

# AUDIT REPORT



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

## **Audit Report on Controls over the Processing and Collection of Permit Fees by the Department of Environmental Protection**

*MH03-167A*

**JUNE 30, 2004**



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

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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 the Department of Environmental Protection (DEP) controls over the processing and collection of permit fees.

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

Audits such as this provide a means of ensuring that City agencies have adequate controls over their processing of permits and the collection of all related revenues.

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](mailto: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.

WCT/fh

**Report: MH03-167A**  
**Filed: June 30, 2004**

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

**Audit Report on Controls over the  
Processing and Collection of Permit Fees  
By the Department of Environmental Protection**

**MH03-167A**

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**AUDIT REPORT IN BRIEF**

This audit determined whether the New York City Department of Environmental Protection's (DEP) Bureau of Water and Sewer Operations (Water and Sewer) and Bureau of Customer Service (Customer Service) have adequate controls over the processing of permit applications and the collecting of permit fees and certain permit-related fees. In Fiscal Year 2003, these two bureaus approved 40,656 permit applications. The combined permit fees and permit-related fees collected totaled \$6.7 million.<sup>1</sup>

**Audit Findings and Conclusions**

DEP's controls over the processing of permit applications and the collection of permit fees at the Bureaus of Customer Service and Water and Sewer are inadequate, ineffective, and, in some cases, nonexistent. Controls over permits issued and fees collected were so deficient that we were unable to determine with reasonable assurance the actual amount of revenue that should have been collected for Fiscal Year 2003. There is little or no oversight by management to ensure that the controls are adequate or that the controls are even applied. Water and Sewer is still using a manual system to record applications. Daily reconciliation of permits issued to fees collected are not performed. The permit fees collected are not deposited in the bank on a timely basis. Monthly bank reconciliations are not performed. Water meter permits are issued to plumbers who have outstanding balances caused by returned checks. There is a lack of tracking and follow up of outstanding permits.

These and other internal control weaknesses must be addressed by DEP management. Without reexamining and strengthening existing controls and creating new controls where none exist, there is a high risk that fraudulent activities will occur and that DEP will not be aware of them.

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<sup>1</sup> This sum does not include all fees for Fiscal Year 2003, as we were unable to identify fees collected for the review of SD1&2 and Site Connection Proposal forms.

## **Audit Recommendations**

To address these issues, we make 26 recommendations. The major recommendations are that DEP should:

- Complete the policies and procedures manual, addressing all processes and functions involved in processing permit applications and collecting permit fees at both Water and Sewer and Customer Service offices. DEP should disseminate the completed manual to all offices and follow up with appropriate staff training.
- Require a supervisory review and a daily reconciliation of all permits issued and fees collected and deposited.
- Ensure that deposits are made on a daily basis.
- Coordinate its efforts with the Water Board Treasury Department to ensure that monthly bank reconciliations of permit fees are performed.
- Establish procedures for tracking and collecting checks that were returned by the bank for insufficient funds.
- Establish procedures that prohibit new permits to be issued to plumbers who have unpaid balances in their accounts or who have had uncollectible balances written-off.
- Send out inspectors to spot-check premises after a permit has expired to determine whether a water meter was installed. If the meter was installed, ensure that CIS is updated and customers are billed for water use.
- Develop written procedures for processing permit-related revenue generated by the Bureau of Water and Sewer. These procedures should include the recording, handling, depositing, and reconciling of permit-related revenue fees by several employees.
- Look into the feasibility of modifying the Customer Information System (CIS) to include the recording of permit-related revenue collected by the Bureau of Water and Sewer. If it is not possible to modify CIS, track these fees through a different computer system so that these fees are no longer recorded in FMS.
- Perform a brief preliminary review of the SD1 & 2 and Site Connection Proposal forms at the beginning of the review process. If at that time, the application package is found to be complete, then the accompanying check should be deposited without any further delay.
- Program CIS so as to prevent one individual from entering the permit application information as well as the fee payment for a permit. If this is not possible, implement a compensating control to prevent the possibility of the misappropriation of funds.

## INTRODUCTION

### Background

The New York City Department of Environmental Protection is responsible for protecting the environmental health, welfare, and natural resources of the City and its residents by enforcing laws and rules relating to air pollution, noise control, water supply, and hazardous materials. DEP maintains the water and sewer system, acting as an agent of the New York City Water Board (Water Board), and the Water Board pays DEP to operate the water system. The Water Board establishes water and sewer rates and collects the resulting revenue, rents, and other charges for water and sewer system use and services. Title 24 of the New York City Administrative Code contains the laws and regulations that apply to DEP, including those for the issuance of permits relating to water and sewers and the setting of permit fee schedules.

DEP has two bureaus that deal with water and water-related permits: the Bureau of Water and Sewer Operations (Water and Sewer) and the Bureau of Customer Service (Customer Service). The fees collected are deposited in one of the Water Board's bank accounts. These funds are transferred to the New York City Municipal Water Finance Authority to amortize the principal and interest on bonds issued to raise capital and to reimburse the City for the cost of operating and maintaining the water and sewer system. Fees collected are reported in the Water Board's financial statements and not in the City's financial statement because, as stated above, DEP collects water and water-related revenue on behalf of the Water Board, which is a separate entity.

The following is a brief description of these bureaus' responsibilities and fee structures regarding permits and permit-related revenue:

**Water and Sewer:** Reviews and approves plumber applications for sewer connections, repair and relay services, water tap connections (for pipes size from ¾" to 2"), wet connections (for pipes larger than 2"), tap and wet connection plugs, and other miscellaneous services. The cost for a permit is \$200, with the exception of repair and relay services, which carry no charge. While Water and Sewer approves the permit application, it directs the applicants to Customer Service to pay the fee and obtain the permit. Plumbers take the approved application with the payment to their borough Customer Service office where the permit is issued. Only checks or money orders are accepted as payment. Permits are not issued until the fee has been paid.

In addition, for sewer connections for new buildings and major renovations, this bureau is responsible for reviewing certified "SD 1 & 2" forms (used for one- to three-family homes) or Site Connection Proposal forms (used for multi-family residences) that are submitted by architects and engineers. These forms contain detailed drawings of existing sewer lines and other technical information and indicate where the new connections will go. The SD 1 & 2 and the Site Connection Proposal forms are reviewed by DEP engineers for an additional fee of \$200 for SD 1 & 2 forms and \$325 or more for Site Connection Proposals. Architects and engineers in all boroughs except Manhattan take these forms along with a check or money order to the Queens Water and Sewer Central

Office for review and payment. The Manhattan Water and Sewer Office reviews forms and accepts payments related to sewer connections in the borough of Manhattan. In this report, we refer to fees collected for these reviews as “permit-related fees.”

**Customer Service:** Customer Service issues all permits and collects all permit fees including Water and Sewer Permit fees. In addition, it approves permits applications and issues permits for water meter installation, fire hydrant use, hose use, meter repair and removal, and miscellaneous services. Customer Service permit fees start at \$35. Only checks or money orders are accepted as payment. Permits are not issued until the fee has been paid.

Water meter permits are valid for 30 days and then must be returned to Customer Service, unless an extension is granted, so that DEP can begin to bill the customer for water use. The plumber must return the permit to Customer Service within 72 hours of installation or at the expiration of the permit. When a new building is constructed, the water meter permit is valid for nine months.

Both Water and Sewer and Customer Service have an office in each of the five boroughs. Water and Sewer manually processes its permit applications; Customer Service uses the Customer Information System (CIS), a centralized computer system, for entering permit application and payment information and printing out the permit. In Fiscal Year 2003, these two bureaus approved 40,656 permit applications (30,562 fee-based permits and 10,094 non-fee-based permits). The combined permit fees and permit-related fees collected totaled \$6.7 million.<sup>2</sup>

## **Objective**

The objective of this audit was to determine whether DEP’s Water and Sewer offices and Customer Service offices have adequate controls over the processing of permit applications and the collecting of permit fees and certain permit-related fees.

## **Scope and Methodology**

The scope period of our audit is Fiscal Year 2003. To achieve our audit objective and to gain an understanding of the processing of applications and the collecting of permit fees by Customer Service and Water and Sewer, we interviewed appropriate personnel from these two bureaus and from the Water Board. We reviewed and used the following documents as criteria for testing of controls: Title 24, Chapter 1 and 3, of the City of New York Administrative Code; Chapter 25 of Title 15 of the Rules of the City of New York, *Rules and Regulations Governing Certification and Connection to Sanitary, Storm, or Combined Sewer or Drain Systems* (City Interim Sewer Rules); Chapter 20 of the New York City *Rules Governing and Restricting the Use and Supply of Water* (Water Rules); and the Water Board’s Water and Waste Water Rate

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<sup>2</sup> This sum does not include all fees for Fiscal Year 2003, as we were unable to identify fees collected for the review of SD1&2 and Site Connection Proposal forms.

