

AUDIT REPORT

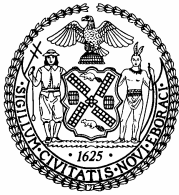


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on Collection and Reporting Of Revenues By The Board of Standards and Appeals

MG07-061A

June 12, 2007



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

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has examined how the Board of Standards and Appeals (Board) is accounting for and safeguarding the application fee revenue it receives.

The Board, an independent entity, hears and decides appeals from property owners whose applications to construct or alter buildings, or to establish new uses, have already been denied by another City agency. The Board generates most of its revenue from fees, which applicants must pay when filing applications for variances and appeals. Audits such as this provide a means of ensuring that the Board and other city agencies safeguard revenues for the citizens of the City of New York.

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

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

Very truly yours,

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

William C. Thompson, Jr.

Report: MG07-061A
Date: June 12, 2007

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

**Audit Report on
Collection and Reporting of Revenues By
The Board of Standards and Appeals**

MG07-061A

AUDIT REPORT IN BRIEF

This audit determined whether the Board of Standards and Appeals (Board) is correctly accounting for and safeguarding the application fee revenue it receives.

The Board, an independent entity, hears and decides appeals from property owners whose applications to construct or alter buildings, or to establish new uses, have already been denied by another City agency. The Board generates most of its revenue from application fees, ranging from \$275 to \$253,000, which applicants must pay when filing for variances and appeals. In Fiscal Year 2006, Board revenues as reported on the City's Financial Management System (FMS) totaled \$833,048, including \$660,755 for variances, \$159,032 for appeals, and \$13,261 for miscellaneous fees.

Audit Findings and Conclusions

Overall, the Board is correctly accounting for the revenue it receives. The Board generally charged and collected the appropriate fees, and then forwarded the funds it collected to the Department of Citywide Administrative Services (DCAS), where the funds were deposited and recognized as revenue on FMS. We also found that the Board appropriately collects fees prior to scheduling a hearing, and hears appeals in accordance with its published agenda.

We found, however, that the board does not adequately safeguard the fee revenue it receives. We found that the Board did not issue receipts sequentially nor reconcile funds collected with funds deposited; held funds for a month, on average, before forwarding them for deposit; and did not always recognize collected funds as revenue in the appropriate fiscal year. In addition, we found that the Board's 2005 Directive #1 filing did not reflect its operating practices.

Audit Recommendations

To address these issues, we make six recommendations, including that the Board should ensure that:

- A daily summary of cash received should be maintained and reconciled against sequentially-issued receipts, as well as deposited checks and money orders;
- All collected funds are forwarded to DCAS for deposit more frequently;
- Its Directive #1 filing accurately reflects its management and fiscal systems and internal control structure.

Agency Response

In its response, the Board agreed with all of the audit's recommendations.

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

Audit Report on
Collection and Reporting of Revenues By
The Board of Standards and Appeals

MG07-061A

INTRODUCTION

Background

The Board is an independent board with five members. It hears and decides appeals from property owners whose applications to construct or alter buildings or to establish new uses have already been denied by another City agency. The City Charter gives the Board power to interpret the meaning or intention of the provisions of the Building Code, Fire Code, Multiple Dwelling Law, Labor Law, and the City Zoning Resolution, and to override decisions of other City agencies. The Board holds regular public hearings to discuss and decide appeals. Prior to each hearing, the Board publishes an agenda of cases scheduled to be heard. At the hearing, it tapes the proceedings. After the hearing, it publishes a bulletin summarizing the cases discussed and the decisions rendered.

The Board generates revenue from the application fees applicants must pay when filing for variances and appeals before they can be put on the docket to be heard. Those fees range from \$275 to \$253,000 per application. In addition, the Board receives additional miscellaneous fees for such services as copying documents, etc. It accepts no cash; only checks and money orders. The Board brings those funds, along with its internally prepared Revenue Reconciliation Reports, to DCAS for deposit and revenue recognition in FMS. In Fiscal Year 2006, Board revenues as reported on FMS totaled \$833,048, including \$660,755 for variances, \$159,032 for appeals, and \$13,261 for miscellaneous fees.

Objective

To determine whether the Board is correctly accounting for and safeguarding the application fee revenue it receives.

