

AUDIT REPORT

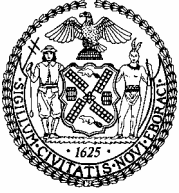


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Revenue Collected for License and Permit Fees By the Department of Buildings

MG06-077A

May 5, 2006



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

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has audited The Department of Buildings (DOB), to determine whether DOB maintains adequate financial controls over cash receipts collected for license and permit fees.

Audits such as this provide a means of ensuring that the DOB and other city agencies comply with policies and procedures established for the safeguarding of assets.

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

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

Very truly yours,

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

William C. Thompson, Jr.

WCT/ec

Report: MG06-077A
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Table of Contents

AUDIT REPORT IN BRIEF	1
Audit Findings and Conclusions.....	1
Recommendations.....	2
INTRODUCTION.....	3
Background.....	3
Objective.....	3
Scope and Methodology	3
Discussion of Audit Results.....	6
FINDINGS AND RECOMMENDATIONS.....	7
The BEC Does Not Maintain Adequate Controls Over Cash Receipts	7
BEC Does Not Have a Mail Log	8
Checks Not Restrictively Endorsed On Receipt	8
Recommendations	9
The Licensing Unit Does Not Deposit Cash Receipts Received by Mail in a Timely Fashion.....	9
Recommendation.....	11
Noncompliance with Cash Receipts Safeguarding Controls	11
Unlocked Safes	11
Unsecured Cash Receipts.....	12
Manual Receipts Books Not Adequately Safeguarded	12
Recommendations	13
Physical Security Weaknesses	13
Recommendations	14
ADDENDUM	

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

**Audit Report on the Revenue
Collected for License and Permit Fees
By the Department of Buildings**

MG06-077A

AUDIT REPORT IN BRIEF

This audit determined whether the Department of Buildings (DOB) maintained adequate financial controls over cash receipts collected for license and permit fees. The DOB is responsible for ensuring the safe and lawful use of more than 900,000 buildings and properties throughout New York City by enforcing the City's Building Code, Electrical Code, Zoning Resolution, and other laws applicable to the construction and alteration of buildings in the five boroughs. The DOB imposes and collects fees for the various licenses and construction permits it processes each year. Permit-related fees consist of application fees, plan examination fees, inspection fees, and building permit fees.

The DOB collects cash¹ at seven cash collection locations that accept and process license and permit fees—one at the Executive (Central) office,² one at the Bureau of Electrical Control (BEC)³, and one in each of the five DOB Borough offices. For Fiscal Year 2005, the DOB collected \$77 million in revenue from license and permit fees.

Audit Findings and Conclusions

The DOB generally maintains adequate financial controls over cash receipts collected for license and permit fees.

However, during our observation of the BEC we noted weaknesses in controls over cash receipts. Specifically, the cashiers at the BEC generally endorse checks only when they process the payment and enter it into BIS; this includes times when a walk-in customer requests a receipt. Otherwise, the BEC cashiers do not immediately endorse checks received either from walk-in customers or by mail. Moreover, the payments are not recorded in BIS as soon as they are received. The cashiers wait until the next working day to record, and subsequently endorse,

¹ Cash refers to coin, currency, checks, money orders, and credit card payments received in person or via mail.

² The total cash receipts reported by the Central Cashier include its own collections, as well as payments received by the Licensing Unit and the Alteration Repair Application (ARA)/Permit Renewal Unit.

³ At the Exit Conference held on March 16, 2006, DOB officials stated that BEC is now called the Electrical Division.

the checks. Further, remittance checks and money orders that remained unprocessed were placed in a pouch that was left on the cashier's countertop, rather than secured in a locked drawer. Also, the BEC does not maintain a mail log to record all cash payments received by mail.

We noted certain weaknesses in the Licensing Unit also. Specifically, the Licensing Unit does not deposit on a daily basis the cash it receives through the mail for license renewals. The Unit may hold those cash receipts from several days to several weeks before depositing them in the bank.

In addition, some safes used to store cash receipts remained unlocked throughout the work day. Also, during our initial visits to the Staten Island, Bronx, and Brooklyn Borough Offices we observed that lockable cash drawers were not installed at the cashier stations. As a result of our audit, DOB management installed lockable drawers in the above mentioned offices.

Finally, physical security weaknesses were identified at the cash collection locations. Particularly, at the Manhattan and Bronx Borough offices we observed that the entry doors to the office and cashier areas were unlocked, rendering the areas easily accessible to unauthorized persons.

