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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

September 5, 2013

Mr. Jonathan Mintz
Commissioner
New York City Department of Consumer Affairs
42 Broadway
New York, NY 10004

Re: License Fee Revenues
Report 2013-F-6

Dear Mr. Mintz:

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 have followed up on the actions taken by officials of the New York City Department of Consumer Affairs to implement the recommendations contained in our audit report, *License Fee Revenues* (Report 2010-N-1).

Background, Scope and Objectives

The New York City Department of Consumer Affairs (Department) is responsible for ensuring that consumers and businesses benefit from a fair and vibrant marketplace. The Department is authorized to issue licenses and permits for certain businesses operating in New York City and to collect associated fees. For the fiscal year ended June 30, 2013, the Department's revenue totaled \$38.1 million and consisted primarily of \$8.1 million in license fees, \$10 million in franchise fees, and fines totaling \$14.3 million. The Department annually issues about 135,000 licenses in 55 business categories such as home improvement contractors, electronics stores, cigarette dealers, parking lots, and locksmiths. Depending on the license type, a license period is from one day to two years and full-term license fees range from \$10 to \$5,050. As of May 2013, the Department had 326 employees.

Our initial audit report, which was issued on July 11, 2011, examined how the Department identifies and follows up on unlicensed businesses, as well as the accuracy and completeness of licensing information maintained in the Department's computer, to determine whether the Department maximizes license fee revenue. We found that the methods used by the Department to identify unlicensed businesses were not sufficient, and that Department records indicated some businesses continued operating many years after their licenses expired. We concluded that the Department could likely generate additional revenue if it used better methods to identify businesses that operate without a required license. The objective of our follow-up review was to

assess the extent of implementation, as of July 30, 2013 of the five recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that Department officials have made significant progress in addressing the issues identified in our initial report as they have implemented the report's five recommendations.

Follow-up Observations

Recommendation 1

Investigate the eight unlicensed businesses identified in this report and collect the appropriate amounts of license fees and penalties due.

Status - Implemented.

Agency Action - In our initial audit we found eight businesses were operating without required licenses and, therefore, were not paying license fees to the Department. In response, Department officials conducted follow up inspections of the eight locations that resulted in penalties for two entities that had violations and the assessment of a licensing fee for a third entity. Department officials collected the licensing fee, but only collected penalties from one entity; collection of penalties from the remaining entity has been referred to the New York City Law Department.

Recommendation 2

Consider seeking legislation that permits the Department to obtain information from State Tax and City Finance about businesses that could or should have licenses.

Status - Implemented.

Agency Action - In response to our original audit, the Department explored the viability of using the business codes used by State Tax and City Finance to determine if these codes could be used to match the information in their databases to identify unlicensed businesses. The Department explored this issue again recently and once again concluded that such matches would not be productive. The Department therefore decided not to seek the recommended legislation.

Recommendation 3

Be more proactive in developing methods of identifying businesses that operate without obtaining and paying for a license. These methods could include, but not be limited to, obtaining information from other State and City agencies that collect information on business activity.

Status - Implemented.

Agency Action - Department officials have developed new methods to identify businesses that operate without obtaining and paying for a license. For example, they conducted special “sweep” inspections of targeted areas in 2011 and 2012 looking for unlicensed businesses. In addition, the Department has increased its regular inspections to more than 75,000 annually. The Department researched the utility of obtaining information from other State and City agencies that collect information on business activity, and concluded that the business codes used by other State and City agencies for business activity did not sufficiently match Department data and would not be helpful in identifying businesses that operate without obtaining and paying for a license.

Recommendation 4

Clearly communicate to employees the information that needs to be entered into the Department’s database systems.

Status - Implemented.

Agency Action - The Department clearly communicates to employees the information they need to enter into the Department’s database systems. For example, procedure manuals for the bingo organization applications and the temporary amusement device applications were presented in training sessions to Department employees in December 2012 and March 2013, respectively. The information communicated to the employees explained through narrative and screen shots the information they need to enter into the Department’s database systems.

Recommendation 5

Monitor database entries to ensure that they are accurate and complete.

Status - Implemented.

Agency Action - The Department’s Quality Assurance Unit now monitors the accuracy and completeness of database entries, and produces reports in their reviews on a periodic basis, including 18 pertaining to the Licensing Division. The Licensing Division uses these reports to ensure the Department’s computerized database reflects the correct information. These include the newly created license expiration date tracker, which is used to flag and correct incorrect expiration dates. In addition, these issues are discussed during meetings between the Quality Assurance and Licensing Divisions.

Major contributors to this report were Santo Rendón, Jeremy Mack, Raymond Louie, Unal Sumerkan, and Danielle Marciano.

We thank the management and staff of the Department for the courtesies and cooperation

extended to our auditors during this review.

Very truly yours,

Michael Solomon
Audit Manager

cc: Martha Casey, DCA Liaison
George Davis, Mayor's Office of Operations
Tom Lukacs, Division of the Budget