Schedule for Fiscal Year 2003. We also reviewed and used the following New York City Comptroller's Directives as criteria: Directive #1, Internal Control Checklist; Directive #11, Cash Accountability and Control; Directive #18, Guidelines For the Management, Protection and Control of Agency Information and Information Processing Systems; and Directive #21, Revenue Monitoring.

To assess the internal controls at the bureaus as they relate to our audit objective, we evaluated information obtained through interviews, walkthroughs, and observations of the permit application approval process and the collecting and depositing of permit fees at all five Customer Service borough offices and all five Water and Sewer borough offices.

On July 14, 2003, we obtained a computer printout and an electronic file from CIS containing 40,703 permits issued by Customer Service in Fiscal Year 2003.<sup>3</sup> We sorted the file by permit number in sequential order to determine whether all the permit numbers were accounted for.

We randomly selected a sample of permit applications for each borough office from this population. Our total sample consisted of 190 permit applications. We selected 50 permits in Brooklyn, 50 permits in Queens, and 30 permits in each of the remaining three borough offices. The following table shows the breakdown of permit types within each borough:

**Table I**

Breakdown of Sample Permits by Permit Type

Borough	Total # of Permits	Customer Service: Water Meter	Customer Service: Hydrant	Water and Sewer: Sewer Installations and Plug	Water and Sewer: Tap, Plug and Wet Connection
Brooklyn	50	22	1	13	14
Queens	50	12		18	20
Bronx	30	13		6	11
Manhattan	30	16	7	3	4
Staten Island	30	10		12	8
<b>Total</b>	<b>190</b>	<b>73</b>	<b>8</b>	<b>52</b>	<b>57</b>

To determine the reliability of the computer-processed data, we matched information on our 190 permits selected from the electronic file obtained from CIS to their corresponding hardcopy permit applications in the borough offices. To assess the completeness of the computer-data file, we then matched 50 hardcopy permit applications that were randomly

<sup>3</sup> We received an updated file from DEP on February 17, 2004. The updated file contained 40,656 permits and included fees collected by permit type; fees were not in the first file. In addition, the updated file contained 47 fewer permits. According to DEP officials, these 47 permits had been cancelled and deleted from the system

selected from the borough office filing cabinets (10 applications from each borough office) to the corresponding electronic information.

### **Customer Service**

At each borough office, we obtained and reviewed the available sampled permit applications and supporting documentation. We tested these documents to determine whether Customer Service was charging the correct fees, whether the applications were properly approved, whether the application and supporting documentation was complete, and whether the permits were returned on time.

To determine whether the correct permit fees were charged, we compared the fees charged, as listed on each permit, application, and on CIS, to the fees listed on the Water Board's Water and Waste Water Rate Schedule for Fiscal Year 2003.

To determine whether the Customer Service borough offices were making bank deposits on a timely basis, we randomly selected one quarter (April, May, and June) from Fiscal Year 2003 and obtained the corresponding bank statements and the deposit slips from each of the five Customer Service borough offices. We tested 702 bank deposits, for which we received deposit slips totaling \$4.6 million.<sup>4</sup> We then compared the deposit slip dates to the bank statement dates.

To perform a bank reconciliation of fees collected and deposited by Customer Service, we obtained all the bank statements for Fiscal Year 2003 from the Water Board Treasury. These bank statements showed deposits totaling more than \$909 million. We were unable to perform this test because there were poor controls at Customer Service over the deposit slips that resulted in missing slips, the combining of permit fees with other fees, and the unavailability of backup documentation.

### **Water and Sewer**

To determine whether there were adequate controls over permit-related revenue—fees for review of SD 1 & 2 forms and Site Connection Proposals required for the sewer installation application—we interviewed the personnel responsible for the processing and collection of these fees. We could not determine the total permit-related fees collected for Fiscal Year 2003 because DEP officials were unable to provide us a complete list of all SD 1&2 and Site Connection Proposals reviewed by the engineers for Fiscal Year 2003. Nor could we determine whether the money was collected for the SD 1 & 2 reviews that were part of our application sample since no records were available. The only exception was at the Manhattan office where these fees were manually logged and recorded. At the Manhattan office, we compared the bank statement dates to the deposit slip dates and computed that \$102,748 in permit-related fees was collected for Fiscal Year 2003.

For review of the Site Connection Proposal forms, we could not determine whether the correct fees were charged for permit-related fees in our sample because those applications

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<sup>4</sup> These deposits included revenue collected from other sources. We were unable to separate the permit revenues from the total deposits.

combined fees for more than one work site. The fee paid for each property is not segregated on the forms mentioned above, and no calculations are shown to attest to the amount paid.

### **Outstanding Fees and Permits**

We obtained a Master Plumber list showing 1,252 plumbers licensed in New York City as of August 25, 2003. We examined each of the plumber accounts on CIS to determine whether there were any outstanding balances or returned checks on the plumbers' accounts. We also inquired whether DEP took any action regarding these uncollected permit fees to ensure that all moneys due DEP are collected.

We also tested all 73 water meter permits that were included in the total sample of 190 permits to determine whether the plumbers returned the permits to Customer Service on time. For the water meter permits that were not returned by the plumbers, we checked whether the customers were billed for the water they consumed. We also identified the 94 plumbers in our sample of 190 permits. To determine how many outstanding permits were held by the 94 plumbers, we obtained a printout of each plumber's account from CIS. We also tested all 52 sewer permits in the sample of 190 permits and the supporting documentation for the sewer permits to determine whether plumbers worked with valid sewer permits as required by the City Interim Sewer Rules.

We discontinued testing of permit application files after having completed our testing of the 190 permit applications totaling \$40,876. Our decision to do so was based on the results of our testing and our determination that expanding the sample would not substantially change our conclusions. The results of the above tests, while not projectable to their respective populations, provide us a reasonable basis to assess DEP controls relating to our audit objectives.

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 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 DEP officials during and at the conclusion of this audit. A preliminary draft report was sent to DEP officials on April 30, 2004 and was discussed at an exit conference held on May 11, 2004. On May 28, 2004, we submitted a draft report to DEP officials with a request for comments. We received a written response from DEP officials on June 21, 2004.

In their response, DEP officials generally agreed with 23 of the 26 recommendations made in the report. DEP partially agreed with the recommendations regarding the segregation of duties in the permit processing functions (#2) and the establishment of write-off procedures to remove uncollectible balances from plumbers accounts (#9). DEP disagreed with the recommendation to program CIS to prevent one individual from entering the permit application

information as well as entering the payment for the permit (#25).

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

## FINDINGS AND RECOMMENDATIONS

DEP controls over the processing of permit applications and the collection of permit fees at the Bureaus of Customer Service and Water and Sewer are inadequate, ineffective, and, in some cases, nonexistent. It should be noted that controls over permits issued and fees collected were so deficient that we were unable to determine with reasonable assurance the actual amount of revenue that should have been collected for Fiscal Year 2003. Current processing and collection practices can easily lead to the fraudulent use of permits or the misappropriation of funds. There is little or no oversight by management to ensure that the controls are adequate or that the controls are even applied. There are no written guidelines to ensure use of specific procedures and their consistent implementation; borough offices often function as separate entities with their own sets of procedures. Water and Sewer is still using a manual system to record applications.

These and other internal control weaknesses need to be addressed by DEP management. Without reexamining and strengthening existing controls and creating new controls where none exist, there is a high risk that fraudulent activities will occur and that DEP will not be aware of them.

The following sections of this audit discuss our findings:

### **Lack of Written Policies and Procedures**

Neither Customer Service nor Water and Sewer has a written policies and procedures manual for the processing and recording of applications and the collection and reconciliation of permit fees. This is contrary to Comptroller's Directive #1, Internal Control Checklist, which states:

“Control objectives are the objectives that management has set for various functions of the operating entity. Often these objectives are written in manuals and procedures, are required by laws and regulations or are just recognized as good operating practices necessary to accomplish the mission of the organization.”

Although the Queens Customer Service provided us a draft copy of a *Permits Division Manual*, the procedures are not official and are still awaiting participation and contributions from supervisors at the other borough offices. We therefore did not review this manual since it is at an early stage of development. We found that in the absence of written procedures, the borough offices each carry out their duties and responsibilities differently.

