AUDIT REPORT

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

Audit Report on the Internal Controls Of the Fire Department over Billing and Collection of Inspection Fees

MH03-060A

June 18, 2003

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

June 18, 2003

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has examined the Fire Department's internal controls over billing and collection of inspection fees. The audit covered Fiscal Year 2002.

The results of our audit, which are presented in this report, have been discussed with the Fire Department officials, and their comments were considered in the preparation of this report.

Audits such as this provide a means of ensuring that the Fire Department correctly bills and makes adequate efforts to collect all funds due the City.

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

Very truly yours,

William C. Thompson, Jr.

Report: **MH03-060A**
Filed: **June 18, 2003**

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AUDIT REPORT IN BRIEF

This audit determined whether the Fire Department (FDNY) has adequate controls over the billing and collection of inspection fees and whether it charges the correct fees. In Fiscal Year 2002, the FDNY billed $35.6 million in Bureau of Fire Prevention (BFP) inspection fees and collected $34.6 million.

Audit Findings and Conclusions

The FDNY has adequate controls over the billing and collection of BFP inspection fees and collected more than 90 percent of the fees billed. In addition, the FDNY charged the correct fees. However, we found that the FDNY has not changed its fee schedule in more than a decade. In addition, the FDNY has a number of internal control weaknesses that could affect its billing and collection practices, including limited capabilities of its computer system (FPIMS) in handling accounts with outstanding balances; a lack of control over its manual bills and lien processes; no write-off policy for uncollectible debts; and inadequate segregation of duties related to FPIMS programmers.

Audit Recommendations

To address these issues, we make 12 recommendations. The major recommendations are that the FDNY should:

- Conduct a study to determine whether the fee schedule needs to be changed.
- Modify FPIMS to correct the problems in the billing and collection processes for accounts with outstanding balances.
- Continue to convert from manual to automatic billing.
- Monitor the lien process to ensure that liens are established with the Department of Finance for past due accounts.

INTRODUCTION

Background

Within the Fire Department (FDNY), the Bureau of Fire Prevention (BFP) promotes public safety in New York City through inspections, certifications, testing, customer service, and plan review. New York City Administrative Code (the Code) Title 15, Chapter 1, and Title 27, Chapter 4, describe the establishments, equipment, facilities, and events that are subject to BFP inspection and specifies the fees to be charged. Nine BFP District Offices in the five boroughs and nine BFP units at FDNY Headquarters at 9 Metrotech in Brooklyn are responsible for performing inspections and issuing permits.

Each of the nine District Offices covers a different geographic area of the City. Each office conducts inspections and issues permits for the sale, storage, and use of flammable or combustible liquids and compressed gases. Inspections for these permits include the review of motor fuel and fuel oil storage systems, large capacity refrigeration systems, commercial cooking equipment, and flammable paint spraying operations. District Offices perform these inspections on a cyclical basis, as specified in the Code—generally every year, every two years, or every five years.

The nine Headquarters Units conduct both permit and non-permit inspections related to fire suppression, hazard control, and public safety. Their inspections include witnessing tests of sprinkler, standpipe, and fire alarm systems; ensuring safety when explosives are used; and enforcing fire codes in high-rise buildings and places of public assembly, such as schools, theaters, and restaurants.

BFP uses a centralized computer system, the Fire Prevention Information Management System (FPIMS) to manage nearly all of its inspections, permits, and billing. In 1983, the FDNY started automating many of its functions using FPIMS, which issues inspection orders and processes permits and billing. Currently, only a few Headquarter Units still bill manually.

Automatic billings are processed biweekly by an outside vendor (Lason, Inc.) from tapes produced by FPIMS. Manual billings are processed using invoices handwritten by inspectors at the inspection sites. BFP is in the process of using FPIMS to automate its manual billing.

In Fiscal Year 2002, BFP billings totaled $35.6 million, including $33.5 million for automatic billings and $2.1 million for manual billings, as shown in the following table:

Table I

Bureau of Fire Prevention Billings
Fiscal Year Ending June 30, 2002
(000s)

	Automatic Billings	Manual Billings	Total Billings
District Offices (DO)	**$25,744**	**$------**	**$25,744**
Headquarters Units (HQ) ---			
Fire Suppression: Sprinkler/Standpipe	$2,520	$425	$2,945
Licensed Places of Public Safety (LPPA)	1,661	53	1,714
High-Rise	1,311	72	1,383
Fire Alarm (1)	796	545	1,341
Rangehood	837	------	837
Bulk Fuel Safety	138	641	779
Tank Trucks & Hazardous Cargo	313	1	314
Laboratory/Pipeline	154	139	293
Explosives	------	218	218
Total Headquarters Units (HQ)	**$7,729**	**$2,094**	**$9,823**
TOTAL	**$33,473**	**$2,094**	**$35,567**

(1) Billings of Fire Alarm inspections were fully automated in the second quarter of Fiscal Year 2002.

