment when the program began in 1997 and is currently \$1.00 for each such payment.

The program started with 12 NPCs and by June 1999 there were 200 NPCs, the contract minimum. As of July 2001, there were 415 NPCs. The NPC sites are owned by private companies that have an agreement with Cashpoint. A company may own more than one NPC site. Some NPCs also accept payments for many other kinds of bills, such as telephone and utility bills, and also cashes checks. They charge fees for those services as well, though at varying amounts.

DOF and Cashpoint meet monthly to discuss the program and to ensure that it is working in accordance with DOF goals and objectives. DOF's goals include increasing and safeguarding revenues through a streamlined payment collection process.

In Fiscal Year 1998, DOF authorized the NPCs to accept payments for parking summonses. In Fiscal Year 1999, DOF added payments of real estate taxes to the NPC program. In Fiscal Year 2000, the Department of Environmental Protection (DEP)

authorized NPCs to collect payments for water and sewer bills. In Fiscal Year 2001, NPCs collected total payments of \$37.2 million in 383,814 transactions for parking summonses, real estate taxes, and water bills, as described in Table I, below.

TABLE I
NPC Transactions and Dollars Collected
Fiscal Years 1998–2001

Fiscal Year	PARKING # Transactions / \$ Collected	REAL ESTATE # Transactions / \$ Collected	WATER AND SEWER # Transactions / \$ Collected	TOTAL # Transactions / \$ Collected
1998	44,000 / \$2.4 mil	NA / NA	NA / NA	44,000 / \$2.4 mil
1999	163,604 / \$8.6 mil	409 / \$15.7 mil	NA / NA	164,013 / \$24.3 mil
2000	299,490 / \$15.3 mil	863 / \$22.9 mil	1,245 / \$252,000	301,598 / \$38.5 mil
2001	375,362 / \$19.3 mil	947 / \$16.5 mil	7,505 / \$1.4 mil	383,814 / \$37.2 mil

Payments collected through the NPC program represent a very small percentage of the total City of New York revenues for parking summonses, real estate taxes, and water and sewer bills. Based upon data available for Fiscal Year 2000, NPC parking collections of \$15.3 million represented only four percent of that year’s total parking collections of \$358.6 million. NPC real estate and water collections were insignificant compared to their respective totals for that year: real estate payments represented 0.3 percent of the total real estate revenue of \$7.8 billion; water and sewer payments represented 0.02 percent of the total water and sewer revenue of \$1.4 billion.

How the NPC Program Works

To pay real estate taxes, a parking summons, or a water or sewer bill at an NPC, a person must present the original notice, parking summons, or bill to the cashier. The cashier may accept payments in the form of cash, check, or money order. When a person pays a bill at an NPC, the person also pays a \$1.00 convenience fee for each transaction. The cashier collects the bill payment and the convenience fee, and then enters the payment details in Cashpoint’s computer system. The system automatically generates a receipt. The original copy of the receipt is given to the customer as proof of payment.

At the close of each business day, a manager at each NPC deposits the check payments directly into DOF’s bank account. The manager deposits the cash payments in the NPC’s own bank account. Cashpoint “sweeps” all the NPC bank accounts for the daily cash collections into its own Cashpoint account. It then electronically transfers the cash payments and collection data for parking violations and real estate taxes to the DOF bank account. DOF’s bank transmits the collection data for parking violations to the Summons Tracking and Accounts Receivable System (STARS—the City’s monitoring system for the parking violation summons process) and the collection data for real estate taxes to FAIRTAX (the City’s integrated tax collection system). The NPC manager

deposits water and sewer bill payments in a separate City account for the Department of Environmental Protection.¹

Cashpoint oversees all the NPCs in this program and is ultimately responsible for transmitting the money that is collected at all the NPCs to the City's bank accounts by noon the next business day. Cashpoint's accounting department reconciles all NPC collections to Cashpoint's computer system daily.

Objectives

Our objectives were to determine:

- Whether payments collected at the Neighborhood Payment Centers are accurately recorded and promptly deposited in DOF accounts.
- Whether DOF maintains adequate internal controls over payments accepted and remitted by Neighborhood Payment Centers.
- Whether DOF monitors the individual Neighborhood Payment Centers to ensure that the program provides adequate and effective services to its customers.
- Whether Cashpoint complies with certain provisions of its contract with the city.

Scope and Methodology

The scope of our audit was Fiscal Year 2001. We developed an understanding of the program's procedures and activities through interviews with DOF officials, including the Deputy Commissioner of Taxpayer Assistance, Planning and Payment Operations, the Assistant Commissioner of Parking Violations Operations, the Quality Assurance and Integrity Control Officer, the Director of Revenue Accounting, the Director of Parking Applications, the Agency Chief Contracting Officer, and with the President of Cashpoint, Inc.

We identified 415 NPCs that were active in the program as of July 2001. Our tests were limited to parking violation transactions, and excluded water and sewer bills and real estate tax bills. Real estate tax bills represented a small portion of the total New York City bills paid at NPCs—947 of 383,814. Water and sewer bills payments are forwarded after collection to the Department of Environmental Protection, rather than to DOF, and therefore were excluded from our testing. We also mapped the locations of these active NPCs to determine whether the program was easily accessible to customers throughout the City.

¹ The Water Board handles the reconciliation process for water payments. That process was not reviewed in this audit.

To determine whether adequate customer service was provided and whether NPC sites complied with maximum fee contract requirements, we visited 50 randomly selected NPC sites in November and December 2001 and posed basic questions regarding the NPC program to site employees. We telephoned an additional 92 randomly selected NPCs and spoke with site employees to determine whether employees were aware of their site's participation in the NPC program. We analyzed the transaction data for 28 NPCs with the lowest number of transactions to determine whether there was a relationship between the employee response to our questions and the sites' low number of transactions.

We also attempted to determine the extent and nature of complaints received about the NPC program by reviewing available data maintained at Cashpoint's Telephone Customer Service and by interviewing various DOF telephone Helpline staff.

We ranked the NPCs by number of transactions and money collected in Fiscal Year 2001. Our analysis found that the highest-ranking 150 NPCs collected 75 percent of the dollars. We randomly selected five NPCs from this group and sampled 30 parking violation transactions that occurred during April 2001 at each of the five NPCs to trace the entire payment process for these violations and to determine the accuracy of the payment records at these sites. We selected this month because it was the most recent month that allowed us to trace the entire payment process for parking violation transactions. We also traced the data reported by Cashpoint on their Daily Payment Activity Detail reports to the data on the original parking summonses and in the STARS database.