For example, the Chief of the Connection and Permitting Unit at Water and Sewer established a form to help the offices keep track of and follow up on emergency water taps installed by DEP personnel. Tracking these installations is vital to ensuring that the plumbers obtain a permit and pay a fee for the emergency installation by DEP. We found that Tapping Unit employees at the Queens and Brooklyn borough offices use this form. The Bronx Tapping Unit implemented a different tracking and follow-up procedure and does not use these forms.

The Manhattan and Staten Island offices not only do not use these forms, but also lack any tracking and follow-up system whatsoever. Without having written procedures on how to track emergency installations and requiring that they be followed-up, DEP may be losing revenue if plumbers fail to obtain the necessary permits for emergency installations.

Many of the conditions we identified throughout the report are in part a direct result of a lack of clearly written policies and procedures. An up-to-date policies and procedures manual is an effective and necessary management tool that provides direction to staff and serves as a mechanism for achieving compliance with and uniformity in the performance of policies and procedures.

### **Recommendation**

1. DEP should complete the policies and procedures manual, addressing all processes and functions involved in processing permit applications and collecting permit fees at both Water and Sewer and Customer Service offices. DEP should disseminate the completed manual to all offices and follow up with appropriate staff training.

**DEP Response:** DEP agreed, stating: “Both the Bureau of Customer Services (BCS) and the Bureau of Water and Sewer Operations (BWSO) are working to review and update existing procedures for the processing of permit applications and the collection of permit related fees. As these procedures are revised and reissued, they will be distributed to staff and training will be conducted to ensure that staff is appropriately informed of the procedures.”

### **Internal Control Weaknesses at Customer Service Offices**

#### **Lack of Segregation of Duties**

There was a lack of segregation of duties at all the Customer Service borough offices except for the Staten Island office. According to Comptroller’s Directive #1, Internal Control Checklist, accounting functions are to be segregated among several employees so that employees who handle cash do not perform recording functions. At each of the five borough offices, one person is responsible for the following activities: collecting the permit fees, entering the permit fee information in the computer system, issuing the permit, and preparing the deposit slips. In the Bronx office, the same employee makes the bank deposits in addition to performing all of the above tasks. Although there are several employees in these borough offices, the accounting functions related to permit processing are not segregated, management does not ensure that the duties are performed according to the Comptroller’s Directive #1.

The purpose of Directive #1 is to ensure that each agency designs internal controls to account for all the cash and cash equivalent collected. The lack of segregation of duties is an internal control weakness that exposes DEP to the misappropriation of funds and to the loss of revenue.

## **Recommendation**

2. DEP should segregate the duties of recording permit fees, issuing permits, collecting fees, preparing deposit slips, and making daily bank deposits among several employees. If this is not possible, then at minimum DEP should establish compensating controls to prevent the possibility of the misappropriation of funds.

**DEP Response:** DEP partially agreed, stating: “DEP recognizes that all reasonable care must be taken to minimize the opportunities for misappropriation, agrees that formal compensating controls are appropriate, and has ensured that they are in place. The automated and office procedures include features that protect against misappropriation.

“There are also organizational features of the procedures that guard against misappropriation. . . . The deposits are reported by the bank to the Treasurer of the Water Board for reconciliation with Customer Information System (CIS) data. Permit division supervisors perform random checks of work to determine that permits were issued, charges were imposed, and payments received and posted appropriately.

“In addition, the BCS has another, independent compensating control, in that it has a Quality Assurance unit. This group reviews transactions performed by all employees in all divisions to evaluate whether they were performed correctly.

“The BWSO will review its procedures concerning segregation of duties, revise the existing procedures where appropriate and retrain staff to ensure compliance.”

**Auditor Comment:** Although DEP agrees to revise existing procedures at Water and Sewer concerning segregation of duties, the compensating controls at Customer Services referred to in its response were not evident during our audit. For example, we never saw or were told about a Quality Assurance unit at any of the borough offices. There was no evidence in the files nor records showing that this group performed a review of transactions or that it looked for errors. In addition, as mentioned in the report, the Treasurer of the Water Board does not perform a reconciliation of bank deposits against permit fees recorded in CIS.

The compensating controls mentioned in the response are good internal control procedures that management should implement as part of daily operations and should ensure that staff follow.

### **Lack of Daily Reconciliation of Permits Issued to Fees Collected**

The Customer Service borough offices do not perform a daily reconciliation to verify that all fees have been collected and deposited for the permits that were issued that day. Without this reconciliation, there is no assurance that all revenue collected is accounted for.

At the end of each day, the DEP employee who entered all the permit fees in CIS generates a computer printout that shows only the total value of the fees collected for the day. Based on our estimate, the daily amount collected is \$25,869.<sup>5</sup> In addition, at the end of the day, the employee makes copies of all the checks and prepares a deposit slip listing all the checks collected. The total amount appearing on the deposit slip is compared to the total amount shown on the printout. This is not an adequate control, since it does not reconcile the individual checks collected with the permits issued. Without this type of reconciliation, there is no assurance that all revenue collected and permits issued are accounted for.

Moreover, there is no supervisor who reviews and verifies the daily collections. According to Directive #1, incoming checks should be listed and that list should be independently reviewed and compared to cash receipts and deposit slips daily. At the Staten Island office, we were told that a supervisor reviews the deposit slips against the computer, but we saw no supervisory signature to attest to the review. Without a reconciliation of permits issued to money deposited, there is no assurance that all permit fees collected are accounted for.

### **Recommendation**

3. DEP should require a supervisory review and a daily reconciliation of all permits issued and fees collected and deposited.

**DEP Response:** DEP agreed, stating: “DEP has required that division supervisors review all of the daily summaries to ensure that checks were received and deposited for all of the permits issued. Staff responsible for application processing will be trained to ensure compliance with procedures that require daily reconciliation of applications filed, fees collected and deposits.”

### **Inadequate Cash Management Controls**

Collected fees are not deposited in the bank on a timely basis. Based on our testing, we found that bank deposits were made from two to eight business days after the fees were collected. To reduce the risk of theft or loss and to allow moneys deposited to earn maximum interest, fees collected should be deposited in the bank daily, as required by Directive #11.

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<sup>5</sup>The estimated \$25,869 is calculated as follows: total fees collected for Fiscal Year 2003 (\$6.7 million) divided by 259 workdays equals the estimated daily amount collected (\$25,869).

Officials at the Customer Service borough offices stated that their procedure is to deposit collected fees on the next business day. In addition, they stated the moneys are kept in locked safes overnight until deposit. Based on our sample of three months' deposits totaling \$4.6 million, we found that all the borough offices failed to follow this practice. Deposits were made as long as six to eight days after the fees were collected in 42 of the 702 deposits reviewed. These deposits totaled \$90,852 of the \$4.6 million deposited.<sup>6</sup> Table II, following, illustrates the number of days the borough offices took to deposit the collected fees:

**Table II**

Number of Days to Deposit Permit Fees

Borough	# of Deposits Reviewed	Days Elapsed after Fees Were Collected:			
		1 Day After	2 to 3 Days After	4 to 5 Days After	6 to 8 Days After
Manhattan	163	88	70	5	
Bronx	65	54	11		
Brooklyn	203	162	23	11	7
Queens	92	63	29		
Staten Island	179	40	59	45	35
<b>TOTAL</b>	<b>702</b>	<b>407</b>	<b>192</b>	<b>61</b>	<b>42</b>

We also observed that in all the borough offices, the safes where the deposits were kept were unlocked and sometimes left wide open during the day. In the Manhattan office, checks were left overnight in a staff member's unlocked drawer. When we brought this to the attention of the employee, she stated that the checks were collected late in the afternoon and that she planned to process the application the next business day; therefore, she kept these checks in her drawer.

Another problem was that at each borough office, the combination numbers of the safes were never changed. This is contrary to Comptroller's Directive #1, which states that "cash should be properly secured in a locked safe with a periodically changed combination known to few people." This control is especially important so that employees who know the combination but who no longer work in the office cannot get into the safe.

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<sup>6</sup> These deposits included revenue collected from other sources. We were unable to separate the permit revenues from the total deposits.

## **Recommendations**

DEP should:

4. Ensure that deposits are made on a daily basis.

*DEP Response:* DEP agreed, stating: “All offices have been directed to deposit checks into the bank every day. Any checks that must be held overnight will be locked in a safe. Where they do not already exist, DEP will purchase safes for each office that handles fee revenue.”

5. Ensure that safes are kept locked during the day and that the combination to the safe is changed periodically.

*DEP Response:* DEP agreed, stating: “ Staff has been directed to keep the safes locked except when necessary to put in or take out material. We have also initiated changing the combinations. “

## **Lack of Monthly Bank Reconciliation**

Borough offices never perform monthly bank reconciliations of deposited permit fees. This is contrary to Directive #11, which requires that all agency bank accounts be reconciled monthly to ensure that all revenues collected are processed and deposited.

