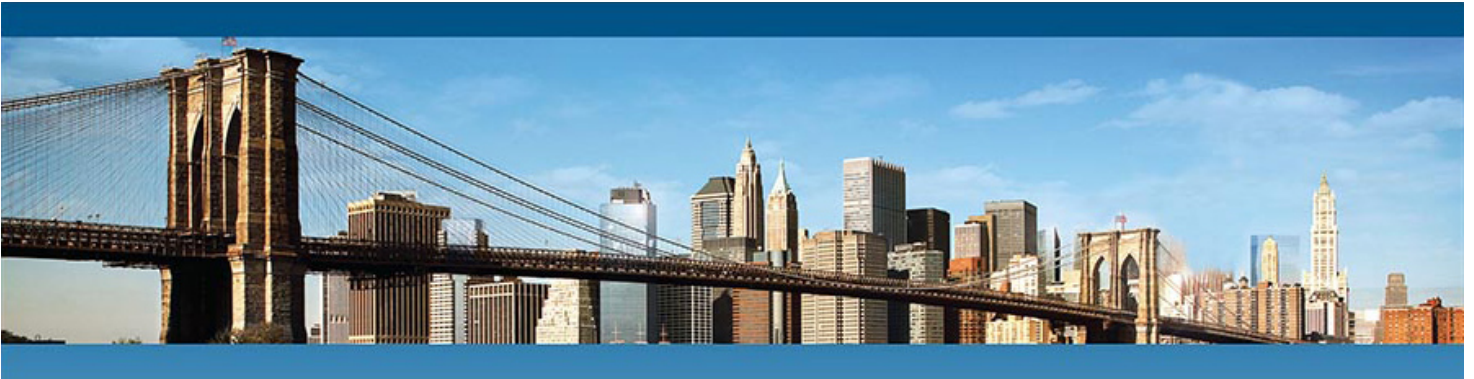




City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



AUDITS AND SPECIAL REPORTS

Marjorie Landa

Deputy Comptroller for Audit

Audit Report on the Department of
Environmental Protection's Billing of
Hotels for Water and Sewer Usage

SR18-076A

November 5, 2018

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

November 5, 2018

To the Residents of the City of New York:

My office has audited the Department of Environmental Protection (DEP) to determine whether DEP is accurately billing hotels for water and sewer usage and whether DEP is making efforts to collect all outstanding water and sewer usage fees from those properties. We perform audits such as this to ensure that City agencies operate efficiently and are accountable for resources and revenues in their charge.

This audit found that DEP properly billed 1,180 (97 percent) of the 1,211 hotels and similar properties located in New York City for their water and sewer usage in accordance with its policies and procedures and with the *New York City Water Board Water and Wastewater Rate Schedule*. However, we found that the remaining 31 accounts we reviewed (3 percent) were not properly billed. As a result of our findings, communicated to DEP during the audit, the agency inspected the 31 properties and rebilled 26 of them for a total of \$2,162,693. The new billings reflect previously-unbilled and under-billed water and sewer usage. The 26 undercharges were a result of 3 types of errors or omissions: (1) underestimated usage for 23 accounts, mostly hotels; (2) a failure to bill 2 hotels; and (3) an inapplicable exemption allowed for 1 college dormitory. In addition, as a result of its inspections, DEP credited two hotels for \$750,424 after determining that it had previously overestimated their water consumption.

The audit made the following five recommendations that DEP: inspect the remaining three hotels where the audit identified questionable bills and rebill them for the appropriate water and sewer usage fees; consider reducing the lag time—from 999 days to 180 days—before accounts receiving estimated bills are forwarded for review by staff of the Billing Exceptions Unit, removed from the automated billing cycle, and billed based on their actual usage; consistently enforce the rule that requires plumbers to obtain and, upon completion, return permits for the installation of water meters, including by imposing penalties for violations; consider requiring owners of properties listed as exempt from water and sewer charges to file for renewal yearly and attest to their continued entitlement to the exemption in order to better ensure that the properties still qualify for the exemption; and continue to track outstanding charges for water and sewer usage.