In addition, we reviewed daily reconciliation documents for April 2001 to determine whether the dollar amount deposited in the DOF Chase Bank account matched the dollar amount reported by Cashpoint. We reviewed various documents provided by the contractor and by Chase Bank to determine the promptness of deposits. We also reviewed reimbursement records to determine the extent of over-deposits.

We reviewed the DOF contract with Cashpoint and the Agency Chief Contracting Officer files to determine compliance with the contract requirements and the adequacy of the internal control environment as specified in the contract. We reviewed the Disaster Recovery Plan submitted by Cashpoint to determine whether it was adequate to safeguard the City's funds. We compared Procurement Policy Board (PPB) rules related to contracts to the procedure followed by DOF when renewing this contract to determine compliance with PPB rules.

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

DOF Response

The matters covered in this report were discussed with officials from DOF during and at the conclusion of this audit. A preliminary draft report was sent to DOF officials and discussed at an exit conference on May 20, 2002. On May 23, 2002, we submitted a draft report to DOF officials with a request for comments. We received a written response from DOF on June 7, 2002. DOF agreed with all eight recommendations made in this audit. However, it disagreed with the audit's finding that DOF did not comply with Procurement Policy Board rules when it approved a fee increase from \$.75 to \$1.00.

**OFFICE OF THE COMPTROLLER
NEW YORK CITY**

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FINDINGS AND RECOMMENDATIONS

Based on our review of DOF's contract with Cashpoint, testing of a sample of transactions, and visits to 50 NPCs, we found that overall, the collection of payments for summonses is accurately recorded on the DOF database, moneys are promptly deposited, the internal controls over payments collected by the NPCs are adequate, and NPCs are located throughout the five boroughs. With a few minor exceptions, Cashpoint is in compliance with its contractual requirements.

Notwithstanding the above findings, DOF's monitoring of the NPC program could be improved. DOF officials cannot ensure that the services required in the contract are consistently provided at all NPCs. In fact our testing of NPCs showed the following:

- Employees at 5.6 percent of the 142 randomly sampled active NPCs were unaware that their site accepted payments for parking summonses. This error rate increased to 50 percent for the 28 NPCs that had five or fewer transactions in Fiscal Year 2001.
- Some NPCs had inadequate record-keeping procedures.

The following sections of this report describes our findings.

Monitoring of NPC Program Can Be Improved

DOF's monitoring of the NPC program does not reach the level of the individual NPC. Rather, monitoring of the NPCs is left to the contractor.

Since DOF does not monitor or visit NPCs, it cannot determine whether services required in the contract are provided, and it cannot identify customer service problems. While our site visits to 50 randomly sampled NPCs confirmed that they all charged no more than the allowable \$1.00 fee, our site visits or telephone calls to 142 randomly selected active NPCs revealed that employees at eight NPCs (5.6 %) were unaware that their sites accepted payments for parking summonses.² Projecting this finding to the 415 active NPCs resulted in the possibility that up to 24 NPCs may have turned away prospective customers because employees at the sites gave out incorrect information.³

DOF also does not monitor the NPC's tracking of the volume of business at each NPC. DOF receives monthly written reports from Cashpoint that show transactions and dollars collected by NPCs. However, this report does not list NPCs with no transactions in the month, nor does it list monthly comparisons for each NPC throughout the year. Therefore, DOF has no means by which to analyze NPC business volume (transactions and dollars) over time.

² We visited 50 NPC locations and telephoned an additional 92 NPC locations.

³ Statistical projection is based on a 95 percent confidence level and a precision level of 3.08 percent.

We discussed this matter with DOF officials, who stated that “NPCs without transactions are Cashpoint’s concern not DOF’s.” We disagree. One of DOF’s goals is to “increase revenue collection while streamlining the payment process,” and to “collect and safeguard revenues while enhancing customer service.”⁴ Therefore, to improve the program’s effectiveness, DOF should be concerned about NPCs with low or no volume of business, since tracking those NPCs could help to identify ways to increase revenue collection and to avoid potential customer service problems.

Our own analysis revealed that there were 38 (9%) NPCs that had fewer than 13 transactions in an entire Fiscal Year, 16 (4%) of which had no transactions at all. To determine whether there was a correlation between underutilized NPCs (i.e., those with few transactions) and employees who were unaware that their site accepted payments for parking summonses, we telephoned 28 active NPCs with the lowest number of transactions in Fiscal Year 2001.⁵ Employees at 14 (50%) of the 28 NPCs told us that they did not accept parking summons payments. This is a much higher error rate than that for the randomly sampled population above and may explain why there are so few transactions at these NPCs.

In conclusion, it is in the City’s interest to monitor the NPCs with low volumes of business to determine whether there are reasons for the low volume that can be remedied.

Monitoring of Customer Complaints

Customer complaints about NPC transactions can be a helpful indicator of the program’s success or failure. However, there is no mechanism at DOF that quantifies and categorizes the customer complaints it receives with regard to the NPC sites.

Customers can make complaints via the DOF Helpline telephone number listed on their receipt, or to the Cashpoint Customer Service line (number not listed on the receipt, but available at each NPC). However, since DOF does not maintain records of customer complaints, we could not determine how often customers complained about NPCs or the nature of the complaints. For instance, we could not determine if there were complaints that customers had received a City notice of non-payment after they had made the payment at an NPC, or if there were complaints about the behavior of employees, the slowness of service, or other types of complaints. (DOF staff at the Helpline stated that they received few complaints regarding the NPC program. They estimated that each month they received just 25 to 40 NPC-related calls out of 25,000 to 40,000 total calls.)

Customers can also call Cashpoint’s Customer Service line. According to Cashpoint, only nine customers called about the NPC program between September 2000 and October 2001. According to Cashpoint’s staff, seven of the nine calls dealt with verification of payments, and the remaining two calls dealt with the entry on the receipt

⁴ DOF’s goals as reported in the Mayor’s Management Reports, 1997 through 2001.

⁵ These NPCs had between zero and five parking summons transactions for all of Fiscal Year 2001.

of the wrong license plate number for payments of parking violations. We could not verify the accuracy of these statements, since Cashpoint did not provide the back-up documentation we requested.

Recommendations

The Department of Finance should:

1. Obtain from Cashpoint a listing of all NPCs that shows their six-month or yearly dollar volume of transactions, and canvass those with the lowest number of transactions (including NPCs with no transactions) to determine whether employees of those NPCs are aware that they should accept payments for parking summonses and real estate tax bills.

DOF Response: “We agree. We have commenced discussions with the vendor to review data and procedures from those centers that show limited payment transactions. Also, we have instructed the vendor to take appropriate remedial action in this area, such as retraining of all center personnel.”