Permit fees collected by Customer Service borough offices are deposited in the Water Board bank accounts, which includes other miscellaneous revenue. During Fiscal 2003, these deposits totaled an average of \$76 million monthly. Officials of the Water Board Treasury Department stated that although they receive the monthly bank statements, they do not perform a monthly reconciliation. They believe that Customer Service is responsible for performing the bank reconciliations, since Customer Service has all the back-up documentation for the permit fees collected and deposited. Without these records, the Water Board Treasury Department personnel cannot perform bank reconciliations.

On the other hand, the Chief of Operations for Customer Service told us that they do not perform bank reconciliations because permit fees are deposited into the Water Board’s bank account and therefore the Water Board personnel should perform the reconciliations. It is for this reason that they send copies of daily deposits slips to the Water Board Treasury Department.

In either case, the performance of bank reconciliations is an internal control requirement that must be performed on a monthly basis. In the absence of monthly bank reconciliations, there is the possibility that money collected is not deposited and that bank errors are not detected and corrected, which could lead to the loss of City revenue.

## **Recommendation**

6. DEP should coordinate its efforts with the Water Board Treasury Department to ensure that monthly bank reconciliations of permit fees are performed.

**DEP Response:** DEP agreed, stating: “The staff of the Water Board Treasurer will reconcile the deposits to the Water Board’s bank accounts with all of the payments posted in CIS. The proposed procedure requires the creation of a new CIS report that will summarize the payment transactions in CIS. The design of that report is currently in progress.”

## **No Controls over Returned Checks**

We found 44 plumbers of the 1,252 plumbers listed on the DEP computer system have outstanding balances because their checks were returned by the bank for insufficient funds. The total amount owed by these plumbers is \$78,020. Comptroller’s Directive #11 states that “agencies are required to adequately control and maintain auditable records for returned checks . . . maintain a Returned Check Log, . . . and, whenever possible, returned checks are to be collected.” However, DEP has no procedure in place to track and collect these funds.

According to the Deputy Treasurer at the Water Board, when his department receives the monthly bank statements (which include moneys from permit fees) one of the Treasury Department employees enters the total amount of the returned checks in the computer system. This entry debits each plumber’s account for the unpaid amount. Customer Service, however, is not aware of checks that were returned until a plumber comes to the office to apply for a new permit and a staff member checks the plumber’s account for any outstanding balances.

Moreover, Customer Service continues to issue new permits to plumbers even when they have outstanding balances. The only criterion established by Customer Service concerning outstanding balances is that once a plumber has six outstanding payments listed on CIS, the plumber must pay fees for new permits with a certified check or money order. However, during our audit, we found one instance where a plumber was still paying for permits with personal checks after six of his checks were returned. This procedure, which is unwritten, does not address the collection of the outstanding payments at the time.

In addition, DEP has no write-off policy for uncollectible debts, as required by Comptroller’s Directive #21, which states that “each agency should establish sound write-off policies appropriate to internal operations.” Some of these amounts have been outstanding more than seven years and may remain indefinitely on CIS. Table III following, shows the periods of time outstanding balances remain uncollected and the total amounts due for the 44 plumbers:

**Table III**  
Periods of Time Outstanding Balances  
Remain Uncollected (as of December 1, 2003)

# of Plumbers	Periods of Time Uncollected	Total Amount Due
21	Less Than 1 Year	\$ 46,973.61
5	1-2 Years	\$ 2,198.00
5	2-3 Years	\$ 6,689.00
3	3-4 Years	\$3,923.00
1	4-5 Years	\$ 407.00
1	5-6 Years	\$4,172.77
4	6-7 Years	\$3,196.00
4	More Than 7 Years	\$10,461.00
<b>Total 44</b>		<b>\$78,020.38</b>

Without proper controls over outstanding permit fees, DEP is not only losing permit revenue but is sending the wrong message to plumbers, namely, that they can continue to obtain permits despite submitting bad checks to DEP.

**Recommendations**

DEP should:

7. Obtain copies of all outstanding checks received by Water Board Treasury Department each month.
8. Establish procedures for tracking and collecting checks that were returned by the bank for insufficient funds.

**DEP Response:** DEP agreed, stating: “The borough offices have been directed to prevent the issuance of new permits to any plumber who has an unresolved returned check. DEP has also initiated a procedure of notifying the borough office via e-mail when the bank returns a check, so that the permit supervisor can immediately direct inquires to the plumber to have the check replaced. DEP management has determined that its borough offices do not need copies of permit payment checks that are returned. They need information about the check (check number, amount, date, plumber name, and account number) and the plumber’s total unpaid balance, so that they can direct the plumber to pay. This information is sent by e-mail.”

9. Establish write-off procedures to remove uncollectible account balances from plumbers’ accounts, in accordance with Comptroller’s Directive #21.

**DEP Response:** DEP partially agreed, stating: “In very extraordinary circumstances, principally based on the revocation of a plumbing license, BCS will write off open permit balances. This will usually occur because a plumber has retired or died. This procedure will be included in the revised procedures referred to in number 1, above. DEP does not ‘write off’ balances of active plumbers.”

**Auditor Comment:** Directive #21 is very clear in requiring a sound write-off policy for all accounts deemed uncollectible. Although DEP should make every effort to collect all bad debts with effective, vigorous, well-documented internal collection procedures, a write-off policy should be considered when all efforts to collect have failed.

10. Establish procedures that prohibit new permits to be issued to plumbers who have unpaid balances in their accounts or who have had uncollectible balances written-off.

**DEP Response:** DEP agreed, stating: “This procedure has been reviewed in all of the borough offices. All now enforce this rule.”

11. Issue a written policy that requires plumbers who have a pre-determined number of checks returned to pay with a certified check or money order.

**DEP Response:** DEP agreed, stating: “DEP already has a procedure to notify all borough offices of plumbers who have had three checks returned for insufficient funds, and require that they pay with certified checks or money orders. The Water Board staff processing returned checks identifies the plumbers’ names. The names are then distributed to the borough offices by e-mail. This will also be included in the consolidated procedures referred to in section 1, above.”

12. Coordinate with DOB to suspend, revoke, or refuse to renew licenses of plumbers who have outstanding balances.

**DEP Response:** DEP agreed, stating: “DEP refers the names of plumbers with patterns of violations to the Department of Buildings (DOB) for their review and action, as we have no independent authority to revoke a plumber's license. . . .

“When DEP judges that its efforts to collect its open balances are unsuccessful, DEP will refer the names of those plumbers to the Fire Suppression/Master Plumber License Board of the Department of Buildings for their review and action.”

### **Inadequate Oversight by Management over Plumbers With Outstanding Water Meter Permits**

The management of Customer Service does not oversee borough office enforcement of its policy to prohibit the issuance of additional permits to plumbers whose permits are outstanding beyond the allowable period. According to the Director of Customer Service, since January 2003, his office regularly has compiled a list of plumbers with outstanding permits. This list is

sent to each borough office with instructions to cease issuing additional permits to these plumbers until they have returned all outstanding permits. To assess the effectiveness of this control, we reviewed water meter permits issued June–December 2003. We found that during that period, DEP issued additional permits to 59 plumbers with outstanding permits who were part of our sample of 94 plumbers. The number of additional water meter permits issued per plumber ranged from one to 70. Table IV, following, shows the range of additional water meter permits issued to the 59 plumbers:

**Table IV**  
**Range of Water Meter Permits Issued**  
**To 59 Sampled Plumbers with Outstanding Water Meter Permits**  
**(June–December 2003)**

<b>Number of Plumbers</b>	<b># of Additional Water Meter Permits</b>
41	1 to 10
10	11 to 20
6	21 to 30
0	31 to 40
1	41 to 50
1	More than 51
<b>TOTAL 59</b>	

Unlike the other borough offices, Staten Island assigned one employee to keep track of plumbers with outstanding water meter permits even before the new procedure was initiated. Each month, she reviews a printout of plumbers with outstanding water meter permits and contacts the plumbers to obtain updated information on the status of the water meter permit. In contrast, we spoke with a supervisor at the Queens borough office in July 2003, and she was not aware of any follow-up procedure. We met with the supervisors at the Brooklyn, Bronx, and Manhattan borough offices during September 2003; they stated that they started receiving instructions about the procedure and the lists beginning in August 2003.