The results of the audit have been discussed with DEP officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report. If you have any questions concerning this report, please email my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,



Scott M. Stringer

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER AUDITS AND SPECIAL REPORTS

Audit Report on the Department of Environmental Protection's Billing of Hotels for Water and Sewer Usage

SR18-076A

EXECUTIVE SUMMARY

The Department of Environmental Protection (DEP) delivers 1 billion gallons of drinking water on average each day to New York City's 8.5 million residents, 200,000 businesses, and thousands of schools and other institutions. DEP maintains the City's water supply system, which includes 19 reservoirs and 3 controlled lakes situated north and west of the City. This upstate water system provides about 110 million gallons of drinking water each day to approximately one million residents in the counties of Westchester, Putnam, Orange, and Ulster, in addition to the water it provides to the residents, businesses, and institutions of the City of New York. DEP also protects the City's environment by treating an average of 1.2 billion gallons of wastewater per day at 14 water pollution control plants.

DEP's Bureau of Customer Services manages 834,000 water and sewer customer accounts, which include 1,866 accounts related to 1,211 hotels, motels, hostels, college dormitories, and co-living spaces.¹ This audit focuses on these categories of properties, which are often large consumers of water and sewer services.

DEP bills its water and sewer customers based on either their actual metered water consumption or through an older, annual flat-rate system, called frontage billing. A metered DEP account can have either one or several meters assigned to it, which measure the water used by either the entire building or by specific areas within it. Although the vast majority of DEP's accounts are metered, approximately five percent are instead billed through the annual flat-rate method, in which the water and sewer bill is calculated based on the size of the building and the number of plumbing fixtures it contains (i.e., sinks, toilets, showers, and faucets). Finally, some accounts, including those established for not-for-profit organizations, public places of worship, non-public schools (pre-k through grade 12), and military veterans' associations, are exempt from paying for water and sewer usage through exemptions created by New York State Law.

¹ Co-living spaces are locations where residents, who may rent private apartments, share other living and work space. Sometimes referred to as "adult dorms," the buildings that accommodate co-living spaces often have centrally metered water.

We conducted this audit to determine whether DEP is accurately billing hotels for water and sewer usage and whether it is making efforts to collect all outstanding water and sewer usage fees from those properties.

Audit Findings and Conclusion

Our audit found that DEP properly billed 1,180 (97 percent) of the 1,211 hotels and similar properties located in New York City for their water and sewer usage in accordance with its policies and procedures and the *New York City Water Board Water and Wastewater Rate Schedule*. However, we found that the remaining 31 accounts we reviewed (3 percent) were not properly billed. As a result of our finding, communicated to DEP during the audit, the agency inspected the 31 properties and rebilled 26 of them a total of \$2,162,693 for previously-unbilled and underbilled water and sewer usage. The 26 undercharges were a result of 3 types of errors or omissions: (1) underestimated usage for 23 accounts, mostly hotels; (2) a failure to bill 2 hotels; and (3) an inapplicable exemption allowed for 1 college dormitory. In addition, DEP credited two hotels for \$750,424 after determining that it had previously overestimated their water consumption.

Audit Recommendations

The audit resulted in five recommendations, specifically, that DEP:

1. Inspect the remaining three hotels where the audit identified questionable bills and rebill them for the appropriate water and sewer usage fees.
2. Consider reducing the lag time—from 999 days to 180 days—before accounts receiving estimated bills are forwarded for review by staff of the Billing Exceptions Unit, removed from the automated billing cycle, and billed based on their actual usage.
3. Consistently enforce the rule that requires plumbers to obtain and, upon completion, return permits for the installation of water meters, including by imposing penalties for violations.
4. Consider requiring owners of properties listed as exempt from water and sewer charges to file for renewal yearly and attest to their continued entitlement to the exemption in order to better ensure that the properties still qualify for the exemption.
5. Continue to track outstanding charges for water and sewer usage.

Agency Response

In its response, DEP stated, “We have reviewed the Report and in large part agree with the findings and recommendations.”

AUDIT REPORT

Background

DEP delivers 1 billion gallons of drinking water on average each day to New York City's 8.5 million residents, 200,000 businesses, and thousands of schools and other institutions. DEP maintains the City's water supply system, which includes 19 reservoirs and 3 controlled lakes situated north and west of the City. This upstate water system provides about 110 million gallons of drinking water each day to approximately one million residents in the counties of Westchester, Putnam, Orange, and Ulster, in addition to the water it provides to the residents, businesses and institutions of the City of New York. DEP also protects the City's environment by treating an average of 1.2 billion gallons of wastewater per day at 14 water pollution control plants.

