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THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

March 1, 2018

The Honorable Bill de Blasio, Mayor
City of New York
City Hall
New York, NY 10007

The Honorable Corey Johnson, Speaker
New York City Council
250 Broadway, Suite 1850
New York, NY 10007

New York City Council
City Hall
New York, NY 10007

Dear Mayor de Blasio, Speaker Johnson and Members of the City Council:

Attached please find the annual report on the operations of the Audit Bureau of the New York City Comptroller's Office for Fiscal Year 2017. The Audit Bureau issued 76 audits and special reports during the fiscal year focused on the effectiveness and service quality of City programs, and on financial issues, identifying approximately $66.2 million in actual and potential revenue and savings. Reviews of claims filed against the City identified another $1.5 million in potential cost avoidance.

Under the City Charter, the Comptroller's Office must audit some aspect of every City agency at least once every four years in accordance with generally accepted government auditing standards promulgated by the Comptroller General of the United States. Section 93 (f) of the City Charter states that no later than March 1st of each year the Comptroller must provide an annual report to the Mayor and City Council on all major audit activities of City agencies conducted in the previous fiscal year.

Applicable auditing standards also require that government auditing entities undergo an external peer review every three years. Last year, the Audit Bureau underwent such a review by a team of qualified independent audit professionals. The review was completed in October 2016, and I am pleased to report that the Comptroller's Office complies with generally accepted government auditing standards and received the highest of three possible ratings from the review panel. In addition, the peer review identified eight specific areas of the audit bureau's performance for which it should be commended.

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The audits issued in Fiscal Year 2017 covered a wide range of subjects, including revenue and cost savings, asset management, internal controls, service delivery, program performance, and information technology. The most significant findings are highlighted below.

Revenue and Cost Savings

The following audits generated the most in actual and potential revenue and savings:

- An audit found that the Department of Finance (DOF) improperly credited the Senior Citizen Homeowners' Exemption (SCHE) to 3,890 properties that were not eligible, resulting in a loss to the City of at least $48,529,687. The SCHE program provides a partial property tax exemption for senior citizens who own one, two, or three family homes, condominiums, or cooperative apartments in New York City. Homeowners who receive a SCHE also automatically qualify for and receive an Enhanced School Tax Relief (ESTAR) exemption based on their income and homeownership status. The audit found that DOF failed to remove the SCHE from at least 3,246 properties after the homeowners had died, resulting in a loss of property tax revenue of at least $35,976,029 from Fiscal Years 2012 through 2017. Furthermore, DOF failed to correctly prorate the exemption amounts granted to 573 properties that contain four or more units. This resulted in 3,219 excessive exemption amounts totaling at least $11,176,036 in lost property tax revenue from Fiscal Years 2011 through 2016. DOF also allowed corporate owners of at least 71 properties to receive 307 exemptions for which they were not eligible, resulting in lost property tax revenue of at least $1,377,622 from Fiscal Years 2011 through 2016. In addition, DOF improperly credited properties of deceased homeowners and corporate-owned properties with ESTAR exemptions totaling $10,647,896, bringing the total lost tax revenue identified in this audit to $59.2 million. The audit is summarized at page 56.

- Another audit found that DOF improperly credited Veterans' Exemptions to 1,503 properties, which resulted in a loss to the City of at least $3,770,350 in property tax revenue. The Veterans' Exemption Programs, provide a partial property tax exemption for veterans, the spouse or widow/widower of a veteran who has not remarried, or parents of a soldier killed in action. Two categories of Veterans' Exemptions are in effect in New York City: the Eligible Funds Exemption (prior to 1984) and the Alternative Veterans' Exemption (since 1984). Homeowners who receive a Veteran's Exemption can also apply for and receive a School Tax Relief (STAR) exemption based on their income and homeownership status. The audit found that DOF failed to remove Veterans' Exemptions from 740 ineligible properties that were transferred to new owners, resulting in a loss of property tax revenue of at least $1,654,869, and from 341 properties after the eligible homeowners died for a loss of $798,346. Furthermore, DOF failed to correctly prorate the exemption amounts granted to 200 properties that contain four or more units resulting in a loss of $915,173, and improperly granted exemptions to corporate owners of at least 60 properties for a loss of $165,219. DOF also allowed 162 homeowners to receive multiple Veterans' Exemptions simultaneously, which is not permitted by regulations, resulting in a loss of $236,743. In addition, DOF improperly credited properties of deceased homeowners and ineligible corporations and LLCs with STAR exemptions totaling $449,758, bringing the total lost tax revenue identified in this audit $4.2 million. The audit is summarized at page 60.

