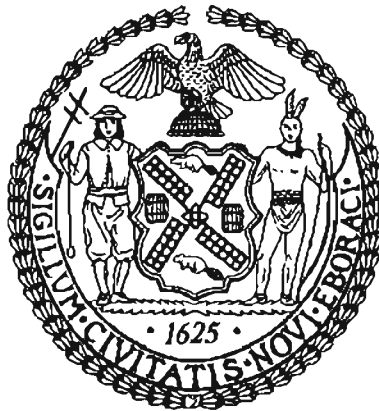


**CITY OF NEW YORK
OFFICE OF THE COMPTROLLER**

**John C. Liu
COMPTROLLER**

**FINANCIAL AUDIT
Tina Kim
Deputy Comptroller for Audit**



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

FM11-072A

June 28, 2011



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

John C. Liu
COMPTROLLER

June 28, 2011

To the Residents of the City of New York:

My office has audited the Department of Environmental Protection's (DEP) billing and collecting of water and sewer charges from hotels. We audit City agencies such as DEP as a means of ensuring that they operate efficiently and are accountable for resources and revenues in their charge.

DEP provides water and sewer services to all hotels operating in New York City. DEP's Bureau of Customer Services (BCS) maintains all customer account information, bills customers for water and sewer charges, and tracks payments and customer complaints in its Customer Information System.

The audit found that DEP is properly billing hotels for water and sewer charges in accordance with its policies and procedures and the *New York City Water Board Water and Wastewater Rate Schedule*. However, we noted certain discrepancies totaling nearly \$2.7 million within DEP's billing and collection practices that resulted in 20 hotels that were not billed the correct amount because of problems with the meters on the property or meters that DEP did not know exist and 49 hotels with outstanding water and sewer charges.

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 e-mail my audit bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "John C. Liu".

John C. Liu

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The City of New York
Office of the Comptroller
Financial Audit

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

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AUDIT REPORT IN BRIEF

The Department of Environmental Protection (DEP) provides water and sewer services to all hotels operating in New York City. DEP's Bureau of Customer Services (BCS) maintains customer account information, bills customers for water and sewer charges, and tracks payments and customer complaints in its Customer Information System (CIS). DEP's CIS contains approximately 834,000 water and sewer customer accounts—781,000 accounts are billed based on actual metered consumption, and 53,000 accounts are billed on an annual flat-rate system, called frontage, which calculates the bill based on the size of the building and the number of plumbing fixtures (i.e. sinks, toilets, showers, and faucets). Of the 834,000 accounts, 1,509 accounts relate to 1,049 hotels. Since hotels are large consumers of water and sewer services, this audit focused on these accounts. The objective of this audit was to determine whether DEP properly bills hotels for water and sewer usage and is making efforts to collect outstanding water and sewer usage fees from hotels.¹

Audit Findings and Conclusions

In general, DEP is properly billing hotels for water and sewer charges in accordance with its policies and procedures and the *New York City Water Board Water and Wastewater Rate Schedule*. However, we noted discrepancies regarding DEP's billing and collection practices that resulted in 20 hotels that were not billed the correct amount because of problems with the meters on the property or meters that DEP did not know exist. We estimate these 20 hotels owe \$1,092,669. In addition, there are 49 hotels that have not paid \$1,594,435 in outstanding water and sewer charges. DEP needs to be more aggressive with customers that have large outstanding water and sewer charges and make no attempt to pay these charges.

Audit Recommendations

To address these issues, we made five recommendations that DEP should:

¹ Hotel classifications also include hostels, bed and breakfasts, and college dormitories.

- Bill all hotels identified in this report for the appropriate water and sewer usage fees.
- Coordinate with the Department of Buildings (DOB) to investigate why hotels cited in this report were issued a certificate of occupancy without having a proper water meter installed.
- Solicit DOB input and consider instituting a procedure that would require DEP to verify all meter installations before DOB issues certificates of occupancy.
- Establish a process that includes the termination of service for hotels that default on a payment agreement and/or have a large outstanding water and sewer account balance.
- Assign a new, unique Multiple Account Group Code for all hotels to better track hotel accounts.

