

AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Use of Procurement Cards by the Department of Parks and Recreation

MH05-126A

February 8, 2006



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

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the responsibilities of the Comptroller contained in Chapter 5, §93, of the New York City Charter, my office has audited whether the Department of Parks and Recreation has adequate internal controls over the use of procurement cards and follows the guidelines for their use in Comptroller's Memorandum #01-1.

Procurement cards are credit cards used by City agency personnel for purchasing goods and services. We audit the purchasing practices of City agencies to ensure that public funds are expended appropriately and in accordance with established procedures and safeguards.

The results of our audit, which are presented in this report, have been discussed with Parks officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in cursive script that reads "William C. Thompson, Jr.".

William C. Thompson, Jr.
WCT/ec

Report: MH05-126A
Filed: February 8, 2006

Table of Contents

AUDIT REPORT IN BRIEF 1
 Audit Findings and Conclusions..... 1
 Audit Recommendations..... 2

INTRODUCTION..... 3
 Background..... 3
 Objective..... 3
 Scope and Methodology 4
 Discussion of Audit Results..... 5

FINDINGS AND RECOMMENDATIONS 6
 Inadequate Written Procedures and
 New Cardholder Training 7
 Purchases Made by Persons Other Than Cardholders 8
 Inadequate Independent Review of Purchases..... 9
 Lack of Receipts and Receiving Reports 9
 Problems with Approvals..... 9
 Lack of Purchase Log 10
 Purchases Split to Avoid Exceeding Transaction Limit 11
 Sales Taxes Incorrectly Paid..... 13
 Cardholders May Have Improperly Bypassed
 DCAS Requirement Contracts..... 14
 Lack of Inventory Records
 For Purchases of Equipment 14
 Invoices Are Being Paid Twice 15

ADDENDUM: Department of Parks and Recreation Response

The City of New York
Office of the Comptroller
Bureau of Management Audit

**Audit Report on the
Use of Procurement Cards
By the Department of Parks and Recreation**

MH05-126A

AUDIT REPORT IN BRIEF

This audit determined whether the Department of Parks and Recreation (Parks) has adequate internal controls over the use of procurement cards (p-cards) and follows the guidelines set forth in Comptroller's Memorandum #01-1. The scope of the audit was Fiscal Years 2004 and 2005.

Audit Findings and Conclusions

Based on our testing, we found that Parks provided initial training and guidelines to senior level staff at the start of the p-card pilot program in February 2001 and had all cardholders sign credit card agreements. In addition, Parks set transaction and monthly purchase limits on all cards, sent monthly statements to the agency's Accounts Payable Unit for an independent review of the purchases, and paid its credit card bills within the contractually stipulated timeframe.

However, in view of the materiality of the control weaknesses, we have concluded that Parks has inadequate internal controls over its use of p-cards. These weaknesses can allow for the inappropriate use of p-cards and duplicate payments. Parks lacks adequate internal written procedures for the correct use of p-cards and does not sufficiently train new cardholders in their use. The agency allows individuals other than the cardholders to use the cards. In addition, the Accounts Payable Unit cannot adequately review p-card purchases because of incomplete documentation (especially the lack of receipts and receiving reports), problems with approvals, and the absence of a log of purchases.

The agency's internal controls failed to prevent some purchases from being split to avoid exceeding transaction limits, sales taxes from being incorrectly paid, and purchases from being made without first checking requirement contracts. In addition, the agency failed to inventory items purchased with p-cards. Finally, an invoice can be paid twice because of the lack of integration between the p-card program and City's Financial Management System (FMS).

Audit Recommendations

Based on our findings, we make 13 recommendations, including the following:

Parks should:

- Expand and formalize its written guidelines for p-cards. At a minimum, the guidelines should specify: who is allowed to use the p-cards, rules on appropriate purchases, and disciplinary procedures for inappropriate p-card use.
- Ensure that only cardholders use the p-cards.
- Ensure that the Accounts Payable Unit conducts an adequate independent review of p-card purchases.
- Ensure that cardholders submit receipts, receiving reports, and approval forms for all purchases.

INTRODUCTION

Background

The Department of Parks and Recreation (Parks) is the City agency that is responsible for assuring that the 28,722 acres of City parkland and the public beaches, playgrounds, stadia, marinas, recreation facilities, gardens, and malls are clean, safe, and attractive for people to use. Parks is also responsible for street trees, historic houses, monuments, and conservation. Parks conducts activities including athletics, physical fitness, and environmental education, and provides special programs for senior citizens, young people, the disabled, and the homeless.