2. Consider logging complaint calls regarding NPCs and the nature of the complaints on a trial basis to determine whether there are trends requiring specific remedies.

DOF Response: “We agree. On May 15 the Department of Finance began logging NPC complaints at its Parking Violation telephone helpline.”

3. Ask Cashpoint to maintain a record of complaint calls that can be made available to DOF for the analysis suggested in recommendation #2.

DOF Response: “We agree and have instructed the vendor to begin logging NPC complaints at its customer service telephone center effective Saturday, June 1, 2002.”

NPC Transactions Are Accurately Recorded

Transactions for parking summonses reported by Cashpoint were accurately recorded in the STARS database. Based on our review of 143 sampled parking summons transactions at five NPCs, we concluded that the data on Cashpoint’s system matched the data (the summons number and the dollar amount) on the original parking summons and in the STARS database. The sample was chosen from Cashpoint’s Daily Payment Activity Detail report

However, record-keeping procedures varied across the five sampled NPCs we tested. One NPC kept original summonses stamped with the processing date and receipt number (“franking”) and filed by date, as required by the contract, but the other four NPCs kept original summonses in an unorganized fashion and did not frank them. For 113 of the 143 transactions, we were not able to determine whether in fact the summonses were paid on the date recorded on Cashpoint’s Daily Payment Activity Detail report because the summonses were unfranked (this issue is discussed later in the report).

Recording of Over-Deposits

In Fiscal Year 2001, because of clerical errors, a total of \$1.63 million was over-deposited in DOF’s bank account. The errors occurred when staff at various NPCs mistakenly used the City’s deposit slip instead of NPC’s slip when depositing checks from their check-cashing activities. A further review showed that the frequency of over-depositing is minor, representing only .06 percent of the total estimated deposits made by 415 NPCs in a year. Furthermore, these errors occurred at NPCs throughout the City and ranged from a low of \$1,106 for one company to a high of \$238,107 for another company, in Fiscal Year 2001. (Each company may have one or more NPCs where these errors occurred.) The companies with the largest dollar amount of over-deposits are shown in Table III, following.

TABLE III

**Check-Cashing Companies with the Highest Dollar Amounts
of Over-Deposits in Fiscal Year 2001**

Company	Number of NPCs	Number of Occurrences	Total Over- Deposit \$
C.L.B. Check Cashing, Inc.	4	6	\$ 238,107
Action Check Cashing	2	2	\$ 179,371
Whitestone Check Cashing	6	12	\$ 146,516
I & B Check Cashing Corp.	2	4	\$ 145,014
SDM Check Cashing Corp.	2	2	\$ 135,868
Prima Check Cashing, Inc.	3	4	\$ 111,565

According to DOF, its daily reconciliations reveal these errors, but DOF does not correct them until it receives a request for reimbursement from Cashpoint. At that time DOF reviews the reconciliation documents to verify the amount in question. After DOF authorizes the reimbursement, approximately a month after the over-deposit was made, it issues a check to Cashpoint for redistribution and thereby corrects the error.

Payments Collected by NPCs Are Promptly Deposited

Moneys for parking violations collected by Cashpoint are deposited promptly in DOF's bank account each day. According to the contract, Cashpoint is responsible for electronically transmitting the total daily collections, including cash and checks, in the City's account no later than 12:00 noon the following business day.⁶ Our review of DOF's Chase Transmission Report files found that Cashpoint transmitted the total daily collections within the specified time during Fiscal Year 2001. On two occasions the collection data file was transmitted late.

We also reviewed the collection deposits made by the individual NPCs. According to the contract, "each NPC must deposit all cash equivalents and check payments they receive via 'Electronic Payment Tickets' in the designated Department consolidation bank accounts at the nearest branch of the Department authorized bank depository by no later than 11:00 am the next banking business day."⁷

Our review of Cashpoint's Lateness in Transmission reports provided to DOF showed that the individual NPCs transmitted 240 late batches (0.3%) out of an estimated 81,075 batches transmitted in Fiscal Year 2001. Most of these late batches were no more than five days late. However, the reports provided to DOF do not record the dollar amount of the late batches. Therefore, DOF cannot assess whether the total monetary value of late NPC deposits for the fiscal year is significant.

We totaled the dollar value of the late batches that occurred only in April 2001 by reviewing daily bank records for that month. By calculating this amount, we were able to determine the proportion of the dollar amounts collected that were deposited late by the NPCs for one month. We found that in April, there was a total of 21 late batches totaling \$3,316.⁸ This represented 0.2 percent of April's \$1,667,241 parking summons payments collected at the NPCs. Although the total dollar value of the late April NPC deposits appears to be minimal, the Lateness in Transmission report does not provide DOF an overall view of the dollar value of NPC late deposits throughout the year.

Recommendation

4. DOF should require Cashpoint to include the dollar amount of each late NPC deposit on the Lateness in Transmission report, in addition to the number of batches.

DOF Response: "We agree and have instructed the vendor to include this information starting with the June 2002 monthly lateness report."

⁶ Contract Article 7-Deliverables , item no. 3

⁷ Contract Article 6-Deposit of Funds.

⁸ These 21 batches were deposited an average of 5.6 days late.

Internal Controls Are Adequate To Protect the City's Funds

DOF has internal controls in place to ensure that funds collected by Cashpoint are adequately safeguarded. These internal controls include: (1) daily reconciliations, (2) information systems controls (Disaster Recovery Plan), and (3) compliance with contract requirements (record retention, reporting, insurance, and bonding). These three internal controls are discussed in this section, noting the improvements that can be made.

Daily Reconciliations

DOF performs daily reconciliations for the NPC program. This ensures that the number of transactions and the dollar amount of parking summonses and real estate taxes collected and transmitted by Cashpoint match the number of transactions and the dollar amount deposited in the City's bank account. According to Comptroller's Directive #11, § 5.2, "Reconciliations of both the number of transactions and the dollar amount must be made promptly upon receipt of statements from financial institutions. Daily reconciliations should be made when practicable."

We examined DOF's April 2001 files of parking violation payments and found that DOF performed daily reconciliations for each of the 21 business days, totaling \$1.67 million. In addition, we tested DOF's reconciliation procedure and performed our own reconciliations. Based on our test of the moneys collected for the 21 days, we determined that the DOF reconciliation procedure is adequate to verify moneys collected by Cashpoint.

Information Systems Controls

We were unable to perform an independent review of the controls written into Cashpoint's software because it is proprietary information, as agreed to in the contract. Nor has DOF reviewed Cashpoint's software, according to a DOF Director of Management Information Systems (MIS).

