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COMPTROLLER

To: Agency Heads/Fiscal Officers/Engineering Audit Officers

From: Simcha Felder, Deputy Comptroller of Accountancy & Budget
Ricardo Morales, Deputy Comptroller for Legal Affairs

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Date: July 5, 2011

Re: Comptroller's Directive #7, *Audit of Requests for Payment Received Under Contracts For Construction, Equipment, and Construction-Related Services.*

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A new version of Comptroller's Internal Control and Accountability Directive #7 is now available on the Comptroller's website at <http://www.comptroller.nyc.gov>. It supersedes the existing version dated November 21, 1995.

The Directive provides agency Engineering Audit Officers (EAO) with guidelines for independently pre-auditing payment requests for a variety of construction, equipment and construction-related service contracts. EAO's have the responsibility of insuring, prior to payment, that the City has received appropriate value under these contracts.

The new version provides a more comprehensive presentation of the topics covered, rearranges certain sections for a more logical presentation and updates the language and references to the latest New York City Procurement Policy Board Rules (PPB), the City of New York's Standard Construction Contract and the City of New York's Financial Management System (FMS Accounting).

The most significant additions are summarized below:

1. The EAO must be an agency employee.
2. When auditing payments under construction contracts the EAO must ensure that payments on lump sum contracts are proportional to the percent of work completed.
3. When auditing payments on construction-related services the EAO must determine whether salary rates on consultant service contracts are in compliance with the terms of the contract. The EAO must also ensure that unexpended hours in the original contract have been accounted for when reviewing change orders providing for an increase in hours on consultant services contracts
4. For contract changes:
 - i. The EAO must review the appropriateness of change order classifications when reviewing change order proposals;

- ii. Specific documentation requirements for negotiated change orders were added;
 - iii. A reporting requirement was added for design errors and omissions during the change order review process.
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- 5. The use of daily sign in sheets for all workers must be verified for prevailing wage compliance.
 - 6. A new requirement that the EAO must notify the agency engineer of any adjustments to payment requests.
 - 7. A process to follow for internal disagreements between the EAO and agency engineer during either the change order review or payment audit process was added.
 - 8. If an audit reveals suspected fraud the EAO must follow the reporting requirements in Mayoral Executive Order 16.

This Directive is effective immediately. Questions should be addressed to the Chief Engineer, Bureau of Engineering, 1 Centre Street, Room 650, New York, NY 10007, (212) 669-2037, Email: Engineer@comptroller.nyc.gov.