Water meter permits issued by DEP for existing buildings are valid for 30 days unless the plumber applies for an extension. Water meter permits for new buildings are valid for nine months. The water meter permit allows the plumber to install a water meter on the property listed on the application. According to the Water Rules, after the meter has been installed, the plumber must return the permit within 72 hours.<sup>7</sup> If the plumber has not installed the meter within the allowed period, the permit expires and must be returned to DEP. In either case, the permit has to be returned to DEP so that either the water billing process begins for that property (if the water meter was installed) or the permit is cancelled (if it is not installed). If the permit is not returned, the permit remains open indefinitely on CIS.

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<sup>7</sup> Chapter 20, § 20-05

For the 73 issued water meter permits in the sample of 190 permit applications, 14 (19%) permits were outstanding from eight to 14 months as of December 18, 2003. We reviewed the CIS screens for these permits and found that seven of the 14 customers were billed for water use and seven were not billed. We spoke with a Customer Service official who stated that although these permits were not returned, there are instances in which information comes into the office regarding the water meter installation. For example, an inspector may go to the installation site and notice that a water meter was installed. In such case, the inspector notifies Customer Service, which then begins the billing process even if the permit was not returned. The remaining seven outstanding water meter permits may have had water meters installed, but DEP was not aware of the installation. Should that be the case for any of these seven outstanding permits, the result is a delay in the collection of revenue for water use dating back to the meter installation and possibly a large water bill for the customer that may be difficult to collect.

In addition, we found that when a plumber returns the permit, DEP does not always update the computer system and start the water billing process. In one of our sampled water meter permits, issued in the Manhattan Customer Service office on February 25, 2003, the plumber returned the permit three days later on February 28, 2003, as stamped on the permit. The water billing process should have started when the permit was returned. On December 18, 2003, ten months later, we checked the status of this permit on CIS and found that the permit was still outstanding on the system and the customer had still not been billed for water use.

DEP's inadequate tracking and follow up of outstanding water meter permits not only send the wrong message to plumbers, but delay the water billing process, which may result in loss of revenue to the City.

### **Recommendations**

DEP should:

13. Ensure that staff at all borough offices follow its procedure to prohibit the issuance of additional permits to plumbers whose permits are outstanding beyond the allowable period.
14. Send out inspectors to spot-check premises after a permit has expired to determine whether a water meter was installed. If the meter was installed, ensure that CIS is updated and customers are billed for water use.

**DEP Response:** DEP agreed, stating: "The Department's plan includes two principle components. First, DEP has been reaching out to the plumbers with significant volumes of unreturned, older permits. In the past year over 670 plumbers were contacted by phone or mail, directing them to return for completed work, and to file for time extensions if meters were not yet installed. Second, BCS Inspectors have been routed to inspect the sites of the oldest permits. When they find a meter installed with no corresponding returned permit, they issue a Notice of Violation, returnable to ECB, to the plumber.

“DEP has also been preparing revisions to Chapter 20 of the Rules of the City of New York. The existing rules require that permits be returned promptly if the plumbing work is completed, but are silent on the requirement to complete work or return the permit in any specific timeframe after the permit is issued. DEP is amending the rules to include a requirement to return a permit in a specified time after it is issued. Once the requirement to return permits in a specified timeframe is included in the Rules, DEP will be able to ensure the prompt return of permits through the use of Notices of Violation.”

### **Poor Record-Keeping of Applications and Permits at the Brooklyn Office**

Unlike the other borough offices, the Brooklyn Customer Service office has inadequate controls for filing and maintaining applications, permits, and back-up documentation. As a result, DEP personnel were unable to find 12 (32%) of the 37 sampled permit application files maintained at the Brooklyn Customer Service office.<sup>8</sup>

At the Brooklyn Customer Service office, permit applications are filed in cabinets in a disorganized fashion. For example, at the other borough offices, the applications and permits are filed in cabinets by permit number for each calendar year. As a result of the lack of such a system at the Brooklyn office, many applications were missing, and we could not determine whether the applications were properly approved and processed or whether the information entered in the computer matched the information of the application.

The risk presented by poor record-keeping practices is that it cannot be determined whether all the procedures have been followed and whether fraudulent activities have occurred. In addition, without satisfactory record-keeping practices, there is no audit trail by which to conduct an audit of an entity’s operation.

### **Recommendation**

15. DEP should ensure that its Brooklyn borough office establishes an organized system of maintaining and filing permit documentation.

**DEP Response:** DEP agreed, stating: “The filing system and procedures of the Brooklyn office have been reviewed. While the filing system and procedures were found to be adequate, the Staff has been reinstructed on the established procedures and supervisors have been directed to ensure compliance.”

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<sup>8</sup> Of the 50 sampled permit applications from the Brooklyn borough office, 13 were sewer applications filed in the Brooklyn Water and Sewer Office. The remaining 37 applications were for various permits filed at the Brooklyn Customer Service office.

## **Internal Control Weaknesses at Water and Sewer Borough Offices**

### **Permits Issued in Violation of City Interim Sewer Rules**

The City Interim Sewer Rules require that all necessary documentation be provided with the application before a permit is issued. These documents are important since they confirm that all steps, approvals, and conditions have been met. For example, for a new sewer connection, a prospectus from a homeowners association or multiple-building condominium development approved by the New York State Attorney General should be provided. The purpose of the prospectus is to identify those who will be financially responsible. We found that 13 (25%) of the 52 sampled sewer permits for all boroughs were issued to plumbers despite the fact that some of the required technical or legal documentation was missing. This is a serious matter in that it not only violates City Interim Sewer Rules, but it also devalues these requirements in the eyes of plumbers and homeowners.

Upon further review, we found that 13 applications were stamped “conditional permit” and were approved by the Chief of the Permitting and Connection Unit. There was also a note on the application that indicated that the Certificate of Inspection should be withheld until the missing documents were provided. For example, one of our sampled permits was for a sewer installation at a condominium complex. This permit application requires a homeowners’ association prospectus or a No Action Letter approved by the New York State Attorney General and reviewed by DEP legal counsel. The permit application lacked the required document. As of December 1, 2003, seven of the 13 permit applications have been open from six months to 14 months; DEP is still awaiting the documents to complete the application process.

We spoke with the Chief of the Permitting and Connection Unit who gave the approval for the conditional permits. He stated, that obtaining legal or technical documents and the review by DEP legal counsel may delay the permit process; he therefore approved the application and allowed a conditional permit to be issued. He admitted that a conditional permit is not a valid permit.

We also spoke with his superior, the Director of Engineering at the Bureau of Water and Sewer Operations who was aware that conditional permits were being approved without all the necessary documents. He informed us that prior to our discussion, he told the Chief of the Permitting and Connection Unit to stop issuing conditional permits. However, the order was ignored, and the Chief of the Permitting and Connection Unit continued to violate the City Interim Sewer Rules without consequence. During our fieldwork, we observed that a member of the Department of Investigation was looking into this matter.

### **Recommendation**

16. DEP should ensure that all staff follow the City Interim Sewer Rules, which require that all necessary documents be submitted before issuing a permit, and that those who refuse to do so be disciplined appropriately.

**DEP Response:** DEP agreed, stating: “BWSO has an established policy that except in rare instances, specifically approved by the Director of Engineering, a permit application can only be approved after the applicant has met the requirements of all applicable rules, regulations, and procedures. Under no circumstances will any applicant be given a conditional permit unless the Director of Engineering (DOE) has approved such request. A reminder of the policy concerning the issuance of conditional permits has been reissued to all appropriate staff.”

### **Inadequate Controls over Permit-Related Revenue**

Customer Service is responsible for collecting all permit fees, except for fees generated by reviews of SD 1 & 2 forms and Site Connection Proposal forms. These forms are part of the Water and Sewer application package that contains technical information submitted by architects. Either Department of Buildings (DOB) or DEP engineers review the forms prior to their submission as part of the application for a sewer permit. DEP charges a non-refundable fee of \$200 for reviewing SD 1 & 2 forms and a non-refundable fee of \$325 or more for reviewing Site Connection Proposal forms. The fees for all boroughs except Manhattan are processed and collected at the Queens Water and Sewer Central Office. We found a number of control weaknesses relating to the collection and processing of these fees in both offices that made it impossible to determine the total revenue collected for the review of these forms. The following control deficiencies were found:

#### ***Permit-Related Fees Not Recorded in the DEP Accounting System***

Prior to September 2002, permit-related fees were manually recorded in a log. Since September 2002, permit-related fees have been recorded in a database that is not connected to the CIS system in addition to the log. This database is not an accounting system, but rather serves as a log of checks received. As a result, permit-related fees are not included in DEP’s reported permit revenue, and the total permit revenue collected by DEP is understated.