DEP officials agreed with the audit's findings and four of the five recommendations. However, they do not agree with our recommendation to terminate water services.

INTRODUCTION

Background

The Department of Environmental Protection (DEP) provides water and sewer services to all hotels operating in New York City. DEP's Bureau of Customer Services (BCS) maintains customer account information, bills customers for water and sewer charges, and tracks payments and customer complaints in its Customer Information System (CIS). All account information including the customer name, address, account number, block and lot of the property, and the building class is stored in CIS. DEP's CIS contains approximately 834,000 water and sewer customer accounts. Of the 834,000 accounts, 1,509 accounts relate to 1,049 hotels. Since hotels are large consumers of water and sewer services, this audit focused on these accounts.

DEP bills approximately 781,000 of the 834,000 accounts based on actual metered consumption. A DEP account can have several meters or one meter assigned to it. A meter can measure the water consumption of an entire building or part of a building. The bill is generated either through an actual meter read or through an estimate based on the previous history of consumption of water usage for that account. The remaining 53,000 accounts are billed on an annual flat-rate system, called frontage, which calculates the bill based on the size of the building and the number of plumbing fixtures (i.e. sinks, toilets, showers, and faucets.) Some accounts are billed on a flat-rate even though there is a meter on the property. These 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 metered consumption is billed. DEP relies on independent licensed plumbers to inform them when new water meters are installed and for the hotel owners to then elect to change from annual flat rate billing to metered billing.

According to the *New York City Water Board Water and Wastewater Rate Schedule*, the transition program will expire on June 30, 2012. Among the 53,000 accounts on the flat-rate system, there are approximately 8,700 accounts that have not taken any steps to have a meter installed and receive a surcharge to their annual flat-rate bill.

Objectives

The objectives of this audit are to determine whether DEP:

- Properly bills hotels for water and sewer usage, and
- Is making efforts to collect outstanding water and sewer usage fees from hotels.

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 performed 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 calendar year 2010. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with DEP officials during and at the conclusion of this audit. A preliminary draft report was sent to DEP officials and was discussed at an exit conference held on June 3, 2011. On June 8, 2011, we submitted a draft report to DEP officials with a request for comments. We received a written response from DEP officials on June 22, 2011.

DEP officials agreed with the audit's findings and four of the five recommendations. DEP officials stated that they have billed the hotels cited in this report, agreed to work with DOB to further redefine policies and procedures, and will assign hotel accounts a Multiple Account Group Code so that they can be easily identified. However, they do not agree with our recommendation to terminate water services stating that it is costly and time consuming. In their response, DEP officials stated "DEP already has a proven collection modality in the annual Lien Sale. The Lien Sale nets DEP virtually the entire delinquent balance at the time the lien is sold. The delinquent hotels have the option of paying in full or signing a binding payment agreement to avoid having the lien on the hotel sold." DEP officials further stated that "the cost of service termination and subsequent restoration can be \$5,000 or more and, especially given the locations of many hotels, can also disrupt the flow of traffic. DEP must get clearances from the Department of Health and Mental Hygiene and other agencies, a time consuming procedure. Shutting off water would inconvenience and punish innocent hotel guests." Thus, DEP does not consider service termination a viable method for collecting arrears from delinquent hotels.

Although Lien Sales has proven to be a viable method for collecting outstanding charges, we believe that service termination should still be considered an additional option for the more egregious cases.

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

FINDINGS AND RECOMMENDATIONS

In general, DEP is properly billing hotels for water and sewer charges in accordance with its policies and procedures and the *New York City Water Board Water and Wastewater Rate Schedule*. However, we noted the following discrepancies regarding DEP's billing and collection practices, which affects approximately \$2.7 million.

DEP has a permit process that relies on plumbers to notify it whenever a new meter is installed so that DEP can add pertinent information into CIS to begin the billing process. We independently identified 20 hotels that were not billed the correct amounts. We estimate that these 20 hotels owe the city \$1,092,669. Plumbers do not always apply for permits to install new water meters or do not return permits when installations are complete. Therefore, DEP does not always know when a new meter is installed. In both of those instances, DEP does not bill the property because it is unaware that a meter was installed. In other instances, plumbers install meters that are inappropriate based on the building size, therefore DEP will not bill an account until the matter is resolved and the correct meter is installed.