In connection with the abovementioned vital services, DEP is responsible for monitoring and controlling customers' connections to the City's water and sewer systems and for reading water meters and charging and collecting water and sewer fees from property owners in the City and surrounding communities. According to Local Law 53 of 1985, when new construction, alterations, or rehabilitation substantially improves or alters a property, a water meter must be installed before water from the City's system may be used there.

DEP's Bureau of Customer Services manages 834,000 water and sewer customer accounts, which include 1,866 accounts related to 1,211 hotels, motels, hostels, college dormitories, and co-living spaces. This audit focuses on these categories of properties, which are often large consumers of water and sewer services.

DEP bills its water and sewer customers based on either their actual metered water consumption or through an older, annual flat-rate system, called frontage billing. A metered DEP account can have either one or several meters assigned to it, which measure the water used by either the entire building or by specific areas within it. The bill for a metered account is rendered either through an actual meter reading or through an estimate based on the account's previous water usage, determined by a prior meter reading. Although the vast majority of DEP's accounts are metered, approximately five percent are instead billed through the annual flat-rate method, in which the water and sewer bill is calculated based on the size of the building and the number of plumbing fixtures it contains (i.e., sinks, toilets, showers, and faucets). Some of those accounts are billed at a flat rate even though there are meters in the properties; in those instances, the customers elect to be billed under the flat-rate system through a transition program, which allows customers to install water-saving devices and conduct water-leak audits before their billing method is converted to metered consumption. DEP relies on both independent licensed plumbers to inform the agency when and where they install new water meters, and on the property owners who have meters installed to elect to change their billing basis from flat rate to metered. Finally, some accounts, including those established for not-for-profit organizations, public places of worship, non-public schools (pre-k through grade 12), and military veterans' associations, are exempt from paying for water and sewer usage through exemptions created by New York State Law.

Objective

The objective of this audit was to determine whether DEP is accurately billing hotels for water and sewer usage and whether DEP is making efforts to collect all outstanding water and sewer usage fees from those properties.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

This audit covered water and sewer usage fees billed and collected through Fiscal Year 2018.

Discussion of Audit Results

The findings in this report were discussed with DEP officials during and at the conclusion of this audit. A preliminary draft report was sent to DEP and was discussed at an exit conference held on September 5, 2018. On September 21, 2018, we submitted a draft report to DEP with a request for comments. We received a written response from DEP on October 5, 2018. In its response, DEP agreed with three recommendations, partially agreed with one recommendation and did not address one recommendation, specifically, that DEP consider reducing the lag time—from 999 days to 180 days—before accounts receiving estimated bills are forwarded for review by the Billing Exceptions Unit, removed from the automated billing cycle, and thereafter billed based on actual usage.

DEP officials stated that although they agreed “in large part” with the findings and recommendations, they were

concerned . . . with the description of when and how the Department reviews accounts scheduled to receive estimated bills and the associated recommendation. Accounts which have been estimated for more than 120 days appear on the billing exceptions report. This report is reviewed by the billing exceptions unit which attempts to resolve any issues and have the bill issued based upon an actual read. During the period from 120 to 999 days, an estimated bill is issued if the unit cannot resolve the issue before the bill must be generated. If the account continues to be estimated beyond 999 days, the unit must manually issue an estimated bill until any problems with the account are resolved.

However, these “concerns” articulated by DEP do not address the substance of the recommendation—that the agency consider *reducing* the lag time from 999 days to 180 days before estimated-billing accounts are removed from the automated billing cycle and billed based on their actual, metered, usage. The audit revealed that the 23 underbilled hotel accounts continued to receive estimated bills for an average of 541 days, with little or no evidence in DEP’s records of any action taken by the Billing Exceptions Unit to identify and resolve the issues that prevented the issuance of metered bills. DEP’s response offers no indication of whether the

agency will work to shorten the time frame in which it implements or restores accurate, metered billing for such accounts.

