

New York City Department of Finance

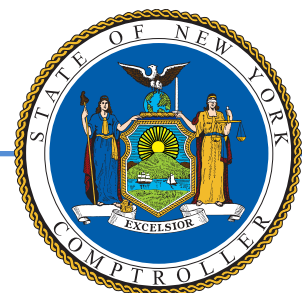
Citywide Payment Services and Standards – Controls Over Payments

Report 2022-N-2 | August 2024

OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller

Division of State Government Accountability



Audit Highlights

Objectives

To determine whether the New York City Department of Finance (DOF) Citywide Payments Services and Standards (CPSS) unit has controls in place to ensure that payments received by and processed on behalf of agencies are correctly matched with receivables and that agencies are appropriately advised of payments. We also determined whether the implementation of CPSS improved the payment experiences for the public and promoted time and cost savings for City agencies. The audit covered the period from July 2019 through November 2022.

About the Program

DOF is a revenue service, taxation, and recording agency. Its mission is to administer the tax and revenue laws of the City of New York fairly, efficiently, and transparently, and instill public confidence and encourage compliance. The mission of CPSS, a unit within DOF's Division of Treasury and Payment Services, is to deliver a citywide service for the acceptance of payments and related business processes, offer a variety of payment options, and improve customer satisfaction. Payments can be made online, in-person, or by mail to a bank lockbox. CPSS administers the Citywide Payments and Receivables Services System (System), a centralized payment repository for accepting payments made to City agencies. The System was intended to allow agencies to focus on their core business while helping them save time and money. DOF reported that from January 2022 through May 2022, CPSS processed about 5.5 million transactions totaling more than \$7 billion.

Key Findings

Although DOF has controls for matching payments to receivables and notifying agencies of their payments, several areas need improvement:

- We found issues with data inconsistencies, including a difference of \$118.6 million where the Business Dashboard (Dashboard) (an Excel spreadsheet CPSS maintains for its convenience to identify trends and respond to ad hoc requests for information) exceeded the production reports for the month of May 2022. Until we brought the difference to DOF's attention, DOF was not aware of it and then could not provide documentation to explain this difference. Further, while researching the difference, DOF officials discovered another error of \$1.2 million between reports used by CPSS.
- CPSS produces 759 reports from its System. However, when asked why they were produced or who received those reports, CPSS officials did not provide that information, which raises concerns if this information is available. While CPSS management states these reports do not need to match because they are only for internal use, information about the transactions and value of payments processed by CPSS should be reliable, so it can be used to monitor payment trends and potentially identify issues, which is one of the Dashboard's stated uses.
- In May 2022, CPSS reports showed \$20.6 million in real property tax payments under FAIRTAX (a system to record all taxes received by the City, including real property tax) despite the fact that the FAIRTAX system was replaced in 2018.

Deficiencies in DOF's monitoring process resulted in differences in the data not always coming to DOF's attention, which could lead to inaccuracies in reporting.

We also found weaknesses in DOF's internal controls and processes:

- Despite a directive to process payments received daily, at one DOF location, payments received by mail were kept in an unsecured place for up to 3 days before they were logged into an informal tracking sheet and then held for up to 19 days before they were recorded in DOF records.
- DOF does not have a method to measure cost or time savings – a main goal of the System.
- DOF does not have a uniform process to identify and track CPSS-related customer concerns, such as inquiries about payment status, refunds, and complaints.

Key Recommendations

- Review and update CPSS reporting tools and production reports to ensure they provide updated and accurate information and are in line with other reporting sources and that reports address user needs.
- Ensure all checks are immediately logged and deposited daily or routed directly to the lockbox location (payments by mail).
- Survey agencies that use the System to determine any time and cost savings.
- Establish a uniform process for handling customer issues and ensure that the process is formally documented and communicated.



**Office of the New York State Comptroller
Division of State Government Accountability**

August 1, 2024

Preston Niblack
Commissioner
New York City Department of Finance
1 Centre Street, Room 500
New York, NY 10038

Dear Commissioner Niblack:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage their resources efficiently and effectively. By so doing, it provides accountability for the tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit entitled *Citywide Payment Services and Standards – Controls Over Payments*. This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article III of the General Municipal Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Division of State Government Accountability

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Glossary of Terms

Term	Description	Identifier
DOF	New York City Department of Finance	<i>Auditee</i>
CityPay	DOF payment website for a variety of agencies	<i>System</i>
CPSS	Citywide Payments Services and Standards	<i>Unit</i>
FAIRTAX	Records all taxes received by the City	<i>System</i>
FISCAM	Federal Information System Controls Audit Manual	<i>Manual</i>
MOU	Memorandum of Understanding	<i>Key Term</i>
OTI	New York City Office of Technology and Innovation	<i>Agency</i>
SLA	Service Level Agreement	<i>Key Term</i>
SOC	System and Organization Controls	<i>Key Term</i>
SSAE	Statement on Standards for Attestation Engagements	<i>Key Term</i>
System	Citywide Payments and Receivables Services	<i>System</i>

Background

The New York City Department of Finance (DOF) is a revenue service, taxation, and recording agency. Its mission is to administer the tax and revenue laws of the City of New York fairly, efficiently, and transparently, and instill public confidence and encourage compliance. DOF is responsible for collecting tax, penalty, and fee revenue for the City.