The Bureau of Revenue Management (Revenue Management) is responsible for the collection of inspection fees. All fees are remitted either through a lockbox system (Deutsche Bank) or through the Revenue Management Cash Office (Cash Office) at FDNY Headquarters. In Fiscal Year 2002, the FDNY collected $34.6 million in billed BFP inspection fees, including $26.1 million[1] in District Office fees and $8.5 million in Headquarters Unit fees.

For District Office billing, the collection process takes up to one year and is primarily accomplished through FPIMS, which generates first, second, third, and fourth notices along with fines on unpaid bills, then forwarded to Lason, Inc. for printing and mailing. For Headquarter Unit billing, the collection process performed by Revenue Management takes up to 120 days. At the end of these collection cycles, Revenue Management establishes property owner liens with the Department of Finance (DOF) for any unpaid balances.

In 1995, the Comptroller's Office completed three audits of BFP[2] and in 1999 conducted a follow-up audit.[3] To determine whether the recommendations made in those audits were implemented; we reviewed the FDNY implementation plan dated November 23, 2001, and met with appropriate FDNY officials to discuss the status of the recommendations. Based upon our review and discussions, we found that for the most part, the prior recommendations have not been implemented.

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[1] Fiscal Year 2002 collections include billings from current and prior years.
[2] *Inspection Efforts of the Bureau of Fire Prevention* (# IC94-041), *Billing Practices of the Fire Department's Explosives Unit* (# MH95-134A), and *Fire Department's Application of the Fire Code Fee Waivers, and Notice of Violation Issuance by the Fire Suppression Systems Unit* (# MH95-143A).
[3] *Operations of the New York City Fire Department's Bureau of Fire Prevention* (# MH99-128F).

Objective

The objective of this audit was to determine whether the Fire Department has adequate controls over the billing and collection of inspection fees and charges the correct fees.

Scope and Methodology

The scope of our audit was Fiscal Year 2002. To achieve our audit objective and to gain an understanding of FDNY collection practices of inspection fees, we interviewed appropriate personnel from BFP and Revenue Management.

To gain an understanding of the policies, procedures, and regulations governing the billing and collection of FDNY inspection fees, we obtained and reviewed the following documentation: the City of New York Administrative Code, Title 27, Chapter 4 (Fire Prevention Code), the *Fire Prevention Manual*, the BFP Organization Reference Guide, and manuals related to FPIMS. We also reviewed relevant New York City Comptroller's Directives and conducted audit tests to assess compliance with those policies and procedures. In addition, to assess whether the problems cited in our previous audit reports were corrected, we reviewed the FDNY implementation plan and interviewed appropriate FDNY officials.

To assess internal controls as they relate to our audit objectives, we evaluated information obtained through interviews, performed walkthroughs, and observed the processes of inspection fee billing and collection. We examined documentation and conducted tests related to manual and automatic billings and record keeping practices to determine whether there are adequate controls in these areas.

To determine whether the data in FPIMS is reliable, we performed a data reliability test. We also reviewed the FPIMS security file to assess the compatibility of system access with staff responsibilities.

To determine whether BFP correctly bills for inspection fees and collects all inspection fees billed, we randomly selected two samples of accounts processed through FPIMS: 50 from the population of 133,284 active billable accounts in Fiscal Year 2002 and 200 from the population of 9,566 active past due accounts with balances outstanding for 121 days to three years that were recorded on the December 2002 Account Receivable Aging Report. Our 200 sampled past due accounts included 152 permit accounts from District Offices and 48 fee accounts from Headquarters Units.

To determine whether BFP fees are current, we discussed the fee schedule in the Code with FDNY officials. We then compared the fees programmed into FPIMS against those listed in the Code.

To assess the controls over the automatically processed bills, we examined the collection process to determine whether all the sampled past due accounts were sent the required numbers of notices and the correct fine amounts were billed. To determine whether Revenue

Management established a lien with DOF upon properties for unpaid inspection fees and penalties according to §27-4029.1 of the Code, we determined whether 36 sampled accounts more than one year past due and with a value of more than $400 were liened on the DOF Fairtax Computer System. To evaluate the accuracy of Revenue Management accounts receivable and its write-off policy, we reviewed Accounts Receivable Aging reports.

