



*The City of New York
Office of the Comptroller
Bureau of Financial Audit*

WILLIAM C. THOMPSON, JR.
Comptroller

**Audit of the Timekeeping, Payroll,
and Purchasing Operations of the
Office of Administrative Trials and Hearings**

FM02-075A

June 5, 2002

The City of New York
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and Purchasing Operations of the
Office of Administrative Trials and Hearings**

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EXECUTIVE SUMMARY

The Office of Administrative Trials and Hearings (OATH) is authorized under Chapter 45A, § 1048, of the New York City Charter to independently conduct administrative hearings for mayoral agencies, non-mayoral agencies, boards, and commissions of the City. OATH hears cases regarding disciplinary and disability matters; licensing and regulatory enforcement proceedings; real estate and land use issues; and contract and discrimination complaints.

During fiscal year 2000, OATH docketed 2,456 cases brought by 34 agencies. OATH's budget for fiscal year 2000 was \$1,370,866 for Personal Service (PS) expenditures, and \$862,073 for Other Than Personal Service (OTPS) expenditures. OATH spent a total of \$2,188,425 from the \$2,232,939 budgeted—\$1,369,897 on PS expenditures, and \$818,528 on OTPS expenditures.

This audit determined whether OATH: complied with applicable City payroll and timekeeping procedures (i.e., Comptroller's Directives #1, #13, and #14, and the City's Payroll Management System guidelines); and complied with applicable City purchasing procedures (i.e., Comptroller's Directives #3, #6, #24, and #25, and the Procurement Policy Board Rules).

We found that OATH complied with all applicable Comptroller's Directives and PPB rules, as well as with the City's Payroll Management System procedures and the City Charter. However, there were two minor weaknesses in OATH's cash receipts and purchasing practices. OATH collects fees for copies of official case documents and copies of the OATH Rules of Practice and issues receipts for the fees collected. OATH retains a copy of all the receipts issued, but does not pre-number the receipts. Further, OATH does not maintain a log of the fees collected to ensure that all fees are deposited. In addition, seven of 20 sampled purchases were charged to incorrect object codes. The use of the correct object code is important because it allows an agency to categorize the type and amount of a particular expense item within a fiscal year. This information is used to generate the year-end reports that identify expenditure patterns.

To address these issues, we recommend: that OATH issue pre-numbered receipts when collecting fees for copies of documents and maintain a log of the fees collected; and that OATH follow the City Chart of Accounts to ensure that purchases are charged to correct object codes.

Discussion of Audit Results

The matters covered in this report were discussed with OATH and DCAS officials during and at the conclusion of this audit. A preliminary draft report was sent to OATH and DCAS officials on April 23, 2002. On April 26, 2002, OATH and DCAS officials decided that an exit conference would not be necessary. On April 30, 2002, we submitted a draft report to OATH and DCAS with a request for comments. We received a written response from OATH on May 16, 2002. OATH officials agreed with the audit's findings and recommendations. DCAS officials did not respond in writing to the draft report, but stated that they agreed with the audit's findings and recommendations.

The full text of the written comments received from OATH is included as an addendum to this report.

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INTRODUCTION

Background

The Office of Administrative Trials and Hearings (OATH) is authorized under Chapter 45A, § 1048, of the New York City Charter to independently conduct administrative hearings for mayoral agencies, non-mayoral agencies, boards, and commissions of the City. OATH hears cases regarding disciplinary and disability matters; licensing and regulatory enforcement proceedings; real estate and land use issues; and contract and discrimination complaints.

As of July 1, 1999, OATH had 19 full-time employees (a Chief Administrative Law Judge, a Deputy Administrative Law Judge, eight Administrative Law Judges, two Attorneys, one Executive Assistant, three Principal Administrative Associates, and three Secretaries). In addition, OATH had two college aides.

During fiscal year 2000, OATH docketed 2,456 cases brought by 34 agencies. OATH's budget for fiscal year 2000 was \$1,370,866 for Personal Service (PS) expenditures, and \$862,073 for Other Than Personal Service (OTPS) expenditures. OATH spent a total of \$2,188,425 from the \$2,232,939 budgeted—\$1,369,897 on PS expenditures, and \$818,528 on OTPS expenditures.