However, to ensure that Cashpoint's software controls were adequate, at the beginning of the contract in 1997, DOF tested the software with sample data files at the first 100 NPCs to become part of the program. Although DOF did not visit or test each of the remaining NPCs, the Director of MIS reported that DOF reviews internal control reports, discusses new software releases, and tests the changes. The January 2001 DOF-Cashpoint monthly meeting notes, for example, indicate that participants discussed problems with controls in the software that should have, but did not, reject invalid summons numbers.

Disaster Recovery Plan Weaknesses

A Disaster Recovery Plan is a contingency plan to respond to and recover from unexpected and sudden disruptions of data processing service, and to prevent any resulting minor problems from becoming major and any major problems from becoming catastrophic. As part of the internal control review, the Management Audit EDP Unit of the Comptroller tested the adequacy of Cashpoint's Disaster Recovery Plan. The EDP Unit noted that the following items were not included in the Disaster Recovery Plan:

- Steps DOF will take to determine whether an event is serious enough to activate the plan.
- The responsibility assigned to each person on the recovery team.
- A priority list for reinstating each component of Cashpoint's information systems.
- A documentation list that describes the back-up documents that should be at the off-site facility used to store back-up data files in case the originals are destroyed.
- Procedures to test the Disaster Recovery Plan.

These weaknesses were immediately reported to DOF. DOF responded that it would request that Cashpoint update the Disaster Recovery Plan to incorporate these items. DOF will meet with Cashpoint to discuss the scheduling of an annual test of Cashpoint's Disaster Recovery Plan. Finally, DOF will consult with Cashpoint in the event that Cashpoint or DOF considers declaring a disaster. The application software and hardware are not used by the City, so Cashpoint, not DOF, would have the first indication of problems at any of their sites. As DOF is just one of Cashpoint's clients, DOF officials stated that they would rely on Cashpoint's expertise to make the final decision as to whether to activate the Disaster Recovery Plan.

Compliance with Contract Requirements

Cashpoint is in compliance with contract requirements regarding timely deposits, record retention, submission of insurance certificates and fidelity bonds, receipt information, provision of technical assistance, and report delivery. However, there were several minor areas of non-compliance that may affect the control environment.

Original summonses, reviewed at the NPCs, did not always have a stamped processing date and receipt number ("franking"). The contract requires the contractor to frank certain documents, including parking summonses and real estate tax bills. The date and receipt number stamped on the summons should match the date and receipt number on the customer's receipt. This information is useful because it provides a means of tracing the transaction from its inception. Therefore, if summonses are not franked, we cannot state with certainty that Cashpoint's computer reports were complete and included all of the summonses and bills brought in by customers.

Cashpoint is in compliance with the insurance requirements stated in the contract. However, in view of the growth of the program, DOF may want to review the coverage amounts to determine whether they are sufficient for the amount of business now being handled by Cashpoint. DOF officials agreed to review the coverage amounts.

Although DOF evaluated the contractor in a yearly formal evaluation entered in the City Vendor Information Exchange System (VENDEX) in July 2000, as required by § 4-01, item (2) of the PPB Rules, it has not entered an evaluation for Fiscal Year 2001. DOF officials stated that generally they are very satisfied with the contractor's performance.

Recommendations

The Department of Finance should:

5. Require Cashpoint to train NPC employees to ensure that they adhere to contractual franking requirements.

DOF Response: "Finance agrees with this recommendation and will begin sampling franked documents with the June 2002 report to ensure compliance."

6. Submit to VENDEX the formal annual evaluation of the contractor, as required.

DOF Response: " Finance agrees with this recommendation. During the first three years of the contract the annual evaluation was completed and forwarded timely to Vendex. However, in year 4, the period being audited, we did not complete an annual evaluation. Normally, the evaluation would have been completed by September 15, the anniversary date of the contract. However, in the aftermath of the events of September 11 we overlooked the submission. The evaluation will be completed and submitted to Vendex forthwith."

7. Review the contract-required insurance coverage amounts to determine whether an increase in coverage is necessary.

DOF Response: "Finance concurs with the recommendation and will undertake a review of the insurance coverage risk."

DOF Did Not Comply With the PPB Rules When Approving the Fee Increase

The contract provided for an increase in the convenience fee from \$.70 to \$.75 per transaction for the last two years of the contract (which were the optional two one-year renewal periods beyond the initial three year contract term).¹⁰ In August 2000, DOF approved a \$.25 increase (from \$.75 to \$1.00) to the fee for the first renewal option period.

Although Section 4-02(b)(1)(ii) of the PPB Rules permits increases in a contract amount because of additional authorized work, it is at best questionable whether Cashpoint performed any additional authorized work beyond that required under its contract. In addition, that same PPB Rule provides that any changes to the contract amount “require appropriate price and cost analysis to determine reasonableness.” It appears that DOF did not conduct the requisite analysis for a fee increase of \$.25 per transaction that increased the value of the contract by almost \$100,000 per year, based on Fiscal Year 2001 calculations.

In a letter dated August 1, 2000, Cashpoint attempted to justify its request to increase the convenience fee provided in the contract by \$.25 per transaction. Many of these justifications were, on their face, without merit and could have been easily dismissed by DOF by simply reading the contract.

For example, as part of its justification for an increase, Cashpoint claimed that it made software adjustments that were not called for in the contract, “such as changing NPC to NPAC [acronym for Neighborhood Payment Acceptance Center] on the receipts and check franking.” However, Article 8 of the contract states, “The Contractor may not increase its fee schedule due to changes in the information to be included on PAC customer receipts,” and Article 9 of the contract states, “The Contractor may not increase its fee schedule due to changes in franking requirements.” Accordingly, these software changes did not constitute additional authorized work beyond that contemplated under the contract.

In addition, Cashpoint asserted that it was entitled to a fee increase because “[they] did not anticipate the water bill implementation, nor did they charge for the programming, reporting, training, installation and processing of the new work.” However, Article 11d of the contract provides that DOF can require Cashpoint to accept customer payments to other New York City agencies and payments of other DOF taxes at no extra charge (although DOF can bill for these services in accordance with the fee schedule set forth in the contract). Accordingly, Cashpoint was not entitled to a fee increase for accepting payments to other New York City agencies.

¹⁰ The initial term of the contract was for a three-year period beginning in September 1997. The contract was renewable for up to two additional one-year terms.