Procurement cards (p-cards) are credit cards used by City personnel for purchasing goods and services. These cards can be used by office purchasing personnel at a central location or by employees on field or road assignments. The primary benefits of p-cards are user convenience, the elimination of intermediate steps required by the City's traditional procurement processes, and a reduction in internal documentation needed to support a purchase and its payment.

Parks has used p-cards issued by American Express (AMEX) since February 16, 2001. Purchases on each p-card are limited to \$250–\$5,000 per transaction and \$500–\$25,000 per month, depending upon the cardholder's purchasing needs and the size of the cardholder's budget.

In June 2001, the Comptroller's Office issued Comptroller's Memorandum #01-1, *Guidelines for the Use of Procurement/Purchasing Cards*, which provides guidelines for City agencies in authorizing, paying, and complying with the City's procurement policies and procedures when using p-cards. Parks also has its own written *Procurement Card Guidelines*.

According to the Parks Agency Chief Contracting Officer (ACCO), cardholders are allowed to purchase with the p-card, without prior approval, whatever goods and services are needed by Parks. Each month, Parks requires that all p-card purchases be reviewed not only by the cardholder, but also the cardholder's supervisor and the p-card program coordinator (Parks's Director of Purchasing and Accounting) using a "Procurement Card Purchase Approval Form" (approval form), which should be submitted, along with receipts and receiving reports, to the Accounts Payable Unit of Purchasing and Accounting.

During Fiscal Years 2004 and 2005, Parks had 25 active p-card users who had a total of 3,457 p-card transactions valued at \$907,574. P-card purchases included items such as air conditioners and camcorders as well as garden, plumbing, and electrical supplies. Parks p-card purchases grew four percent from \$445,888 in Fiscal Year 2004 to \$461,686 in Fiscal Year 2005.

Objective

The objective of this audit was to determine whether Parks has adequate internal controls over the use of p-cards and follows the guidelines set forth in Comptroller's Memorandum #01-1.

Scope and Methodology

The scope period of this audit is Fiscal Years 2004 and 2005.

To gain an overall understanding of the Parks p-card program, we reviewed and used as criteria Comptroller's Memorandum #01-1, Comptroller's Directive #1, "Principles of Internal Control," Parks *Guidelines for Use of Procurement/Purchasing Cards*, and Parks *Purchasing Handbook*. In addition, we interviewed Parks officials responsible for overseeing the p-card program as well as two of the 25 active p-card users.

To determine whether only authorized cardholders are using the p-card and whether they are aware of the rules and regulations, we obtained a list of all Parks p-card users and compared the names on the list with the names of users on each of the AMEX card statements. We also looked at Parks files to see whether all cardholders had completed and signed a Cardholder's User Agreement.

We examined all Parks AMEX statements for Fiscal Years 2004 and 2005 to determine whether the bills were paid on time. Then we sampled all of the 506 p-card transactions made by the 25 cardholders during a consecutive three-month period, judgmentally selecting the three statement months in the first quarter of Fiscal Year 2005 (July, August, and September 2004). That quarter was selected because it showed the most cardholder activity with the highest dollar amount of purchases made during Fiscal Years 2004 and 2005—\$145,553.

We tested whether the purchases were approved, whether invoices or charge receipts describing the purchases were present and matched the charges on the credit card statement, and whether receiving reports were present. We also tested whether the purchased items were available through the Department of Citywide Administrative Services (DCAS) Requirements Contracts, since p-cards should generally not be used for items that can be obtained from these contracts, except in cases of emergency.

In addition, we determined whether any purchases exceeded the individual or monthly purchase thresholds, and whether any purchases were split to circumvent the purchasing thresholds. We also determined whether any invoices may have been paid twice by comparing p-card payments to vendors who also received payments from Parks through the City's Financial Management System (FMS). Finally, we determined whether equipment purchased with p-cards was recorded in the inventory by attempting to account for the items purchased.

The results of these tests, while not projectable to the entire population of p-card purchases in Fiscal Years 2004 and 2005, provided a reasonable basis for us to determine whether Parks has adequate controls over the use of its p-cards.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with Parks officials during and at the conclusion of this audit. A preliminary draft report was sent to Parks officials and discussed at an exit conference held on December 27, 2005. On January 5, 2006, we submitted a draft report to Parks officials with a request for comments. We received a written response from Parks officials on January 19, 2006. In their response, Parks officials agreed with all thirteen recommendations made in this report, stated that they had fully implemented all of the recommendations, and attached a completed Audit Implementation Plan.

The full text of the Parks response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

Based on our testing, we found that Parks provided initial training and guidelines to senior level staff at the start of the p-card pilot program in February 2001 and had all cardholders sign credit card agreements. In addition, Parks set transaction and monthly purchase limits on all cards, sent monthly statements to the agency's Accounts Payable Unit for an independent review of the purchases, and paid its credit card bills within the contractually stipulated timeframe.