Citywide Payment Services and Standards (CPSS) is a unit within the Division of Treasury and Payment Services. Part of its mission is to deliver a citywide service for the acceptance of payments to “increase payment options and improve customer satisfaction” and to “improve the experience of customers paying the City.” DOF implemented the Citywide Payments and Receivables Services (System), administered by CPSS, for centrally accepting payments made to City agencies. Payments can be made online, in-person, or by mail to a bank lockbox. The System is intended to allow agencies to focus on their core business while helping them save time and money. Customers are both the public – who use CPSS services to make their payments – as well as City agencies. The System’s goal “is to improve incoming City payments, collections, and receivables management by creating efficiencies of scale, improving, and expanding payment services to the public, and establishing a comprehensive policy for payment services.” According to DOF management, from January 2022 through May 2022, CPSS processed about 5.5 million transactions totaling more than \$7 billion.

DOF entered into a Memorandum of Understanding (MOU) with each City agency that states the scope of DOF and agency responsibilities regarding CPSS. DOF provides support for 31 entities, including non-Mayoral agencies (25 with an MOU, and six without an MOU). CPSS payments can be made at payment centers (cashier or kiosk), using mobile phones, or on DOF’s CityPay website. Customers can use cash, checks, e-checks, credit cards, or debit cards. DOF has three vendors that process credit and debit card payments and collect a convenience fee from the customer. Customers who pay with a credit or debit card swipe their card a second time to pay the convenience fee.

The City’s Office of Technology and Innovation (OTI) Citywide Service Desk is the first line of support for agencies using CPSS. Users can submit a ticket by phone or by email. Non-agency customers can call 311, go to a DOF Business Center, or send a complaint by mail to DOF’s Correspondence Unit. Each complaint/request type has a different deadline to submit a response depending on the issue. Complaints/requests relating to refunds are handled by DOF’s Refunds and Adjustment Unit.

Prior to the implementation of the System (around 2014), City agencies had various legacy systems and multiple systems for processing payments. Agencies handled over 100 different types of transactions using time-consuming manual processes. Some agencies also had payment processing contracts with vendors. As a result, there was no consistency in making payments to the City, with conflicting payment policies and procedures leaving agencies vulnerable to varying vendor costs and contract terms. The System is intended to address this problem and create an efficient and more flexible way to consolidate payment data and facilitate interfacing

between the agencies' legacy systems and the City's payment processor while providing cost savings to the City.

Audit Findings and Recommendations

We found that DOF could improve controls and monitoring for its System to ensure payments are promptly reconciled. Further, we found that DOF does not attempt to determine whether the System promotes time and cost savings for agencies despite these savings being a stated goal of the System. As a result, the public and City agencies may not be receiving the intended benefits of the System.

We found weaknesses in internal controls resulting from a lack of written policies and procedures for standardizing agency onboarding processes (assisting new agencies or changes to existing agencies) as well as a failure to monitor the data processed and not noticing the error due to in-person credit card payments data that was not fed into the Dashboard. For example, the 2021 transaction volume by year showed a steep decline in transactions for August and September 2021, which only came to DOF's attention after we alerted them to it. CPSS claimed that the decline in volume was due to a broken data connection (i.e., failure to include all information). DOF officials also advised us that they rely on the System to alert them if a report does not run.

The Federal Information System Controls Audit Manual (FISCAM) requires that management have procedures in place to reasonably assure that content and output are consistent with end users' needs. However, we found that CPSS generates 759 production reports, but CPSS did not provide documentation as to who receives the reports, how they are used, or if they are needed, which raises concerns if this information is available.

The System was intended to save time and money. However, DOF does not have a method to measure cost or time savings despite these savings being a stated goal, and so has not measured the System's success. Further, CPSS officials were unable to provide evidence of improved efficiency or cost savings. We asked the nine agencies we sampled whether they had achieved any savings or improved efficiency and only two of the eight that responded stated that they had achieved both cost and time savings. One reported cost savings only and one reported that it did not use the System. The remaining four reported neither cost nor time savings despite this being a stated goal of the System.

Payment Operations

Reconciliation and Data

Prompt reconciliation of accounts – the comparison of account balances to financial records – is a necessary control to prevent misstatement, misapplication, and misappropriation of funds, and to avoid recoupment efforts. The submission of monthly bank reconciliations no later than 2 weeks after the end of the month is a violation of NYC Comptroller Directive 11, which also requires daily deposit of payments received.

However, for the months of April and May 2022, 28 of 98 CPSS reconciliations (29%) relating to 49 open and active accounts were not completed within 2 weeks after the end of the month, as required. Twenty-six reconciliations were 1 month late and one

was 2 months late as of June 29, 2022. DOF officials advised they were behind in their reconciliations because CPSS lost one staff member who was responsible for the reconciliations.

Several forms of payments may be used with the System, including checks. Payments are accepted online, in-person, or can be mailed to a bank lockbox. However, at one DOF location, payments received by mail were not tallied and deposited daily, as required by Directive 11. Instead, the checks were kept at the DOF location in an unsecured place for up to 3 days before they were logged into an informal tracking sheet and then held for up to 19 days before they were delivered to a DOF payment center. Between July 20, 2021 and November 18, 2022, this DOF location received 937 checks totaling \$3,056,948.

Holding checks for long periods before recording and depositing them may increase the risk of loss and misappropriation. Further, when mailed payments are not processed efficiently, customers are not advised promptly of their payments received, which can result in duplicate customer payments or even late fees charged and funds not being available to the City for spending. DOF officials advised us they removed the mailing address from the website, but customers continue to send checks to that location.