DEP cannot readily identify all hotel accounts in CIS; therefore, it cannot track outstanding hotel water and sewer charges efficiently and effectively. Some hotel accounts are not properly coded. For example, some hotel accounts are coded as condominiums, making it difficult to locate all hotel accounts in CIS.

We identified 49 hotels that have not paid \$1,594,435 in outstanding charges. Of the 49 hotels, 21 hotels haven't paid water and sewer usage fees in over six months, 17 hotels had to enter into payment agreements because they didn't pay the full outstanding amount for water and sewer usage, eight hotels were so far behind in their payments that they had their outstanding water and sewer amounts sold by the City through a lien sale, and three hotels still owe a combined \$346,116 for water and sewer usage and are in bankruptcy. These charges may take years to collect. It is important for DEP to be more aggressive, including possible termination of services, in its collection efforts for accounts that continue to accrue large outstanding water and sewer charges and make no attempt to pay these charges.

These findings are discussed in detail in the following sections of this report.

DEP Did Not Accurately Bill 20 Hotels for \$1,092,669

Our review of 1,049 block and lot numbers² covering 1,509 accounts found that DEP did not accurately bill 20 hotels for their water and sewer usage totaling \$1,092,669. Based on our calculations, we estimate that DEP should re-bill these 20 hotels for \$863,779 in water and sewer charges, plus assess \$228,890 in surcharges to two of these 20 hotels that did not have a meter installed.³

² 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.

³ Accounts that do not have a meter installed receive a 100 percent surcharge to their annual flat rate bill as stipulated in the *New York City Water Board Water and Wastewater Rate Schedule*.

On April 7, 2011, we sent a list of questionable accounts to DEP. As a result, DEP began to take corrective action for 13 of the 20 hotels and has re-billed these hotels for \$388,903 (based on actual consumption) as shown in Table I.

Table I
Thirteen Hotels Re-billed By DEP

Hotel	Account	Rebilling Period	Days	Bills Canceled*	Charges Re-billed	Surcharge	Net Bill
Ravel Hotel	6000863533001	5/4/09 - 5/4/11	731	(\$5,900)	\$47,715	\$0	\$41,815
Lexington Marco LaGuardia Hotel	4000629358001	7/1/09 - 4/20/11	658	\$0	\$127,804	\$0	\$127,804
Wyndham Garden Hotel Chelsea	9001024726001	7/1/07 - 1/3/11	1282	\$0	\$39,566	\$0	\$39,566
Ramada	4001030489001	9/23/09 - 4/8/11	562	(\$454)	\$31,572	\$0	\$31,119
Distrikt Hotel	3000114737001	7/1/09 - 3/29/11	636	(\$1,790)	\$30,149	\$0	\$28,360
Holiday Inn	4000560929001	1/14/10 - 4/14/11	455	(\$113,066)	\$100,308	\$0	(\$12,759)
James Hotel	9001028653001	4/16/10 - 3/8/11	326	(\$1,665)	\$16,655	\$0	\$14,990
Best Western Arena Hotel	4001029633001	1/13/09 - 5/5/11	842	(\$716)	\$14,231	\$0	\$13,515
Days Inn, Brooklyn	5000988172001	6/11/08 - 3/5/11	997	(\$826)	\$34,790	\$0	\$33,964
Comfort Inn Manhattan Bridge	3001023644001	5/15/09 - 5/5/11	720	\$0	\$22,944	\$0	\$22,944
Gotham Hotel	3000128064001	10/21/09 - 5/5/11	561	(\$2,100)	\$12,683	\$0	\$10,583
Hotel Le Jolie	4001014460001	7/1/07 - 5/3/11	1402	(\$11,802)	\$42,617	\$0	\$30,815
The Courtyard	3001030281001	5/18/10 - 5/22/11	369	\$0	\$6,188	\$0	\$6,188
Totals:				(\$138,320)	\$527,222	\$0	\$388,903

* Hotels that have a \$0 balance were never billed and therefore estimated charges do not need to be adjusted. The remaining hotels were billed on an estimated amount or a minimum daily charge.