Scope and Methodology

The scope of this audit is Fiscal Year 2006. To gain an understanding of the Board's operations and its controls over revenue, we met with officials from the Board and from DCAS. We also conducted walk-throughs and observations, and attended a hearing. In addition, we reviewed the Board's internal policies, procedures, and reports, as well as criteria from Comptroller's Directive #11 on Cash Accountability and Control. Finally we reviewed the Board's Comptroller's Directive #1 Financial Integrity Statement filing for Calendar Year 2005, dated February 28, 2006.

First, we compared the Board's current published Application Filing Fees to the allowable fees detailed in §25-202 of the City Administrative Code to ensure that the fees that the Board charged were appropriate. Then we reviewed all 818 transactions listed on the deposit summaries for Fiscal Year 2006 to determine whether the collected fees were supported by receipts and deposited in a timely manner. Finally, for completeness, we determined whether funds had been deposited for all 903 sequentially numbered receipts issued from six receipt books during Fiscal Year 2006.

We also confirmed whether the funds were given to, deposited, and processed by DCAS. To determine whether the Board was depositing collected funds in a timely manner, we compared the dates the funds were received (receipts were issued) against the dates that the funds were forwarded to DCAS for deposit. We then reviewed all Board-prepared deposit summaries and traced those transactions to documented bank deposits by DCAS to determine whether funds from application filing fees forwarded by the Board to DCAS were deposited in the City's bank account. Finally, we reviewed all documented bank deposits by DCAS for Fiscal Year 2006 and compared them to FMS records to determine whether funds deposited by DCAS in the City's bank account were appropriately recognized as revenue for the Board on FMS.

To determine whether all cases heard at a public hearing were legitimately scheduled, we obtained the published agenda for the Board's weekly public hearing held on September 26, 2006, attended the hearing, and reviewed the published minutes for that hearing. First, we determined whether any additional cases had been added after the agenda was published, either at the hearing or to the bulletin. Then, for all cases, we determined whether the fees were collected prior to the hearing, and compared the fees paid to the Board's published Application Filing Fees. The results of these tests (in conjunction with our other tests), while not projectable to the entire population, provided a reasonable basis to assess the adequacy of BSA's control over the collection and reporting of revenues from its operations.

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

Discussion of Audit Results

The matters covered in this report were discussed with Board officials during and at the conclusion of this audit. A preliminary draft report was sent to Board officials on April 02, 2007 and discussed at an exit conference held on April 12, 2007. On April 30, 2007, we submitted a draft report to Board officials with a request for comments. We received a written response from Board officials on May 14, 2007. In its response the Board agreed with all of the audit's six recommendations. However, with regard to the audit's recommendation that the board should keep a summary of cash received and reconcile it daily, the board plans to conduct a summary and reconciliation process twice a week instead of daily as recommended. The full text of the Board's response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

Overall, the Board is correctly accounting for the revenue it receives. The Board generally charged and collected the appropriate fees, and then forwarded the funds it collected to DCAS, where the funds were deposited and recognized as revenue on FMS. We also found that the Board appropriately collects fees prior to scheduling a hearing, and hears appeals in accordance with its published agenda.

We found, however, that the board does not adequately safeguard the fee revenue it receives. We found that the Board did not issue receipts sequentially nor reconcile funds collected with funds deposited; held funds for a month, on average, before forwarding them for deposit; and did not always recognize collected funds as revenue in the appropriate fiscal year. In addition, we found that the Board's 2005 Directive #1 filing did not reflect its operating practices. The details of these findings are discussed in the following sections of this report.

The Board Does Not Adequately Safeguard Funds Held For Deposit

Comptroller's Directive #1 requires that agencies ensure that cash on hand and other valuable assets are properly secured. However, during our audit, the auditors observed that funds collected were stored in a desk drawer that was either unlocked or opened by more than one clerk. Board officials stated that funds, which totaled as much as \$94,420 at one time, were kept in a locked desk drawer until brought to DCAS for deposit. Comptroller's Directive #11 states that collected funds may be stored overnight in an agency safe. However, a desk drawer, unlike a safe, is neither fireproof nor secure. By delaying deposits and storing un-deposited funds in a desk drawer, the Board is not adequately safeguarding City assets.