However, in view of the materiality of the control weaknesses that we identified, we have concluded that Parks has inadequate internal controls over its use of p-cards. These weaknesses can allow for the inappropriate use of p-cards and duplicate payments. Parks lacks adequate internal written procedures for the correct use of p-cards and does not sufficiently train new cardholders in their use. The agency allows individuals other than the cardholders to use the cards. In addition, the Accounts Payable Unit cannot adequately review p-card purchases because of incomplete documentation (especially the lack of receipts and receiving reports), problems with approvals, and the absence of a log of purchases.

The agency's internal controls failed to prevent some purchases from being split to avoid exceeding transaction limits, sales taxes from being incorrectly paid, and purchases from being made without first checking requirement contracts. In addition, the agency failed to inventory items purchased with p-cards. Finally, an invoice can be paid twice because of the lack of integration between the p-card program and FMS.

Overall, Parks officials are enthusiastic about the p-card program. They told us that the card is a helpful tool that improves productivity by allowing Parks to respond more quickly to requests and complaints from the public as well as to purchase emergency items on evenings and weekends. To ensure the success of the program, Parks needs to strengthen its internal controls and provide training to all its current and future cardholders. Everyone involved in this program must have an understanding of the rules and regulations established in Comptroller's Memorandum #01-1 and Parks guidelines.

The following sections of the report detail the weaknesses.

Inadequate Written Procedures and New Cardholder Training

Parks has inadequate written policies and procedures for the p-card program and as a result, cardholders may be using the p-card incorrectly. The following are some examples of policies and procedures not included in Parks's internal p-card guidelines:

- Rules on who is allowed to use the p-card and who can sign the purchase approval form
- Rules on appropriate purchases (e.g., furniture is prohibited)
- Rules on transaction limits (e.g., split purchases are prohibited)
- Rules on requirement contracts (e.g., p-cards cannot be used to purchase contract items)
- Disciplinary procedures for inappropriate p-card use

§3.2 of the contract between Parks and AMEX specifically states that “the Agency will instruct the Employees in writing on its policies concerning the use of the Corporate Purchasing Card for the purchase of goods and services on behalf of the Agency. Those policies will include, without limitation, that the Corporate Purchasing Card will be used only in strict conformity with the Terms and Conditions.”

In addition, new p-card users receive only verbal, ad hoc training when they receive their cards. Formal training would ensure that these cardholders are aware of all rules and regulations. Comptroller's Memorandum #01-1 states that agencies must ensure that cards are issued to employees who are adequately instructed in the security risks that accompany card assignments. Training would provide new cardholders with the appropriate knowledge and skills needed for the use of p-cards.

Recommendations

Parks should:

1. Expand and formalize its written guidelines for p-cards. At a minimum, the guidelines should specify: who is allowed to use the p-cards, rules on appropriate purchases, and disciplinary procedures for inappropriate p-card use.

Parks Response: Parks agreed stating, “Although cardholders were given the current guidelines and told of the rules of usage, in an effort to avoid miscommunications, Parks will update the written rules.”

2. Provide new cardholders with formal training in the use of p-cards prior to receipt of the card.

Parks Response: Parks agreed stating, “Parks did formally train the original 12 cardholders at the inception of the program. Subsequent cardholders were given ad-hoc individual training as a means of saving time. However, formal training will occur in the future in accordance with Comptroller's Memorandum #01-1.”

Purchases Made by Persons Other Than Cardholders

We identified 32 transactions (6%) of the 506 transactions in our sample, totaling \$12,312.46, in which charges were made by someone other than the cardholder. This amount represents eight percent of the \$145,553 in purchases reviewed. These charges occurred on 12 (48%) of the 25 active cards. The number of transactions per card ranged from one to six.

The Parks ACCO told us that the agency was aware that in certain circumstances, such as emergencies, senior staff members who are cardholders ask subordinates who are non-cardholders to order goods and services with their p-cards. These non-cardholders then sign the charge receipts, and the purchases are listed and approved on the monthly approval forms by the cardholders and their supervisors. However, there was no indication in the files that these purchases were emergencies, nor was there any justification why the cardholder could not make the purchase.

In addition, §2.1.2 of Comptroller's Memorandum #01-1 states that "agencies must ensure that . . . Cards are not 'loaned' or used by anyone other than the employee or employees authorized to use it." §3.1.9 of the contract between Parks and AMEX establishes that "AMEX will send a copy of the terms and conditions to the Employees receiving a Corporate Purchasing Card. These AMEX terms and conditions specifically state, "You must not permit any other person to use this Corporate Purchasing Card for Charges, for identification, or for any other reasons."