To determine whether the FDNY has adequate controls over BFP manual bills, we randomly selected a sample of 50 accounts from a population of 6,525 accounts manually billed in Fiscal Year 2002. To determine whether Revenue Management maintained accurate records of manual bills, we performed a reconciliation of the pre-numbered manual bills listed on Invoice Records in Fiscal Year 2002 against the number of manual bills reported by Revenue Management. In addition, we determined whether the manually billed accounts were correctly billed.

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.

Discussion of Audit Results

The matters covered in this report were discussed with FDNY officials during and at the conclusion of this audit. A preliminary draft report was sent to FDNY officials on April 15, 2003, and was discussed at an exit conference on May 8, 2003. We submitted a draft report to FDNY officials on May 14, 2003, with a request for comments. We received a written response from FDNY officials on June 2, 2003.

In their response, FDNY officials agreed to implement all 12 audit recommendations. However, they stated that there may be delays in the implementation of four FPIMS-related recommendations "due to reduced staffing levels and the nature of FPIMS."

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

OFFICE OF THE COMPTROLLER
CITY OF NEW YORK

Date Filed: June 18, 2003

FINDINGS AND RECOMMENDATIONS

In Fiscal Year 2002, the FDNY billed $35.6 million in BFP inspection fees. Ninety-five percent of these billings ($33.5 million) was processed automatically. The remaining five percent ($2.1 million) was processed manually. Based upon our testing, we confirmed that the FDNY charged the correct fees and collected more than 90 percent of the fees billed.

However, we found that the FDNY has not changed its fee schedule in more than a decade. In addition, although the FDNY has adequate controls over the billing and collection of inspection fees and has charged the correct fees, there are a number of internal control weaknesses that could affect its billing and collection practices. They include:

- FPIMS has limited capabilities handling accounts with outstanding balances.
- Manual bills are not adequately tracked and controlled.
- Liens are not processed for all eligible accounts.
- There is no write-off policy for uncollectible debts.
- There is an inadequate segregation of duties related to FPIMS programmers.

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

BFP Fee Schedule Should Be Reviewed

The FDNY bills its inspection and permit fees based upon a fee schedule that was established in 1984. The fee schedule has been revised upwards only twice (1987 and 1988) and has not changed in more than a decade.

The current BFP fee structure has its origins in a study performed by Price Waterhouse in the early 1980s. Based on this study, the FDNY sought City Council legislation to establish a fee schedule for inspections and permits based on an hourly rate of $160 for most inspections. That legislation, passed as Local Law 36 in 1984, is now Section 27-4027 of the Fire Prevention Code. Since 1984, the FDNY twice sought and received inspection fee increases from the City Council: the hourly rate increased from $160 to $180 per hour (13%) in 1987 and from $180 to $210 per hour (17%) in 1988.

We discussed the inspection and permit fee schedule with BFP officials. They confirmed that fees have not been raised in more than a decade. In addition, they believed that the fee schedule was reviewed a couple of years ago and at that time it was decided that the fees did not need to be changed. However, it would seem appropriate for the FDNY to conduct a study to determine whether the current fees are appropriate, particularly since the department must cut its budget because of City fiscal problems.

Recommendation

The FDNY should:

1. Conduct a study to determine whether the fee schedule needs to be changed.

FDNY Response*:* The Department agreed, stating: "FDNY will conduct a study to determine whether the current fees are appropriate, and make any necessary changes."

FPIMS Has Limited Capabilities for Handling Accounts with Outstanding Balances

FPIMS is supposed to generate printed Inspection Orders when an inspection is required. Depending on the type of permit, periodic inspections and fee payments are required. FPIMS is also programmed to generate past due notices and to add late fines based upon the original bill's date. Every other Wednesday, FPIMS generates an electronic billing file for automatic billings that includes original bills as well as first, second, third, and fourth notices for unpaid bills. The electronic billing file is sent to an outside vendor Lason, Inc. for printing and mailing. Although FPIMS functions well overall, FPIMS has particular limitations when processing accounts with outstanding balances, as detailed below:

- From our 152 sampled District Office accounts with outstanding balances, 47 accounts should have had an annual inspection. Based upon our testing, we found that Inspection Orders were not automatically generated by FPIMS for at least 25 of these 47 accounts but instead were generated through alternative means[4]. We expect that the remaining 22 accounts will eventually go through these alternative means to generate an inspection order. As a result, all 47 accounts had their inspections delayed from a few months up to two years and were operating without valid permits during this time.

- Three of the 25 accounts had subsequent billable inspections, but were not billed due to an outstanding balance on their accounts. According to a Revenue Management official, FPIMS can issue a bill up to six months after a new inspection is performed if the prior balance has been paid; however, FPIMS does not send a bill for the new inspection if the prior balance remains unpaid.