DEP is in the process of taking corrective action for the remaining seven hotels. We estimate that DEP could re-bill these seven hotels an additional \$498,468 plus \$228,890 in surcharges to the two hotels that did not have a registered meter. See Table II for a breakdown by hotel.

Table II
Seven Hotels Still to be Re-billed by DEP

Hotel	Account	Rebilling Period	Days	Canceled	Re-billed	Surcharge	Net Bill
Apollo Hotel	9000144525001	6/28/06 - 6/30/11	1828	\$0	\$103,888	\$103,888	\$207,776
W Hotel	4000099511001	8/9/10 - 5/4/11	264	(\$191)	\$76,848	\$0	\$76,657
Hotel Moderne	3000121256001	7/1/99 - 6/30/11	4383	\$0	\$125,002	\$125,002	\$250,004
New York University	120267001	7/1/09 - 6/30/11	729	(\$11,994)	\$72,489	\$0	\$60,495
Ace Hotel	7000116823001	7/15/10 - 4/18/11	277	(\$11,407)	\$120,241	\$0	\$108,834
Sumner Hotel	7001033919001	6/1/2009 - 12/22/10	569		NA		NA
Holiday Inn	2000116893001	6/29/10 - 2/25/11	241		NA		NA
Totals:				(\$23,592)	\$498,468	\$228,890	\$703,766

The reason that the hotels were not being accurately billed is because plumbers are not applying for permits to install new water meters or are not returning permits upon completion of a meter installation. In either case, DEP is unable to bill the property because it is unaware that a meter has been installed and does not track when it should be activated in CIS. As a result, a new hotel can operate for years without being billed for water and sewer as our audit has shown.

In March 2011, DEP officials told us that they will begin imposing penalties as well as denying the issuance of future permits to plumbers who fail to return three or more permits during a three-month time period. While the new penalties will help to promote plumbers to return permits, there is still the issue of plumbers installing new meters without a permit.

DEP, as we have previously noted, largely relies on property owners or plumbers to notify it that there is a new meter to be billed. The New York City Department of Buildings (DOB) is responsible for issuing Certificates of Occupancy once a building is available for use. We suggested that DEP improve their coordination efforts with DOB to obtain independent information regarding new hotels subject to water and sewer billings. DOB could request that DEP investigate why hotels cited in this report were issued a certificate of occupancy without having a proper water meter installed. To alleviate this situation from occurring in the future, DOB could inform DEP that a new construction is nearing completion, and DEP will be able to determine whether or not a plumber took out the initial permit to install a new meter, returned that permit upon completion, and that the correct type of meter was installed. If DEP has no record of any permits or meters at that location, or a wrong meter is installed, it could request that DOB not issue a certificate of occupancy until a proper meter is installed. This will prevent hotels from operating for years without paying for water and sewer because a plumber did not apply for a permit or return the appropriate permit upon completion.

Recommendations

DEP should:

1. Bill all hotels identified in this report for the appropriate water and sewer usage fees.

DEP Response: “Agreed. All hotels identified were appropriately billed by June 8, 2011.”

2. Coordinate with the Department of Buildings (DOB) to investigate why hotels cited in this report were issued a certificate of occupancy without having a proper water meter installed.
3. Solicit DOB input and consider instituting a procedure that would require DEP to verify all meter installations before DOB issues certificates of occupancy.

DEP Response: “Agreed. DEP will reach out to DOB to further refine our policies and procedures to ensure that no property be issued a certificate of occupancy without proper water metering and account structuring.”

**Efforts Could be Enhanced to Collect
\$1,594,435 in Outstanding Hotel
Water and Sewer Charges**

DEP needs to be more aggressive with customers that have large outstanding water and sewer charges and make no attempt to pay these charges. During our review, we found that 49 hotels had not fully paid their water and sewer charges. These hotels had outstanding charges totaling \$1,594,435, including 21 hotels that have not paid for water and sewer in over six months and no action has been taken by DEP; 17 hotels that have entered into one or more payment agreements with DEP; eight hotels that had outstanding water and sewer charges sold at a lien sale; and three hotels that are in bankruptcy. DEP has not been consistent in enforcing its payment agreement procedures nor has it been aggressive in collecting these outstanding charges. As a result, these hotels have been allowed to operate without fully paying their water and sewer usage.