We also found weaknesses in internal controls resulting from inadequate written policies and procedures for standardizing agency onboarding (assisting new agencies or changes to existing agencies) processes as well as a failure to monitor compliance with applicable laws, policies, and procedures. For example, when we reviewed the CPSS production reports and the administration of the System, we found the following:

- A \$118.6 million difference where the amounts reported in the Business Dashboard (an Excel spreadsheet that CPSS maintains for its convenience to identify trends and respond to ad hoc requests for information) exceeded the production reports (sourced from tables compiled by DOF's FIT database management) for the month of May 2022. DOF officials were unaware of the difference until we pointed it out. Additionally, they could not provide documentation to explain this difference. While researching the issue, DOF officials also discovered another error of \$1.2 million.
- CPSS production reports showed a total of \$20.6 million collected in payments for May 2022 for a portion of real property taxes under FAIRTAX (a system to record all taxes received by the City, including real property tax). However, DOF officials stated that FAIRTAX has not been used since 2018 when it was replaced by a new system. We also noted that the reports DOF provided in support of the volume and value of transactions processed in CPSS lists this total as \$23.3 million – a difference of \$2.7 million. CPSS officials stated that the reason for the difference was the mislabeling of a column in the production report. At the closing conference, we were advised that the condition would be corrected.

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- The 2021 transaction volume by year showed a steep decline in transactions for August and September 2021, which only came to DOF's attention after we alerted them to it. CPSS claimed that the decline in volume was due to a broken data connection (i.e., failure to include all information). DOF officials advised us that they rely on the System to alert them if a report does not run.

DOF officials also stated that they do not review or use the 759 production reports produced by CPSS and that they do not believe these reports have to match because they are only for internal use. Nevertheless, information about the transactions and value of payments processed should be reliable so it can be used to monitor payment trends and potentially identify issues, which is one of the Dashboard's stated uses. The deficiencies in DOF's monitoring process resulted in differences in the data not always coming to DOF's attention, which could lead to inaccuracies in reporting and failure to identify potential issues.

In addition, FISCAM requires that management have procedures in place to reasonably assure that content and output are consistent with end users' needs. However, CPSS generates 759 production reports, but it did not provide documentation as to who receives the reports, how they are used, or if they are needed, which raises concerns if this information is available.

Procedures and MOUs

A signed MOU between CPSS and a City agency defines the scope and responsibilities of both parties. Per the MOU, DOF will provide "reporting tools from Payment Service Providers to support reporting and reconciliation responsibilities" and provide "appropriate controls to ensure accurate data transmission and loading processes."

The CPSS standard operating procedures also state that when there are changes to payment service providers, DOF may update the MOUs and discuss the new scope with the appropriate staff at the client agency. DOF officials advised us that CPSS does not review and update MOUs because they are valid in perpetuity. However, we found that some of the officials who signed the MOUs are no longer at the agency. In addition, six of the nine agencies sampled were not aware of the MOUs, and the MOUs were not amended when changes were made to payment service providers.

Periodically updating the standard operating procedures and MOUs would provide CPSS employees with current information that could be used to provide support to City agencies, as required by the MOU.

System Benefits

Based on the MOUs established between DOF and City agencies, one of the goals of the System is to give "the public more and better options to pay the City, which will reduce the cost to the City of collecting and processing payments." The implementation of the System should result in time and cost savings because it eases the burden of agencies, and technology replaces time-consuming manual processes.

To determine whether City agencies experienced any savings or improved efficiencies, we surveyed a judgmental sample of nine City agencies that were participating in the System. Of the eight agencies that responded, two reported time and cost savings, one reported only cost savings, one stated that time and cost savings were not applicable to it because it does not pay for the services, and the remaining four reported neither time nor cost savings. However, CPSS officials stated that time and cost savings were accounted for in years prior to the period under review and that non-DOF agency employees would have no way of knowing about or measuring such savings. CPSS officials also stated that the advantages are self-evident, but could not provide any support.

We also noted that DOF does not have an outreach program for the System, so it does not contact agencies to use CPSS or to expand the payments processed by the System. Further, we found that not all of the nine agencies we sampled used the System for all payments they processed. For example, one agency reported using the System for only about 10% of its payments as most payees submit checks or electronic payment. At another agency that has an MOU with CPSS, staff did not know about CPSS or use its services.

Reaching out to agencies to promote the use of the System could result in its expanded use and greater realization of its benefits for agencies and the public.

Recommendations

1. Review and update CPSS reporting tools and production reports to ensure they provide updated and accurate information and are in line with other reporting sources and that reports address user needs.
2. Ensure all checks are immediately logged and deposited daily or routed directly to the lockbox location (payments by mail).
3. Review and update MOUs and standard operating procedures, ensure that all the agencies are aware of the MOUs, inform agencies about any changes to MOUs or services available to them, and obtain their approval.
4. Survey agencies that use the System to determine any time and cost savings.
5. Periodically reach out to agencies that perform payment processing outside of the System to promote expanded use of the System.

Convenience Fees

The New York City Charter authorizes DOF to establish rules concerning fees as a condition of accepting credit or debit card payments (convenience fees). DOF determined that the convenience fee for using the System is non-refundable and is to be used to cover the cost of the CPSS payment programs. Users paying with credit or debit cards must swipe their cards twice – once for the initial payment and once for the convenience fee.