- The Comptroller's Office conducted three compliance audits of contracts between the Department of Parks and Recreation (Parks) and operators of concessions on Parks property in the City: (1) Queens Ballpark Company (QBC), a subsidiary of Sterling Mets, L.P., operation of City Parking Facilities; (2) Manhattan River Group, L.L.C. (MRG), operation of the Dyckman Marina and Restaurant; and (3) Kissena Golf, L.L.C.'s (Kissena Golf), operation of the Kissena Park Golf Course. The three audits identified $839,403 in underreported revenues, which could result in up to $204,016 in additional City revenue.

  - The QBC audit found that the company understated its net revenue by at least $294,127 and, as a result, owed the City at least $147,064 in additional base rent. Parks entered into four agreements with QBC for the management, operation and maintenance of several parking facilities near Citi Field Stadium in Flushing, Queens. The rent that QBC pays the City is determined by a formula based on net revenue (reported revenue minus expenses). The understated revenue resulted from the underreporting of prepaid parking revenue and discounts, and free parking spaces as well as its failure to detect a duplicate sales tax deduction. While QBC complied with most of the major terms of its City agreements, the audit found inconsistencies in QBC's books and records, and also determined that QBC's point-of-sale system lacked the controls needed to ensure a complete and accurate record of all parking-related transactions. In addition, the audit found that QBC did not adequately verify the accounting of the special-events revenue and expenses reported by a related company, CF Hospitality, L.L.C. (CFH), and did not notify Parks of special events as required by the City agreements. The audit is summarized at page 125.

  - The MRG audit found that the company underreported its gross receipts from its restaurant by at least $488,874 and consequently owes the City at least $39,110 in additional license fees and $17,842 in late charges. In June 2009, Parks entered into two separate 15-year contracts, one for the operation of a restaurant and lounge, and a second for the operation of a marina at the Dyckman Marina in Manhattan. The audit also found inadequate internal controls and inconsistent practices in MRG's recordkeeping procedures, including a failure to maintain sufficient documentation related to its operation of the marina and required capital improvements. The audit is summarized at page 127.

  - The Kissena Golf audit found that the company understated the gross receipts it reported to Parks by $56,402, although that understatement did not impact the amount of monies Kissena Golf owed to the City during the audited period. In 2008, Kissena Golf entered into a 20-year License with Parks for the renovation, operation, and maintenance of an 18-hole golf course, clubhouse, and food service facility at Kissena Park located in Queens. In addition to underreporting revenue, which could improperly reduce future fee payments to the City, the audit also found that Kissena Golf violated its License by entering into the two sublicense agreements without prior authorization from Parks. Kissena Golf also improperly included regular maintenance expenditures in its claimed capital spending. Moreover, it failed to maintain sufficient documentation related to $196,353 in claimed capital improvement expenses. The audit is summarized at page 129.

- A compliance audit of the Operating Agreement for the Brooklyn Cruise Terminal (BCT) between the New York City Economic Development Corporation (EDC) and Metro Cruise Services, LLC (MCS) found that MCS understated the Operating Income due the City by at least $98,221 through its inaccurate computation and deduction of security costs. In May 2013, the City, acting through EDC, entered into an Operating Agreement with MCS, which provides that MCS shall be the sole and exclusive operator of the BCT. The revenue that MCS shares with the City consists principally of three categories—wharfage (based on cruise ships' passenger counts), dockage, and special events – along with fees that MSC collects for fresh water provided to cruise ships. The audit found that MCS maintained insufficient records on special event revenue, and it also uncovered gaps in MCS' fresh water meter readings that may improperly reduce fees owed to the City. In addition, EDC did not sufficiently oversee MCS' compliance with its Operating Agreement because it did not verify accuracy of information upon which fees owed to the City were based. The audit is summarized at page 123.