The full text of DEP's response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

DEP properly billed 1,180 (97 percent) of the 1,211 hotels and similar properties located in New York City for their water and sewer usage in accordance with its policies and procedures and the *New York City Water Board Water and Wastewater Rate Schedule*. DEP sent bills to those customers on a monthly, quarterly, or annual basis and assessed late payment charges if the bills were not paid timely. However, the remaining 31 accounts we reviewed (3 percent) were not properly billed. After we informed DEP of these preliminary findings, the agency inspected the 31 properties and rebilled 26 of them a total of \$2,162,693 for previously-unbilled and underbilled water and sewer usage. The 26 undercharges occurred as a result of 3 types of errors or omissions: (1) underestimated usage for 23 accounts, mostly hotels; (2) a failure to bill 2 hotels; and (3) an inapplicable exemption allowed for 1 college dormitory. In addition, DEP credited two hotels for \$750,424 after determining that it had previously overestimated their water consumption. As of the date of this report, DEP inspections are pending at the remaining three hotels, consisting of one that, based on our reviews, appeared to have been underbilled and two other hotels that received estimated bills.

DEP Undercharged 23 Accounts a Total of \$2,015,210

DEP undercharged 23 accounts compared with their actual water and sewer usage. Our review of DEP's Browser Customer Information System (BCIS) records found that the estimated bills that DEP had issued to the 23 undercharged accounts reflected lower water and sewer usage than that for which other, similar properties had been billed. After we shared that information with DEP, the agency dispatched inspectors to the 23 properties and determined that the owners had been undercharged a total of \$2,015,210 for water and sewer usage based on the difference between their estimated and actual water usage. Accordingly, DEP has rebilled the 23 hotels a total of \$2,015,210.

Properly functioning water meters measure water consumption and automatically transmit that information to DEP's BCIS. However, DEP issues estimated bills based on a customer's previous consumption when a meter cannot be read, or the reading is not transmitted to BCIS, or the reading appears questionable. With respect to the 23 accounts whose water usage was underestimated, their water meters or transmitters were either missing or not operating properly, resulting in DEP's issuing estimated bills that undercharged the accounts—including 20 hotels—by the amounts shown in Table I.

Table I
Twenty-Three Accounts Undercharged and Rebilled by DEP

Hotel	Account	Rebill Period	Days	Charges Rebilled	Amounts Originally Billed	Amount Undercharged
110 Wall Street	1000099406001	4/7/16 - 5/9/18	762	\$ 708,196	\$ 915	\$ 707,281
Hilton Hotel	4001049217001	12/5/17 - 4/16/18	132	\$ 239,524	\$ 132	\$ 239,392
Renaissance NY Midtown	3001046939001	1/26/16 - 3/28/18	792	\$ 313,039	\$ 88,850	\$ 224,189
Chrystie Street Hotel	7001050844001	4/29/16 - 5/14/18	745	\$ 211,291	\$ 8,614	\$ 202,677
E & C Studio – Sohotel	7000107322001	6/27/16 - 2/27/18	610	\$ 133,996	\$ 32,495	\$ 101,501
Empire Hotel	6000123376001	2/25/16 - 5/8/18	803	\$ 642,193	\$ 569,654	\$ 72,539
Beekman Residence Hall	4001045364001	6/30/17 - 2/23/18	238	\$ 71,750	\$ 2,210	\$ 69,540
Red Carpet Inn	989968001	7/26/14 – 7/26/18	1461	\$ 67,349	\$ 1,837	\$ 65,512
HGU NYC Hotel	5000117651001	10/11/17 - 4/20/18	191	\$ 57,342	\$ 3,157	\$ 54,185
Courtyard by Marriott	3000099494001	2/7/17 - 2/26/18	384	\$ 95,472	\$ 42,580	\$ 52,892
Wyndham Garden Fresh Meadows Flushing Hotel	8001050592001	5/15/16 - 5/15/18	730	\$ 56,010	\$ 5,327	\$ 50,683
Le Coucou	7000101363001	2/8/17 - 4/5/18	421	\$ 102,932	\$ 59,997	\$ 42,935
Eurostars Wall Street Hotel	5000099407001	7/6/16 – 7/5/18	729	\$ 45,489	\$ 2,666	\$ 42,823
Hilton Garden Inn	1037121001	6/30/17 - 2/28/18	243	\$ 25,745	\$ 3,029	\$ 22,716
Aloft NY LaGuardia Airport	9000847673001	6/30/16 - 4/24/18	663	\$ 42,787	\$ 23,792	\$ 18,995
Hyatt Place Long Island City	7001052113001	7/25/17 - 5/16/18	295	\$ 18,213	\$ 339	\$ 17,874
Mount Royal Hotel	4000127502001	7/6/17 - 4/20/18	288	\$ 25,489	\$ 13,647	\$ 11,842
Bowery 88 LLC	3000101228001	12/23/15 - 7/10/18	930	\$ 6,327	\$ 38	\$ 6,289
Holiday Inn	9000099505001	11/5/17 - 2/23/18	110	\$ 33,324	\$ 29,515	\$ 3,809
Brooklyn Law School	5000242131001	5/08/18 – 7/20/18	73	\$ 2,837	\$ -	\$ 2,837
Quality Inn	1000251617001	10/11/16 - 5/24/18	590	\$ 6,829	\$ 4,194	\$ 2,635
Hotel Indigo	7001051166001	9/22/16 - 3/17/18	541	\$ 5,351	\$ 3,393	\$ 1,958
The Vue Hotel	3001047298001	7/14/16 - 6/26/18	712	\$ 904	\$ 798	\$ 106
Totals:	23			\$ 2,912,389	\$ 897,179	\$ 2,015,210