DOF set a convenience fee rate of 2% and, unless the only payment option is credit or debit card, charges customers using credit or debit cards this fee. However,

we found that one of the nine sampled agencies charged a convenience fee even when a credit card was the only payment accepted. DOF's practice at the payment centers is to inform payers of the 2% convenience fee while making their payments. However, there are no signs at the payment centers to inform customers about the fee when using a debit or credit card. Lack of notification to customers that they will be charged a fee if they use a credit or debit card is contrary to CPSS' goals of improving payment experiences for the public.

DOF's CityPay website FAQs state that the convenience fees are used to cover the cost of processing credit and debit cards. DOF's contract with the credit card processing vendors allows certain pass-through fees to users. These fees include equipment and maintenance fees and interchange pass-through pricing fees (fees charged for credit and debit card transactions that can be passed on to the customer).

DOF officials explained that the rate charged for convenience fees is a blended rate. Vendors bill DOF for the service, and the bill usually includes certain fees. DOF just pays the bill; however, the fee charged does not necessarily cover the cost of the transaction because some customers use high point/rewards credit cards, which typically have higher interchange fees. DOF officials also stated that they use part of the convenience fees collected to cover administrative expenses, including management salaries, rental space, service staff fringe benefits, and utilities.

For the 3 City fiscal years ended June 30, 2022, DOF collected \$63,672,483 in convenience fees. We requested, but DOF did not provide, the amounts the vendors were paid. We also requested that DOF provide us with the amounts of credit card fees it charged to customers, but it did not provide this information. DOF responded that "the program seeks to be revenue neutral. Convenience fee amounts are set at a level that offsets the cost of CPSS payment programs by 100%." However, DOF did not provide us with any evidence supporting this statement.

In the absence of documentation from DOF, there is less assurance that the amounts reported were accurate.

Recommendations

6. Monitor agencies to ensure customers do not pay a convenience fee when they may pay using only a single method.
7. Post signs at payment centers to notify customers that a convenience fee will be charged for payments using a credit or debit card.
8. Set the convenience fee rate to ensure customers are not charged for anything other than the processing fees charged by the vendors.

Customer Experience

DOF does not have a written procedure or policy for handling customer feedback regarding CPSS. In the absence of such procedure or policy, DOF did not obtain feedback from customers that could be used to review the quality of the System and its benefits to its customers, and to guide DOF management in implementing changes and improvements.

The MOU between DOF and CPSS outlines the scope and responsibilities of CPSS. It states, among other things, that CPSS will provide DOF's Payment Operations Division and its users support for payment issues or troubleshooting during business hours.

According to the CPSS Production Process standard operating procedures, an agency should have a ticketing system in place for customer support. If an agency identified a problem and opened a ticket with OTI's Citywide Service Desk, the ticket should be received in the CPSS Application or by the Technical Support Group within 2 days.

The Citywide Service Desk is the first line of support for agencies using the System. Users can submit a ticket by phone or by email. Non-agency customers can call 311, go to a DOF Business Center, or mail complaints to DOF's Correspondence Unit. Complaints/requests relating to refunds are handled by DOF's Refunds and Adjustment Unit. CPSS is the second-level user support for 311 complaints, Business Centers, and external affairs. The Citywide Service Desk creates a ticket, but if they cannot address the issue, the ticket is forwarded to CPSS to resolve. The CPSS production coordinator then reviews and assigns the ticket, and the response is updated in the ticketing system.

The Service Level Agreement (SLA) between DOF and OTI establishes standards for handling customer complaints based on the nature of the complaints, as shown in the following table:

SLA Standards for Customer Complaint Processing

Description	Division	Number of Days
Amount owed dispute	External Affairs	21
Apply payment or credit	Payment Operations	21
Card – DOF confirmation number issued	Payment Operations	10
Card – no DOF confirmation number issued	Payment Operations	5
EFT or online payment problem	Payment Operations	21
Misapplied payment	Payment Operations	21
Payment not posted	External Affairs	21
Refund/credit information or status	Payment Operations	10

From July 1, 2021 to August 31, 2022, the 311 service request reports related to CPSS showed they received 10,788 complaints/requests. As of December 7, 2022, 835 of 10,788 remained outstanding. Further, 3,822 of the 9,953 that were closed (38%) took longer to resolve than the standard number of days listed in the above table. According to service requests reports, a significant number of issues were related to payments not being posted to the account in a timely manner.

CPSS also does not have a comprehensive policy for handling customer complaints in person. We found that DOF's five Business Centers handle customer requests/complaints differently:

- Bronx logs requests/complaints using an "Inquiry" form
- Brooklyn directs requests/complaints to 311 or mails a "Parking/Camera Violations Refund" form or a "Property Refund Request" form
- Queens logs requests/complaints using a "Customer Complaint/Issue Log" form

CPSS does not have a process to identify customer complaints/requests/feedback that are CPSS-related or track the status of such complaints or requests. Instead, CPSS' practice is to route submitted complaints to the various departments within DOF, and it is not always clear whether the issues are CPSS-related without extensive research. Additionally, DOF's CityPay does not provide an option for customer feedback. DOF does not request feedback from CPSS customers except for their interactions with the Business Center representatives. At the Brooklyn Business Center, for example, customers were provided with a customer service feedback card.

A ticketing system for in-person complaints would allow DOF to track how many tickets they receive expressing customer concerns with CPSS. It could also provide better information for evaluating the customer experience. In addition, as noted earlier, periodically updating the standard operating procedures and MOUs would provide CPSS employees with current information that could be used to provide support to agencies as required by the MOUs.