Asset Management and Internal Controls

Several audits of agencies and public entities identified significant deficiencies in asset management and internal controls:

- An audit to determine whether the Department of Education (DOE) allocated approximately $491.4 million in federal Title I funds to the City's public schools in accordance with applicable laws, rules, and regulations found DOE did not properly document and determine students' eligibility for school meals. DOE uses this eligibility to measure each school's poverty percentage for the purpose of allocating Title I funds among the schools within each of the City's five boroughs. The audit also found that DOE lacked up-to-date correspondence or written agreements with the City's Human Resources Administration (HRA), which provides information used in eligibility determinations. In addition, DOE may have incorrectly determined the eligibility of students on their School Meal Applications, and failed to contact students' households to obtain information needed to process incomplete applications. DOE may have also erroneously included students who were not eligible for free school meals in its Title I poverty counts and thus may not have properly allocated Title I funds among the public schools. The audit is summarized at page 48.

- The Comptroller's Office conducted an audit of the financial and operating practices of Success Academy Charter Schools-NYC (Success Academy). The audit examined the school's oversight of its fiscal affairs during Fiscal Years 2013 through 2015 (July 1, 2012, through June 30, 2015) to determine whether its internal controls ensured that funds were appropriately expended, authorized, valid, and reasonable; whether transactions were accurately recorded and reported; and whether potential conflicts of interest and related party transactions were adequately disclosed and approved. Success Academy, which served 8,715 students enrolled in kindergarten through ninth grade at 24 different schools in Fiscal Year 2015, is an educational corporation that is authorized by the State University of New York to operate multiple charter schools under its Third Amended and Restated Second Renewal Charter dated October 31, 2014 (the Charter Agreement). Success Academy is also party to an Academic and Business

Services Agreement (Management Agreement) with Success Academy Charter Schools, Inc. (the Network), an educational service provider retained to manage the operations of Success Academy's multiple schools. The audit found that Success Academy made duplicative payments to the Network totaling $624,342 for services the Management Agreement required the Network to provide in exchange for its 15 percent management fee, and incorrectly classified these expenses in its Fiscal Year 2015 certified financial statements. In addition, Success Academy billed DOE $50,825 for special education services that were not documented as having actually been provided for 6 out of 21 sampled students (28.6 percent). It also failed to maintain adequate controls over $24.8 million in inventory. Moreover, Success Academy's records did not adequately document that purchasing expenses were reasonable, appropriate, and properly authorized; that it had obtained appropriate proof of residency for students; that its employees always had required fingerprints and background checks completed and cleared before they began working in its schools; and that it had properly documented and obtained approval for $8.5 million in loans from a related party in accordance with applicable rules. The audit is summarized at page 16.

- An audit of the New York City Housing Authority's (NYCHA's) oversight of construction contracts for building envelope rehabilitation work found that, while there appears to be adequate field staffing and inspection of construction work, and sufficient information flow from the construction sites back to the central office and upper management, NYCHA needs to improve its controls and utilize operational resources more effectively. NYCHA's housing stock is aging: 270 of its 328 developments are 30 or more years old and of those, 114 are more than 50 years old. NYCHA's Capital Projects Division is responsible for preserving and modernizing public housing by providing professional design and construction services. These services include making buildings water-tight through rehabilitating and/or replacing building envelope components, such as roofs, facades, windows and foundations. Data received from NYCHA shows that building envelope rehabilitation work was performed on 43 projects utilizing 51 unique contracts awarded from January, 2013 through November, 2015, our audit scope period. The total amount of these contracts was approximately $1.02 billion. The audit found deficiencies in the finished work product at several locations, work completed late at three of five sampled developments, a questionable use of change orders, recordkeeping weaknesses, unreliable data, and a failure to update a procedural manual to reflect current work methods. The audit identified $138,955 in potential monetary impact, which includes: $95,200 for liquidated damages for projects completed late; $38,200 for sub-standard base flashing installation; $5,000 for defective roof work; and $555 for minor deficiencies in completed construction. The audit is summarized at page 72.