According to DEP’s website, DEP relies on its customers to notify the agency if they have received more than three consecutive bills based on estimated rather than actual usage. Notwithstanding that DEP practice, however, we found that one hotel received 12 estimated bills, one each quarter for a period of 792 consecutive days dating back to January 2016 with no evidence of any communication from the hotel in DEP’s records. Several other accounts received estimated bills

for even longer periods. DEP informed us that if an account receives estimated bills for more than 120 days the account is added to the billing exceptions report. The account continues to receive estimated bills until the staff from the Billing Exceptions Unit reviews the account and can resolve the issue preventing the actual bill from being generated. The Exceptions Unit may refer the hotel meter for inspection. If the issue is not corrected after 999 days, the billing system will stop generating estimated bills automatically. Instead, at that point, the account must be billed manually. As shown in Table I, however, one of the 23 properties in question received estimated bills for a period that exceeded 999 days, specifically 1,461 days.

DEP Failed to Bill Two Hotels a Total of \$28,646

According to DEP records, DEP failed to bill two hotels because the plumbers who installed their meters failed to return the relevant permits upon completion of the meter installations. In the absence of the returned permits, DEP did not know of the existence of the meters, did not establish accounts for the two hotels, and the two hotels were never charged for water and sewage usage. When a licensed plumber is commissioned to install meters on a property, the plumber must obtain a permit from DEP and return the permit within ten business days when the work is complete. DEP's permit process relies on the plumbers to notify the agency whenever a new meter is installed so that DEP can add pertinent information into BCIS to begin the billing process. We found that the two hotels owe the City \$28,646, as shown in Table II.

Table II
Two Hotels Failed to Return Permits and Rebilled by DEP

Hotel	Account	Rebill Period	Days	Rebill Amount	Amount Originally Billed	Amount Undercharged
Days Inn Hotel	1001054009001	1/7/17 - 4/12/18	460	\$ 19,321	\$ -	\$ 19,321
Gowanus Inn	1052187001	1/5/18 - 4/5/18	90	\$ 9,325	\$ -	\$ 9,325
Total				\$ 28,646	\$ -	\$ 28,646

DEP officials stated that plumbers do not always apply for permits to install new water meters, as required by DEP's Rules Governing and Restricting the Use Supply of Water (RCNY Title 15 Chapter 20) and do not always return permits within 10 business days of completing the installations, as required. In such instances, DEP does not necessarily know that a new meter has been installed and in the absence of that knowledge does not bill the property. In other instances, plumbers may install meters that are inappropriate based on the building size; in such cases DEP will not bill the account until the matter is resolved and the correct meter is installed. According to DEP officials, the agency can impose penalties on plumbers ranging between \$350 and \$1,000 for failing to return permits and can deny subsequent permits to plumbers who fail to return three or more permits during a three-month period. However, DEP officials also informed us that no notices of violation or penalties were issued against the plumbers in the two abovementioned cases for failing to return the permits within 10 business days of installing the meters.