Recommendations

9. Establish a uniform process for handling customer issues and ensure that the process is formally documented and communicated and includes at least the following:
 - Time frames from the SLA for resolving open requests/complaints.
 - A mechanism to track, monitor, and update the status of customer communications.
10. Ensure that standard operating procedures and MOUs are updated to include all changes relating to the ticketing system.

Verifying Vendor Controls Over Data Processing

DOF's Service Provider Security Agreement requires any vendors that process or collect payments on behalf of DOF to provide a System and Organization Control (SOC) report. SOC reports are assessments of a service provider's internal controls performed by an external auditor in accordance with the Statement on Standards for Attestation Engagements No. 18 (SSAE 18), as promulgated by the American Institute of Certified Public Accountants. There are two types: SOC 1, which assesses the initial design of the internal controls, while SOC 2 assesses the operating effectiveness of those controls in subsequent years. DOF's Service Provider Security Agreement also requires SOC1/SOC2/SSAE 18 certification from any vendors that process/collect payments on behalf of DOF.

SOC reports are important tools for measuring third-party risk management and confirming whether controls are in place and are effective in protecting data. DOF officials stated that SOC reports are "routinely requested and reviewed during solicitation by the Agency Chief Contracting Officer's staff." However, our review did not reveal any evidence that DOF requests these reports or performs the continuous reviews required by industry standards. DOF also did not have any written procedures stating when these reports were requested or by whom. This highlights DOF's failure to assess risks on an ongoing basis as well as a reliance on accounting applications or other tools to ensure compliance standards are met.

During our audit period, DOF contracted with seven vendors for the processing of CPSS payments. Six were required to submit a SOC report. One did not have to submit a SOC report because it provided a software license. Six vendors provided the following services:

- Merchant processing
- Virtual payment system and revenue management
- Cashiering
- Credit card payments/gateway payments
- Payment report reconciliation
- Payment processing

Based on the services provided, six vendors would have to provide SOC reports. DOF did not have the SOC reports for any of these vendors. DOF then requested the SOC reports from their vendors. We received reports for five of the six vendors but did not receive SOC reports for the vendor providing cashiering services. The report provided for the vendor providing credit card payments was incomplete because it did not state the period covered.

As a matter of practice, DOF does not request SOC reports from the third-party vendors and asked for them only after we requested them. Without the SOC reports, DOF has limited information to evaluate any risks connected with the contracted services. After the closing conference, DOF shared a written response with us stating

that it will negotiate a contract amendment with its vendors indicating that such reports are required annually and who will receive the reports.

Recommendations

- 11.** Develop a formal procedure that names the DOF unit responsible for obtaining SOC reports from all third-party vendors providing data processing services to CPSS.
- 12.** Ensure each outside payment processing vendor provides complete SOC reports (including the period covered) each year.

Audit Scope, Objectives, and Methodology

The objectives of our audit were to determine whether the DOF CPSS unit has controls in place to ensure that payments received by and processed on behalf of agencies are correctly matched with receivables and that agencies are appropriately advised of payments. We also determined whether the implementation of CPSS improved the payment experiences for the public and promoted time and cost savings for City agencies. The audit covered the period from July 2019 through November 2022.

To accomplish our objectives and assess related internal controls, we interviewed CPSS management and staff responsible for administering the System, which centrally accepts payments made to City agencies. The intention of the System is to allow agencies to focus on their core business while helping them save time and money. We used a non-statistical sampling approach to provide conclusions on our audit objectives and to test internal controls and compliance. We also reviewed and tested data and held discussions with the appropriate stakeholders.

We selected judgmental samples. However, because we used a non-statistical sampling approach for our tests, we cannot project the results to the respective populations. Our samples include:

- A judgmental sample of nine of the 31 agencies participating in the CPSS program to determine whether they use the System, have a standardized process, have a feedback system in place, and experienced any time or cost savings. The team selected the agencies based on the expected volume of transactions, the type of transactions, the dollar amount of transactions, and the type of information responding agencies would be able to confirm readily.
- A judgmental sample of 106 daily, weekly, and monthly production reports generated in May and June 2022 for the nine selected agencies to compare the revenues reported by the System with revenue information provided by the agencies.
- A judgmental sample of 98 bank reconciliations: 2 months each (April and May 2022, the most recent months at the start of the audit) for 49 bank accounts held by the nine selected agencies to determine whether the reconciliations had been done on time. We reviewed the reports for certain CPSS activities, such as bank reconciliations for the nine sampled agencies, and selected monthly and daily reconciliations for the five business centers.

In addition, we reviewed DOF's policies and procedures, MOUs, SLAs, and contracts to gain an understanding of payment processing and the systems involved. The MOUs were signed between 2012 and 2014 and were not renewed.

We performed a walk-through of a CPSS central location on August 31, 2022 and visited five payment centers – one in each borough – in August and September 2022 to observe the control environment, the payment process and its related activities, and obtain information about customer experiences.

We requested that DOF provide an SSAE for the contracted service providers to determine whether they were compliant with SSAE reporting standards. We obtained

data from the System and assessed the reliability of that data by reviewing existing information, interviewing officials knowledgeable about the system, and tracing to and from the source data. We determined that the data from this system was sufficiently reliable for the purposes of this report.

Statutory Requirements

Authority

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article III of the General Municipal Law.