- An audit of the New York City Transit's (NYCT's) provision of required preventive maintenance (PM) services and inspections on its escalators and elevators found multiple deficiencies in these efforts. NYCT's Division of Elevators and Escalators (E&E) is responsible for the maintenance, repair, and inspections of the elevators and escalators located throughout the subway system. E&E has set an aggregate goal of 96.5 percent availability on average for its elevators and 95.2 percent availability on average for its escalators. The audit found that only approximately one-fifth of the machines in the audit sample received all of their scheduled PM services assignments. When PM service assignments were cancelled, however, the reasons given were either not supported or not in compliance with E&E's policy. In addition, maintainers and supervisors did not complete nearly a quarter of the sampled checklists for PM service and American Society of Mechanical Engineers (ASME) inspections as required. Moreover, required work orders were not created on average in 1 out of 4 instances where new defects were noted during PM service assignments and ASME inspections. Further, E&E does not have a system for tracking when or whether the defects that result in the creation of work orders are repaired. The audit is summarized at page 86.

- The Office of the New York City Comptroller investigated a transaction in which the Allure Group paid the City of New York $16.5 million to remove two deed restrictions that limited the use of Rivington House, a Manhattan nursing home, to operation as a Not-For-Profit health care facility. The purchaser then sold the property to a luxury condominium developer for $116 million, pocketing a $72 million profit. As part of its investigation, the Comptroller's Office reviewed more than 80,000 documents, including communications among the Rivington House sellers and buyers and City officials, and interviewed Administration officials who were engaged over a two-year period with issues related to the deal. The investigation revealed that senior City officials failed to read required weekly reports from agency commissioners and failed to communicate their decisions to subordinates. This breakdown in oversight and communication created a vacuum that allowed the purchaser to secure the removal of deed restrictions at the same time it was working to "flip" the property for millions of dollars in profit. The report also revealed that the City failed to take action, even after it was notified by residents that Rivington House was going to be sold to a developer for conversion to luxury condominiums. City officials had a 72-day window of opportunity to intervene before the sale was finalized, but failed to do so. The investigation is summarized at page 30.

Service Delivery and Program Performance

The following audits identified significant service-delivery and program-performance issues:

- An audit of the New York City Department of Buildings (DOB) and the New York City Department of City Planning (DCP) to determine whether the City adequately oversees Privately Owned Public Space (POPS) agreements with building developers and owners found that more than half of the POPS locations were not in compliance with their agreements. POPS are outdoor or indoor spaces with required amenities for public use that are built and are maintained by the developers and owners of private buildings. POPS are created by building developers in exchange for the City allowing them to construct buildings at greater heights and densities than would otherwise be allowed by zoning regulations. DCP is responsible for certifying POPS' compliance with zoning regulations prior to the developer's obtaining a foundation permit. DOB is responsible for enforcing the City's Building Code and Zoning and for issuing violation notices to owners when POPS are found to be out of compliance with their agreements. Auditors inspected all 333 of the City's POPS locations and found that more than half (182 of the 333) failed to provide required public amenities. In some cases, the required amenities simply did not exist; in others, they were non-functioning. There were also cases where public access was otherwise impermissibly limited or denied entirely. The audit is summarized at page 96.