DEP Misclassified One College Student Housing Site as Exempt

We identified one account that was not being charged because it was incorrectly listed as exempt from water and sewer charges.² The property was granted an exemption in 1966 when it was used as staff housing for Roosevelt Hospital. Since 2001, however, the property has been used for student housing for Bard College and as such was no longer exempt from water and sewage charges. As a result of our audit, DEP has rebilled this account \$118,837 for the last four years as shown in Table III.³

Table III
Account Incorrectly Under Exempt Status

Hotel	Account	Rebill Period	Days	Rebill Amount	Amount Originally Billed	Amount Undercharged
Bard College Dormitories	5000122848001	04/23/14 - 4/24/18	1462	\$ 118,837	\$ -	\$ 118,837
Total				\$ 118,837		\$ 118,837

DEP Overestimated Bills for Two Hotels for a Total of \$750,424

We found that two hotels were overcharged due to inaccurate estimates. Because their meter transmitting units malfunctioned, the two hotels received estimated bills that overestimated their usage and resulted in their being overbilled a total of \$750,424, as shown in Table IV.

Table IV
Two Hotels Overcharged and Rebilled by DEP

Hotel	Account	Rebill Period	Days	Charges Rebilled	Amounts Originally Billed	Amount Over Estimated
Hotel Wolcott	3000116891001	11/9/17 - 2/28/18	111	\$ 407,890	\$ (1,014,213)	\$ (606,323)
Hyatt Centric Hotel	1001030350001	2/16/17 - 4/24/18	432	\$ 187,648	\$ (331,749)	\$ (144,101)
Total:				\$ 595,538	\$ (1,345,962)	\$ (750,424)

² New York State Law (Chapter 696 of the Laws of 1887, as amended by Chapter 893 and 894 of the Laws of 1980, also called the "Silver Bill" after its legislative sponsor) established exemptions from water charges for certain types of organizations. The New York City Administrative Code Section 24-514 e provides that any real property that is entitled to an exemption from the payment of water rents or charges shall also be exempt from payment of the sewer rents or charge.

³ DEP officials stated that DEP pursues water and sewer charges of four years or less.

DEP Tracks Accounts' Outstanding Charges

DEP is effectively tracking outstanding charges owed by the accounts we reviewed. We identified seven accounts of hotels and similar customers that collectively owed DEP \$171,991 in outstanding charges for over one year, as shown in Table V. We found that DEP's Collection Unit had sent out the requisite monthly notices of delinquency, indicating the amounts owed and the late-charges assessed, and that further action had been taken, where feasible, to attempt collection. Of the seven hotels, one's outstanding water and sewer debt had been sold by the City through a lien sale on May 29, 2018; steps were taken to sell the debts of four others through a lien sale slated to take place in 2019; one hotel has been in pre-lien status since 2013 as a result of issues involving its block and lot numbers; and one hotel was in bankruptcy at the time of our review.⁴ Overall, DEP's records indicate that the agency is effectively tracking outstanding water and sewer charges of hotels and the other accounts we reviewed.

Table V
Hotels with Outstanding Balances for over One Year

Hotel	Account	Quarter Bill date	Last Payment Date	Days Outstanding	A/R Balance as of 06/25/18
Home / Life Services	2000172801001	5/26/2018	3/14/2017	438	\$ 56,980
Explore Hotel	3001005872001	4/10/2018	11/10/2015	882	\$ 44,485
Park Overlook Hotel	4000169816001	5/27/2018	4/26/2017	395	\$ 43,096
Hotel Carter	7000120974001	5/24/2018	3/17/2017	433	\$ 12,939
49 Street SAI LLC	8000253218001	5/27/2018	3/11/2013	1903	\$ 8,934
33 Peck Slip Acquisition	8000099907001	6/13/2018	1/5/2017	524	\$ 4,626
The Parc Hotel	4001040488001	5/1/2018	8/20/2014	1350	\$ 931
Total					\$ 171,991

Recommendations

DEP should:

1. Inspect and rebill the remaining three hotels with questionable bills for the appropriate water and sewer usage fees.

DEP Response: "We have scheduled inspections for the three hotels that the audit has determined need additional review. It is anticipated that all three hotels will be inspected this month. After we review the results of the inspections, we will take whatever steps are required to ensure that the bills for those properties are correct

⁴ Each property in New York City is identified by a set of three numbers called the Borough, Block, and Lot (BBL). BBLs are used by many City agencies to identify real estate for taxes, zoning, construction, and other purposes.

prospectively, and that back-bills will be issued for the prior two-years as mandated by Water Board regulations, if applicable."

2. Consider reducing the lag time—from 999 days to 180 days—before accounts receiving estimated bills are forwarded for review by staff of the Billing Exceptions Unit, removed from the automated billing cycle, and billed based on their actual usage.

