



City of New York

OFFICE OF THE COMPTROLLER

John C. Liu
COMPTROLLER



FINANCIAL AUDIT

Tina Kim

Deputy Comptroller for Audit

Audit Report on the Department of
Environmental Protection's Billing of
Water and Sewer Usage for Properties
Sold by the Economic Development
Corporation

FM12-109A

May 15, 2013

<http://comptroller.nyc.gov>



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

John C. Liu
COMPTROLLER

May 15, 2013

To the Residents of the City of New York:

My office has audited the Department of Environmental Protection (DEP) and the Economic Development Corporation (EDC) to determine whether EDC is notifying DEP whenever properties are sold and whether DEP is updating its billing system to properly bill the owner of the newly sold property for water and sewer usage. We audit City processes such as this as a means of ensuring that the City is receiving all of the revenues it is entitled to for the services that it provides.

Properties containing water meters that are classified (coded) in DEP's Customer Information System (CIS) as City-owned are exempt from water charges, sewage charges, or both.

The audit found that EDC properly notifies DEP when property is sold and, in response, DEP generally updates its billing system. However, for two of 39 properties reviewed, DEP did not update its billing system. The new owners of these EDC-sold properties were not accurately billed and, as a result, the collection of \$18,248 was delayed. In addition, one of the 39 metered properties sold by EDC had an outstanding balance totaling \$19,919. The balance was owed by EDC's tenant and remained unpaid for nearly 28 months.

To address these issues, the audit made three recommendations. DEP should ensure that CIS is promptly updated upon notification of a sale from EDC. EDC should ensure that water and sewer charges of properties it manages are satisfied before they are sold, and if those charges are not satisfied, EDC should make sure that the water and sewer charges are satisfied from tenant security deposits. In addition, should EDC receive a water and sewer bill for property it has sold, it should immediately notify DEP to adjust CIS.

The results of the audit have been discussed with DEP and EDC officials, and their comments have been considered in preparing this report. Their complete written responses are attached to this report.

If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "JCL".

John C. Liu

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

Audit Report on the Department of Environmental Protection's Billing of Water and Sewer Usage for Properties Sold by the Economic Development Corporation

FM12-109A

AUDIT REPORT IN BRIEF

The New York City Economic Development Corporation (EDC) was formed in 1991 as a merger of the New York City Public Development Corporation (PDC) and the Financial Services Corporation of New York City (FSC). PDC's primary objective was to retain and create jobs and generate revenue for the City by facilitating the sale and lease of City-owned property, which EDC has continued to do after the merger. The New York City Department of Environmental Protection (DEP) is responsible for reading water meters and charging fees related to water and sewer usage from property owners in New York City.

Generally, DEP is alerted to a change in ownership of a property through a Customer Registration Form. The Customer Registration Form lists the new owner's name and the mailing address where the new owner can receive future water and sewer bills. Also, when EDC sells a property, EDC drafts a letter, signed by the Law Department, notifying DEP of the sale. Properties containing water meters that are classified (coded) in DEP's Customer Information System (CIS) as City-owned are exempt from water charges, sewage charges, or both.

The objectives of this audit were to determine whether EDC is notifying DEP whenever properties are sold and whether DEP is updating CIS to properly bill the owner of the newly sold property for water and sewer usage.

Audit Findings and Conclusion

EDC properly notifies DEP when property is sold and, in response, DEP generally updates its billing system. However, for two of 39 properties reviewed, DEP did not update its billing system.¹ The new owners of these EDC-sold properties were not accurately billed and, as a result, the collection of \$18,248 was delayed.

¹ Of the 96 properties that were sold by EDC during our audit scope period, only 39 properties had water meters or were otherwise eligible to be billed for water and sewer charges.

In addition, one of the 39 metered properties sold by EDC had an outstanding balance totaling \$19,919. The balance was owed by EDC's tenant and remained unpaid for nearly 28 months. EDC should have taken proactive measures before the charges accumulated or used the security deposit to satisfy the debt before the sale.

Audit Recommendations

The audit recommends:

- DEP should ensure that CIS is promptly updated upon notification of a sale from EDC.
- EDC should ensure that water and sewer charges of properties it manages are satisfied before they are sold, and if those charges are not satisfied, EDC should make sure that the water and sewer charges are satisfied from tenant security deposits.
- Should EDC receive a water and sewer bill for property it has sold, it should immediately notify DEP to adjust CIS.