#### ***Checks Not Deposited on a Timely Basis***

Permit-related fees are not deposited on a timely basis. The main reason for the delay is that employees at Water and Sewer offices wait until the entire review process of the SD1 & 2 forms is completed before the check is deposited. This process may take more than a month and involves three different employees. The first employee logs the check in a logbook, sends the SD1&2 forms to the corresponding borough office for review and the Site Connection Proposal forms to engineers in the central office. This employee holds the check until the review of the documents has been completed and a job number has been assigned by the engineers. A second employee processes the checks, including entering information from the check into the database, and then forwards the checks to a third employee at the Revenue Unit of the Water Board Treasury Department, who prepares and makes the deposit.

These checks should be deposited on a timely basis, as required by Comptroller's Directive # 11, instead of being held for deposit until the entire SD1 & 2 process is completed. By not depositing these checks on a timely basis, the Water Board is losing interest on the money collected. In addition, retention of the check while having several people handle it creates a risk that the check can be misplaced or misappropriated.

#### ***Permit-Related Fees Recorded in Inactive FMS Account***

An employee at the Water Board Revenue Unit enters the permit-related fees collected by the Brooklyn, Queens, Bronx, and Staten Island offices in an inactive Financial Management System (FMS) account—Fund 510, Bank 55. Neither the Water Board Revenue Unit nor DEP reviews this account or reconciles the fees collected to the revenue recorded in this account. As a result, the lack of management oversight creates an environment where fraud can occur and go undetected.

We brought this matter to the attention of officials at the Water Board Treasury Department. They stated that when CIS was created in 1996, it did not include a field for an architect account. In addition, before the Water Board took over the management of the water system, FMS was used as an accounting system for all water and water-related revenue. The procedure for processing SD 1 & 2 and Site Connection Proposal review fees was never updated. They agreed that these revenues should not be recorded in FMS, but rather in CIS.

#### ***Checks Cannot Be Reconciled to Deposit Slips***

Currently, there is no procedure to trace specific checks that are processed by DEP employees to a specific deposit made by Water Board Revenue Unit employees. There is no uniform control number used by both sets of employees. Therefore, we were unable to trace our sampled checks to the deposit slips to ensure that all sampled fees collected were deposited.

In conclusion, the weak controls are attributable to the lack of management oversight, the lack of written procedures, and the lack of coordination between DEP and Water Board personnel. As a result, DEP management creates an environment where the theft and loss of revenue can easily occur.

#### ***Inadequate Controls over Processing Permit-Related Revenue At the Manhattan Water and Sewer Office***

Unlike the other borough offices, the Manhattan Water and Sewer office has its own manual tracking system for processing review fees for SD 1 & 2 forms and Site Connection Proposals. We found several internal control weaknesses that pertain to this office and cite the following:

#### ***Fees Not Recorded in FMS or CIS***

The revenue for permit-related fees collected by the Manhattan office does not appear on any accounting system. Based on our review of deposit slips for Fiscal Year 2003, we calculated

that the Manhattan Water and Sewer office collected and deposited \$102,748. The staff member who processes these permit-related fees stated that she sends copies of cash receipt forms and bank deposit slips to the Revenue Unit of the Water Board. It is her understanding that these forms are used by the Water Board to record permit-related revenue on FMS. We spoke with the Water Board Revenue Unit employee and found that she did not use these forms for recording revenue but instead discarded the forms. Therefore, the permit-related revenue collected by the Manhattan office is simply not accounted for by DEP.

### ***Lack of Segregation of Duties***

At the Manhattan office, one employee performs the functions of collecting, recording, handling, and depositing permit-related fees. This is contrary to Comptroller's Directive #1, which requires that the duties of handling cash be separated from those of recording and maintaining cash receipts. We observed that there are three employees in the Manhattan office; thus, these functions could be divided among these employees. In addition, these functions could be transferred to the Queens Water and Sewer Central Office as has been done in the other borough offices. This would ensure the segregation of duties required by Directive #1.

### ***Deposits Not Made on a Timely Basis***

Twelve (37.5%) of the 32 deposits totaling \$39,558 made by the Manhattan office in Fiscal Year 2003 took place between three to five months after the date the checks were received. The staff member stated that the deposits are delayed because she holds the checks until there are enough checks to deposit. In the meantime, the checks are kept in a folder in an unlocked drawer. Leaving the checks in an unsafe area along with not depositing the checks on a timely basis creates the risk for theft and loss of revenue.

### **Recommendations**

DEP should:

17. Develop written procedures for processing permit-related revenue generated by the Bureau of Water and Sewer. These procedures should include the recording, handling, depositing, and reconciling of permit-related revenue fees by several employees.

***DEP Response:*** DEP agreed, stating: "DEP will develop written procedures to ensure the proper handling and recording of review fee related revenue. After those procedures are developed, all affected staff will be trained to ensure that the new procedures are followed at each borough office."

18. Explore the feasibility of modifying CIS to include the recording of permit-related revenue collected by the Bureau of Water and Sewer. If it is not possible to modify

CIS, track these fees through a different computer system so that the fees are no longer recorded in FMS. These fees should be reported as part of permit revenue.

**DEP Response:** DEP agreed, stating: “DEP will explore the possibility of modifying CIS to include the recording of application review fee revenue.”

19. Perform a brief preliminary review of the SD1 & 2 and Site Connection Proposal forms at the beginning of the review process. If at that time the application package is found to be complete, the accompanying check should be deposited without any further delay.

**DEP Response:** DEP agreed, stating: “DEP will conduct a review of submitted applications three times each week. Applications found to be complete will be accepted and the accompanying check will be immediately deposited in the bank. Applications found to be incomplete will be returned to the applicant along with the check.”

### **Lack of Tracking System for Sewer Permits**

According to the City Interim Sewer Rules regarding the installation of sewers, “Each permit shall be valid for sixty (60) calendar days after issuance. . . . After expiration of the permit period, the permittee shall be required to refile for the appropriate permit. No refunds or renewals for expired permits shall be granted.”

Water and Sewer has no procedure to follow up and track outstanding sewer permits. Twenty-one (40%) of our 52 sampled sewer permits expired after 60 days of their issuance. DEP took no action to contact the plumbers to determine whether the work was completed or to require that the plumbers file for a new permit and pay a new sewer permit fee of \$200. As a result, DEP may lose permit revenue that could have been collected had those plumbers filed for new permits and paid the fees.

At the completion of work, a plumber is supposed to call Water and Sewer or DOB asking that an inspector be sent to the job site. The inspector then determines whether the installation was performed according to the City Interim Sewer Rules. The inspectors are required to obtain all the supporting documents held by the plumbers associated with the issuance of the permit, including the permit itself. The inspector completes a Record of Site Visit, which attests that the inspector approved or did not approve the work. A DEP engineer in the respective borough office then completes a Certificate of Inspection. Therefore, if a plumber fails to call the borough office or DOB for an inspection of completed work, since DEP does not track expired permits, DEP has no way of knowing that the work was done and the work may never be inspected. There is obviously a potential hazard to the public presented by uninspected work that may not comply with City Interim Sewer Rules.

During the exit conference, DEP officials stated that a Certificate of Inspection is never issued if the sewer permit has expired. However, upon further testing of the 21 expired sewer permits mentioned above, we found six instances in which the associated job site nonetheless

received a Certificate of Inspection. Therefore, it is important to track expired sewer permits and implement a procedure to ensure that plumbers with expired permits renew the permits.

### **Recommendations**

DEP should:

20. Establish a written procedure that tracks expired sewer permits and require plumbers to file for a new permit.
21. Ensure that all completed jobs are inspected.
22. Ensure that DEP engineers issue Certificates of Inspection only to those plumbers who have valid permits.

**DEP Response:** DEP agreed, stating: “DEP has reinstructed appropriate staff on the requirements for the issuance of a certificate of inspection. No certificate of inspection will be issued unless the applicant is in possession of a current, valid permit for the work.

“Almost all new sewer connections are related to new construction. This new construction requires the issuance of a certificate of occupancy from the Department of Buildings. The DOB will not issue a certificate of occupancy without a certificate of inspection from DEP indicating that the work for the connection to the sewer system was properly completed.”