[4] For example, twice a year BFP runs a special program which generates inspection orders for accounts with outstanding balances more than one year past due.

- Accounts with outstanding balances listed in "District Office 17" on FPIMS do not go through any collection procedures. "District Office 17" is a temporary holding area for data on FPIMS for new accounts that have passed their initial inspection performed by the Rangehood Headquarters Unit and are waiting to be transferred to their local BFP District Office for future annual inspections. On December 31, 2002, there were 54 past due accounts totaling $15,100 held in District Office 17. While accounts with outstanding balances remain in this holding area, they are ignored by FPIMS. As a result, when these accounts are finally transferred to their local District Offices, their balances continue to remain outstanding and never go through the appropriate collection and lien process. This may lead to problems on future inspections and billings.

According to the Director of BFP, FPIMS is an old but reliable computer system that helps the FDNY manage its inspection needs. Nevertheless, they recognize that FPIMS has limitations in billing and collection management since it was set up on an account basis for inspection purposes. If the FDNY modified the FPIMS system to correct problems like those described above, it could improve its billing and collection practices.

Recommendations

The FDNY should modify FPIMS to:

2. Correct the problems in the billing and collection processes for accounts with outstanding balances.

3. Ensure that all inspections performed are billed, even if there is a prior unpaid balance on the account.

4. Ensure that all accounts with unpaid balances held in District Office 17 go through the collection process.

FDNY Response to Recommendations #2, #3, and #4*:* The Department agreed (with reservation), stating: "FDNY will make every effort to correct these billing deficiencies whenever possible, but these corrections may be delayed due to reduced staffing levels and the nature of FPIMS itself."

Auditor Comment for Recommendations #2, #3, and #4: We recognize that FDNY has recently reduced its administrative staff; but not its programming staff. Therefore, these changes could be accomplished if management sets this as a priority for one or all three programmers who work with FPIMS.

Manual Bills Are Not Adequately Tracked and Controlled

Our review found that the FDNY does not track manual bills and has inadequate controls over the use of invoices. As a result, manual bills are not accounted for and invoices could be misappropriated without detection.

Manual bills are issued on four-part sequentially numbered invoices that are distributed to Headquarters Unit inspectors who fill them out when they perform inspections. The customer gets two copies of the invoice (one for their records and one to submit with the inspection fee payment); the Headquarters Unit keeps one copy for its files and delivers the remaining copy in a weekly invoice package to the Cash Office.

Once a week, Headquarters Unit inspectors give their supervisors an Invoice Record listing all invoices they issued that week along with a copy of each. In turn, the supervisors review, sign, and deliver these documents to the Cash Office. The Cash Office arranges the manual bills sequentially by unit and invoice number and places them in a file drawer for unpaid bills. Then the cashier signs the Invoice Record and sends it to Revenue Management and a copy to the corresponding Headquarters Unit.

Maintaining open billings in file drawers subject to frequent handling as bills are added and removed, is a practice prone to error and may result in discrepancies in the bills reported and collected. These discrepancies can be attributed to the absence of an accounts receivable ledger to track the status of manual bills and is contrary to Comptroller's Directive #21:

> "Non-grant revenues, such as permits, fees, fines, licenses and concessions . . . result from or could result from the issuance of a bill. In a commercial sense, they have all the attributes of account receivables and should therefore be subject to proper internal account receivables control. . . . An agency Receivables and Collection Ledger should be maintained to centralize the record maintenance function for billing and cash receipts by matching cash receipts against open receivable balances."

When a customer makes a payment, the bill is taken from the "unpaid" drawer and is placed sequentially by unit and invoice number in a "paid" drawer. The payment is also recorded in a handwritten payment log by date paid. This Cash Office payment log is not sufficient to manage and control the collection process because it does not track unpaid invoices. Moreover, manual bill payments are not applied to the actual account or the specific bill paid, as required by the Comptroller's Directive #21.

In Fiscal Year 2002, Revenue Management reported 6,525 manual bills issued totaling $2.1 million. However, we found discrepancies when we attempted to match the number of manual bills reported by Revenue Management against the Invoice Records from Headquarters Units, as shown in Table II:

Table II

Manual Bills: Reported Versus Issued
Fiscal Year Ending June 30, 2002

Headquarters (HQ) Units	Manual Bills Reported by Revenue Management * A	Manual Bills Issued by HQ Units** B	Reported More (Less) than Issued a-b
Bulk Fuel Safety	1,719	1,689	30
Explosives	679	684	(5)
Fire Alarms	709	709	-
Fire Suppression	1,912	1,909	3
LPPA	370	399	(29)
Labs Pipelines	576	558	18
High Rise	537	510	27
Tank Truck	23	23	-
TOTAL INVOICES	6,525	6,481	44

* Source: Fiscal Year 2002 Total Manual Billings Report
** Source: Manual Bills recorded on Invoice Records filed in Revenue Management

An adequate tracking system for manual bills would minimize the discrepancies shown above. In addition, it could provide needed control over blank invoices as well since the FDNY does not currently track invoices after they are distributed to the inspectors.