Recommendation

1. The Board should ensure that all collected funds are kept in a locked agency safe until brought to DCAS for deposit.

The Board's Response: "Currently, the Board office places checks received for payment in a locked drawer. The Board acknowledges that a locked, fireproof safe would more adequately safeguard the funds. The Board will implement this recommendation."

The Board Does Not Reconcile Funds Received Daily or Issue Receipts Sequentially

Based upon our review, the Board does not reconcile receipts issued against checks and money orders forwarded to DCAS for deposit nor prepare daily summaries of cash received. Comptroller's Directive #11 states that "Employees should prepare daily summaries of cash received." However, Board staffers confirmed that there was no reconciliation between receipts issued and funds awaiting deposit. Without daily reconciliations, the Board cannot be assured that all funds collected are deposited.

In Fiscal Year 2006, the Board issued 903 receipts from six receipt books. However, funds were deposited for 818 transactions with receipts. Of the 85 receipts without deposits, 50 were for deposits outside our scope due to receipts being issued out of sequence, 12 were blank or contained clerical errors, and 23 were voided. While the Board issued receipts for all funds collected, the staff used several receipt books at the same time and did not issue the receipts in sequential order as required by Comptroller's Directive #11.

In addition, during Fiscal Year 2006 the Board did not always obtain a receipt for funds brought to DCAS for deposit. However, since we advised them of our finding, the Board is now obtaining receipts from DCAS whenever funds are brought for deposit.

Preparing daily summaries of cash received, then reconciling receipts issued against checks and money orders deposited, could have eliminated previously undetected clerical errors—such as incorrect receipt numbers, dates, and dollar amounts that we found on the deposit summaries—as well as minimize the potential for fraud and the misappropriation of funds.

Recommendations

The Board should ensure that:

2. A daily summary of cash received should be maintained and reconciled against sequentially-issued receipts, as well as deposited checks and money orders.

The Board's Response: “The Board agrees that a timely summary of cash received should be maintained and reconciled against sequentially-issued receipts, as well as deposited checks and money orders. Given staff resources and the volume of funds received, however, the Board believes that a daily summary is impractical and unnecessary. The Board believes that conducting a summary and reconciliation process twice a week will be sufficient.”

3. A receipt is always obtained from DCAS to account for all funds brought for deposit.

The Board's Response: “As noted in the Audit Report, the Board is now obtaining receipts from DCAS whenever funds are brought for deposit.”

The Board Does Not Forward Funds To DCAS in Timely Manner

In Fiscal Year 2006, the Board generally forwarded funds, averaging \$70,000, to DCAS for deposit once a month. Each deposit ranged from \$29,000 to \$94,000. In one instance, the Board held three checks for 308 days, over a fiscal year-end, before forwarding the funds to DCAS for deposit.

Regarding cash deposits, Comptroller's Directive #11 states, “The accumulation of cash [i.e., currency, checks, and money orders] is not permitted.” The Board may be forwarding funds for deposit infrequently, thus accumulating cash, due to the lack of written agency

guidelines detailing how often deposits should be made, combined with its limited records on how much cash the agency is holding at any time, as noted in the previous finding. Delaying the deposit of funds collected deprives the City of the funds, as well as the related interest that could have been earned had the funds been deposited in a more timely manner.

Recommendation

4. The Board should ensure that all collected funds are forwarded to DCAS for deposit more frequently.

The Board's Response: "The Board agrees that the delivery of all collected funds should be forwarded to DCAS for deposit in a timelier manner. The Board will ensure weekly delivery of all collected funds."

The Board Incorrectly Recognized Funds Collected in Fiscal Year 2006 as Revenue in Fiscal Year 2007

By tracing receipts from all Fiscal Year 2006 receipt books, we found three transactions totaling \$4,218, in which funds were received but not forwarded to DCAS for deposit during the correct fiscal year. These three checks were held for ten months over a fiscal year-end, while the Board determined how much fee to charge the applicants. We also found one check for \$1,406 that was held for nearly ten months over a fiscal year-end, and then returned un-deposited to the applicant upon request when the application was withdrawn. The Comptroller's Year-End Closing Instructions define Fiscal Year 2006 revenue as cash received by the agency by June 30, 2006 whether or not it has been transmitted to the City Treasury. In order to ensure that the City's fiscal statements are accurate and complete, it is important that all agencies recognize revenue in the year in which it is collected.