Since authorization is not required prior to making purchases, allowing non-cardholders to use the p-cards increases the potential for fraud and misuse of the cards. In addition, the agency may lose control over the use of p-cards, since it does not keep track of the non-cardholders who use each card.

Recommendation

3. Parks should ensure that only cardholders use the p-cards.

Parks Response: Parks agreed stating, "Parks was aware that in certain emergency situations that non-cardholders were authorized to make purchases. There was no intent to bypass the Comptroller's procedures. However, Parks will ensure that only cardholders use the p-cards and this policy has been incorporated in our new written guidelines."

Inadequate Independent Review of Purchases

Parks is not performing an adequate independent review of purchases, as required by Comptroller's Memorandum #01-1. While its Accounts Payable Unit reviews and pays the AMEX statement each month, it does so despite a lack of supporting receipts and receiving reports, problems with approvals, and the absence of a purchase log. We also found no evidence that the unit pursued the missing documents or approvals. Without the documents, approvals, and the log, a meaningful review of p-card purchases is not possible and errors may go undetected.

Lack of Receipts and Receiving Reports

Receipts (i.e., invoices or charge receipts) and receiving reports were not present to support all purchases made. Receipts verify that the items were purchased and identify their cost, and receiving reports provide evidence that the goods or services received were satisfactory.

We reviewed 506 transactions totaling \$145,553 and found that vouchering personnel in the Accounts Payable Unit did not have purchasing and/or receiving documents for 287 (57%) of the purchases reviewed, representing \$91,731 (63%) of the total dollars spent. Specifically, we found receipts (invoices and charge receipts) lacking for 96 (19%) of the purchases, valued at \$23,782, and receiving reports lacking for 244 (48%) of the purchases, valued at \$82,286—53 of which lacked both purchasing and receiving documents.

Comptroller's Memorandum #01-1 states, "All receipts and charge slips should be maintained on file and be available to vouchering personnel." Parks p-card guidelines also require that these documents be submitted to the Accounts Payable Unit. In fact, the approval form itself notes, "This [approval] form must be completed and submitted along with Receiving Reports and Invoice/Receipts." However, we found no notes attached to the approval forms to explain why these documents were not present. Without receipts and receiving reports, the Parks Accounts Payable Unit cannot identify what was purchased, the itemized cost, or whether the items were actually received.

Problems with Approvals

Parks p-card guidelines require that all purchases must be approved within one week of the AMEX statement date. Of the 506 sampled transactions on the July–September 2004 AMEX statements, 69 (14%) had problems with approvals, including nonexistent approval forms and forms that were late or not dated.

There were no approval forms for 12 transactions, and forms were submitted at least one month late for 16 transactions.¹ Approval forms for 41 transactions were not dated; therefore, we were unable to determine whether these approval forms were prepared on time or late. The results of our analysis are shown in Table I on the next page:

¹ Nine of the 16 transactions were originally in the "not dated" group. After we spoke with a Parks official, we determined that the August 2004 approval form for these transactions had been prepared nearly a year later, in July 2005, after we requested the document.

Table I
Problems with Approval Forms
(July-September 2004)

Problems	# of Transactions	\$ Value	# of Cardholders
Nonexistent	12 (2%)	\$2,149	9
Late	16 (3%)	\$3,014	2
Not Dated	41 (8%)	\$8,240	3
Subtotal	69 (14%)	\$13,403	12*
Total Sample	506 (100%)	\$145, 553	25

* Two of the 12 cardholders lacked approval forms as well as having undated forms

Parks paid the entire \$145,553 to AMEX despite the lack of approval forms or late approvals. Submitting approval forms prior to bill payment ensures that the cardholder and the cardholder’s supervisor have both authorized each purchase. While transactions were approved on a timely basis for 13 of the 25 cardholders, it is possible that on transactions for the remaining 12 cardholders, payments could be made before errors are detected. Thus, it is important that purchases are reviewed by both the cardholder and supervisor before payments are made; errors must be documented and corrected as soon as possible.

Lack of Purchase Log

Parks does not require cardholders to keep a purchase log nor does the agency keep a purchase log. A purchase log helps keep track of each p-card transaction in order to estimate total agency spending, identify and track documents and information that are lacking, and reconcile the monthly p-card statement.

§2.2.1 of Comptroller’s Memorandum #01-1 requires that “Agency procedures must include use of a PC spreadsheet or similar method to maintain a record or log of card usage as it occurs.” In fact, Parks’s own p-card guidelines state, “Employees will purchase directly with vendor(s) via their credit card and record the transactions in a log.”

As noted in the “Lack of Receipts and Receiving Reports” section, cardholders do not always send documentation to the Parks Accounts Payable Unit as required. A log would identify this missing documentation so that it can be obtained. Without a log, the Parks Accounts Payable Unit can not adequately monitor and review purchasing activity.