Cashpoint also argued that it provided the public a telephone locator number, even though it was “not specifically directed in the contract” to do so. However, Article 21 of the contract specifically requires that “the contractor shall provide a general information telephone number for use by the public to find the names, addresses and hours of operation of PAC locations.” Therefore, Cashpoint was indeed “directed” under the contract to provide a telephone locator number and was not entitled to a fee increase for doing so.

Moreover, Cashpoint claimed that at the City’s request, it provided 200 more NPCs than it was obligated to provide under the contract (the contract states that Cashpoint has to provide a minimum of 200 NPCs, and it actually provides about 400). However, DOF officials stated that DOF did not request that Cashpoint provide more than the 200 required NPCs called for in the contract. Therefore, the provision of additional NPCs is not additional authorized work, which is the criterion set forth in PPB Rule 4-02 in order to qualify for an increased contract amount. It bears noting that it would likely be in Cashpoint’s interest to provide as many NPCs as possible of its own accord, because additional sites generate additional revenue for Cashpoint from the payment of City and non-City bills.

In response to our inquiries during the course of the audit, DOF stated that the \$1.00 fee (including the \$.25 increase) was less than the cost of a local bus or subway fare that customers would have to pay if they went to a DOF borough office to pay their bill. However, we believe that this argument is not sufficiently sensitive to the fact that many people who use NPCs probably do so because of their low income or because they have no bank account.

DOF Response: “In August 2000, the vendor requested an increase in the convenience fee during the 4th year of the five-year contract and set forth, as justification, numerous additional services, including program expansion, software upgrades and related improvements. Finance’s contract management team reviewed the justification with the Chief Contracting Officer and concluded that the fee increase was justified. While it is correct that some of the services mentioned in the justification were part of the vendor’s original contract responsibility, Finance approved the increase mostly because the vendor agreed to double the number of locations accepting our payments.”

Auditor Comment: DOF’s argument that Cashpoint’s fee increase was justified based on an increase in the number of locations is not valid. During the audit period, we spoke with various DOF officials, and they all concurred that DOF did not request that Cashpoint provide more than the 200 required NPCs called for in the contract. In fact, Cashpoint took it upon itself to increase the number of NPC locations. It was in Cashpoint’s best interest to provide additional sites since these sites were already in place providing similar services and could generate additional revenue with minimal effort on the part of Cashpoint.

Recommendation

8. DOF should follow PPB rules when renewing or re-bidding the contract. The value of the contract to the contractor should be taken into consideration.

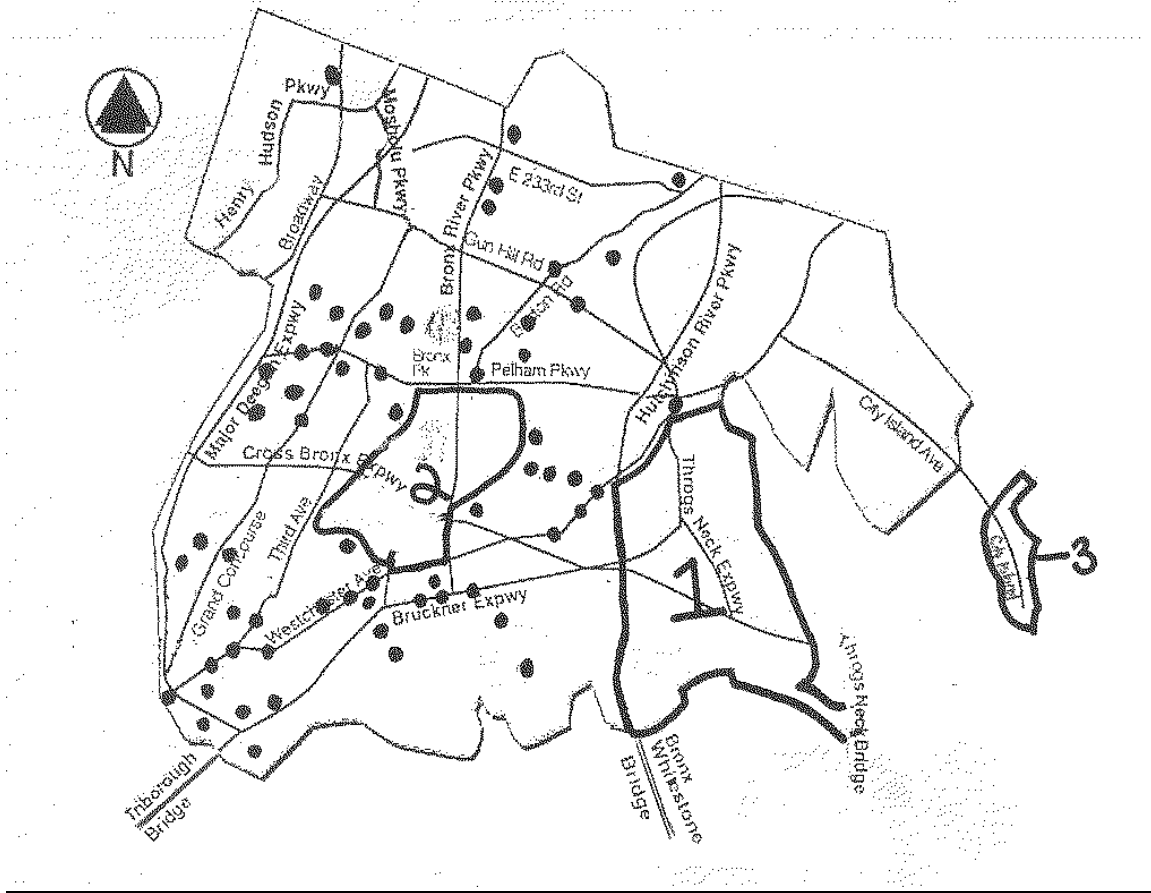
DOF Response: “Finance agrees that the PPB should be adhered to at all times. However, as previously noted, we disagree with the auditor’s conclusion that the rules were violated in conjunction with this contract.”