Recommendations

To address these issues, we make nine recommendations. Among them, we recommend that the DOB should:

- Require BEC cashiers to immediately stamp all remittance checks with a restrictive endorsement stamp upon receipt.
- Require the BEC to implement and maintain a log to record and track cash receipts received by mail. In compliance with DOB procedures, the log should be used by the Fiscal Unit to monitor cash receipts processed by the BEC.
- Ensure that all cash receipts received through the mail, by the Licensing Unit or another unit, are deposited in the bank on the day that the mail is received, or at the least on the next business day, as required by Comptroller's Directive #11.
- Ensure that the safes at all the cash collection locations are kept locked at all times and that access be limited to authorized personnel.
- Ensure that cash receipts, whether received by mail or in person, are appropriately safeguarded and secured in a locked safe or cash drawer.
- Institute effective security measures to deter and limit access to cashier and office work areas to authorized personnel. Consider installing an electronic or combination locking system to restrict access to the cash collection and office areas by authorized DOB personnel. At a minimum, DOB should ensure that the doors leading to the cashier and work areas are kept locked.

INTRODUCTION

Background

The DOB is responsible for ensuring the safe and lawful use of more than 900,000 buildings and properties throughout New York City by enforcing the City's Building Code, Electrical Code, Zoning Resolution, and other laws applicable to the construction and alteration of buildings in the five boroughs. The DOB examines and approves construction plans, issues construction permits, inspects properties, and licenses the construction trades. It also issues Certificates of Occupancy and Place of Assembly permits.

The DOB imposes and collects fees for the various licenses and construction permits it processes each year. License fees apply to licenses, registrations, and certifications covering 12 trades and 29 classifications. Permit-related fees consist of application fees, plan examination fees, inspection fees, and building permit fees.

The DOB collects cash at seven cash collection locations that accept and process license and permit fees—one at the Central office, one at the BEC, and one in each of the five DOB Borough offices. For Fiscal Year 2005, the City's Comprehensive Annual Financial Report (CAFR) reported DOB revenues from license and permit fees, totaling \$77 million, consisting of \$899,000 from license fees and \$76.1 million from permit fees. In addition, for the first six months of Fiscal Year 2006 (July 1, 2005, through December 31, 2005), the DOB reported collections totaling \$42 million, consisting of \$655,000 from license fees and \$41.3 million from permit fees.

Objective

The objective of this audit was to determine whether the DOB maintains adequate financial controls over cash receipts collected for license and permit fees.

Scope and Methodology

The audit scope covered Fiscal Years 2005 and 2006, through December 31, 2005. To accomplish our objective and gain an understanding of the financial controls over the handling and reporting of cash receipts, we met with officials from the DOB Budget and Fiscal Operations Unit (Fiscal Unit), the Licensing Unit, the BEC, and the five Borough offices. We also reviewed documentation outlining the flow of license and permit transactions, including the receipt, recording, deposit, and reconciliation of cash receipts.

To supplement our understanding of license and permit transactions, we reviewed statistics for Fiscal Years 2002 through 2005 detailing the total number of licenses and permits issued and total revenue collected for related fees. In addition, we reviewed DOB organization charts, the Mayor's Management Report, the Executive Budget, and relevant information obtained from the DOB, the Internet, and other sources.

We reviewed various DOB policies and procedures memoranda and Administration Policy and Procedures Notices (PPN), which were used as audit criteria, including:

- Daily Reconciliation of Revenue Collections (PPN #10/1990);
- Acceptable Checks Memorandum (dated January 28, 1993);
- Cashier Procedures and Controls Memorandum (dated October 12, 1995);
- Issuance of Manual Receipts (PPN #1/1996);
- Cashier Reminders and Adjustment Forms Memorandum (dated April 22, 1996);
- Cashier Reminders (undated).

In addition, we reviewed and used draft (not finalized) versions of DOB policies, procedures, and guidelines, including:

- Credit Card Guidelines (draft as of July 12, 2005);
- DOB Cashier Administration Procedures (draft as of August 22, 2005);
- Cashier and Supervisor Guideline for Cash Receipts (undated);
- How to fill in the Daily Cash Receipts-Lock Box Summary Report (undated);
- Cashier Training Program documentation (draft as of March 21, 2004).

We determined whether the DOB policies and procedures complied with requirements of Comptroller's Directives that address the collection, processing, reporting, and related controls over cash receipts, as well as the handling of bad checks. These include:

- Comptroller's Directive #1 *Principles of Internal Control*, issued January 18, 2005.
- Comptroller's Directive #11, *Cash Accountability and Control*, issued February 24, 1986.
- Comptroller's Directive #21, *Revenue Monitoring*, issued April 1993.