Organization Responses

DEP officials agreed with their applicable recommendation. EDC officials agreed with one recommendation and partially agreed with the other.

INTRODUCTION

Background

The mission of EDC is to encourage economic growth in each of the five boroughs of New York City by strengthening the City's competitive position and facilitating investments that help the economy of the City. EDC was formed in 1991 as a merger of PDC and FSC. PDC's primary objective was to retain and create jobs and generate revenue for the City by facilitating the sale and lease of City-owned property, which EDC has continued to do after the merger.

DEP is responsible for reading water meters and charging fees related to water and sewer usage from property owners in New York City. Additionally, DEP manages and conserves the City's water supply, distributes clean drinking water, and collects and treats wastewater.

New York City's water and sewer infrastructure is funded by the revenue DEP collects through water and sewer payments. The rates charged to property owners are set by the New York City Water Board (Board). The Board must ensure that the rates are able to fund the entirety of the water and sewer system's operating and capital needs. The revenue from these payments also provides for the payment of bonds used to fund the water and sewer system.

Generally, DEP is alerted to a change in ownership of a property through a Customer Registration Form. The Customer Registration Form lists the new owner's name and the mailing address where the new owner can receive future water and sewer bills. Also, when EDC sells a property, EDC drafts a letter, signed by the Law Department, notifying DEP of the sale. Properties containing water meters that are classified (coded) in DEP's CIS as City-owned are exempt from water charges, sewage charges, or both.

If a City-owned property was sold to an owner that was not exempt from water and sewer charges and CIS was not updated with the new owner's information, then the new owner of the property would not receive a bill for water and sewer usage.

Objectives

The objectives of this audit were to determine whether EDC is notifying DEP whenever properties are sold and whether DEP is updating CIS to properly bill the owner of the newly sold property for water and sewer usage.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of the audit includes the water and sewer billing and payment history of all properties sold by EDC for the five-year period ending December 31, 2011.

Discussion of Audit Results

The matters covered in this report were discussed with DEP and EDC officials during and at the conclusion of this audit. A preliminary draft report was sent to DEP and EDC officials and discussed at an exit conference held on April 17, 2013. On April 22, 2013, we submitted a draft report to DEP and EDC officials with a request for comments. We received a written response from EDC officials on May 3, 2013, and a written response from DEP officials on May 6, 2013.

DEP and EDC did not dispute the audit's findings. DEP officials agreed with their applicable recommendation. EDC officials agreed with one recommendation and partially agreed with the other.

The full text of each organization's response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

EDC properly notifies DEP when property is sold and, in response, DEP generally updates its billing system. However, for two of 39 properties reviewed, DEP did not update its billing system. The new owners of these two EDC-sold properties were not accurately billed and, as a result, the collection of \$18,248 was delayed.

In addition, one of the 39 metered properties sold by EDC had an outstanding balance totaling \$19,919. The balance was owed by EDC's tenant and remained unpaid for nearly 28 months. EDC should have taken proactive measures before the charges accumulated or used the security deposit to satisfy the debt before the sale.

DEP Did Not Update Its System for Some EDC Property Sales

Although EDC notified DEP of the sale, DEP did not properly update CIS in a timely manner for two of the 39 properties sold. One of the two properties had the former owner listed. The other property listed the correct owner, but was still coded as City-owned. City-owned properties are exempt from water and sewer charges. These properties were eligible for water and sewer charges and incurred some usage. As a result of not updating the system, there was a delay in collecting \$18,248.

EDC sold one of the properties, located in Queens, on September 24, 2010. As of the date of the sale, the water and sewer charges were fully paid. However, after the sale, CIS was not updated with the new owner's name and address. Consequently, water and sewer bills were still being sent to EDC, which resulted in no payments being made for approximately 20 months. As a result, a total of \$16,671 in outstanding charges accumulated. DEP updated the account to reflect the correct owner's billing information on July 25, 2012. However, at the exit conference, DEP officials stated the issue was internally discovered in March 2012 and the collection process was initiated before the start of the audit. CIS confirms the statements made by DEP officials. Although DEP was able to identify the problem and collect the outstanding balance, DEP should update CIS immediately upon notification of sale. The risk of not collecting increases the longer the debt remains unpaid.