We conducted our performance audit in accordance with generally accepted government auditing standards. These 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

As is our practice, we notified DOF officials at the outset of this audit that we would be requesting a representation letter in which agency management provides assurances, to the best of their knowledge, concerning the relevance, accuracy, and competence of the evidence provided to the auditors during the course of the audit. The representation letter is intended to confirm oral representations made to the auditors and to reduce the likelihood of misunderstandings. In this letter, DOF officials assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. DOF officials further affirm that either they have complied with all laws, rules, and regulations applicable to DOF's operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the auditors. However, DOF officials informed us that, as a matter of policy, mayoral agencies do not provide representation letters in connection with our audits. As a result, we lack assurance from DOF officials that all relevant information was provided to us during the audit.

Reporting Requirements

We provided a draft copy of this report to DOF officials for their review and comment. Their comments were considered in preparing this final report and are attached in their entirety at the end of it. DOF officials replied that they agree with six of the 12 recommendations in the draft report and have or will take corrective action to implement them. Six of the recommendations DOF deems unnecessary, disagrees with, or states it will not consider. In several of these cases, new information was provided by DOF in its response for which support was not provided to auditors. Our responses addressing certain DOF remarks are included in our State Comptroller's Comments.

Within 180 days after final release of this report, we request the Commissioner of the Department of Finance report to the State Comptroller, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

Agency Comments



Peter Schiff Smith
Assistant Commissioner
Citywide Payments & Receivable Services
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February 15, 2024

Carmen Maldonado
Audit Director
Office of the State Comptroller
Division of State Government Accountability
59 Maiden Lane, 21st Floor
New York, NY 10038

Re: Draft Audit Report on Citywide Payment Services and Standards – Controls Over Payments 2022-N-2 January 2024

Dear Ms. Maldonado:

The New York City Department of Finance (DOF) has reviewed the above-mentioned draft report. The objective of the audit was to determine whether the Citypay website has controls in place to ensure NYC agencies can receive payments that are processed correctly and to determine whether it improved the City's processing of payments as well as the public payment experiences.

The attached response details DOF's position regarding your team's findings and recommendations. Please direct further questions to Sam Mayer, Assistant Commissioner of Internal Audit, at 212.291.2536 or mayers@finance.nyc.gov.

Sincerely,

A handwritten signature in black ink that reads "Peter Schiff Smith".

Peter S. Smith
Assistant Commissioner

cc:
Preston Niblack, Commissioner
Jeffrey Shear, First Deputy Commissioner
Caroline Carney, Deputy Commissioner
Annette Hill, Deputy Commissioner
Leslie Zimmerman, Deputy Commissioner
Jackie Gold, Assistant Commissioner
Sam Mayer, Assistant Commissioner
Kenisha Kidd-Albright, Senior Director

DOF Response to Draft Audit Report on Citywide Payment Services and Standards – Controls Over Payments

DOF Response to Recommendations

Recommendation 1: Review and update CPSS reporting tools and production reports to ensure they provide updated and accurate information and are in line with other reporting sources and that reports address user needs.

DOF Response: This recommendation is not necessary. The NYC Department of Finance is a revenue collection agency and as such has no role in revenue reporting which, under the NYC Charter, is the domain of the NYC Comptroller. The audit team noted a difference of \$119.8MM between a May 2022 DOF CPSS excel report and two system generated DOF reports they expected would show similar totals. The apparent discrepancy was caused by a broken processing routine which went unnoticed due to employee turnover. Once we were made aware of the issue by the audit team CPSS provided a precise accounting of \$118.6MM of timing and sourcing mismatches as well as an additional error of \$1.2MM discovered during the reconciliation. CPSS no longer uses the excel report.

This isolated instance is not evidence of potentially undiscovered data errors that might lead to inaccurate reporting, as the audit team contends. The three reports examined had never previously been compared, as no operational reason to do so exists. The excel report was never used for financial reporting but exclusively within the 19-member CPSS team to monitor customer payment behavior. None of the three reports were ever published, or used by any agency for managerial decision-making, or by the NYC Comptroller to prepare NYC's official financial statements. We conclude that the discrepancy, though real, is not relevant.

Recommendation 2: Ensure all checks are immediately logged and deposited daily or routed directly to the lockbox location (payments by mail).

DOF Response: DOF agrees with this recommendation. The process in question has been in use without incident for many years though we welcome even small improvements that help ensure its continued effectiveness. The process was developed as a work-around for an error made by a small number of property owners who continue to send their property tax payments to a discontinued remittance address. All references to this address have long since been updated in all payment channels. DOF has reached out directly to these customers to encourage them to use the correct address but despite repeated efforts they persist in error. We believe further change-management efforts will be ineffective so have shifted focus to the work-around which is designed to ensure payments are applied to the customer's account correctly and on-time. All checks received at the incorrect address will continue to be re-routed to External Affairs to be logged, securely stored under lock, and hand-carried daily to a DOF business center for deposit.

[Comment 1](#)

Recommendation 3: Review and update MOUs and standard operating procedures, ensure that all the agencies are aware of the MOUs, inform agencies about any changes to MOUs or services available to them, and obtain their approval.

DOF Response: DOF agrees with this recommendation. DOF will review all MOUs with all existing client agencies and implement any mutually agreed updates. We expect this effort to be ongoing at least throughout 2024.

Recommendation 4: Survey agencies that use the system to determine any time and cost savings.