To test the DOB's compliance with established policies and procedures and to ascertain whether adequate segregation of duties were in force, we conducted walk-throughs and observations at each of the seven DOB cash collection locations. During the period September 12 through October 4, 2005, we spent one day at each location to observe the handling of and controls over cash. Specifically, we observed clerks and cashiers accept, record, and process payments for license and permit fees. We also observed the daily closeout procedures and the preparation of the daily bank deposits. We verified whether remittance checks were properly stamped with a restrictive endorsement on receipt. We evaluated the adequacy of safeguards over cash receipts and manual receipt books. We also assessed the physical security measures and safeguards in place at each of the cash collection sites.

To assess and verify the accuracy and completeness of the daily cash receipts collected and processed at each cash collection center on the days of our respective observations, we traced total cash receipts for each cashier to the cashier lockbox summary report, to the computer-generated Agency Cash Receipt Account Form (ACRAF), and finally to the bank deposit slip. We also determined whether there was evidence of supervisory review of the cash receipts collected by the cashiers. Based on the results of these observations, we did not expand our observation period.

To determine whether cash receipts received through the mail by the BEC, the Licensing Unit, and the ARA/Permit Renewal Unit were accounted for and adequately safeguarded, we observed the assignment, processing, and controls over mail-in license and permit applications and related remittance payments. We determined whether remittance checks were properly endorsed upon receipt, recorded, and deposited in the bank in a timely manner. We also determined whether each unit maintained a mail log.

Based on our observations of the Licensing Unit and its license renewal policy,⁴ we obtained and evaluated the Unit's electronic mail log for July 2005 to assess the handling of payments received with license renewals that were too early to process.⁵ We selected July 2005 to allow for the 60-day period by which the licenses should have been renewed in accordance with DOB policy. (Our audit test was conducted in September 2005.) We also tested the Unit's timeliness in processing cash receipts.

For the period September 19 through September 30, 2005, the DOB recorded \$4.7 million in cash receipts at the seven cash collection centers. To verify that all cash receipts for this period were appropriately accounted for, and to evaluate the reliability, accuracy, and completeness of cash transactions recorded in the DOB's mainframe computer application, Buildings Information System (BIS), and subsequently reported in the City's Financial Management System (FMS), we reviewed the daily ACRAF reports that are generated through BIS and the related supporting documentation (i.e., bank deposit slips, daily cash receipt reports, credit card receipt, and adjustment forms) sent to the DOB Fiscal Unit by the DOB cash collection centers for the period September 19 through September 30, 2005—representing the period during which we conducted our observations. We traced and reconciled the daily cash receipts totals reported by each of the cash collection offices to the daily cash receipts reconciliation and FMS entries approved by the Fiscal Unit for the same period.

To determine whether the revenue from credit card transactions was appropriately reconciled to transactions recorded in the BIS application, on a limited basis, we reviewed the credit card transaction (settlement) reports generated through the DOB Merchant View account and the DOB Revenue Unit's reconciliation of the corresponding credit card transactions recorded for September 2005, totaling \$426,494, and October 2005, totaling \$386,512, (approximately four percent of total collections for each month) representing the latest data of completed transactions available during audit fieldwork.

The results of the above tests, while not projectable to their respective populations, provided a reasonable basis for us to assess the adequacy of DOB's financial controls over cash receipts collected for license and permit fees.

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

⁴ The Licensing Unit requires that licenses be renewed between 30 to 60 days of the original license expiration date; however, not earlier than 60 days of the original license expiration date.

⁵ In terms of calendar days.

Discussion of Audit Results

The matters covered in this report were discussed with DOB officials during and at the conclusion of this audit. A preliminary draft report was sent to DOB officials on March 01, 2006, and discussed at an exit conference held on March 16, 2006. On March 27, 2006, we submitted a draft report to DOB officials with a request for comments. We received a written response from DOB officials on April 7, 2006. In their response, DOB officials agreed with our findings and recommendations. They stated that they view the report “as assistance in furthering our commitment to providing quality public service while maximizing our resources.”

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

FINDINGS AND RECOMMENDATIONS

We determined that except for the BEC, where we noted control weaknesses that could be material in respect to the DOB's overall revenue, the DOB generally maintains adequate financial controls over cash receipts collected for license and permit fees.

In general, key duties and responsibilities over cash are adequately segregated, thereby reducing the risk of error or fraud. Specifically, the responsibilities for authorizing, processing, recording, and reviewing transactions and handling related adjustments are adequately segregated. In addition, DOB procedures generally conform to requirements contained in Comptroller's Directives #1, #11, and #21.

During our observation of the BEC, we observed weaknesses in controls over cash receipts. Specifically, we found that checks are not restrictively endorsed upon receipt and that the BEC does not maintain a mail log to record all cash payments received by mail.