Recommendations

Parks should:

4. Ensure that the Accounts Payable Unit conducts an adequate independent review of p-card purchases.

Parks Response: Parks agreed stating, “An Accounts Payable staff will be assigned to review and monitor all p-card purchases. Additionally, the Supervisor of AP and the Director of P& A will spot check compliance.”

5. Ensure that cardholders submit receipts, receiving reports, and approval forms for all purchases. If a receipt or receiving report is not available, a note indicating the reason should be attached to the approval form.

Parks Response: Parks agreed stating, “Parks will ensure that cardholders submit receipts, reports and approval forms for all purchases, and if not available a note indicating the reason will be attached to the approval form.”

6. Ensure that cardholders submit signed and dated p-card approval forms within one week of receiving the monthly AMEX statement.

Parks Response: Parks agreed stating, “Parks has notified cardholders that signed and dated p-card approval forms must be submitted within one week of receiving the monthly VISA statements. The Accounts Payable Unit will ensure compliance.”

Auditor Comment: Parks was using AMEX during the scope of this audit; however, since July 1, 2005, Parks has been using VISA for its p-card program.

7. Maintain a log of p-card purchases to reconcile with the monthly statements.

Parks Response: Parks agreed stating, “All cardholders will be notified that a log of p-card purchases must be maintained and reconciled with monthly statements.”

Purchases Split to Avoid Exceeding Transaction Limit

During the July–September 2004 period, we identified 13 split purchases, valued at \$24,312.50, in which the cardholder exceeded the card’s transaction limit set by Parks by splitting the charge for an order of goods or services from a vendor into more than one transaction across one or more days. These split purchases included two to six transactions each and involved eight of the 25 cardholders.

Comptroller's Memorandum #01-1 states that agencies may not use procurement cards to split a purchase to circumvent the rules regarding the dollar threshold. The Parks ACCO told us that he sets transaction dollar limits on each card, depending upon the cardholder's purchasing needs and the size of the cardholder's budget. He confirmed that a cardholder should not make two or more charges with a vendor on the same day if together they exceed the transaction limit. He added that cardholders should be advised not to do it, and if they continue the practice, "their cards should be canceled."

In one instance, we found six charges totaling \$3,672.64 related to the same project that were charged on the same day (June 17, 2004) to one vendor (Carrot-Top Industries) on a p-card with a \$1,000 transaction limit made by a Parks employee other than the cardholder, as detailed in Table II below:

Table II
Details of a Split Purchase
(June 17, 2004)

# of Charges	Amount Charged	Description of Items Purchased	Date Item Shipped
1	\$483.34	25 Bunting	17-Jun-04
2	\$483.34	25 Bunting	17-Jun-04
3	\$508.34	100 Windsocks	17-Jun-04
4	\$775.00	50 Pennants	17-Jun-04
5	\$711.31	40 Flags: 15 Blue & 25 Green 10 Flags: 10 Blue	17-Jun-04 6-Jul-04
6	\$711.31	30 Flags: 15 Orange & 15 Red 20 Flags: 10 Orange & 10 Red	23-Jun-04 6-Jul-04
Subtotal	\$3,672.64		

In addition, the invoices from this split purchase show that all items were both purchased by and shipped to the same person. This person also prepared and signed separate receiving reports and approval forms for each invoice, even though he was not the cardholder. We found no evidence that the cardholder or the employee had been told not to split purchases in the future.

When we advised the Parks Director of Purchasing and Accounting of this split purchasing, he informed us that he was aware that there are some cardholders who permit this practice. He added that while he may have called cardholders when he reviewed their purchases, he had not advised them in writing that they should not permit this practice, nor had he documented that he had spoken to them. Unless there are consequences for cardholders who permit split purchasing so as to exceed transaction limits, the practice will continue unimpeded.

Recommendations

Parks should:

8. Inform cardholders that split purchases to exceed the transaction limit set by Parks are prohibited.

Parks Response: Parks agreed stating, “Parks has reminded cardholders that split purchases, in accordance with Comptroller’s Memorandum #01-1, are prohibited.”

9. Carefully review purchases to identify split purchases, inform cardholders of the consequences of continuing this practice, and if the practice is continued, cancel the cards.

Parks Response: Parks agreed stating, “The Accounts Payable Unit has begun to carefully review documents to identify split purchases, inform cardholders of the ramifications of continued transgressions, and if continued cancel the card of the offender.”

Sales Taxes Incorrectly Paid

We found that 12 cardholders paid sales tax totaling \$720.23, ranging from \$0.24 to \$159.88, on at least 50 transactions listed on the July–September 2004 AMEX statements, even though City agency purchases are exempt from sales taxes.