DEP did not have a specific policy in place to determine how payment agreements were issued or how many payment agreements were issued to a customer. We were told by DEP officials that it was the customer’s willingness to cooperate that dictated the number of payment agreements a hotel was allowed to enter into. In March 2011, Local Law Number 68 for the year 2007 was amended regarding the sale of tax liens. Once a payment agreement goes into default for non-payment, the outstanding water and sewer charges are eligible to be sold by the City at a lien sale, and the property will not be allowed to enter into a new payment agreement for five years. This new legislation will help DEP adhere to a specific policy regarding the number of payment agreements that can be issued. However, DEP needs to be more aggressive for those accounts that have large outstanding water and sewer charges and make no attempt to pay these charges. DEP can utilize the option of service termination for these accounts that are egregious in not paying their water and sewer charges.

Recommendation

DEP should:

4. Establish a process that includes the termination of service for hotels that default on a payment agreement and/or have a large outstanding water and sewer account balance.

DEP Response: “DEP does not agree with this recommendation. DEP already has a proven collection modality in the annual Lien Sale. The Lien Sale nets DEP virtually the entire delinquent balance at the time the lien is sold. The delinquent hotels have the option of paying in full or signing a binding payment agreement to avoid having the lien on the hotel sold. Under legislation approved by the City Council and signed by the Mayor this year, properties (including hotels) that default on their payment agreements will generally have their liens sold at the next sale. Service termination, on the other hand, is less than satisfactory for several reasons. It is very expensive for DEP to shut off water since it requires time and manpower to find the tap, dig up the street, cut or plug the tap and then restore the street to a safe condition. The cost of service termination and subsequent restoration can be \$5,000 or more and, especially given the locations of many of the hotels, can also disrupt the flow of traffic. DEP must get clearances from the Department of Health and Mental Hygiene and other agencies, a time consuming procedure. Shutting off water would inconvenience and punish the innocent hotel guests and could have negative economic effects that extend beyond the delinquent hotels. For many of the same reasons that service termination is unacceptable for multi-family residential buildings, we do not consider service termination a viable method for collecting arrears from delinquent hotels.”

Auditor Comment: Although we agree with DEP’s assertion that a Lien Sale is a proven method for collecting outstanding charges, we believe that service termination should still be considered for the most egregious cases. As we note in our report, every account holder may choose not to enter into a payment agreement, while other account holders have had their balances sold in a Lien Sale repeatedly, and they continue to ignore their water bills. For these egregious account holders, DEP should reconsider the option of service termination.

DEP Lacks an Effective System for Tracking Outstanding Charges

DEP does not assign a unique identifier (code) to hotels when entering information into CIS. Since hotels are large consumers of water, a unique identifier would enhance DEP’s ability to segregate and track hotel water and sewer charges efficiently and effectively. DEP’s Bureau of Customer Services (BCS) is responsible for the billing of water and sewer charges for all properties within the City. BCS maintains customer, premise, and utility information using the Customer Information System (CIS). BCS uses CIS to maintain information for the billing and

collection of water and sewer charges for all properties.⁴ Relevant information for each property, such as account number, service address and borough, owner name, and block and lot number, is entered into the system. A property that uses water and sewer service is placed on active status in CIS, and the account is generally billed for water and sewer charges. When a property's water service has been terminated or a property has been demolished, the account is placed on inactive status in CIS and is not billed for water and sewer charges.

The buildings coded as "H" include hotels, college dormitories, and shelters. However, our review found that not all hotels are coded as "H" class buildings in CIS. DEP is unable to identify hotel accounts because it does not assign property types or unique customer identifiers, such as Federal Employer Identification Number, when accounts are entered into CIS. This information would allow DEP to identify all hotel accounts or all accounts for a single customer, respectively. Further, DEP does not use consistent classification for property owner and address information when accounts are entered in CIS; therefore, name and address searches will not yield all accounts. Subsequently, CIS cannot readily identify all hotel accounts, and it cannot track outstanding hotel water and sewer charges efficiently and effectively.