### **Poor Record-Keeping for Applications, Permits, And Supporting Documents**

Water and Sewer borough offices have inadequate controls over filing and maintaining approved applications, permits issued, and back-up documentation. Approved applications are not kept together with the accompanying supporting documents. For example in the Queens office, the approved applications were kept in one file cabinet, the supporting documents were filed in a second cabinet, and other related documents, such as Certificates of Inspection, were filed in a third cabinet. This filing system is inefficient and can lead to the misfiling or loss of documents. As a result of this inefficient system, DEP personnel could not find 26 (50%) of the 52 permit applications and supporting documentation that we requested as part of our review of documents. Table V, following, shows a breakdown by borough office of the files not found:

**Table V**

Breakdown by Borough Office of Permit Files Not Found

<b>Borough Office</b>	<b>Total # of Sewer Permits</b>	<b>Files or Supporting Documentation Not Found</b>
Bronx	6	1
Manhattan	3	1
Queens	18	7
Staten Island	12	9
Brooklyn	13	8
<b>TOTAL</b>	<b>52</b>	<b>26</b>

To further complicate the matter, the approved application and the back-up documentation have no unique number to connect them. Currently, back-up documentation is connected to the application by an address or block and lot number. However, there can be several applications for the same address or block and lot number. Therefore, it may be difficult to match the back-up documentation to a specific permit application. Poor record-keeping prevents any demonstration that the application process is complete, appropriate, or even legitimate.

**Recommendations**

DEP should:

23. Establish a filing system so that approved applications and their supporting documents can be kept together as one file.

**DEP Response:** DEP agreed, stating: “In conjunction with the development of new procedures as described in 1 above, DEP will review the filing system for applications and supporting documentation to ensure that documents can be located easily when needed.”

24. Require that a unique number be assigned to each application and all the supporting documentation.

**DEP Response:** DEP agreed, stating: “While BWSO has always assigned a unique number to each application, we will now make sure that this number is included on all documents and payments related to the application.”

## **Lack of CIS Controls to Ensure Segregation of Duties**

CIS has no controls to ensure the segregation of duties in the permit process. There are two subsystems in CIS—Subsystem 23 and Subsystem 13—that handle all the processing of permit information. Permit application information is entered in Subsystem 23, and payment information is entered in Subsystem 13. Our review disclosed that 472 employees at DEP have access to both systems. As of October 29, 2003, we found that 44 of the 50 employees in the Permitting Division of Customer Service had access to both subsystems.<sup>9</sup> CIS has no controls to prevent these 44 employees from entering both permit application information and payment information for the same permit. This is contrary to Comptroller’s Directive #18, which requires data processing and accounting functions to be separate and independent. We discussed this issue with DEP officials at the exit conference, and they stated that the lack of segregation of duties in the permit process was a management decision based on the small number of staff.

In addition, one of the 44 employees mentioned above left the agency in the spring of 2003. The employee’s name still appeared on the list of employees who had access to both subsystems as of October 29, 2003. This is contrary to Comptroller’s Directive # 18, § 8.1.2, which states, “Access authorization must be carefully designed to insure that employees have access only to files or programs that are necessary for their job function. . . . Active password management includes . . . deactivation of inactive user accounts and accounts for employees whose services have terminated.”

Access to these subsystems, which encompass the entire permitting process, should be limited to eliminate the possibility that data are manipulated without detection. Such open access to data and the lack of independent daily reconciliation of issued permits (page 8) combine to expose the permitting process to great risk of undetected fraudulent activity. Moreover, an employee who is no longer employed but who still has access to sensitive information in the system is an unacceptable additional risk to the agency.

### **Recommendations**

DEP should:

25. Program CIS so as to prevent one individual from entering the permit application information as well as the fee payment for the permit. If this is not possible, implement a compensating control to prevent the possibility of the misappropriation of funds.

**DEP Response:** DEP disagreed, stating: “Please see response . . .above [that for recommendation #2]. Based upon the systems, procedures and compensation controls described in that response, DEP feels that a single employee, with minimal risk of misappropriation of funds, can perform these functions.”

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<sup>9</sup> According to the lists provided by DEP, the remaining six Permitting Division employees either have access to Subsystem 13 only or no access.

**Auditor Comment:** Should DEP implement greater compensating controls, as recommended in recommendation # 3, then a single employee can be assigned to perform all tasks related to the permitting process with minimal risk of misappropriation of funds.

26. Immediately deactivate the user accounts of employees who are no longer employed by DEP.

**DEP Response:** DEP agreed, stating: “This is already DEP’s policy and procedure. DEP’s MIS security staff are notified of all staff separations. The employee listed in the draft report as having left our employment has not left. She transferred to another division (the Call Center) where she still needs and uses her CIS access.”

**Auditor Comment:** Although this employee is still employed by DEP, she is no longer processing and printing permits. Therefore, DEP should restrict her access to the payment function (subsystem 13).



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June 21, 2004

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**Re: Audit Number MH03-167A - Audit Report on Controls Over the  
Processing and Collection of Permit Fees by the Department of  
Environmental Protection**

Dear Mr. Brooks:

We would like to thank you for the opportunity to comment on the above  
referenced audit recently conducted at DEP. Attached please find our response.

Sincerely,

Christopher O. Ward

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## DEP Response to Recommendations in Audit Report MH03-167A

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1. DEP should complete the policies and procedures manuals, addressing all processes and functions involved in the processing of permit applications, collecting permit fees, (and collecting application review fees) at both the Bureau of Water and Sewer Operations (BWSO) and the Bureau of Customer Services (BCS) offices. DEP should disseminate the completed manual to all offices and follow up with appropriate staff training.

Both the Bureau of Customer Services (BCS) and the Bureau of Water and Sewer Operations (BWSO) are working to review and update existing procedures for the processing of permit applications and the collection of permit related fees. As these procedures are revised and reissued, they will be distributed to staff and training will be conducted to ensure that staff is appropriately informed of the procedures.

The BCS in particular will promulgate sections of the new manual as they are completed through a newly developed on-line application designed to make the most current versions of all procedures easily accessible.

2. DEP should segregate the duties of recording permit fees, issuing permits, collecting fees, preparing deposit slips, and making daily bank deposits among several employees. If this is not possible, then at a minimum, DEP should establish compensating controls to prevent the possibility of fund misappropriation.

In an effort to improve customer service and improve efficiency, many steps in the permit procedure have been automated and consolidated. DEP recognizes that all reasonable care must be taken to minimize the opportunities for misappropriation, agrees that formal compensating controls are appropriate, and has ensured that they are in place. The automated and office procedures include features that protect against misappropriation. For example, the automated systems have security protocols included, such as: not allowing the issuance of a permit until the payment is posted; not allowing staff to erase or modify any financial transaction records; automatically generating summaries of all payment transactions for daily reconciliation with deposits; and, automatically generating detailed listings of all financial transactions correlating to the summaries. These systems are always in place, and are beyond the control of the system's users.

There are also organizational features of the procedures that guard against misappropriation. The BCS performs field inspections of the work performed under the permits, which independently validates that the permits were issued for the appropriate work. The deposits are reported by the bank to the Treasurer of the Water Board for reconciliation with Customer Information System (CIS) data. Permit division supervisors perform random checks of work to determine that permits were issued, charges were imposed, and payments received and posted appropriately.

While periodic work reviews have always been part of each supervisor's assignment, DEP has reiterated this with staff for emphasis. Also, the managers of each office are repeatedly directed to ensure that the periodic random checks are performed.

In addition, the BCS has another, independent compensating control, in that it has a Quality Assurance unit. This group reviews transactions performed by all employees in all divisions to evaluate whether they were performed correctly. They are looking both for errors and also for corruption. Therefore, it has been management's judgement that one person may perform most of the steps described in the recommendation.

The BWSO will review its procedures concerning segregation of duties, revise the existing procedures where appropriate and retrain staff to ensure compliance.

- 3. DEP should require a supervisory review and daily reconciliation of all permits issued and fees collected and deposited.**

DEP has required that permit division supervisors review all of the daily summaries to ensure that checks were received and deposited for all of the permits issued. Staff responsible for application processing will be trained to ensure compliance with procedures that require daily reconciliation of applications filed, fees collected and deposits.

- 4. Ensure that deposits are made on a daily basis.**

All offices have been directed to deposit checks into the bank every day. Any checks that must be held overnight will be locked in a safe. Where they do not already exist, DEP will purchase safes for each office that handles fee revenue.

- 5. Ensure that safes are kept locked during the day and the combination to the safe is changed periodically.**

Staff has been directed to keep the safes locked except when necessary to put in or take out material. We have also initiated changing the combinations.

- 6. DEP should coordinate its efforts with the Water Board Treasury to ensure that monthly bank reconciliations of permit fees are performed.**

The staff of the Water Board Treasurer will reconcile the deposits to the Water Board's bank accounts with all of the payments posted in CIS. The proposed procedure requires the creation of a new CIS report that will summarize the payment transactions in CIS. The design of that report is currently in progress.