Comptroller’s Directive #1 requires that “all exemptions from sales, Federal excise and other taxes [should be] claimed.” Parks’s own purchasing handbook states, “We cannot reimburse for sales taxes.” Finally, the current Cardholder’s User Agreement, in effect since June 2002, specifically states, “I agree and understand that this card can only be used for official agency business and that no taxes are charged by the vendor.” It is the responsibility of the cardholder to claim exemption from sales taxes and to not pay them, particularly since it is costly for Parks to recoup incorrectly paid sales taxes.

Recommendation

10. Parks should remind cardholders of their responsibility to avoid sales tax payments.

Parks Response: Parks agreed stating, “Parks has notified cardholders that sales tax should be avoided and to carry the exempt certificate with them.”

Cardholders May Have Improperly Bypassed DCAS Requirement Contracts

Thirty-eight (19%) of the 202 purchases of \$200 or more made between June and September 2004 may have been available on DCAS Requirements Contracts, but were nonetheless purchased from non-contracted vendors. These purchases totaled \$22,871 and represented 16 percent of the total dollar value of purchases made during the period.

Items purchased included camcorders, batteries, megaphones, plywood, carpeting, cleaning supplies, paint, toner cartridges, and sand. In fact, we identified two purchases (a fax machine and office supplies) made with the p-card from vendors with whom DCAS Requirement Contracts existed. These purchases were made contrary to Comptroller's Memorandum #01-1 and the Parks *Purchasing Handbook*, which state that procurement cards cannot be used to acquire items that are available from DCAS Requirements Contracts.

Parks officials stated that cardholders use the p-cards to purchase items that are available from DCAS Requirements Contracts because they need the items after business hours or on the weekend. However, we found that only one of the 38 purchases occurred on a weekend. Unless the items are needed for emergency situations, which should be documented, Parks may be buying items at higher cost and lower quality by purchasing from a non-contracted vendor.

Recommendation

11. Parks should ensure that cardholders document that DCAS Requirements Contracts are checked before purchases are made with p-cards.

Parks Response: Parks agreed stating, "Parks has notified all cardholders that they must first check to see if the product/item is available at the DCAS Central Storehouse or DCAS Requirement Contract. If it is, the product/item cannot be purchased via p-card, unless it is an emergency and must be documented."

Lack of Inventory Records For Purchases of Equipment

Parks does not maintain inventory records for equipment purchased with the p-card. Parks employees used p-cards to purchase portable equipment that can be easily converted to personal use. For example, during the July–September 2004 sample period, cardholders purchased one palm pilot and seven camcorders, which totaled \$2,689 (2% of total p-card purchases).

Comptroller's Directive #1 states, "An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, computers, and other equipment, which might be vulnerable to risk of loss or unauthorized use. Periodic counting and comparison to control records for such assets is an important element of control of these assets."

We asked for an inventory listing that included the seven camcorders purchased with the p-card. Parks did not have an inventory list, but provided us with a list of the locations for seven camcorders. However, we could not determine whether these camcorders were the ones purchased with the p-card because the list did not include descriptions or serial numbers. When equipment is not inventoried, thefts may occur and go undetected, equipment may be disposed of improperly, and duplicate equipment may be unnecessarily purchased.

Recommendation

12. Parks should maintain inventory records of equipment purchased with p-cards.

Parks Response: Parks agreed stating, “Parks has now restricted purchases of equipment (electronic, furniture, etc.). These purchases are to be directed through the appropriate division via the Purchase Order System (POS). In the event that the ACCO approves such purchases via the p-card, they will be delivered to the storehouses where they will be entered into inventory.”

Invoices Are Being Paid Twice

Since invoices paid through AMEX are not linked to invoices paid through FMS, it is not only possible for Parks to pay a bill twice, but it has in fact done so. The Parks Director of Purchasing and Accounting told us that there was no specific procedure in place to check that invoices paid with the p-card are not also paid through FMS. While he assured us that this was not happening, in our testing of 61 AMEX transactions, we found one instance in which the same invoice for electrical supplies, #S1199477.001 totaling \$83.07, appears to have been paid twice, once through the p-card on July 9, 2004, and once through FMS on August 18, 2004. The second payment was incorrectly processed through FMS, despite the absence of a purchase order number. Without establishing and using a reliable way to cross-check payments to vendors, Parks may be paying bills twice, once through the p-card program and then again through FMS.

Recommendation

13. Parks should establish controls to prevent duplicate payments.

Parks Response: Parks agreed stating, “The Accounts Payable Unit will ensure that items paid via p-card do not get paid again through the Purchase Order.”