- The Office of the New York City Comptroller investigated the Department of Homeless Services' (DHS's) provision of child care services within the DHS shelter system. By October 2016, the City's total shelter population topped 60,000 people, including more than 23,000 children, with more than 5,700 children under the age of three (as of April 2016). As part of its investigation, investigators inspected 21 on-site child care centers in City shelters, surveyed all 167 DHS shelters for families with children, and interviewed officials from two City agencies that manage the delivery of services to homeless families and children, DHS and the Administration for Children's Services (ACS). The investigation found that 99 of the 167 shelters for families with children (59 percent) offered no child care services; another 43 shelters (26 percent) operated on-site child care centers without any permits from City government. The investigation found that (1) 82 percent of their child care workers did not undergo proper background checks for disqualifying criminal and child abuse histories; and (2) 49 percent of these childcare workers lacked valid training in child abuse and maltreatment identification, reporting, and prevention. Moreover, an investigation of the child care rooms in 21 shelters revealed serious health and safety risks: 41 percent had no sprinklers, 18 percent had no fire extinguishers, and 9 percent of the emergency exit doors were locked from the inside, without emergency push bars. The investigation is summarized at page 71.

- A compliance audit focused on the "Close to Home" contract between ACS and non-profit provider Good Shepherd Services (GSS). The contract allows GSS to operate a group home for youths who are deemed juvenile delinquents by the Family Court, and to place them in a residential program close to their families and communities. The audit found that (1) behavior plans were not consistently prepared; (2) mental health assessments were not consistently obtained or conducted; (3) educational assessments were not performed timely; (4) monthly team treatment meetings were not consistently conducted; and (5) there was limited evidence that required appropriate recreation was provided to the youths. The audit also identified deficiencies in GSS' reporting and recording of "reportable" and "critical" incidents. Finally, the audit found that GSS incorrectly billed ACS (both over and under the proper amounts) for care days for three of the 10 sampled youth. The audit is summarized at page 21.

- The Comptroller's Office conducted three audits of personnel-screening compliance by ACS-contracted childcare centers: (1) Hamilton-Madison House (HMH) – Manhattan; (2) Brooklyn Kindergarten Society's Brevoort Children's Center (BCC) – Brooklyn; and (3) The Child Center of New York (TCCNY) – Queens. Each audit examined whether all employees and volunteers had been properly screened through the Statewide Central Register of Child Abuse and Maltreatment (SCR) as required by the New York City Health Code §47.19.

    - HMH operates a child care center for three and four year-old children at 253 South Street in Manhattan (and at three other locations) under contract with ACS. Of eight individuals who were working as employees or volunteers at HMH as of January 17, 2017, the audit found that for five individuals—four employees and one volunteer—HMH had not obtained the most recently required SCR clearance in a timely manner. Moreover, the clearances were late by periods that ranged from 11 days to nearly two years. The audit also found that HMH had not obtained any SCR clearance for one volunteer for eight years. The audit is summarized at page 23.

- BCC operates a child care center for children two to four years old at 250 Ralph Avenue in Brooklyn (and at four other locations) under a contract with ACS. Of 19 individuals who were working as employees at BCC as of January 19, 2017, the audit found that for five employees, BCC had not obtained the most recently required SCR clearances on time; the clearances were late by periods that ranged from 20 days to over one year and three months. The audit also found that BCC had not obtained an SCR clearance for one employee even though the individual had been hired more than six months earlier. The audit is summarized at page 24.

- TCCNY operates a child care center for three and four year-old children at 34-10 108th Street in Queens (and at two other locations) under a contract with ACS. Of 37 individuals who were working as employees at TCCNY as of January 31, 2017, the audit found that for 22 employees, TCCNY had not obtained the most recently required SCR clearances on time; the clearances were late by periods that ranged from five days to more than 11 months. The audit is summarized at page 25.

- A compliance audit of the contract between DHS and non-profit provider Samaritan Daytop Village Inc. (Samaritan) to provide shelter and services to homeless individuals and families found that Samaritan generally complied with the fiscal requirements of its DHS contracts. However, the audit found that DHS provided excessive cash advances of $1.5 million to Samaritan and failed to recoup $346,337 of that excess amount. In addition, Samaritan failed to maintain adequate documentation for 43 of 532 clients, representing 545 "care days" provided to homeless families for which Samaritan billed DHS. The audit also found that DHS did not perform expenditure reviews of Samaritan's contracts to ensure that expenditures are appropriate and consistent with the terms of the applicable contracts. The audit is summarized at page 69.