We also noted certain weaknesses in the Licensing Unit, and some instances of noncompliance with controls at the DOB Borough offices. We found that the Licensing Unit does not deposit on a daily basis the cash it receives through the mail for license renewals. The Unit may hold those cash receipts from several days to several weeks before depositing them in the bank. For July 2005, mail-in renewal transactions, totaling \$11,160, represented approximately 11 percent of the Unit's overall monthly cash collections of \$100,785. Although those mail-in renewals represent only a small part of the DOB's overall revenue, the Unit should deposit checks in compliance with DOB control procedures.

In addition, at two collection locations, safes used to store cash receipts remained unlocked throughout the work day. We also observed physical security weaknesses at the cash collection locations. Specifically, at the Manhattan and Bronx Borough offices we observed that the entry doors to the office and cashier areas were unlocked, rendering the areas easily accessible to unauthorized persons.

These conditions, while not of sufficient materiality to detract from our overall opinion, increase the DOB's risk that cash receipts will be misappropriated. The details of these weaknesses are discussed in the remaining sections of this report.

The BEC Does Not Maintain Adequate Controls Over Cash Receipts

During our observation of the BEC, we found weaknesses in controls over cash receipts. Specifically, we learned that checks are not restrictively endorsed upon receipt and that the BEC does not maintain a mail log to record all cash payments received by mail. During the period September 19 through September 30, 2005, the BEC recorded revenues totaling \$418,325. According to BEC officials, approximately 80 percent of revenues represent cash received through the mail. (For the above-mentioned period, this percentage would amount to \$334,660.) However, without a mail log, DOB cannot be assured that all payments received through the mail are properly accounted for. The material nature of BEC cash receipts requires that immediate action be taken to correct these weaknesses.

BEC Does Not Have a Mail Log

The BEC, similar to the Licensing Unit and the ARA/Permit Renewal Unit, receives through the mail renewal applications and accompanying payments (checks or money orders). However, unlike the other units, the BEC does not maintain a log of the payments and applications received by mail.

Comptroller's Directive #1 states: "A sound internal control system must be supported by ongoing activity monitoring occurring at various organizational levels and in the course of normal operations. Such monitoring should include appropriate measurements on regular management and supervisory activities, comparisons, reconciliations, and other actions taken by employees in performing their duties. . . . Tracking and aging mechanisms are crucial in those agencies that are responsible for collection of rents, taxes, fines, franchise fees and other types of revenue."

According to the DOB Cashier Procedures and Controls Memorandum (10/12/95), the Central Revenue office spot-checks entries on mail logs with BIS entries to ensure that all money received through the mail has been adequately recorded and entered. Without the BEC maintaining a mail log listing cash receipts submitted by customers via mail, there is no mechanism for the Fiscal Unit to adequately monitor, reconcile, and track cash receipts that the BEC receives by mail and processes in the BIS application.

According to BEC officials, transactions received through the mail represent approximately 80 percent of all transactions processed by the unit each day. For the period September 19 through 30, 2005, BEC's cash receipts totaled \$418,325. Based on BEC officials' approximation, \$334,660 (80%) represents cash received through the mail. Since BEC's cash collections represent between eight and nine percent of the DOB's annual revenue, the BEC's failure to maintain a mail log is of particular concern.

Checks Not Restrictively Endorsed On Receipt

BEC cashiers do not immediately stamp remittance checks with a restrictive endorsement stamp upon receipt, as required. Comptroller's Directives #1 and #11 require that all checks and money orders be restrictively endorsed generally as they are received. In addition, DOB procedures require that all checks and money orders be endorsed with the appropriate stamp immediately upon receipt.

We observed that the cashiers at the BEC generally endorse checks only when they process the payment and enter it into BIS. This includes times when a walk-in customer requests a receipt. Otherwise, the BEC cashiers do not endorse immediately upon receipt checks received either from walk-in customers or by mail. Moreover, the payments are not recorded in BIS as soon as they are received. The cashiers wait until the next working day to record, and subsequently endorse, the checks.

For payments received from walk-in customers who do not request a receipt and those received through the mail, the cashiers separated the unendorsed check from the accompanying documentation and place them in separate workbaskets for processing the next business day. Not endorsing checks immediately upon receipt increases the likelihood that the checks will be misappropriated.

Recommendations

The DOB should:

1. Require BEC cashiers to immediately stamp all remittance checks with a restrictive endorsement stamp upon receipt.

DOB Response: “We agree, and we have implemented this recommendation.”

2. Require the BEC to implement and maintain a log to record and track cash receipts received by mail. In compliance with DOB procedures, the log should be used by the Fiscal Unit to monitor cash receipts processed by the BEC.