City of New York
Parks & Recreation

Adrian Benepe
Commissioner

The Arsenal
Central Park
New York, New York 10021

David L. Stark
Chief Fiscal Officer

(212) 360-8265
david.stark@parks.nyc.gov

January 16, 2006

Mr. Greg Brooks
Deputy Comptroller
Office of the City Comptroller
Policy, Audits, Accountancy & Contracts
1 Centre Street
New York, N.Y. 1007-2341

Re: **Audit Report on the Use of Procurement Cards**
By the Department of Parks and Recreation
Audit Report No. MH05-126A

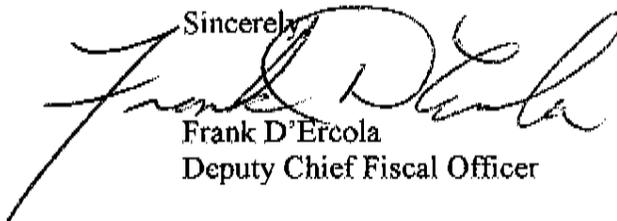
Dear Mr. Brooks,

Thank you for allowing Parks to review your audit regarding the Use of Procurement Cards prior to its public release. We are pleased that, despite some weaknesses, your findings depict a process that works smoothly.

Parks has fully implemented all of your recommendations and attached is our completed Audit Implementation Plan (AIP).

If you have any questions, please have your staff contact me at 212-360-8266.
Thank you.

Sincerely,



Frank D'Ercola
Deputy Chief Fiscal Officer

cc: Mr. David Stark, Chief Fiscal Officer, DPR
Mr. Parmod Tripathi, Agency Chief Contracting Officer, DPR
Mr. Brian Mills, Director of Purchasing and Accounting, DPR
Ms. Tara Leary, Audit Supervisor, Office of the Comptroller
Peggy Rose Viera, Mayor's Office of Operations

AUDIT IMPLEMENTATION PLAN
AUDIT TITLE: Audit Report on Use of Procurement Cards
By the NYC Department of Parks and Recreation
Office of the City Comptroller
Audit Report MH05-126A
Date: January 16, 2006

Findings	Recommendations/Agency Response	Corrective Action Plan/Date Implemented
<p>1) <u>Inadequate Written Procedures.</u> Existing written internal guidelines do not include rules governing prohibited purchases, transaction limits, or disciplinary procedures for inappropriate use.</p>	<p>1) Expand and formalize written guidelines for p-cards. At a minimum, the guidelines should specify: who is allowed to use the p-cards, rules on appropriate purchases, and disciplinary procedures.</p> <p>Agency Response: DPR agreed.</p>	<p>1) Although cardholders were given the current guidelines and told of the rules of usage, in an effort to avoid miscommunication, Parks will update the written rules.</p> <p>Date Implemented: September 2005</p>
<p>2) <u>Inadequate Training.</u> New p-card users only receive verbal ad-hoc training as opposed to formal instruction.</p>	<p>2) Provide new cardholders with formal training in the use of p-cards prior to receipt of the card.</p> <p>Agency Response: DPR agreed.</p>	<p>2) Parks <i>did</i> formally train the original 12 cardholders at the inception of the program. Subsequent cardholders were given ad-hoc individual training as a means of saving time. However, formal training will occur in the future in accordance with Comptroller's memorandum #01-1.</p> <p>Date Implemented: January 2006</p>
<p>3) <u>Purchases Made By Non-cardholders.</u> 32 purchases (6%) of the 506 transactions in the sample were made by someone other than the cardholder. This practice can lead to misuse.</p>	<p>3) Parks should ensure that only cardholders use the p-cards.</p> <p>Agency Response: DPR agreed.</p>	<p>3) Parks was aware that in certain emergency situations that non-cardholders were authorized to make purchases. There was no intent to bypass the Comptroller's procedures. However, Parks will ensure that only cardholders use the p-cards and this policy has been incorporated in our new written guidelines.</p> <p>Date Implemented: 3) September 2005</p>