We found many gaps in the sequential order of invoice numbers issued by the Headquarters Units inspectors for the period July 2001 through October 2001. Revenue Management could not account for 21 (60%) of the 35 missing invoice numbers that we tested. Therefore, it is possible that an inspector may issue a manual bill and accept payment from a customer without the FDNY being aware of this transaction.

FDNY officials advised us that they were in the process of automating all billing and collection, which will solve these problems. In the meantime, the FDNY should track invoices and maintain an accounts receivable ledger for these manual bills.

Recommendations

The FDNY should:

5. Continue to convert from manual to automatic billing.

FDNY Response: The Department agreed, stating: "FDNY plans to continue the conversion process."

6. Require that the Cash Office keep a sequential listing by invoice number of all manual bills received as long as manual billing continues.

FDNY Response: The Department agreed, stating: "The Cashier's Office does keep such a sequential listing in an Excel spreadsheet. The Department will review the procedure to ascertain if there is a more effective method of maintaining this check on the manual billing system."

Auditor Comment: Based upon our review and repeated requests for an Excel spreadsheet listing all unpaid manual bills received by the Cash Office, we found no evidence that this spreadsheet exists. Therefore, we maintain that FDNY management needs to review its procedures to ensure that all manual bills and their payments are tracked.

7. Require Headquarters Units to record all missing and voided invoice numbers on their weekly Invoice Records as long as manual billing continues.

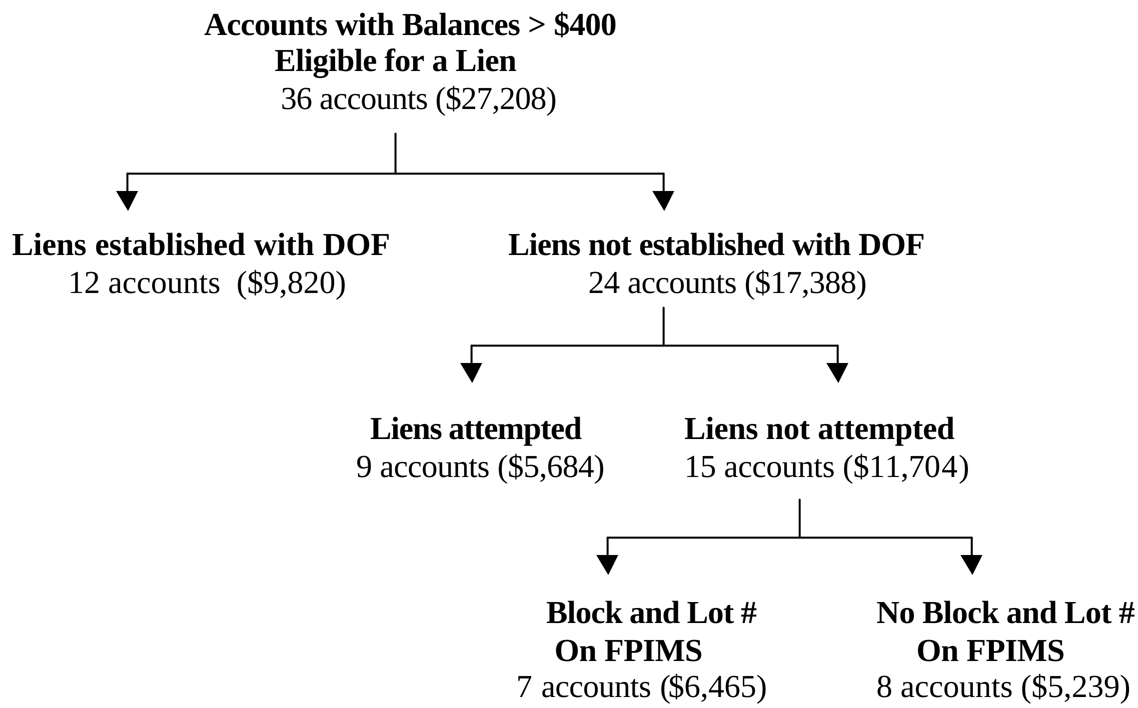
FDNY Response: The Department agreed, stating: "Fire Prevention procedures will be revised to include this check."