DEP Response: "Accounts which have been estimated for more than 120 days appear on the billing exceptions report. This report is reviewed by the billing exceptions unit which attempts to resolve any issues and have the bill issued based on an actual read."

Auditor Comment: DEP neither agreed nor disagreed with this recommendation and its response did not address the recommendation's substance that the agency consider reducing the lag time from 999 days to 180 days before estimated-billing accounts are removed from the automated billing cycle and billed based on their actual usage. Moreover, DEP did not state whether the Billing Exceptions Unit would be required to take any specific action on such accounts before the existing 999-day deadline. Considering that the average period in which the 23 underbilled accounts identified in this audit received estimated rather than metered bills was 541 days, and that DEP's files showed little if any evidence of action by the Billing Exceptions Unit to resolve the issues that prevented metered billing, we urge DEP to consider implementing this recommendation and to establish deadlines or performance targets for moving such accounts to a billing method based on their actual water usage.

3. Consistently enforce the rule that requires plumbers to obtain and, upon completion, return permits for the installation of water meters, including by imposing penalties for violations.

DEP Response: "DEP is currently working on revisions to its permitting policies. Some of these revisions will take effect using the current billing system while the remaining changes will take effect upon the implementation of the new billing system, which is anticipated to take place by 2021. These revisions will allow DEP to better monitor the permits that are outstanding and to enforce any violations of application policy and regulation."

4. Consider requiring owners of properties listed as exempt from water and sewer charges to file for renewal yearly and attest to their continued entitlement to the exemption in order to better ensure that the properties still qualify for the exemption.

DEP Response: "DEP currently requires all exempt properties to re-certify every two years. Many properties have not re-certified since their exemptions were granted years ago. The Exemptions Unit has been methodically contacting all exempt properties throughout New York City for an initial re-certification. Once that initial re-certification phase is completed, DEP will then be better able to enforce the two-year re-certification policy."

Auditor Comment: DEP's response indicates partial agreement with this recommendation, insofar as it has indicated a commitment to enforcing the existing two-year recertification requirement. However, it does not address the recommendation that the recertification requirement be changed from every two years to every year. We urge DEP to consider implementing this recommendation.

5. Continue to track outstanding charges for water and sewer usage.

DEP Response: "DEP will continue to track and collect outstanding water and sewer charges."

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit covers hotels, hostels, and college dormitories, including properties with “H” or “RH” building codes on the Department of Finance’s (DOF’s) property assessment roll for Fiscal Year 2018.

To achieve our audit objective, we reviewed DEP’s policies and procedures governing the billing, collection, back billing, and reconciliation processes, conducted walk-throughs with DEP officials, and reviewed the *New York City Water Board and Wastewater Rate Schedule* and DEP’s *Customer Information System (CIS) Inquiry Manual*.

We reviewed our previous *Audit Report on the Department of Environmental Protection’s Billing of Hotels for Water and Sewer Usage* (Audit #FM11-072A, issued June 28, 2011), which assessed the reliability of CIS data as well as the accuracy of water and sewer charges.

We received training in BCIS, the Browser Customer Information System (formerly known as the Customer Information System) used by DEP to maintain customer account information, bill customers for water and sewer charges, and track payments.

We attempted to independently develop a complete list of hotels, hostels, and college dormitories operating in New York City for the purposes of determining whether DEP was billing all hotels, hostels, and college dormitories for water and sewer charges. To develop the complete list, we obtained information from:

- DEP, specifically, a list of all accounts with a building class “H,” which represents buildings classified as hotels, hostels, and college dormitories;
- The DOF property assessment roll for Fiscal Year 2018, which is a publicly accessible list of NYC properties and includes building classes such as “H” and “RH” for hotels and dormitories; and
- Google and Wikipedia searches of hotels, hostels, and college dormitories to identify those that were not included in the abovementioned lists because of factors such as the properties’ having different building classes.

Using all of the above sources, we compiled a list of 1,211 properties that are hotels, dormitories, hostels, and co-living spaces in New York City.

We conducted name, borough, block and lot, and address searches in BCIS to develop a list of accounts related to these 1,211 properties. We then reviewed each property’s billing, meter, and customer note history.

To determine whether the properties were accurately billed for water and sewer usage, we obtained the number of rooms for hotels, dormitories, hostels, and co-living spaces via DOF’s

Notice of Property Values, reviewed websites or the official website, and then compared properties with similar numbers of rooms for their water and sewer usage.