Objectives

To determine whether OATH:

- Complied with applicable City payroll and timekeeping procedures (i.e., Comptroller's Directives #1, #13, and #14, and the City's Payroll Management System guidelines); and
- Complied with applicable City purchasing procedures (i.e., Comptroller's Directives #3, #6, #24, and #25, and the Procurement Policy Board Rules).

Scope and Methodology

The scope of our audit covered July 1, 1999, through June 30, 2000 (fiscal year 2000). To achieve our objectives, we interviewed OATH personnel to obtain a general understanding of the payroll, timekeeping, and purchasing procedures. We reviewed procedures and regulations that govern the activities of OATH staff members. These included OATH's own formal procedures; Comptroller's Directives; the City's *Leave Regulations for Employees Who Are Under the Career and Salary Plan, Citywide Agreement between the City of New York and District Council 37*, and *Leave Regulations for Management Employees*; and § 162 of the New York State Labor Law. Purchases, timesheets, and paychecks are processed for OATH by the Department of Citywide Administrative Services (DCAS).

To assess the accuracy of the timekeeping records, we reviewed the records for staff who worked for OATH during the period July 1, 1999, through September 30, 1999. From the records, we determined whether all leave time was accrued and used in accordance with the various leave regulations and payroll procedures. Further, we verified whether the leave used by OATH staff was accurately reflected in the City's Payroll Management System (PMS).¹

We also determined whether employees accumulated annual leave balances during fiscal year 2000 beyond the maximum permitted by City regulations, and whether employees' salaries were within the ranges for their titles.

We verified whether OATH uses and maintains Paycheck Distribution Control Reports, in accordance with Office of Payroll Administration (OPA) procedures. Specifically, we reviewed all the reports for January through March 2000, to determine: whether all employees receiving paychecks signed the checks next to their preprinted names; whether before employees picked up other employees' paychecks, they obtained written authorization from the employees; and, whether payroll checks were distributed by a person other than someone who reviewed the timesheets or prepared the payroll.

We determined whether OATH complied with Comptroller's Directive #24, Purchasing Function-Internal Controls, as well as with the Procurement Policy Board (PPB) rules. In that regard, we verified whether OATH maintained the required documentation (i.e., requisition forms, purchase orders, receiving reports, vendor invoices, and if necessary, bid documentation) for a sample of 20 of the 152 purchases processed during fiscal year 2000.

We determined for each of the 20 purchases whether: purchase orders and receiving reports were prepared; invoices matched purchase orders (with regard to price and item descriptions); invoices were checked for clerical accuracy; all paid invoices were canceled to prevent duplicate payment; correct object codes were charged; and payments were made to

¹ PMS is a computerized payroll system maintained by the City Office of Payroll Administration that automatically generates bi-weekly payroll checks for City employees based on salary, title, and leave status. PMS also tracks employees' annual, sick, and compensatory time leave balances.

vendors within the 30-day time period mandated by § 5-07 of the PPB rules. In addition, we verified whether OATH complied with City regulations for competitive bidding.

We determined whether OATH complied with Comptroller's Directive #3, Procedures for the Administration of Imprest Funds. We obtained all bank statements for the OATH imprest fund and determined whether they were reconciled to the OATH Imprest Fund Disbursements Journal within 30 days of the statement dates.

We also determined whether OATH had incurred any meal and travel-related expenditures during fiscal year 2000. Our purpose was to ensure that these expenditures did not exceed the maximum dollar amount allowed under Comptroller's Directive #6, Authorization, Reimbursement, and Audit of Travel, Meals, Lodging, and Miscellaneous Agency Expenses.

Finally, we determined whether OATH properly safeguarded its supplies and non-capital assets. In that regard, we determined whether OATH maintained an inventory of its supplies and non-capital assets and whether the items in its inventory were properly tagged with identifying numbers.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities 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 OATH and DCAS officials during and at the conclusion of this audit. A preliminary draft report was sent to OATH and DCAS officials on April 23, 2002. On April 26, 2002, OATH and DCAS officials decided that an exit conference would not be necessary. On April 30, 2002, we submitted a draft report to OATH and DCAS with a request for comments. We received a written response from OATH on May 16, 2002. OATH officials agreed with the audit's findings and recommendations. DCAS officials did not respond in writing to the draft report, but stated that they agreed with the audit's findings and recommendations.