- An audit of the Department of Transportation's (DOT) management of the replacement and maintenance of street name signs found that DOT has significant deficiencies in its management and does not track its efforts. DOT estimates there are approximately 250,000 standard street name signs in New York City, and said that it receives complaints for repair of street name signs from the public and elected officials, both directly and from New York City's 311 service. However, DOT does not have a complete inventory of signs and does not know how many signs are actually required. It does not have a comprehensive plan to ensure that it identifies all street name signs in need of replacement; does not ensure that all 311 complaints of missing or damaged signs are addressed; and has not established any time frames for addressing certain non-emergency street name sign replacements. The audit is summarized at page 114.

Information Technology

All City agencies rely on information technology to help perform and maintain mission-critical operations. Over the past decade, as the City has spent a significant amount of taxpayer dollars on information technology, we have continued to audit system-development projects and have identified several projects with excessive cost overruns and missed deadlines, or that simply did not meet agency needs. Brief descriptions of two of those audits follow:

- An audit of DOE's implementation of High Speed Internet Connectivity in New York City Public Middle Schools found that while every school had fiber optic connections to support high speed internet, DOE lacked adequate controls and oversight to ensure that the system-wide upgrade was completed properly, within budget, with appropriate documentation, and with adequate managerial oversight. DOE began to upgrade the broadband technology in the schools in 2007 and completed the upgrade in 2016. As of May 2016, 503 of DOE's schools were reported to be providing educational services to middle school students (students in 6th through 8th grades). Auditors also conducted a User Satisfaction Survey of middle school Principals and staff, in which 33 percent of the respondents said they were not satisfied with the current internet service, 45 percent stated that the speed of the internet service in the middle schools did not meet their instructional needs, and 25 percent responded that the internet service availability in their schools was inadequate. The audit is summarized at page 52.

- An audit assessed the security and reliability of the data stored and maintained in the Department of Citywide Administrative Services' (DCAS's) computer systems. DCAS maintains a computer network that is used by DCAS employees, consultants and interns for email and to access department files. It also maintains specialized applications that are used by the public, DCAS network users (employees, interns and consultants), and personnel in external City agencies. Several applications maintained by DCAS contain confidential and private information. The audit found that DCAS has established adequate controls for application access, data protection, and sufficient data classification guidelines to protect information in the agency's computerized environment. However, the audit found that user access had not been disabled for inactive users and former City employees; that DCAS' list of agency liaisons had not been adequately monitored and updated; that DCAS did not implement and enforce citywide password expiration and complexity rules; and that DCAS lacked a formal agency-wide business continuity plan and a disaster recovery plan for its applications. The audit is summarized at page 31.

As the City's Chief Fiscal Officer, it is my duty to do everything in my power to maintain the City's fiscal health. The Audit Bureau uses its power of audit to find waste, mismanagement and inefficiency in City government, as well as to root out fraud and abuse, while championing improvements that can achieve more efficient, effective City operations and services. The Bureau examines every corner of City government to improve services and save tax dollars wherever possible, and it makes hundreds of recommendations to improve City programs that can have a positive impact on service delivery if implemented. The audits and investigations summarized in this annual report have helped us meet our responsibility to ensure that government resources are not wasted, but put to work to improve the lives of all New Yorkers.

While agency managers are responsible for resolving and implementing recommendations promptly and effectively, the auditors follow up to see that action has been taken and intended results realized. A review of the implementation of the 450 recommendations made in this year's audit reports found that 33 City agencies and other related entities reported implementing or being in the process of implementing 377 recommendations (83.8 percent) and not implementing 73 recommendations (16.2 percent). This is the highest level of compliance by audited entities in eight years, indicating that the City is greatly benefiting from our audit efforts.

The Comptroller's Office welcomes your interest in ensuring that all recommendations made by the Audit Bureau are considered by City agencies. But the true benefits of audit work are found in the effective implementation of these recommendations. Corrective action taken by management is essential to improving the effectiveness and efficiency of government operations. To that end, we have provided supplementary information on the status of all our recommendations by both audit report and by agency.

Sincerely,

Scott M. Stringer