DOF Response: DOF disagrees with this recommendation. CPSS was established by Executive Order 106 of 2007, which, rightly in our view, does not direct DOF to perform any measurement of time and cost savings. Prior to Citypay's debut in 2014, an agency launching its own payment web site would have done so using its own personnel and financial resources. Each of the 30 agencies CPSS supports today would have procured technology and financial vendors independently, duplicating operating expenses and transaction costs many times over. The resulting user experiences and service fees would certainly have differed from agency to agency, creating a negative public perception of NYC's operational effectiveness by requiring customers to make multiple visits to different sites, with different functions, to pay different agencies.

From today's vantage point it would be counterfactual, subjective, and uninformative to compare 30 non-existent sites against CPSS' actual expenses to search for quantitative operational improvements. CPSS in 2022 was, and in 2024 is, a small, cost-effective operating unit that provides a dependable, consistent service to all NYC Agency customers using 7 vendor contracts. There is no doubt that the benefits to taxpayers from this arrangement are substantial.

This is not to say that DOF does not rigorously evaluate CPSS ROI and performance. To the contrary, DOF uses both qualitative and quantitative assessments. As the audit team may be aware, since the early 2000s many private and public-sector entities in the USA began to receive payments from their customers online as DOF does. Consumers have adopted these and newly emerging mobile-based tools eagerly. Between 2019 and 2024 NYC received 96% of all customer payments via Citypay or mobile applications.

Our quantitative measures emerge from diligent staff work. CPSS, Budget and Treasury regularly review DOF's consolidated direct and indirect service costs across all channels and payment types. This effort yields an ongoing, fully allocated cost per payment that informs agency planning. We also continuously monitor convenience fee collections to ensure we meet our goal of revenue neutrality. In 2018, for example, this resulted in lowering the convenience fee from 2.49% to 2.00%, producing noticeable savings for thousands of New Yorkers.

Recommendation 5: Periodically reach out to agencies that perform payment processing outside of the System to promote expanded use of the system.

DOF Response: This recommendation is unnecessary. In view of this finding, we conducted an analysis of OMB records documenting all revenue inflows to NYC to determine whether any agencies are not currently using CPSS services. We found no evidence of any addressable gaps. We feel our long-standing monthly meetings with OMB staff and impending MOU reviews with agency staff will enable us to quickly identify any new opportunities that may emerge.

[Comment 2](#)

[Comment 3](#)

Recommendation 6: Monitor agencies to ensure customers do not pay a convenience fee when they may pay using only a single method.

DOF Response: This recommendation is unnecessary. We are aware of this practice only at a single agency; it is unclear whether a change is feasible given unrelated operational considerations. We will explore options during our upcoming agency MOU review. No monitoring is required at the 29 agencies that already allow payers sufficient optionality to avoid this fee.

[Comment 4](#)

Recommendation 7: Post signs at payment centers to notify customers that a convenience fee will be charged for payments using a credit or debit card.

DOF Response: DOF agrees with this recommendation. Signs will be made for placement in the centers. However, the verbiage below is currently noted on the credit card machines at each cashier's window in the Business Centers.

IMPORTANT CREDIT/DEBIT CARD FEE INFORMATION

The City of New York offers multiple payment options. As a convenience to you, the City of New York accepts credit and debit cards. If you choose to pay with a credit or debit card, you will be charged a fee of 2.0% of the payment amount. This fee is nonrefundable. If you pay with cash, check or money order, you will not be charged a fee.

Recommendation 8: Set the convenience fee rate to ensure customers are not charged for anything other than the processing fees charged by vendors.

DOF Response: DOF disagrees with this recommendation. This and related convenience fee recommendations are founded on several avoidable mistakes and misinterpretations made by the audit team. CPSS repeatedly attempted to correct these errors when they first began to appear in preliminary findings. Our efforts included attending in-person meetings with the audit team, sending emails, speaking by telephone, and offering written explanations and supporting materials. Regrettably most of the same errors remain in the current findings.

[Comment 5](#)

- Draft Report, page 12: The audit team notes that DOF current practice is to inform in-person payers while at the cashier window that credit/debit payments will incur a 2% convenience fee. Payers have the choice to change to another form of payment before completing a transaction. Those who continue with credit/debit payment clearly accept the fee. The absence of posted signage at a given location therefore does not constitute "lack of notification", nor does our acceptance of Recommendation 7 appreciably enhance it.
- Draft Report, page 12: The reference to "pass-through fees to users" misconstrues the contractual terminology used by the vendor. Equipment and maintenance fees are direct costs paid by DOF. The fees passed-through are interchange levied on DOF as the merchant of record in credit/debit card transactions. DOF does not "pay" the interchange—vendors collect it directly by retaining it out of the proceeds they deposit in DOF operating accounts. Instead DOF pays certain contractually stipulated fixed and variable fees, invoiced monthly. An aggregated accounting of these amounts appears on the vendor's monthly supporting statements which are provided to a different unit of DOF. DOF informed the audit team that these supporting statements could be made

available to them, also noting that to compare interchange to convenience fees would necessitate accounting for complex timing differences; suspended payments due to disputes; use of PII (personally identifiable information) to determine applicable interchange rates by card type; and gaining access to confidential card-brand pricing methodology. The audit team does not appear to have pursued this line of investigation.