The Five Boroughs Are Adequately Covered by NPC Sites

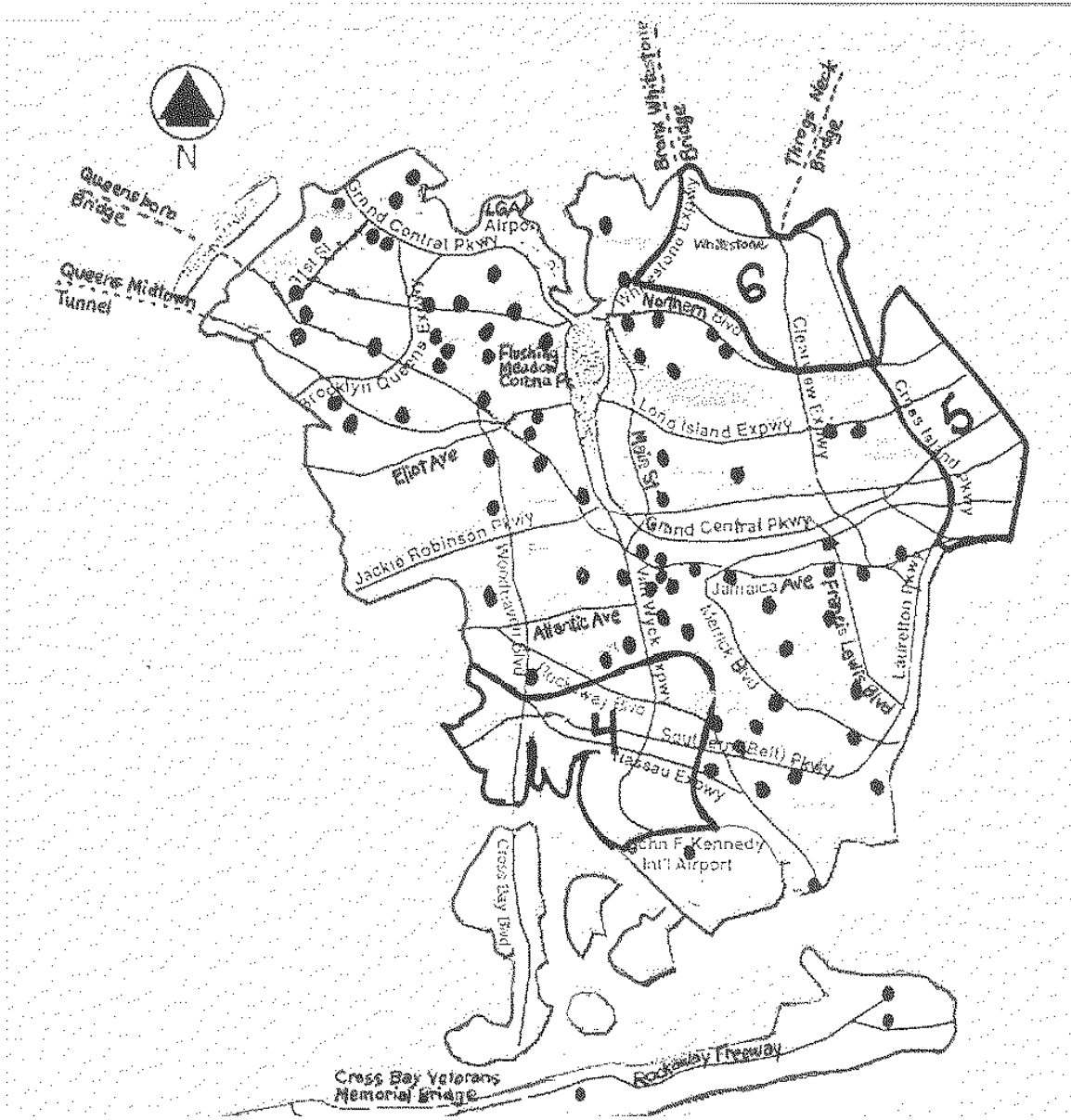
We plotted the locations of the 415 NPCs throughout the five boroughs and found that most of the geographic areas are covered by an NPC site. As noted earlier, the contract required a minimum of 200 NPCs by June 1999, and Cashpoint actually provided 415 NPCs as of July 2001. Only a few neighborhoods in the City are not covered by an NPC as listed below. (See Appendix I – V for NPC locations by borough.)

- In the Bronx, the areas surrounding Throgs Neck/Schuyerville, Tremont/East Tremont around Crotona Park, and City Island.
- In Queens, the areas surrounding Howard Beach/South Ozone Park/South Jamaica, Douglaston/Little Neck/Glen Oaks, and Whitestone/Beechhurst/Auburndale.
- In Manhattan, Roosevelt Island and a portion of the Upper East Side bordered by 2nd and 5th Avenues, between 59th and 104th Streets.
- In Staten Island, the area surrounded by the Staten Island Expressway and Richmond Ave.

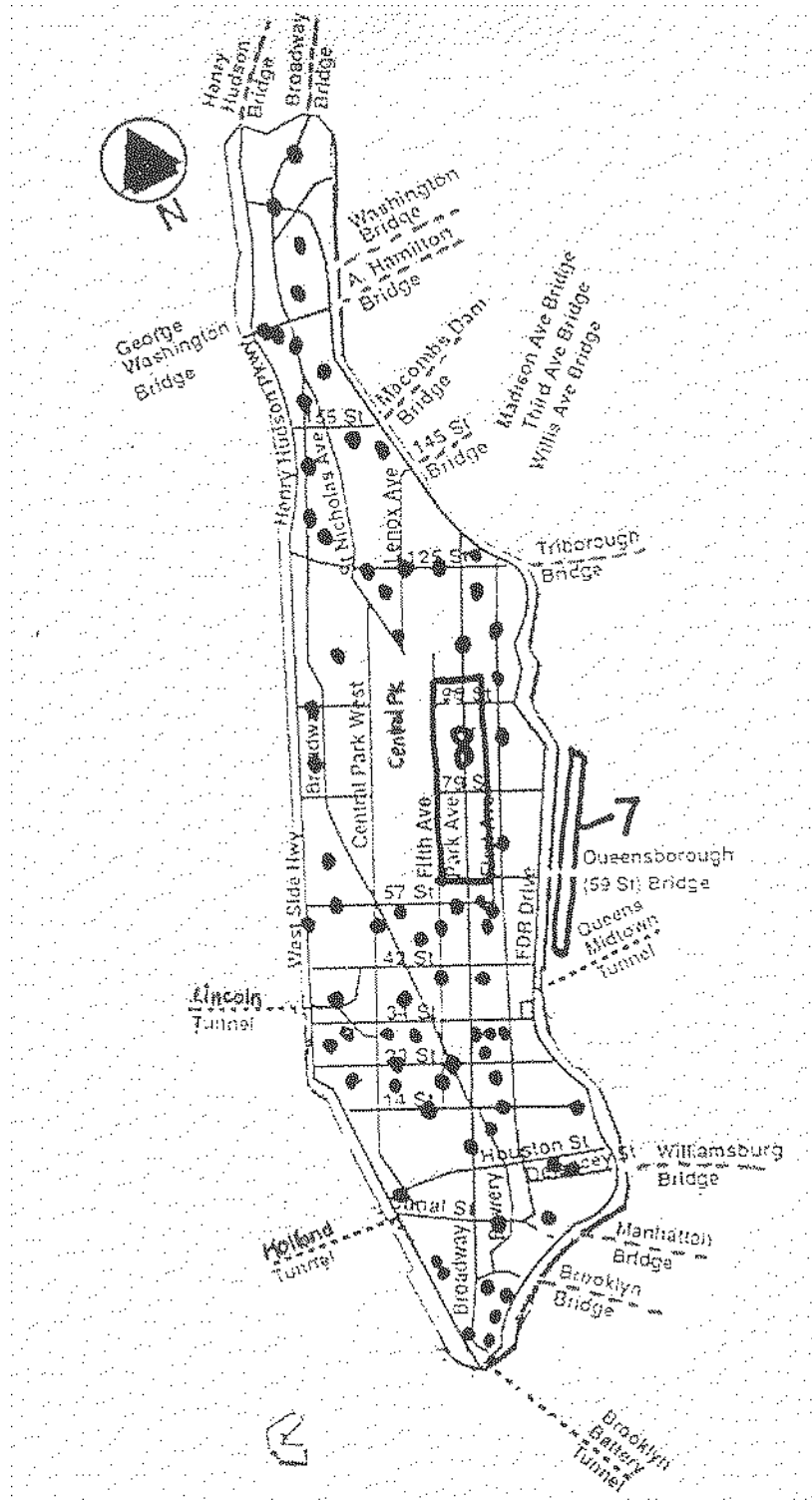
APPENDIX I
NPC Locations in the Bronx
Neighborhoods with no NPC: #1, #2, and #3