Liens Are Not Processed
For All Eligible Accounts

Property Owner Liens (liens) is an effective method in collecting moneys owed. In Fiscal Year 2002, the FDNY collected $1.7 million on outstanding liens. However, we found that the FDNY did not place liens on all eligible accounts and did not establish liens for the full amount owed.

According to FDNY collection procedures, a lien should be established with DOF for Headquarter Unit fees not paid within 120 days and for District Office fees not paid within 400 days. Revenue Management uses account information from FPIMS to process liens sent to the DOF Fairtax computer system through a separate Revenue Management Lien Computer System. Revenue Management personnel are required at each stage of this process to reformat data for transfer from one computer system to another as well as to research missing account data needed for processing. In Fiscal Year 2002, Revenue Management reported on its monthly Lien Operations Reports that it established liens with DOF totaling $2.2 million.

We reviewed FDNY past due accounts as of December 31, 2002. We found that 36 of the 200 sampled past due accounts had balances of more than $400 and were eligible for a lien; these 36 accounts totaled $27,208. The following diagram illustrates the breakdown of these 36 accounts.



First, we found that the FDNY established a lien, as recorded on the Fairtax computer system, on only 12 accounts (33%) totaling $9,820, but not on the remaining 24 accounts (67%) totaling $17,388. As a result, the FDNY may have lost the opportunity to collect on these remaining accounts.

Of the 24 accounts without liens, the FDNY never attempted to establish a lien on 15 accounts valued at $11,704. In discussions with a Revenue Management official, he explained that these accounts might have been excluded from the lien process because there was no block and lot number for the account premises on FPIMS. However, we found that seven of these fifteen accounts (totaling $6,465) did have block and lot numbers on FPIMS, and yet no liens were established for them. As a result, not only would past due accounts without liens probably remain in FPIMS uncollected, but also FPIMS would not generate inspection orders for these accounts because of the outstanding balance (as discussed in the section on the limited capabilities of FPIMS).

In addition, though the FDNY attempted to establish a lien on the remaining nine accounts valued at $5,684, it was unaware that the liens did not exist on DOF's Fairtax computer system. The same official stated that these nine accounts, reported by the FDNY as having liens, may not have shown to have liens by DOF because of discrepancies in account information (i.e., property owner, address, etc.) between the FDNY lien system and the Fairtax computer system. No one in Revenue Management detected that liens communicated to DOF were not established on Fairtax because there was no reconciliation procedure in place at the time. However, we were told that the FDNY now reconciles liens against a monthly DOF report, a procedure begun in October 2002.

Our finding indicates that the dollar amount of liens established with DOF in Fiscal Year 2002 may be substantially lower than the $2.2 million reported on the DOF monthly Lien Operations Report.

By failing to properly monitor and report lien activity on past due accounts, Revenue Management did not make every effort to collect moneys owed, as required by the Comptroller's Directive #21. According to Comptroller's Directive #21, "Agencies should make every effort to collect all debts due the City with effective, vigorous, well-documented internal collection procedures . . . The agency must maintain follow-up tracking records for all accounts referred for collection."

A Revenue Management official told us that they have limited staff available to work on liens. We recognize that Revenue Management has limited personnel resources to research all missing information needed to process liens and so may not be able to establish liens on all eligible accounts. However, we believe that they should establish a dollar value threshold and focus the additional resources needed to process these accounts. For example, 33 percent of accounts eligible for liens with balances in excess of $400 represented 67 percent of the total dollars outstanding, as shown in Table III:

Table III

Accounts Eligible for Liens, by Dollar Amounts Outstanding*
As of December 31, 2002

Range of Dollar Amounts Outstanding	Number of Accounts	% of Total Accounts	Dollar Amount Outstanding	% of Total Dollars Outstanding
$1,000+	214	6%	$409,676	27%
$800-$999	150	4%	$130,682	9%
$600-$799	231	6%	$154,507	10%
$400-$599	685	18%	$340,185	22%
> $400 SUBTOTAL	**1,280**	**33%**	**$1,035,051**	**67%**
< $400	2,589	67%	$501,100	33%
TOTAL	**3,869**	**100%**	**$1,536,151**	**100%**

*Accounts past due 181 days to two years on the December 2002 FPIMS Accounts Receivable Aging Report

Second, we found that liens may not include all moneys owed. Based upon Revenue Management collection practices, when an automatic bill remains unpaid for 150 days, a fine of 50 percent of the annual fee is added to the original bill amount. After one year, if the bill is still unpaid, the fine increases to 100 percent of the annual fee. We found a total of $4,858 excluded from the lien process in 12 of our sampled accounts. For example, one account with a balance due of $2,415 on FPIMS showed a balance of only $1,155 on the Revenue Management Lien System because $1,260 in fines was not included. Table IV shows a breakdown of the $4,858 that was excluded from the lien process in these 12 accounts.