The full text of the written comments received from OATH is included as an addendum to this final report.

**OFFICE OF THE COMPTROLLER
NEW YORK CITY**

DATE FILED: June 5, 2002

FINDINGS AND RECOMMENDATIONS

OATH complied with all applicable Comptroller's Directives, PPB rules, as well as with the City's Payroll Management System procedures and the City Charter. Specifically:

- OATH's employees were bona-fide; employees' salaries were within the salary ranges of their titles; employees' accrued annual and sick leave were in accordance with City policy; and employees' accumulated annual leave did not exceed the limits established by City policy. In addition, payroll, personnel, and timekeeping functions were in accordance with City policy.
- OATH complied with City regulations for competitive bidding.
- Purchasing functions were adequately segregated and purchases were supported by adequate documentation. In addition, vendors were paid within the timeframes specified in the PPB rules.
- Most aspects of the imprest fund operations complied with Comptroller's Directive #3. For example, the imprest fund checkbook was secured in a locked cabinet with limited access; imprest fund checks were pre-printed with the restrictive statement "void after 90 days"; and all imprest fund checks had the two required signatures.

However, there were two minor weaknesses in OATH's cash receipts and purchasing practices that are discussed in the following sections of this report.

Inadequate Controls Over Cash Receipts

OATH collects fees for copies of official case documents and copies of the OATH Rules of Practice. About once each month, OATH forwards the cash and checks collected to DCAS for deposit. OATH issues receipts for the fees collected and retains a copy of all the receipts issued, but does not pre-number the receipts. Further, OATH does not maintain a log of the fees collected to ensure that all fees are forwarded to DCAS for deposit. Although the amount of the fees collected by OATH is not significant—approximately \$1,700 in fiscal year 2000—every effort should nonetheless be taken to ensure that revenue collected is properly accounted for.

Incorrect Object Codes

Seven of the 20 sampled purchases were charged to incorrect object codes. The seven purchases totaled \$14,890. For example, OATH charged 12 file cabinets purchased from Corcraft Products (PO# 20000018419, totaling \$4,154) to object code 315 (Office Equipment) rather than to object code 314 (Office Furniture). The Chart of Accounts states that all office furniture, including file cabinets, should be charged to object code 314. In a second example, OATH charged equipment maintenance performed by 4U Services (PO# 00000001895, totaling

\$850) to object code 427 (Data Processing Services), rather than to object code 613 (Data Processing Equipment Maintenance-Contractual).

§ 8.4 of Comptroller's Directive #24, states that "the reviewer should . . . examine the accounting and budget codes used and determine that they are correct - the proper fund should be charged." The use of the correct object code is important because it allows the agency to categorize the type and amount of a particular expense item within a fiscal year. This information is used to generate the year-end reports that identify expenditure patterns.

Recommendations

The Office of Administrative Trials and Hearings should:

1. Issue pre-numbered receipts when collecting fees for copies of documents, maintain a copy of receipts that are issued, and maintain a log of the fees collected. The log should include the following information: receipt number, the name of the person to whom the receipt was issued, the amount of the fees collected, and the name of the employee who collected the fees.
2. Follow the City Chart of Accounts to ensure that purchases are charged to correct object codes.

OATH Response: "OATH will adopt the two recommendations listed at the conclusion of the report."



Addendum 1 - Response from the
Office of Administrative Trials and Hearings

THE CITY OF NEW YORK
OFFICE OF ADMINISTRATIVE TRIALS AND HEARINGS
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ROBERTO VELEZ
CHIEF ADMINISTRATIVE LAW JUDGE

May 16, 2002

VIA FAX @ 669-8109

Roger D. Liwer
Assistant Comptroller for Audits
Office of The Comptroller
1 Centre Street - Room 1100
New York, NY 10007-2341

Re: Audit No. FM02-075A

Dear Mr. Liwer:

I have reviewed the draft report of the audit of the timekeeping, payroll and purchasing operations of the Office of Administrative Trials and Hearings and agree with the findings and conclusions.

OATH will adopt the two recommendations listed at the conclusion of the report.
Please contact me at 442-4911 if you wish to discuss this matter any further.

Sincerely,

Roberto Velez