DOB Response: “We agree, and have implemented this recommendation.”

The Licensing Unit Does Not Deposit Cash Receipts Received by Mail in a Timely Fashion

The Licensing Unit does not deposit on a daily basis the cash receipts it receives through the mail for license renewals. The Unit may hold those cash receipts from several days to several weeks until depositing them in the bank. For July 2005, mail-in renewal transactions totaled \$11,160. The Licensing Unit should deposit checks within a day of receipt, in compliance with DOB control procedures, to reduce the risk that checks are misplaced or lost.

Comptroller’s Directive #11 states, “Generally, cash receipts must be deposited on the same business day. . . . The accumulation of cash [(i.e., currency, checks and money orders)] is not permitted.” According to the DOB Cashier Administration Procedures, “The cashiers endorse the checks upon receipt and they are deposited . . . one day after the day of receipt.” Furthermore, Comptroller’s Directive #11 and DOB procedures require that all cash and checks be properly locked in a safe or other secured location at all times.

The Licensing Unit submits all cash receipts to the Central Cashier for processing. These are generally turned over to the Central Cashier for processing on the day they are received. In this way, cash receipts for license fees are included in Central Office daily cash receipts records and ACRAF.

However, license renewal applications and the corresponding fees may be mailed to DOB. Payments received through the mail for license renewals are not deposited in the bank on the same day or the day after they are received. Instead, all checks are endorsed with a restrictive endorsement upon receipt, and are attached to the applications and kept in a work folder until the time the licenses are processed. Several weeks can elapse before the money is

turned over to the Central Cashier and subsequently deposited in the bank. This is a direct result of the Licensing Unit's operating practices.

Each day renewal applications received by mail are reviewed by the secretary, who restrictively endorses the checks, staples them to the application and accompanying documents, and places them in a folder. A supervisor reviews the newly received applications for completeness, records them into the electronic mail log, "Received by Mail Database," and assigns them to individual clerks' work folders. These folders are kept in an unlocked cart in the center of the office. The clerks will obtain one application at a time from their respective folders for processing. If no errors are detected, the clerk will process the application and renew the license in BIS. Each clerk records the payment on the "Daily Report to Cashier," which is used to track the number of renewed licenses processed. In the afternoon the checks are turned over to the Central Cashier. At the close of business, the work folders containing unprocessed applications and related payments are locked in a cabinet in the file room or the safe.

On September 30, 2005, our review of all the work folders found many renewal applications and accompanying fee payments (checks and money orders) that had not been processed and deposited in the bank. For example, in one folder there was an unprocessed application and \$150 payment check that was received on June 9, 2005. Licensing Unit officials said that this license was not yet renewed, since it was received more than 60 days before the license expiration date. However, this license should have been renewed on August 1, 2005, 60 days before its expiration on October 1, 2005. In another folder there were unprocessed applications that had been received as early as September 7, 2005, including 25 checks and money orders totaling \$615 that were not deposited.

We also found that applications were assigned to clerks that were on vacation. For example, one clerk was on vacation from September 19 through October 11, 2005; however, there were applications with accompanying fee payments in the folder that were assigned on September 20, 21, and 27, 2005. Overall, there were 39 unprocessed applications and fee payments totaling \$1,185.

Based on these findings, we reviewed the Licensing Unit's mail log for July 2005. There were a total of 514 applications, with fees totaling \$11,160, entered in the log. We identified 415 applications, with fees totaling \$8,160, that were renewed, and noted the following:

- For license renewal approval: 344 checks, totaling \$6,645, were held for 29 days on average (ranging from 13 to 76 days) from the date of receipt to the day a license was renewed and the checks turned in to the Central Cashier.
- For license renewal rejection and subsequent approval: 71 checks totaling \$1,515 were held for an average of 40 days before being sent to the Central Cashier. The applications were initially rejected due to some inaccuracy, but held for an average of 20 days (ranging from five to 74 days) prior to being mailed back to the customer, along with the customer's check, with a request for a corrected application. When the applications were resubmitted, the customer checks were held for another 20 days on average (ranging from two to 44 days) prior to being sent to the Central Cashier.

Although there was insufficient data in the log to determine the length of time checks were held until the remaining 99 license renewal applications (totaling \$3,000 in fees) were approved, we noted that:

- For license renewal rejection: 37 checks totaling \$860 were held for an average of 20 days (ranging from five to 63 days) prior to the application being rejected and sent back to the customer.
- For license renewal rejection due to excess fee payment: five checks totaling \$340 were sent back to the customer because the payment amount exceeded the scheduled fee; hence, the entire application was rejected.