Findings	Recommendations/Agency Response	Corrective Action Plan/Date Implemented
<p>4) <u>Inadequate Independent Review of Purchases:</u> A lack of supporting receipts and receiving reports, problems with approvals, and the absence of a purchase log make current reviews by the Accounts Payable Unit less meaningful. Errors may go undetected.</p>	<p>4) Ensure that the Accounts Payable Unit conducts an adequate independent review of p-card purchases. Agency Response: DPR agreed.</p> <p>5) Ensure that cardholders submit receipts, receiving reports, and approval forms for all purchases. If a receipt or receiving report is not available, a note indicating the reason should be attached to the approval form. Agency Response: DPR agreed.</p> <p>6) Ensure that cardholders submit signed and dated p-card approval forms within one week of receiving the monthly AMEX statement. Agency Response: DPR agreed</p> <p>7) Maintain a log of p-card purchases to reconcile with the monthly statements. Agency Response: DPR agreed.</p>	<p>4) An Accounts Payable staff will be assigned to review and monitor all p-card purchases. Additionally, the Supervisor of AP and the Director of P & A will spot check compliance. Date Implemented: December 2005</p> <p>5) Parks will ensure that cardholders submit receipts, reports and approval forms for all purchases, and if not available a note indicating the reason will be attached to the approval form. Date Implemented: September 2005</p> <p>6) Parks has notified cardholders that signed and dated p-card approval forms must be submitted within one week of receiving the monthly VISA statements. The Accounts Payable Unit will ensure compliance. Date Implemented: September 2005</p> <p>7) All cardholders will be notified that a log of p-card purchases must be maintained and reconciled with monthly statements. Date Implemented: September 2005</p>
<p>5) <u>Split Purchases:</u> Identified 13 instances in which cardholder exceeded the card's transaction limits set by Parks by splitting the charge for orders of goods or services from a vendor into more than one transaction across one or more days. Parks has confirmed that a cardholder should not split charges.</p>	<p>8) Inform cardholders that split purchases to exceed transaction limits set by Parks are prohibited. Agency Response: DPR agreed.</p> <p>9) Carefully review purchases to identify split purchases, inform cardholders of the consequences of this practice, and if continued, cancel the cards. Agency Response: DPR agreed.</p>	<p>8) Parks has reminded cardholders that split purchases, in accordance with Comptroller's Memorandum #01-1, are prohibited Date Implemented: September 2005</p> <p>9) The Accounts Payable Unit has begun to carefully review documents to identify split purchases, inform cardholders of the ramifications of continued transgressions, and if continued cancel the card of the offender. Date Implemented: September 2005</p>

Findings	Recommendations/Agency Response	Corrective Action Plan/Date Implemented
<p>6) Sales Tax Incorrectly Paid: Although Parks' own purchasing handbook states that "...sales tax cannot be reimbursed", and the Cardholder's User Agreement specifically that "...the card can be used only for official agency business and that no taxes are to be charged by the vendor", we identified taxes paid to vendor. We identified sales tax of \$720.23 paid on 50 transactions, even though City agency purchases are exempt from sales tax.</p>	<p>10) Parks should remind cardholders of their responsibility to avoid sales tax payments. Agency Response: DPR agreed</p>	<p>10) Parks has notified cardholders that sales tax should be avoided and to carry the exempt certificate with them. Date Implemented: September 2005</p>
<p>7) <u>Cardholders May Have Improperly Bypassed DCAS Requirement Contracts</u>: Although Parks' purchasing handbook states that items that are available from DCAS requirement contracts cannot be purchased with p-cards, we identified some purchases contrary to that policy. Camcorders, batteries, plywood, carpeting, and cleaning supplies were among the purchases that we identified.</p>	<p>11) Parks should ensure that cardholders document that DCAS Requirement Contracts are checked before purchases are made with p-cards. Agency Response: DPR agreed</p>	<p>11) Parks has notified all cardholders that they must first check to see if the product/item is available at the DCAS Central Storehouse or DCAS Requirement Contract. If it is, the product/item cannot be purchased via p-card, unless it is an emergency and must be documented. Date Implemented: September 2005</p>
<p>8) <u>Lack of Inventory Records</u>: Parks does not maintain inventory records for equipment purchased with p-cards. Portable equipment such as camcorders can easily be converted to personal use. Comptroller's Directive #1 states, "An agency must establish physical control to secure and safeguard vulnerable assets. Periodic counting and comparison to control records is an important element of control of assets."</p>	<p>12) Parks should maintain inventory records of equipment purchased with p-cards. Agency Response: DPR agreed</p>	<p>12) Parks has now restricted purchases of equipment (electronic, furniture, etc.). These purchases are to be directed through the appropriate division via the Purchase Order System (POS). In the event that the ACCO approves such purchases via the p-card, they will be delivered to the storehouses where they will be entered into inventory. Date Implemented: September 2005</p>
<p>9) <u>Invoices Are Being Paid Twice</u>: Since invoices paid through AMEX are not linked to invoices paid through FMS, it is possible for Parks to pay a bill twice. We found one instance in a sample of 61 AMEX transactions where the same invoice totaling \$83.07 appears to have been paid twice.</p>	<p>13) Parks should establish controls to prevent duplicate payments. Agency Response: DPR agreed</p>	<p>13) The Accounts Payable Unit will ensure that items paid via the p-card do not get paid again through the Purchase Order. Date Implemented: September 2005</p>