One of the features of CIS is the ability to assign a "Multiple Account Group Code" (MAGC) to groups of similar accounts. If DEP were to assign all hotels a new Magic Code and all future accounts this same new code, DEP will be able to review all of these accounts in an efficient manner. By assigning the code to a specific account, it will enable DEP to segregate hotel accounts from other accounts that might share the same building class or the same borough, lock, and lot. Thus, a search of all hotels using a new magic code for hotels would now include those accounts that might be currently classified as a condominium building class (e.g., R5).

Recommendation

DEP should:

5. Assign a new, unique Multiple Account Group Code for all hotels to better track hotel accounts.

DEP Response: "Agreed. DEP will assign a MAGC code to all current and future properties identified as hotels not in the 'H' (hotel) building class."

⁴ DEP has been using CIS for the billing and collection of water and sewer charges since 1995 when it took over this responsibility from the Department of Finance.

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 performed 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 calendar year 2010. To gain an understanding of the policies, procedures, and regulations governing the billing and collection processes, we conducted walk-throughs with DEP officials, and reviewed the *New York City Water Board Water and Wastewater Rate Schedule*, DEP's policies and procedures regarding billing, collecting, and metering accounts, and DEP's *Customer Information System Inquiry Manual*.

To gain an understanding of DEP's monitoring of hotels' outstanding water and sewer charges and the collection practices for those charges, we interviewed key DEP personnel from the Management Analysis Unit (MAU). We discussed billing and collecting procedures for hotels with MAU personnel and met with the MAU's Account Manager for Collections to discuss DEP's procedures for dealing with owners who do not pay their bills on time.

We reviewed our previous "Audit Report on the Department of Environmental Protection Controls over the Billing of Water and Sewer Charges of Residential Properties" (Audit Number MH08 – 069A issued February 10, 2009) that assessed the reliability of CIS data as well as the accuracy of water and sewer charges. We relied on the assessment provided by the previous audit regarding the reliability of data that we obtained from CIS for our current audit.

We received training on CIS—the computer system used by DEP to maintain customer account information, to bill customers for water and sewer charges, and to track payments—and interviewed DEP officials to gain an understanding of how customer accounts in CIS are set up, accessed, updated, and maintained.

We attempted to independently develop as complete a list as possible of hotels operating in New York City for the purposes of determining whether DEP was, in fact, billing all hotels subject to water and sewer charges. We requested that DEP, the New York City Department of Finance (DOF), and the New York City Department of Buildings (DOB) provide us with the following information:

- DEP provided a list of all accounts with a building class "H" that represents buildings classified as hotels;
- DOF provided a list of entities authorized to collect Hotel Room Occupancy Tax; and

- DOB provided a list of all hotels that were issued Certificates of Occupancy for the previous five years.

In addition, we obtained from the New York State Liquor Authority's website a list of all hotels that were issued hotel liquor and hotel wine licenses. Lastly, we conducted searches of various internet websites including www.Hotels.com and www.NYCGO.com to identify additional hotels.

Using all of the above sources, we compiled a list of 1,049 hotels in New York City. We then conducted name, borough, block and lot, and address searches in CIS to develop a list of hotel accounts in CIS related to these 1,049 hotels. We then reviewed each hotel's billing and collection history to determine whether the accounts were billed accurately.

- We reviewed CIS Accounts Receivable screens to determine whether all 1,049 hotel blocks and lots covering the 1,509 hotel accounts in CIS were billed. Accounts were billed on either metered or frontage rates. Metered accounts were billed monthly or quarterly based on actual consumption of water while frontage accounts were billed annually.
- For instances of canceled charges in CIS, we determined whether accounts were re-billed for the same time periods based on actual consumption. Charges may be canceled and re-billed for actual consumption when estimated bills sent are too high or when a meter is defective or not registering properly.
- We identified 90 accounts that were billed on frontage rates. We determined whether these accounts were either metered in accordance with the *New York City Water Board Water and Wastewater Rate Schedule* or charged the appropriate surcharge if they were not metered. We also ascertained whether these accounts were billed based on the correct frontage rates.