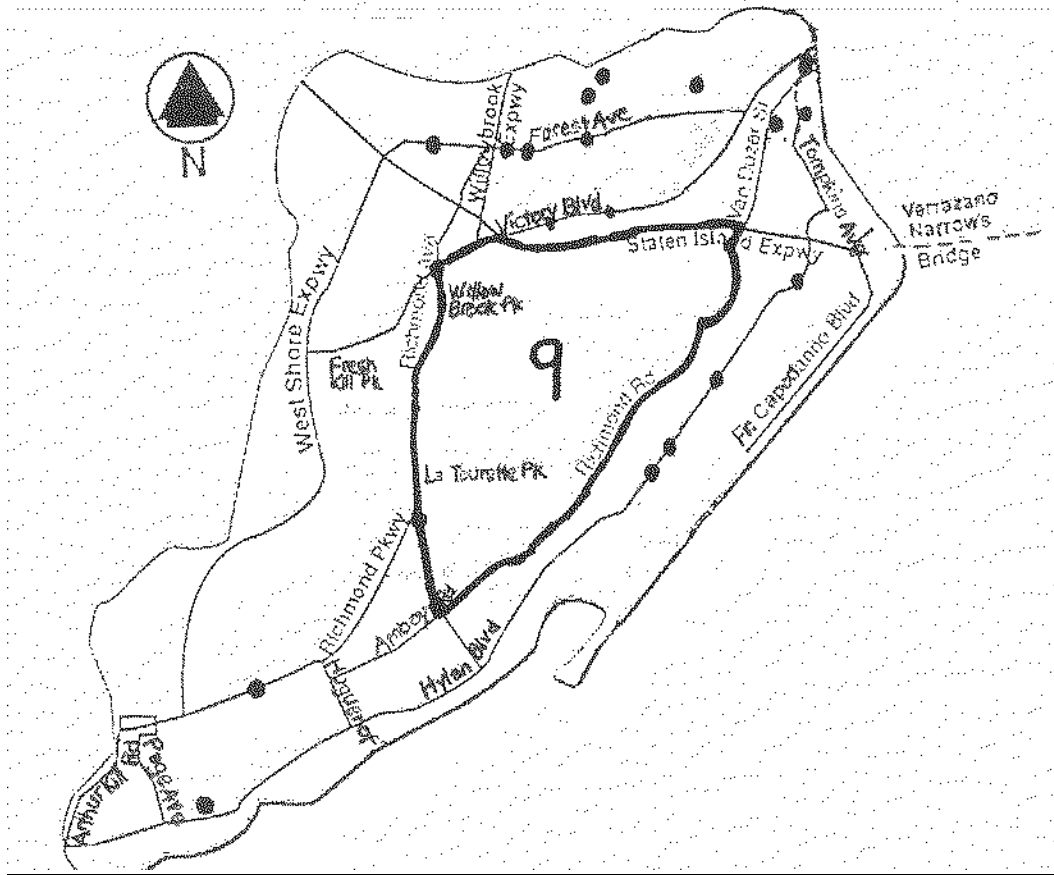
APPENDIX II
NPC Locations in Queens
Neighborhoods with no NPC: #4, #5, and #6