In the above instances, the checks should have been deposited in accordance with Comptroller's Directive #11 and DOB procedures. Cash in any form is an asset that is highly susceptible to theft and misappropriation. The Licensing Unit's failure to deposit cash receipts in the bank (at times holding checks for as long as 76 days) increases the risk that checks or money orders could be lost or misappropriated.

Recommendation

The DOB should:

3. Ensure that all cash receipts received through the mail, by the Licensing Unit or another unit, are deposited in the bank on the day that the mail is received, or at the least on the next business day, as required by Comptroller's Directive #11.

DOB Response "We agree, and have implemented this recommendation."

Noncompliance with Cash Receipts Safeguarding Controls

We observed instances of noncompliance with established cash controls at the DOB cash collection locations, resulting in cash receipts not being adequately secured or safeguarded. Comptroller's Directive #1 requires that agencies ensure that cash on hand and other valuable assets are properly secured and safeguarded in a safe with a combination changed periodically and known only to a few individuals. In addition, DOB procedures require that all cash and checks be stored in a safe or secured location at all times.

We observed several weaknesses at the collection offices that increase the risk of loss or misappropriation of cash receipts. For example, during our visits to the collection centers we observed unlocked safes, unsecured cash receipts, and other instances of noncompliance with procedures. These weaknesses are discussed below.

Unlocked Safes

At the Staten Island and Bronx Borough Offices, we observed that safes were used to store the daily bank deposit. However, at both locations we noted that even though the safes

were closed, they remained unlocked throughout the day. At the Bronx Office, we observed a cashier getting access to the safe simply by pulling open the door.

It is of particular concern that a cashier at the Bronx office disclosed the combination to the safe to the auditors. The cashier removed a sheet of paper bearing the combination from an unlocked drawer and showed it to the auditors. We also learned that the combinations to the safes at all seven cash collection locations have not been periodically changed. By failing to ensure that safes are appropriately locked and that combinations are adequately secured and changed periodically, DOB increases the risk of misappropriation of cash receipts.

Unsecured Cash Receipts

At the BEC, we observed that cash receipts that are processed (entered into BIS) were locked in the cabinet at the clerks' work stations. However, remittance checks and money orders that were received through the mail and during the course of the day and remained unprocessed were placed in a pouch that was left on the cashier's countertop, rather than being secured in a locked drawer.

In addition, during our initial visits to the Staten Island, Bronx, and Brooklyn Borough Offices we observed that lockable cash drawers were not installed at the cashier stations. The Staten Island and Bronx offices did not have desk drawers or cabinets equipped with locks to secure cash receipts. At the Staten Island office, the clerks placed all cash collections in plastic envelopes that were kept on top of their work counters—easily accessible to customers at the window. At the Brooklyn office, the cashiers' and permit clerks' workstations were equipped with lockable drawers; however, the Data Entry and Research clerk workstations were not equipped with lockable drawers. Each of these areas accepts payments from customers.

As a result of our audit, we learned that DOB management had planned to install lockable cash drawers at each of these centers. Therefore, on January 6, 2006, we revisited the Staten Island and Bronx Borough offices, and on January 12, 2006, we revisited the Brooklyn Borough office to determine the status of cash drawer installations. We verified that lockable drawers had been installed in both the Staten Island and Brooklyn offices. As a result, all cash receipts were appropriately secured in the cash drawers. At the Bronx office, we observed that three of nine lockable drawers had been installed. Officials at the Bronx Borough office told us that the office was undergoing renovation and that the remaining drawers would be installed within the next few weeks.

Manual Receipts Books Not Adequately Safeguarded

While six of the seven DOB cash collection offices maintained adequate controls over manual receipt books, the Staten Island Borough office did not adequately secure manual receipt books as required by Comptroller's Directive #11 and DOB procedures.

Prenumbered manual receipts are used to provide customer receipts for small transactions in the event the computer system is not working or when customer payments are received after the daily closeout. Cashiers are responsible and accountable for the receipts they complete.

Comptroller's Directive #11 and DOB procedures require that proper care be taken to safeguard and maintain manual receipt books. Access to blank receipts must be limited, and a physical inventory must be maintained. Moreover, the receipt books must be stored in the safe or in a locked cabinet at all times.

During our observation of the Staten Island Borough office, we observed that two manual receipt books were kept on the counter top at the cashier stations throughout the day, rather than being locked up in the safe or cabinet. Since there are no window partitions at the cashier counter, there is a risk of blank receipts being stolen.

Recommendations

The DOB should:

4. Ensure that the safes at all the cash collection locations are kept locked at all times and that access be limited to authorized personnel.

DOB Response: "We agree, and have implemented this recommendation."

5. Change safe combinations periodically and ensure that safe combinations are properly safeguarded and are not disclosed to unauthorized personnel.