Recommendation

5. The Board should ensure that all collected funds are forwarded to DCAS for deposit within the appropriate fiscal year.

The Board's Response: "The Board agrees that collected funds must be forwarded to DCAS for deposit within the appropriate fiscal year. The Board will institute a procedure whereby all funds that are received within the last week of the fiscal year are delivered no later than the last day of the fiscal year."

The Board's 2005 Directive #1 Filing Does Not Reflect Its Operating Practices

The Comptroller's Directive #1 requires each agency to assess its management and fiscal systems and its internal controls each year and report the results of this assessment by completing a check list and filing it with the Comptroller's Office. The Board's latest filing for Calendar Year 2005, dated February 28, 2006, does not reflect the operating practices we found in effect during our audit period which began July 1, 2005.

Specifically, the Board indicated that cash on hand was properly secured: that it matches receipts to collection reports on a daily basis; that it issued receipts in numerical sequence; and that cash receipts are recorded immediately and deposited daily. However, as discussed in the earlier findings the Board does not keep its funds properly secured, does not do daily summaries and reconciliations of cash received; does not issue receipts in numerical sequence; and does not deposit funds daily.

Without accurate assessments, the agencies cannot identify weaknesses that should be corrected. Weakness in internal controls can create a climate that increases the risk of fraud, inefficiency, and inaccurate financial reporting.

Recommendation

6. The Board should ensure that its Directive #1 filing accurately reflects its management and fiscal systems and internal control structure.

The Board's Response: "The Board will ensure that the specific items noted in the Audit Report for Directive #1 submitted for 2006 will be accurately reflected."



Board of Standards and Appeals

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MEENAKSHI SRINIVASAN
Chair/Commissioner

May 11, 2007

John Graham
Deputy Comptroller
Audits, Accountant & Contracts
NYC Office of the Comptroller
One Centre Street
New York, N.Y. 10007

Dear Mr. Graham:

Thank you for the opportunity to comment on the draft Audit Report on Collection and Reporting of Revenues by the Board of Standards and Appeals. Below are the Board's responses to the recommendations by the Comptroller's Office contained in the draft report. The report's recommendations are in bold, followed by the Board's response in italics.

1. The Board should ensure that all collected funds are kept in a locked agency safe until brought to DCAS for deposit.

BSA Response: Currently, the Board office places checks received for payment in a locked drawer. The Board acknowledges that a locked, fireproof safe would more adequately safeguard the funds. The Board will implement this recommendation.

2. A daily summary of cash received should be maintained and reconciled against sequentially-issued receipts, as well as deposited checks and money orders.

BSA Response: The Board agrees that a timely summary of cash received should be maintained and reconciled against sequentially-issued receipts, as well as deposited checks and money orders. Given staff resources and the volume of funds received, however, the Board believes that a daily summary is impractical and unnecessary. The Board believes that conducting a summary and reconciliation process twice a week will be sufficient.

John Graham
May 11, 2007
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3. A receipt is always obtained from DCAS to account for all funds brought for deposit

BSA Response: As noted in the Audit Report, the Board is now obtaining receipts from DCAS whenever funds are brought for deposit.

4. The Board should ensure that all collected funds are forwarded to DCAS for deposit more frequently.

BSA Response: The Board agrees that the delivery of all collected funds should be forwarded to DCAS for deposit in a timelier manner. The Board will ensure weekly delivery of all collected funds.

5. The Board should ensure that all collected funds are forwarded to DCAS for deposit within the appropriate fiscal year.

BSA Response: The Board agrees that collected funds must be forwarded to DCAS for deposit within the appropriate fiscal year. The Board will institute a procedure whereby all funds that are received within the last week of the fiscal year are delivered no later than the last day of the fiscal year.

6. The Board should ensure that its Directive #1 filing accurately reflects its management and fiscal systems and internal control structure.

BSA Response: The Board will ensure that the specific items noted in the Audit Report for Directive #1 submitted for 2006 will be accurately reflected.

Sincerely,



Meenakshi Srinivasan
Chair/Commissioner

MS/jm:al