EDC sold the other property in the Bronx on March 19, 2008. However, DEP did not change the billing code for water and sewer charges from City-owned to the higher privately-owned rate at the time of sale. We informed DEP on September 18, 2012, that the property was still coded as City-owned. DEP then researched the billing status of the property and conducted an inspection of the property. DEP concluded that because they were unsure whether the building being billed or the adjoining buildings were responsible for the water and sewer charges, they only assessed the current owner a minimum usage rate. On October 1, 2012, DEP sent the new owners of the property a bill totaling \$1,577 for the period of March 19, 2008, to September 18, 2012. However, at the exit conference held on April 17, 2013, DEP officials stated that this matter is still being reviewed.

OTHER ISSUE

One Property Sold by EDC had Outstanding Water and Sewer Charges Totaling \$19,919

One of the 39 metered properties sold by EDC had an outstanding balance totaling \$19,919. EDC's tenant was responsible for water and sewer charges and owed \$19,919 at the time the property was sold on December 22, 2010 (as of February 25, 2013, the unpaid balance was \$24,011). However, according to the letter sent to DEP, an affiliate of the tenant purchased the property from EDC. The letter instructed DEP to "**NOT WAIVE ANY OUTSTANDING WATER CHARGES AND SEWER RENTS**" [emphasis in original], but to allow the property to be transferred from EDC to the affiliate anyway. This allowed the property to be sold without the outstanding balance being paid. At the exit conference held on April 17, 2013, EDC officials stated that the bill was paid on April 15, 2013—nearly 28 months after the sale. Overall, almost all properties sold by EDC did not have outstanding balances at the time of sale. However, in this particular case, EDC should have taken proactive measures before the charges accumulated to ensure the debt was collected prior to the sale of the property.

Recommendations

1. DEP should ensure that CIS is promptly updated upon notification of a sale from EDC.

DEP Response: "Agreed. DEP will continue to promptly update CIS upon notification of a sale from EDC."

2. EDC should ensure that water and sewer charges of properties it manages are satisfied before they are sold, and if those charges are not satisfied, EDC should make sure that the water and sewer charges are satisfied from tenant security deposits.

EDC Response: "EDC partially agrees to the Comptroller recommendation. EDC always advises DEP of a transfer of ownership so that DEP will have full information to properly bill the new owner. In regard, to the transaction noted in the Comptroller's finding, EDC advised DEP of the transfer of ownership and, because a member of the new owner had been a tenant in the property prior to the transfer, EDC clearly instructed DEP "**NOT TO WAIVE ANY OUTSTANDING WATER AND SEWER RENTS**". It should be noted that DEP charges tenants directly and that that [sic] charges in question, as they are related to a two party transaction, did not involve EDC. ...It should also be noted that EDC did not hold the security deposit in this situation. Rather, the Comptroller's Office held the tenant's security deposit."

Auditor Comment: EDC's response is rather inconsistent. EDC claims that the charges in question "did not involve EDC," yet EDC instructed DEP on how to handle the outstanding water and sewer charges. EDC also improperly implies that the Comptroller's Office somehow decides how to handle EDC tenant security deposits. Instead of contradicting its position, EDC should discuss how it can enhance its property management oversight and ensure its tenants pay their water bills in a timely manner. Had EDC effectively managed this property, this would not have been an issue in this report.

3. Should EDC receive a water and sewer bill for property it has sold, it should immediately notify DEP to adjust CIS.

EDC Response: “EDC does agree to the Comptroller’s recommendation.”

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of the audit includes the water and sewer billing and payment history of all properties sold by EDC for the five-year period ending December 31, 2011.

To gain an understanding of the controls over the process, we interviewed officials from DEP and EDC. To gain an understanding of DEP's billing and payment operations, we conducted a walk-through of DEP's Bureau of Customer Services (BCS). We also reviewed the *DEP Bureau of Customer Services Customer Information System Inquiry Manual*. We documented our understanding of these controls through written narrative. In addition, we received access to BCS's CIS and attended training classes.

To achieve our objectives, we obtained a list of properties sold by EDC for a five-year period ending December 31, 2011. To test the reliability of the list, we compared information on the properties included on EDC's Sales List to the Department of Finance's property database, Automated City Register Information System (ACRIS). We noted discrepancies between the list and ACRIS and presented EDC with a sample. We then asked EDC to regenerate the list, which was provided on July 24, 2012. Subsequently, we retested the new list and obtained reasonable assurance it was accurate and complete.