DOB Response: "We agree, and will implement this recommendation."

6. Ensure that cash receipts, whether received by mail or in person, are appropriately safeguarded and secured in a locked safe or cash drawer.

DOB Response: "We agree, and have implemented this recommendation."

7. Ensure that manual receipt books are appropriately secured in a locked safe or cabinet.

DOB Response: "We agree, and have implemented this recommendation."

Physical Security Weaknesses

In addition to the weaknesses over cash receipts previously discussed, we observed weaknesses in the physical security measures in force at each of the DOB cash collection locations.

Comptroller's Directive #1 states: "An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets . . . which might be vulnerable to risk of loss or unauthorized use."

During our visits to the Manhattan Borough office on September 12, 2005, and on January 13, 2006, we found that the door leading to the office and cashier area was unlocked. Although the door is clearly marked "Authorized Personnel Only," there is no receptionist at the

door, nor any physical security measures in place to prevent or deter unauthorized persons from entering the office. This is of particular concern since the office handles approximately \$150,000 in cash receipts each day and the door to the cashier room, where the safe is located, is kept unlocked.

Similar weaknesses were found at the Bronx and Staten Island Borough offices. At the Bronx office we observed that the door separating the cashier area from the customer waiting area is not locked during the day. We also observed that the door did not automatically close after being opened. At the Staten Island office, we observed that the counter at the cashier windows was not equipped with security glass. In addition, a half-door at the end of the cashier counter was unlocked. There is no indication posted on either of the doors to the cashier areas at either of those two offices to clearly communicate that access is restricted to authorized personnel only. Although the daily cash receipts at each of those Borough offices is less than ten percent of the Manhattan office collections, these weaknesses are of particular concern, especially since the safes at the Staten Island and Bronx offices, as previously discussed, remain unlocked throughout the work day.

While there is a security guard at each of the Borough offices, the guard's presence may not provide the highest level of security to prevent unauthorized access to areas restricted to DOB personnel. For example, at the Manhattan office we learned and observed that the guard patrols various areas in the building; therefore, the guard's presence is not constant. In another example, while at the Brooklyn office we observed a customer reach the door entry buzzer through one of the clerk windows to unlock the door and allow a DOB staff member into the cashier area. The security guard on duty did not observe this incident. Clearly, the location of the device to unlock the door is known to customers, increasing the potential for unauthorized access to and misappropriation of cash receipts.

Since there are no continuous monitoring measures, such as security surveillance cameras or other restrictive devices, or an electronic card-key system, to prevent access to the office area by unauthorized persons, there are inadequate measures in place to prevent or detect theft or misappropriation of cash receipts.

Recommendations

The DOB should:

8. Institute effective security measures to deter and limit access to cashier and office work areas to authorized personnel. Consider installing an electronic or combination locking system to restrict access to the cash collection and office areas by authorized DOB personnel. At a minimum, DOB should ensure that the doors leading to the cashier and work areas are kept locked.

DOB Response: "We agree, and have begun to plan the necessary actions to safeguard the cashier area in Manhattan. A swipe pad will be installed at the door in the cashier area, and a glass door will enclose the entire window/counter area. Similar measures will be taken at the remaining cash collection locations to restrict access to window/counter area to authorized personnel."

9. Relocate the entry buzzer at the Brooklyn Borough office to a place inaccessible from the customer side of the cashier window.

DOB Response: “We agree, and will make this change as soon as possible.”



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April 7, 2006

John Graham
Deputy Comptroller
The City of New York
Office of the Comptroller
1 Centre Street, 5th Floor
New York, NY 10007-2341

Re: Audit Report on the Revenue Collected for License and Permit Fees by
The Department of Buildings
Audit # MG06-077A

Dear Mr. Graham:

We appreciate the opportunity to respond to the recommendations presented in the above mentioned draft audit report, which examined whether DOB maintains adequate financial controls over cash receipts collected for license and permit fees. We view your input as assistance in furthering our commitment to providing quality public service while maximizing our resources.

Following are clarifying comments and our responses to the reports nine (9) recommendations. In addition, we offer other comments intended to enhance the clarity and accuracy of the document.

Clarifying Comments

We believe it is important to preface the recommendations with comments intended to further clarify the number of days calculated when analyzing the amount of time checks were held by the Licensing Unit. As sited in the footnote of your draft report, all references to licensing processing time, is in calendar days.

Responses to Recommendations

Recommendation 1: *Require BEC cashiers to immediately stamp all remittance checks with a restrictive endorsement stamp upon receipt.*

Response: We agree, and we have implemented this recommendation.