Table IV

Moneys Excluded from Lien Process
In 12 Sampled Account
As of December 31, 2002

Sample #	Balance Due On FPIMS	Balance Due On Revenue Management Lien System	$ Amount Excluded From Lien Process
1	$2,415	$1,155	$1,260
2	$1,033	$525	$508
3	$824	$394	$430
4	$945	$525	$420
5	$840	$420	$420
6	$665	$245	$420
7	$630	$315	$315
8	$577	$262	$315
9	$630	$420	$210
10	$420	$210	$210
11	$402	$192	$210
12	$638	$499	$140
TOTAL	**$10,020**	**$5,162**	**$4,858**

One reason that moneys are excluded is that the lien process may start before FPIMS adds the final fine to account's balance due. By not ensuring that FPIMS has added all fines before liens are processed, Revenue Management may establish liens for less than amounts owed.

Recommendations

The FDNY should:

8. Monitor the lien process to ensure that liens are established with DOF for past due accounts.

FDNY Response*:* The Department agreed, stating: "FDNY will institute procedures to ensure that liens are established with DOF for past due accounts whenever this is feasible."

9. Reconcile the number and dollar amount of liens sent to DOF with the DOF monthly Lien Operations Report and research all discrepancies found on accounts above a dollar value threshold in order to maximize lien collections.

FDNY Response*:* The Department agreed, stating: "FDNY will institute both procedures in order to maximize lien collections."

10. Ensure that FPIMS includes all fines due before sending accounts for lien processing.

FDNY Response: The Department agreed, stating: "FDNY does ensure that all fines and other charges on FPIMS are included before sending the account for lien processing; however, additional charges may accrue to the account after the lien has been applied. FDNY will review the examples provided by the auditors and ensure that its procedures are being carried out correctly."

No Write-Off Policy for Uncollectible Debts

Permit and inspection fees are classified as cash basis revenues for citywide financial reporting purposes and are recorded when collected rather than when billed. However, according to Comptroller's Directive #21, for internal agency accounting purposes these billings should be subject to proper accounts receivable controls, including a receivables and collections ledger as well as a write-off policy. The directive states:

> "Each agency should establish sound write-off policies appropriate to internal operations," and "Write-offs should be considered only after all reasonable efforts to collect have been exhausted and the cost of collection makes it no longer practical."

We reviewed the FDNY December 2002 FPIMS Accounts Receivable Aging Report and found $1.5 million in past due accounts over three years old. This amount is carried over from month to month indefinitely rather than written off.

The FDNY write-off procedure is inspection-oriented. According to one Revenue Management official, an account remains active and past due amounts are not be written off unless an inspector can confirm that all equipment requiring a permit has been removed from the premises. Accounts that are written off are moved from the active FPIMS database to the historical FPIMS database.

The same Revenue Management official told us that the FDNY is reviewing its write-off procedures so that uncollectible balances on active accounts may be written off. We believe that it is possible to develop this write-off policy from an accounting standpoint that is consistent with Comptroller's Directive #21 and that will not compromise the FDNY inspection records.

Recommendation

The FDNY should:

11. Establish write-off procedures to remove uncollectible account balances from accounts in accordance with Comptroller's Directive #21.

FDNY Response: The Department agreed, stating: "FDNY is currently in the process of establishing such write-off procedures."

Inadequate Segregation of Duties
Related to FPIMS Programmers

We reviewed data security on FPIMS and found that there are adequate controls over access by users other than programmers. However, the three programmers supporting FPIMS have access to all the functions in the system, including data entry.

FPIMS has three levels of access to the computer system: inquiry only, inquiry/update, and programming. All FPIMS users have access to the inquiry function. Data entry clerks and inspection supervisors have access to the inquiry/update function. According to a programmer, if a user who has access to the inquiry/update function does not access FPIMS for three months, the user is automatically denied access. Only the three programmers have access to all three levels, including data entry.

Programmers should have access only to the inquiry only and the programming functions, according to Comptroller Directive 18. "Proper internal controls dictate that agencies adequately segregate duties to insure that individuals with knowledge and technical skills do not have inappropriate access to agency business functions, and adequately separate duties within the data processing technical environment." Therefore, there is a risk of unauthorized program changes and manipulation of FPIMS data by programmers that could go undetected.

Recommendation

The FDNY should:

12. Review FPIMS data security and improve segregation of duties through computer access to minimize the risk of unauthorized program and data changes.

FDNY Response*:* The Department agreed (with reservation), stating: "FDNY will make every effort to correct these billing deficiencies whenever possible, but these corrections may be delayed due to reduced staffing levels and the nature of FPIMS itself."