A total of 96 properties were identified as sold by EDC through December 31, 2011. We reviewed CIS to determine whether each property was metered. Of the 96 properties, 39 had water meters and 57 did not. For those properties without water meters, we utilized databases from the New York City Department of Buildings and the Department of City Planning and also the New York City Department of Information Technology and Telecommunication's NYCityMap website to determine if the properties were vacant. Finally, we visited each property without a water meter(s) as additional verification.

To determine whether EDC notified DEP of property sold, we reviewed correspondence between the agencies in both DEP and EDC files. To determine whether billing information on the 39 properties with water meters was properly updated, we reviewed the water and sewer billing history of each property in CIS and noted any outstanding balances, coding errors, or other irregularities.



May 6, 2013

Carter F. Strickland, Jr.
Commissioner

H. Tina Kim
Deputy Comptroller, Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
1 Centre Street, Room 1100
New York, NY 10007

Joseph F. Singleton, Jr.
Deputy Commissioner
Customer Services
www.nyc.gov/dep

Re: Audit FM12-109A

Dear Ms. Kim:

59-17 Junction Boulevard
Flushing, NY 11373
T: (718) 595-7000

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

Below is our response to the specific recommendation contained in the April 22, 2013 draft audit report:

1. DEP should ensure that CIS is promptly updated upon notification of a sale from EDC.

Response: Agreed. DEP will continue to promptly update CIS upon notification of a sale from EDC. DEP will also implement measures to resolve special cases promptly (as in the two (2) example cases indicated in this audit) to assure immediate and proper closure of any outstanding monetary and or billing issues.

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

Very truly yours,

A handwritten signature in black ink, appearing to read 'J. F. Singleton, Jr.', written over a horizontal line.

Joseph F. Singleton, Jr.



New York City Economic Development Corporation

May 3, 2013

New York City Comptroller's Office
One Centre Street, Room 1100
New York, New York 10007-2341
Municipal Building
Attn: H. Tina Kim, Deputy Comptroller

**Re: Response to Audit Report of the Department of Environmental Protection's
Billing of Water and Sewer Usage for Properties Sold by the Economic
Development Corporation (FM12-109A)**

Dear Ms. Kim:

New York City Economic Development Corporation ("EDC") has reviewed the Draft of the above-referenced audit report, dated April 22, 2013, and responds to the recommendations directed in the audit as follows:

Recommendation #2:

"EDC should ensure that water and sewer charges of properties it manages are satisfied before they are sold, and if those charges are not satisfied, EDC should make sure that the water and sewer charges are satisfied from tenant security deposits."

EDC Response:

EDC partially agrees to the Comptroller recommendation. EDC always advises DEP of a transfer of ownership so that DEP will have full information to properly bill the new owner. In regard, to the transaction noted in the Comptroller's finding, EDC advised DEP of the transfer of ownership and, because a member of the new owner had been a tenant in the property prior to the transfer, EDC clearly instructed DEP **"NOT TO WAIVE ANY OUTSTANDING WATER AND SEWER RENTS"**. It should be noted that DEP charges tenants directly and that that charges in question, as they are related to a two party transaction, did not involve EDC. The outstanding balance relating to these charges remained outside the statute of limitations and DEP ultimately collected the full amount of the charges. It should also be noted that EDC did not hold the security deposit in this situation. Rather, the Comptroller's Office held the tenant's security deposit.

Recommendation #3:

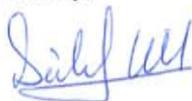
"Should EDC receive a water and sewer bill for property it has sold, it should immediately notify DEP to adjust CIS."

EDC response:

EDC does agree to the Comptroller's recommendation. EDC has been proactively communicating with DEP regarding any and all land sale transactions. DEP provides services to local providers only. DEP does not charge or provide services to EDC directly.

Should you have any questions or concerns regarding EDC's responses to the recommendations provided in the audit report, please feel free to contact me directly at (212) 312 3855 or via e-mail at bcelik@nycedc.com.

Sincerely,



Bulent Celik
Controller

Cc: Kyle Kimball, Executive Director
Kim Vaccari, Chief Financial Officer
Spencer Hobson, Director of Finance