7. **Obtain copies of all outstanding checks received by the Water Board Treasury each month.**
8. **Establish procedures for tracking and collecting checks that were returned by the bank for insufficient funds.**

All returned checks are noted in CIS by the financial transaction of offsetting the original payment transaction, by imposing a returned check-processing fee, and by writing a note on the account. Plumbers with unresolved returned checks have an unpaid balance on their account in CIS. The borough offices have been directed to prevent the issuance of new permits to any plumber who has an unresolved returned check. DEP has also initiated a procedure of notifying the borough office via e-mail when the bank returns a check, so that the permit supervisor can immediately direct inquiries to the plumber to have the check replaced. DEP management has determined that its borough offices do not need copies of permit payment checks that are returned. They need information about the check (check number, amount, date, plumber name and account number) and the plumber's total unpaid balance, so that they can direct the plumber to pay. The information is sent by e-mail.

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

In very extraordinary circumstances, principally based on the revocation of a plumbing license, BCS will write off open permit balances. This will usually occur because a plumber has retired or died. This procedure will be included in the revised procedures referred to in number 1, above. DEP does not "write off" balances of active plumbers. DEP is researching the small number of plumbers with open balances today. So far, the plumbers appear to be still active, so DEP will treat the balances as collectible.

10. **Establish procedures that prohibit new permits to be issued to Plumbers who have unpaid balances in their accounts who have had uncollectible balances written off.**

This procedure has been reviewed in all of the borough offices. All now enforce this rule.

11. **Issue a written policy that requires Plumbers who have a pre-determined number of checks returned to pay with a certified check or money order.**

DEP already has a procedure to notify all borough offices of plumbers who have had three checks returned for insufficient funds, and require that they pay with certified checks or money orders. The Water Board staff processing returned checks identifies the plumbers' names. The names are then distributed to the borough offices by e-

mail. This will also be included in the consolidated procedures referred to in section 1, above.

12. **Coordinate with DOB to suspend, revoke or refuse to renew licenses of Plumbers who have outstanding balances.**

DEP refers the names of plumbers with patterns of violations to the Department of Buildings (DOB) for their review and action, as we have no independent authority to revoke a plumber's license.

It must be noted that DEP does not agree that all outstanding balances should result in the suspension or revocation of a plumber's license. Almost all of these outstanding balances are short-lived; most are resolved by the plumber's replacing the bounced check shortly after he or she becomes aware of the problem. DEP requires certified checks or money orders for permits from plumbers who have bounced three checks. Therefore, large open balances are very unusual.

At this time, there are only 24 plumbers with unpaid balances. Only ten owe over \$1,000, and 12 owe under \$300. DEP is reaching out to the few plumbers with longer-term outstanding balances. At this time, only \$39,976.94 remains unpaid (compared to the outstanding balance of \$78,020.38 referred to in your draft audit). When DEP judges that its efforts to collect the open balances are unsuccessful, DEP will refer the names of those plumbers to the Fire Suppression/Master Plumber License Board of the Department of Buildings for their review and action.

13. **Ensure that staff at all Borough Offices follow its procedure to prohibit the issuance of additional permits to Plumbers whose permits are outstanding beyond the allowable period.**
14. **Send out Inspectors to spot-check premises after a permit has expired to determine whether a water meter was installed. If the meter was installed, ensure the CIS is updated and customers are billed for water use.**

Outstanding permits are tracked with records of all permits maintained in CIS. BCS is taking aggressive steps to increase the pace at which the permits are returned and reduce the number that are outstanding. Over a year ago, the Master Plumbers Council and the Plumbing Foundation, as well as many of the largest plumbing concerns in New York City, were informed that returning permits in a timely manner was a newly emphasized priority of the Bureau of Customer Services. This message was also published in the Plumbing Foundation's newsletter.

The Department's plan includes two principal components. First, DEP has been reaching out to the plumbers with significant volumes of unreturned, older permits. In the past year over 670 plumbers were contacted by phone or mail, directing them

to return all permits for completed work, and to file for time extensions if meters were not yet installed. Second, BCS Inspectors have been routed to inspect the sites of the oldest permits. When they find a meter installed with no corresponding returned permit, they issue a Notice of Violation, returnable to ECB, to the plumber.

DEP has also been preparing revisions to Chapter 20 of the Rules of the City of New York. The existing rules require that permits be returned promptly if the plumbing work is completed, but are silent on the requirement to complete the work or return the permit in any specific timeframe after the permit is issued. DEP is amending the rules to include a requirement to return a permit in a specified time after it is issued. Once the requirement to return permits in a specified timeframe is included in the Rules, DEP will be able to ensure the prompt return of permits through the use of Notices of Violation.

15. **DEP should ensure that its Brooklyn Borough Office (BCS) establishes an organized system of maintaining and filing permit documentation.**

The filing system and procedures of the Brooklyn office have been reviewed. While the filing system and procedures were found to be adequate, the Staff has been reinstructed on the established procedures and supervisors have been directed to ensure compliance.

16. **DEP should ensure that all staff follow the City Interim Sewer Rules, which require that all documents be submitted before issuing a permit, and all those who refuse to do so be disciplined accordingly.**

BWSO has an established policy that except in rare instances, specifically approved by the Director of Engineering, a permit application can only be approved after the applicant has met the requirements of all applicable rules, regulations, and procedures. Under no circumstance will any applicant be given a conditional permit unless the Director of Engineering (DOE) has approved such request. A reminder of the policy concerning the issuance of conditional permits has been reissued to all appropriate staff.

As stated above, conditional permits may only be issued with the explicit approval of the DOE for rare and specific situations and for restricted time frames. The applicant must meet all requirements and rules before the Certificate of Inspection will be released by DEP.

17. **Develop written procedures for processing review fee related revenue generated by the BWSO. These procedures should include the recording, handling, depositing, and reconciling review fee related revenue by several employees.**

DEP will develop written procedures to ensure the proper handling and recording of review fee related revenue. After these procedures are developed, all affected staff will be trained to ensure that the new procedures are followed at each borough office.

18. **Explore the feasibility of modifying the BCS Customer Information System (CIS) to include the recording of review fee related revenue collected by the BWSO. If it is not possible to modify the CIS, track these fees through a different computer system so that the fees are no longer recorded in FMS. These fees should be reported as part of permit revenue.**

DEP will explore the possibility of modifying CIS to include the recording of application review fee revenue.

19. **Perform a brief preliminary review of the SD 1&2 and Site Connection Proposal forms at the beginning of the review process. If at that time, the application package is found to be complete, the accompanying check should be deposited without any further delay.**

DEP will conduct a review of submitted applications three times each week. Applications found to be complete will be accepted and the accompanying check will be immediately deposited in the bank. Applications found to be incomplete will be returned to the applicant along with the check.

20. **Establish a written procedure that tracks expired sewer permits and require Plumbers to file for a new permit.**
21. **Ensure that all completed jobs are inspected.**
22. **Ensure that DEP engineers issue Certifications of Inspection only to those Plumbers who have valid permits.**

DEP has reinstructed appropriate staff on the requirements for the issuance of a certificate of inspection. No certificate of inspection will be issued unless the applicant is in possession of a current, valid permit for the work.

Almost all new sewer connections are related to new construction. This new construction requires the issuance of a certificate of occupancy from the Department of Buildings. The DOB will not issue a certificate of occupancy without a certificate of inspection from DEP indicating that the work for the connection to the sewer system was properly completed.

Permits to repair or re-lay existing sewer connections are the only ones that do not require a C of O at their completion. In most instances, the property owner will not pay the contractor for the work absent a DEP certificate of inspection.

DEP will review a sample of expired repair/re-lay permits to see if the work was completed without a request being made for a certificate of inspection. If this review reveals such instances, DEP will modify its procedures to provide regular checks for such instances and issue violations where appropriate.

23. **Establish a filing system so that approved applications and their supporting documents can be kept together as one file.**

In conjunction with the development of new procedures as described in 1 above, DEP will review the filing system for applications and supporting documentation to ensure that documents can be located easily when needed.

24. **Require that a unique number be assigned to each application and all the supporting documentation.**

While BWSO has always assigned a unique number to each application, we will now make sure that this number is included on all documents and payments related to the application.

25. **Program CIS so as to prevent one individual from entering the permit application information as well as the fee payment for the permit. If this is not possible, implement a compensating control to prevent the possibility of the misappropriation of funds.**

Please see response to recommendation 1 above. Based upon the systems, procedures and compensating controls described in that response, DEP feels that a single employee, with minimal risk of misappropriation of funds, can perform these functions.

26. **Immediately deactivate the user accounts of employees who are no longer employed by DEP.**

This is already DEP's policy and procedure. DEP's MIS security staff are notified of all staff separations. The employee listed in the draft report as having left our employment has not left. She transferred to another division (the Call Center) where she still needs and uses her CIS access.