Auditor Comment: This is not a billing deficiency. This is an internal control weakness that should be addressed by providing sufficient management oversight of the programmers to ensure the integrity of the system and to prevent unauthorized changes.

The City of New York

FIRE DEPARTMENT
9 METROTECH CENTER BROOKLYN, N.Y. 11201-3857

NICHOLAS SCOPPETTA
Fire Commissioner

CITY OF NEW YORK

May 30, 2003

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

Re: Audit Report on the Internal Controls of the Fire Department Over Billing and Collection of Inspection Fees (MH03-060A).

Dear Mr. Brooks:

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

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

If you have any questions about our response or AIP, please contact our Chief Compliance Office, Frank Buccellato, at (718) 999-2033.

Sincerely,

Nicholas Scoppetta

Nicholas Scoppetta

Attachment

Cc: S. Rush
K. Ellis
F. Buccellato
R. Brennan

New York City Office of the Comptroller Audit Report on Internal Controls of the Fire Department Over Billing and Collection of Inspection Fees (MH03-60A)

Audit Recommendations – FDNY Response / Agency Implementation Plan

1) **Bureau of Fire Prevention Fee Schedule should be reviewed.**

   FDNY Response : The Fire Department Agrees – FDNY will conduct a study to determine whether the current fees are appropriate, and make any necessary changes. Our most recent review indicated that no increase was necessary.

2) **FDNY should modify FPIMS to correct the problems in the billing and collection process for accounts with outstanding balances.**

   FDNY Response : The Fire Department Agrees (with reservation) – FDNY will make every effort to correct these billing deficiencies whenever possible, but these corrections may be delayed due to reduced staffing levels and the nature of FPIMS itself.

3) **FDNY should modify FPIMS to ensure that all inspections performed are billed, even if there is a prior unpaid balance on the account.**

   FDNY Response : The Fire Department Agrees (with reservation) – FDNY will make every effort to correct these billing deficiencies whenever possible, but these corrections may be delayed due to reduced staffing levels and the nature of FPIMS itself.

4) **FDNY should modify FPIMS to ensure that all accounts with unpaid balances held in District Office 17 go through the collection process.**

   FDNY Response : The Fire Department Agrees (with reservation) – FDNY will make every effort to correct these billing deficiencies whenever possible, but these corrections may be delayed due to reduced staffing levels and the nature of FPIMS itself.

5) **FDNY should continue to convert from manual to automatic billing.**

   FDNY Response : The Fire Department Agrees – FDNY plans to continue the conversion process.

6) **FDNY should require that the Cashier's Office keep a sequential listing by invoice number of all manual bills received as long as manual billing continues.**

   FDNY Response : The Fire Department Agrees – The Cashier's Office does keep such a sequential listing in an Excel spreadsheet. The Department will review the procedure to ascertain if there is a more effective method of maintaining this check on the manual billing system.

7) **FDNY should require Headquarter Units to record all missing and voided invoice numbers on their weekly Invoice Records as long as manual billing continues.**

FDNY Response : The Fire Department Agrees – Fire Prevention procedures will be revised to include this check.

8) **FDNY should monitor the lien process to ensure that liens are established with DOF for past due accounts.**

FDNY Response : The Fire Department Agrees – FDNY will institute procedures to ensure that liens are established with DOF for past due accounts whenever this is feasible.

9) **FDNY should reconcile the number and dollar amount of liens sent to DOF with the DOF monthly Lien Operations Report and research all discrepancies found on accounts above a dollar value threshold in order to maximize lien collections.**

FDNY Response : The Fire Department Agrees – FDNY will institute both procedures in order to maximize lien collections.

10) **FDNY should ensure that FPIMS includes all fines due before sending accounts for lien processing.**

FDNY Response : The Fire Department Agrees – FDNY does ensure that all fines and other charges on FPIMS are included before sending the account for lien processing; however, additional charges may accrue to the account after the lien has been applied. FDNY will review the examples provided by the auditors and ensure that its procedures are being carried out correctly.

11) **FDNY should establish write-off procedures to remove uncollectible account balances from accounts in accordance with Comptroller's Directive #21.**

FDNY Response : The Fire Department Agrees – FDNY is currently in the process of establishing such write-off procedures.

12) **FDNY should review FPIMS data security and improve segregation of duties through computer access to minimize the risk of unauthorized program and data changes.**

FDNY Response : The Fire Department Agrees (with reservation) – FDNY will make every effort to correct these billing deficiencies whenever possible, but these corrections may be delayed due to reduced staffing levels and the nature of FPIMS itself.