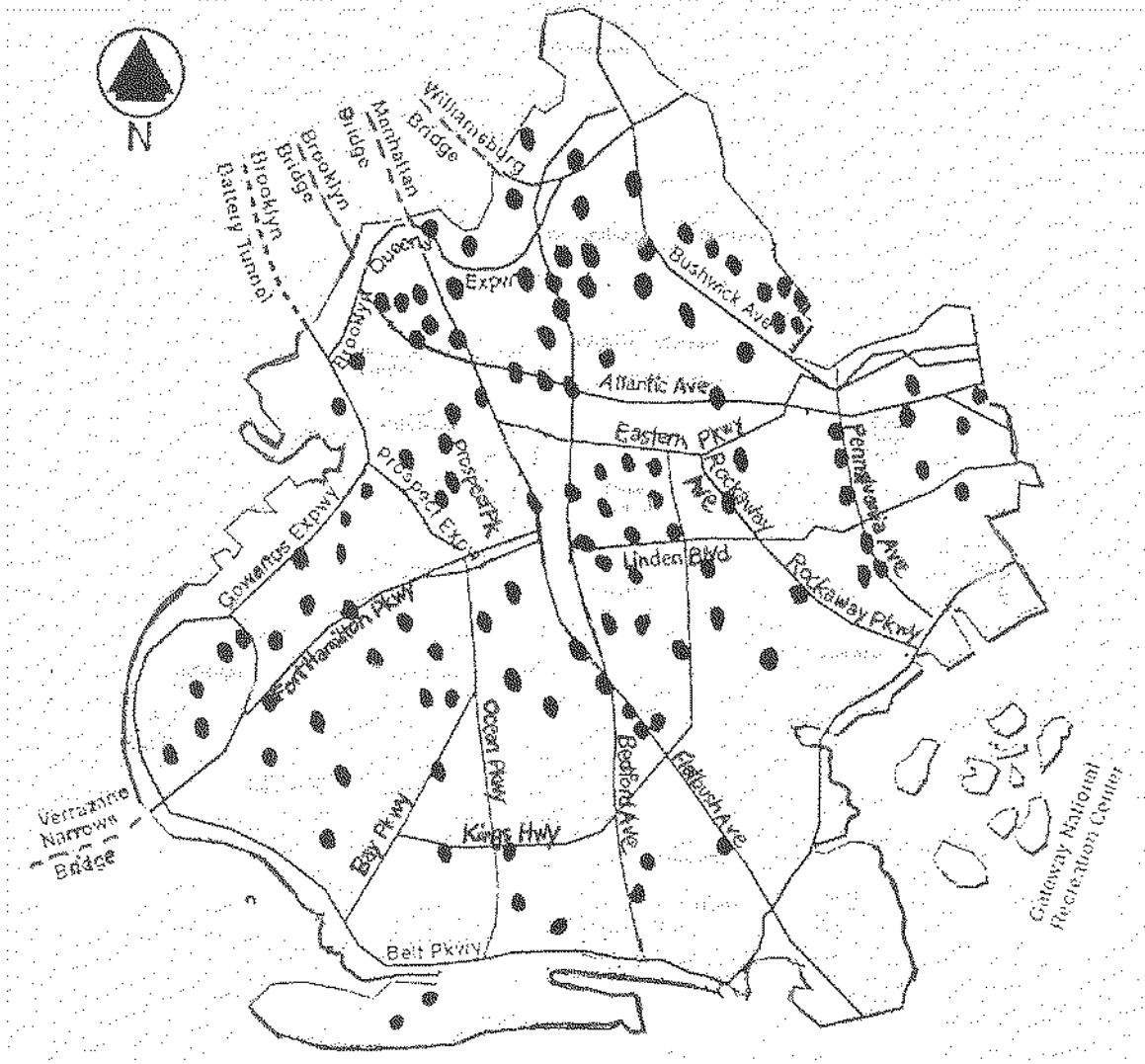
APPENDIX III
NPC Locations in Manhattan
Neighborhoods with no NPC: #7 and #8



APPENDIX IV
NPC Locations in Staten Island
Neighborhoods with no NPC: #9



APPENDIX V
NPC Locations in Brooklyn



ADDENDUM

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June 7, 2002

Roger D. Liwer
Assistant Comptroller for Audits
Office of the New York City Comptroller
1 Centre Street, Room 1100 North
New York, New York 10007-2341

Delivered by hand

**RE: Draft Audit Report on the Controls of the
Department of Finance over its
Neighborhood Payment Center Program
Audit Number: MH01-180A**

Dear Mr. Liwer:

Thank you for the opportunity to review and comment on the above-referenced draft audit report, which confirms that payments processed through the Neighborhood Payment Centers (NPCs) by the Department's vendor are recorded accurately, deposited promptly and reconciled daily.

Though I agree with most of the report's observations and recommendations, I respectfully disagree with the finding that Finance violated Procurement Policy Board (PPB) rules when it approved a fee increase from \$.75 to \$1.00.

In August 2000, the vendor requested an increase in the convenience fee during the 4th year of the five-year contract, and set forth, as justification, numerous additional services, including program expansion, software upgrades and related improvements. Finance's contract management team reviewed the justification with the Chief Contracting Officer and concluded that the fee increase was justified. While it is correct that some of the services mentioned in the justification were part of the vendor's original contract responsibility, Finance approved the increase mostly because the vendor agreed to double the number of locations accepting our payments.

ADDENDUM

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In addition, we have the following responses to the auditor's recommendations:

Auditor's Recommendation #1 – The Finance Department should obtain a listing of all NPCs, showing their six-month or yearly dollar volume of transactions. Finance should then canvass those with the lowest number of transactions (including NPCs with no transactions) to determine whether employees of those NPCs are aware that they should accept payments for parking summonses and real estate tax bills.

Agency Response – We agree. We have commenced discussions with the vendor to review data and procedures from those centers that show limited payment transactions. Also, we have instructed the vendor to take appropriate remedial action in this area, such as retraining of all center personnel.

Auditor's Recommendation #2 – The Department should consider logging complaint calls regarding NPCs and the nature of the complaints on a trial basis to determine whether there are trends requiring specific remedies.

Agency Response – We agree. On May 15 the Department of Finance began logging NPC complaints at its Parking Violation telephone helpline.

Auditor's Recommendation #3 – The Department should ask the vendor to maintain a record of complaint calls that can be made available to Department of Finance for the analysis suggested in recommendation #2.

Agency Response – We agree and have instructed the vendor to begin logging NPC complaints at its customer service telephone center effective Saturday, June 1, 2002.

Auditor's Recommendation #4 – The Department of Finance should require the vendor to include the dollar amount of each late NPC deposit on the Lateness in Transmission report, in addition to the number of batches.

Agency Response – We agree and have instructed the vendor to include this information starting with the June 2002 monthly lateness report.

Auditor's Recommendation #5 – Finance should require the vendor to train NPC employees to ensure that they adhere to contractual franking requirements.

Agency Response – Finance agrees with this recommendation and will begin sampling franked documents with the June 2002 report to ensure compliance.

Auditor's Recommendation #6 – Finance should submit to VENDEX the formal annual evaluation of the contractor, as required.

ADDENDUM

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Agency Response - Finance agrees with this recommendation. During the first three years of the contract the annual evaluation was completed and forwarded timely to Vendex. However, in year 4, the period being audited, we did not complete an annual evaluation. Normally, the evaluation would have been completed by September 15, the anniversary date of the contract. However, in the aftermath of the events of September 11 we overlooked the submission. The evaluation will be completed and submitted to Vendex forthwith.

Auditor's Recommendation #7 - Finance should review the contract-required insurance coverage amounts to determine whether an increase in coverage is necessary.

Agency Response - Finance concurs with the recommendation and will undertake a review of the insurance coverage risk.

Auditor's Recommendation #8 - Finance should follow PPB rules when renewing or re-bidding the contract. The value of the contract to the contractor should be taken into consideration.

Agency Response - Finance agrees that the PPB should be adhered to at all times. However, as previously noted, we disagree with the auditor's conclusion that the rules were violated in conjunction with this contract.

Thank you again for the opportunity to review this draft audit. If you have any questions regarding this response or require any additional information, please call Jesse Ostrow, my Chief Financial Officer, at 212-669-4480.

Sincerely,

Martha E Stark

Martha E. Stark
Commissioner

CC: Peter Lempin, Finance
Jesse Ostrow, Finance