To determine whether DEP is making efforts to collect all outstanding water and sewer charges, we calculated the total outstanding charges for all 1,049 blocks and lots covering the 1,509 hotel accounts in CIS. For hotels with outstanding charges, we determined when they last made a payment to DEP. For the hotels that did not pay or substantially pay their outstanding charges within the previous six months, we determined whether the hotels had entered into payment agreements to pay off these account balances. For hotels that did not enter into payment agreements, we examined DEP's collection efforts for these accounts. Specifically, we looked for evidence that DEP had contacted the hotel and attempted to secure payment in full or to enter into a payment agreement, whether the account was identified for a lien sale, or whether the customer was in bankruptcy proceedings.



**Environmental
Protection**

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**ADDENDUM
Page 1 of 2**

June 22, 2011

H. Tina Kim
Deputy Comptroller, Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
1 Centre Street
New York, NY 10007

Re: Audit FM11-072A

Dear Ms. Kim:

Thank you for the opportunity to comment on the above referenced draft audit report on DEP's Billing of Hotels for Water and Sewer Usage. We appreciate the diligence of your auditors in performing this audit and appreciate the report's finding that "[i]n general, DEP is properly billing hotels for water and sewer charges in accordance with its policies and procedures and the 'New York City Water Board Water and Wastewater Rate Schedule.'" We agree with the report's recommendations with the exception of recommendation number four. As discussed below, we have in most instances already taken action to implement them.

Below is our response to the specific recommendations contained in the June 8, 2011 draft audit report:

1. DEP should bill all hotels identified in the report for the appropriate water and sewer usage fees.

Response: Agreed. All hotels identified were appropriately billed by June 8, 2011.

2. DEP should coordinate with the Department of Buildings (DOB) to investigate why hotels cited in this report were issued a certificate of occupancy without having a proper water meter installed.

3. DEP should solicit DOB input and consider instituting a procedure that would require DEP to verify all meter installations before DOB issues certificates of occupancy

Response: Agreed. DEP will reach out to DOB to further refine our policies and procedures to ensure that no property be issued a certificate of occupancy without proper water metering and account structuring.

4. DEP should establish a process that includes termination of service for hotels that default on a payment agreement and/or have a large outstanding water and sewer account balance.

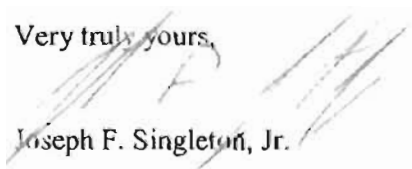
Response: DEP does not agree with this recommendation. DEP already has a proven collection modality in the annual Lien Sale. The Lien Sale nets DEP virtually the entire delinquent balance at the time the lien is sold. The delinquent hotels have the option of paying in full or signing a binding payment agreement to avoid having the lien on the hotel sold. Under legislation approved by the City Council and signed by the Mayor this year, properties (including hotels) that default on their payment agreements will generally have their liens sold at the next sale. Service termination, on the other hand, is less than satisfactory for several reasons. It is very expensive for DEP to shut off water since it requires time and manpower to find the tap, dig up the street, cut or plug the tap and then restore the street to a safe condition. The cost of service termination and subsequent restoration can be \$5,000 or more and, especially given the locations of many of the hotels, can also disrupt the flow of traffic. DEP must get clearances from the Department of Health and Mental Hygiene and other agencies, a time consuming procedure. Shutting off water would inconvenience and punish the innocent hotel guests and could have negative economic effects that extend beyond the delinquent hotels. For many of the same reasons that service termination is unacceptable for multi-family residential buildings, we do not consider service termination a viable method for collecting arrears from delinquent hotels.

5. DEP should assign a new, unique Multiple Account Group Code (MAGC) for all hotels to better track hotel accounts.

Response: Agreed. DEP will assign a MAGC code to all current and future properties identified as hotels not in the "H" (hotel) building class.

Thank you again for the time your staff spent in conducting this audit.

Very truly yours,


Joseph F. Singleton, Jr.