- Draft Report, page 12: CPSS is authorized to use convenience fees to offset the full costs of credit card acceptance, which are comprised of direct fixed and variable costs and indirect agency costs. Mistakenly, in our view, the audit team asserts DOF improperly uses convenience fees to offset “administrative expenses... management salaries, rental space, service staff fringe benefits and utilities.” The audit team cites a sentence from DOF website FAQs to support this contention. CPSS commits to update this text while emphasizing that FAQs do not constitute regulatory guidance. We know of no published regulation, administrative rule or oversight guideline prohibiting DOF’s cost-recovery practice. Recovering these costs is reasonable and fiscally prudent because it levies the additional fee only on those customers whose payments would otherwise yield less than 100% of the full amount owed NYC.
- The audit team misinterprets the financial analysis in which DOF’s cost recovery is explicitly approved as evidence it is impermissible. The document in question was prepared and submitted by DOF’s budget unit when seeking OMB approval in 2017 to request a city rule amendment necessary to reduce the convenience fee by 0.49%. The rule was approved and published in the City Register on September 14, 2018.

Recommendation 9: Establish a uniform process for handling customer issues and ensure that the process is formally documented and communicated and includes at least the following:

- **Time frames from the SLA for resolving open agency requests/complaints.**
- **A mechanism to track, monitor and update the status of customer communications.**

DOF Response: DOF agrees with this recommendation. The Customer Operations division will take the lead on developing a uniform process for addressing servicing issues at the Business Centers, however, since this will include agencies citywide, this should be a joint effort with the External Affairs Division and the division will work with A/C Gold and her team on drafting these procedures.

Recommendation 10: Ensure that standard operating procedures and MOUs are updated to include all changes to the ticketing system.

DOF Response: DOF agrees with this recommendation. DOF’s Information Technology Service Management team will review the Standard Operating Procedures and the portions of the MOUs pertaining to the Citywide ticketing system to ensure they reflect the City’s current process and procedures.

Recommendation 11: Develop a formal procedure that names the DOF unit responsible for obtaining SOC reports from all third-party vendors providing data processing services to CPSS.

DOF Response: DOF agrees with this recommendation. The DOF Cyber Security Team will review and improve the existing informal procedure used to obtain updated reports when required.

NYS and NYC procurement policies intended to restrain agency spending discretion and velocity effectively dictate this approach because policy exceptions are normally limited to emergency response. The immediate remedy for an adverse SOC report would be to demand vendor remediation; if that were unsuccessful the vendor would be replaced. DOF policy is to make single-vendor awards for services such as financial processing; stand-by contracts with alternate providers are not permitted. Absent the unlikely grant of permission to use emergency sole-source procurement, 18-24 months would be required for a competitive procurement. Effectuating a technical transition to the awardee would require at least 12 more months. In the interim, DOF would attempt to redirect over \$1B in annual payments to other channels, causing significant short- to medium-term revenue losses and unbudgeted expense increases. To avoid this, it is virtually certain that DOF would choose instead to maintain the outgoing vendor's contract. Thus, DOF believes implementing a formal procedure cannot provide any meaningful improvement to NYC data security versus current practice.

[Comment 6](#)

Recommendation 12: Ensure each outside vendor provides complete SOC reports, including all tests performed and the results.

DOF Response: DOF respectfully declines to consider this recommendation. NYS and NYC law or regulation do not require a vendor to share anything other than the examining auditor's statement and attestation of compliance. SOC audits are undertaken and paid for by the vendors, who hire specialist firms to conduct them. The results are provided to prospective and active customers of the vendor in the form of a summary audit report, not unlike the auditor statements included in the annual financial reports of publicly traded companies. Vendors justifiably refuse to share "complete SOC reports, including all tests performed and the results," as doing so would reveal proprietary competitive information. Because the results of this audit are public, any vendor that complied with this information request would be exposed to attacks by malevolent actors seeking to exploit real or perceived security weaknesses thereby disclosed by the State Comptroller.

[Comment 7](#)

State Comptroller's Comments

1. Although DOF officials maintain these reports were not used for financial reporting, they stated that the reports were used to monitor customer behavior and by management. All reports used for monitoring and/or oversight should be accurate.
2. The recommendation does not suggest that CPSS compare non-existent sites against actual expenditures—only that CPSS use a more systematic and objective assessment to determine if project objectives have been met as well as assess effectiveness, efficiency, and impact. DOF replies that it performs such evaluations but did not provide this information or supporting documentation to the auditors.
3. DOF indicates that it “conducted an analysis of OMB records to determine whether any agencies were not currently using CPSS services” and found no gap. However, this analysis was not shared with the auditors.
4. DOF did not provide documentation that there is only one agency where customers can only pay by credit card and are charged a fee.
5. The components of the cost-benefit analysis DOF provided to us, which it used to set the fee percentage, included executive management and administrative costs.
6. While DOF’s Service Provider Security Agreement requires any vendors that process or collect payments on behalf of DOF to provide System and Organization Control (SOC) reports, DOF obtained them only when the auditors requested them. While DOF indicates it agrees with the recommendation, the response further states that implementing a formal procedure to ensure that SOC reports are obtained cannot provide any meaningful improvement. However, such a process would help ensure that DOF (in the future) obtains these reports and thus assurance from independent sources that vendors meet security standards and comply with their own agreements.
7. We revised our report to clarify our findings. A standard audit report for a SOC 2 report contains a section on the testing performed and the results of the testing. It is a practice for organizations to review this information to understand the extent of the testing performed and to determine if it is sufficient to meet its needs.

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