To determine whether the properties' meters had accurate readings, we reviewed the BCIS Metered Billing screen to obtain the meters' read types. The read types account for whether the meter read was based on an actual or an estimated amount of water and sewer usage. We then identified properties that had an estimated read for at least four billing cycles and reviewed the BCIS Customer Notes and Order History screen to determine whether there was a pending meter inspection or replacement.

To determine whether DEP is properly billing the properties' water and sewer rates in accordance to the New York City Water Board water and sewer rates, we generated a randomly selected sample of 50 properties out of the 1,211 properties and tested those 50 properties. We examined those 50 properties' latest bills as of June 25, 2018 and reviewed the total water usage and the total amount billed for water and sewer charge. As of July 2016, the applicable charge for water was \$3.81 per 100 cubic feet, and the sewer rate was set at 159 percent of the water charges. We then tested those 50 properties to determine whether the water bills matched the water and sewer charge rates.

To determine whether DEP is making efforts to collect all outstanding water and sewer charges, we calculated the total outstanding charges for all 1,211 properties in BCIS. For properties with outstanding charges, we determined when they last made a payment to DEP. For the properties that did not pay or substantially pay their outstanding charges within the previous six months, we determined whether the properties had entered into payment agreements to pay off the account balances.

October 5, 2018

Ms. Marjorie Landa
Deputy Comptroller for Audit
Office of the Comptroller
1 Centre Street, Room 1100
New York, NY 10007

Vincent Sapienza, P.E.
Commissioner

Re: Audit Report on the Department of Environmental Protection's Billing of
Hotels for Water and Sewer Usage SR18-076A

Joseph P. Murin
Chief Financial Officer

Dear Ms. Landa:

59-17 Junction Blvd.
Flushing, NY 11373

Thank you for the opportunity to comment on the New York City Comptroller's draft report on the Department of Environmental Protection's (DEP) Billing of Hotels for Water and Sewer Usage (the Report). We have reviewed the Report and in large part agree with the findings and recommendations.

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We are concerned, however, with the description of when and how the Department reviews accounts scheduled to receive estimated bills and the associated recommendation. Accounts which have been estimated for more than 120 days appear on the billing exceptions report. This report is reviewed by the billing exceptions unit which attempts to resolve any issues and have the bill issued based upon an actual read. During the period from 120 to 999 days, an estimated bill is issued if the unit cannot resolve the issue before the bill must be generated. If the account continues to be estimated beyond 999 days, the unit must manually issue an estimated bill until any problems with the account are resolved. The description in the report might lead the reader to believe that the Department takes no action to resolve issues causing the issuance of an estimated bill until more than 999 days have elapsed.

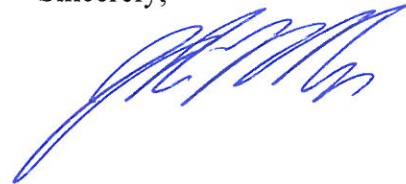
Please note that the Department has taken the following actions:

- We have scheduled inspections for the three hotels that the audit has determined need additional review. It is anticipated that all three hotels will be inspected this month. After we review the results of the inspections, we will take whatever steps are required to ensure that the bills for those properties are correct prospectively, and that back-bills will be issued for the prior two-years as mandated by Water Board regulations, if applicable;
- DEP is currently working on revisions to its permitting policies. Some of these revisions will take effect using the current billing system while the remaining changes will take effect upon the implementation of the new billing system, which is anticipated to take place by 2021. These revisions will allow DEP to better monitor the permits that are outstanding and to enforce any violations of application policy and regulation;

- DEP currently requires all exempt properties to re-certify every two years. Many properties have not re-certified since their exemptions were granted years ago. The Exemptions Unit has been methodically contacting all exempt properties throughout New York City for an initial re-certification. Once that initial re-certification phase is completed, DEP will then be better able to enforce the two-year re-certification policy; and
- DEP will continue to track and collect outstanding water and sewer charges.

Thank you for your time and attention to our written responses. DEP is pleased with the positive results of your audit and will take care to ensure the continued progress with reducing estimated billing for water and sewer charges and billing properties accurately. We are available to respond to and assist with any questions you may have.

Sincerely,



Joseph Murin
Chief Financial Officer

Cc: N. Cianflone
M. Ritze
W. Morris