As stated in the Cashier Procedures and Controls dated October 12, 1995, it has always been DOB's procedure to immediately endorse all checks and money orders immediately upon receipt.

We understand the importance of safeguarding checks from misappropriation. In order to fully comply with Comptroller's Directive #1, #11 and DOB Cashier procedures and Controls dated, the Electrical Division cashiers will immediately use the endorsement stamp on all checks and money orders upon receipt whether from a walk in customer or mailed in.

Recommendation 2: *Require the BEC to implement and maintain a log to record and track cash receipts received by mail. In compliance with DOB procedures, the log should be used by the Fiscal Unit to monitor cash receipts processed by the BEC.*

Response: We agree, and have implemented this recommendation.

The Electrical Division will maintain a log of all checks and money orders received through the mail. The log will be periodically checked for accuracy and compared to entries in BIS to ensure that all monies received through the mail has been accounted for. This change in operating procedures will allow the Electrical Division to maintain suitable financial accountability for their daily revenue intake.

Recommendation 3: *DOB should ensure that all cash receipts received through the mail, by the Licensing Unit or another unit, are deposited in the bank on the day that the mail is received, or at the least on the next business day, as required by Comptroller's Directive 11.*

Response: We agree, and have implemented this recommendation.

In order to achieve the objectives of Comptroller's Directive #11 and DOB internal control procedures, the Licensing Unit has taken immediate corrective actions by streamlining their operating practices. The license renewal process has been revised to reduce the amount of time a mail-in check is held for processing. Checks will be deposited by the next business day, which will reduce the likelihood of misappropriation.

Recommendation 4: *DOB should ensure that the safes at all the cash collection locations are kept locked at all times and that access be limited to authorized personnel.*

Response: We agree, and have implemented this recommendation.

DOB has taken the necessary steps to ensure that the safes remain locked at all times. The Office of Internal Audits & Discipline will perform random checks at the cashier areas to check for unlocked safes and to reinforce the importance of the security measures that we currently have in place.

Recommendation 5: *DOB should change safe combinations periodically and ensure that safe combinations are properly safeguarded and are not disclosed to unauthorized personnel.*

Response: We agree, and will implement this recommendation..

DOB plans to change the safe combinations regularly to accommodate for personnel changes. All personnel with the safe combinations will be held responsible for its safekeeping. Most of the safes at the cashiers areas are old and would require us to take extensive measures to change the combinations so we are planning to upgrade all the safes in the cashiers areas so as to improve our security measures.

Recommendation 6: *DOB should ensure that cash receipts, whether received by mail or in person, are appropriately safeguarded and secured in a locked safe or cash drawer.*

Response: We agree, and have implemented this recommendation.

The remaining cash drawers have been installed in the Bronx office and the staff at all the cashier locations have been reminded of the importance of securing checks that have not been deposited.

Recommendation 7: *Ensure that manual receipt books are appropriately secured in a locked safe or cabinet.*

Response: We agree and have implemented this recommendation.

It has always been DOB's policy to store manual receipt books in a locked safe. The books are only removed from the safe and distributed to authorized staff when the computerized receipt system is down.

We will continue to stress to the cashiers and the area managers the importance of safeguarding manual receipt books and limit access to blank receipts. Receipt books will be kept in the cashier areas locked safe until the need to use the book arises.

Recommendation 8: *DOB should institute effective security measures to deter and limit access to cashier and office work areas to authorized personnel. Consider installing an electronic or combination locking system to restrict access to the cash collection and office areas by authorized DOB personnel. At a minimum, DOB should ensure that the doors leading to the cashier and work areas be kept locked.*

Response: We agree, and have begun to plan the necessary actions to safeguard the cashier area in Manhattan. A swipe pad will be installed at the door in the cashier area, and a glass door will enclose the entire window/counter area. Similar measures will be taken at the remaining cash collection locations to restrict access to window/counter area to authorized personnel.

Similar measures will be implemented at the remaining cashier administration areas to increase their level of security.

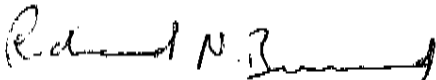
Recommendation 9 *DOB should relocate the entry buzzer at the Brooklyn Borough office to a place inaccessible from the customer side of the cashier window.*

Response: We agree and will make this change as soon as possible.

The buzzer will be moved to a location that is not easily accessible to DOB customers or any unauthorized individuals.

Thank you once again for giving us the opportunity to respond to the draft report. We look forward to receiving your final report.

Yours truly,



Richard N. Bernard
Director, Program and Management Analysis

cc: Patricia J. Lancaster, FAIA
Marilyn King Festa
Edwin Pemberton
Susan Long
Sandra Nicholson