

AUDIT REPORT



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

Audit Report on the Payroll, Timekeeping, and Other Than Personal Services Expenditures of the Business Integrity Commission July 1, 2002–June 30, 2003

FN04-079A

May 26, 2004



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 Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has examined the compliance of the New York City Business Integrity Commission with applicable City guidelines for payroll, timekeeping, and purchasing. The results of our audit, which are presented in this report, have been discussed with Business Integrity Commission officials, and their comments have been considered in preparing this report.

Audits such as this provide a means of ensuring that City agencies comply with applicable payroll, timekeeping, and procurement guidelines and that expenses charged to City funds are reasonable, justified, and properly recorded.

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

Very truly yours,

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

William C. Thompson, Jr.
WCT/gr

Report: FN04-079A
Filed: May 26, 2004

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

**Audit Report on the Payroll, Timekeeping, and
Other Than Personal Services Expenditures of the
Business Integrity Commission
July 1, 2002–June 30, 2003**

FN04-079A

AUDIT REPORT IN BRIEF

In November 2001, a City Charter revision was adopted that created a new agency, the Organized Crime Control Commission. The Commission assumed the licensing, regulatory, and enforcement functions over the trade waste industry (previously under the jurisdiction of the Trade Waste Commission), the public wholesale market (previously under the Department of Small Business Services and the Department of Investigation), and shipboard gambling (previously under the Gambling Control Commission). In July 2002, pursuant to Local Law 21, the Organized Crime Control Commission was renamed the Business Integrity Commission.

Audit Findings and Conclusions

The Business Integrity Commission generally adhered to applicable City policies and guidelines for payroll, timekeeping, and purchasing.

However, with regard to timekeeping, we noted that the Business Integrity Commission did not retain its sign-in/sign-out log for its non-managerial employees. In addition, there were 17 instances in which five Security and Enforcement Section employees either did not sign in or did not sign out on the Daily Roll Call Logs, and four instances in which the daily times recorded by Security and Enforcement Section employees on the Daily Roll Call Logs did not match the times recorded on their corresponding Employee Time Reports (ETRs).

We also noted the following purchasing exceptions: there were four instances, totaling \$54,818, which lacked the documentation that vendors were contacted and bids obtained before awarding these purchases. There was also one purchase of office furniture, totaling \$7,099, for which there was no documentation to evidence that the purchase was awarded to the lowest bidder.

Audit Recommendations

We recommend that the Business Integrity Commission retain its sign-in/sign-out log for non-managerial employees, and that Security and Enforcement Section employees sign in and sign out on the Daily Roll Call Log and that their hours worked are accurately recorded on the ETRs. In addition, we recommend that the Business Integrity Commission comply with the appropriate

competitive bidding procedures and documentation requirements specified in the PPB rules and maintain complete procurement files that includes copies of vendor names, contact persons, bids, and telephone numbers.

INTRODUCTION

Background

In November 2001, a City Charter revision was adopted that created a new agency, the Organized Crime Control Commission. The Commission assumed the licensing, regulatory, and enforcement functions over the trade waste industry (previously under the jurisdiction of the Trade Waste Commission), the public wholesale market (previously under responsibilities of the Department of Small Business Services and the Department of Investigation), and shipboard gambling (previously under the Gambling Control Commission). In July 2002, pursuant to Local Law 21, the Organized Crime Control Commission was renamed the Business Integrity Commission.

The Business Integrity Commission's total modified budget for Fiscal Year 2003 (July 1, 2002–June 30, 2003) totaled \$4,985,091, and actual expenditures totaled \$4,684,662—\$3,480,785 for payroll and \$1,203,877 for Other Than Personal Services (OTPS). Also, for fiscal year 2003, the Business Integrity Commission generated revenue of \$2,253,857 from the issuance of licenses and the collection of fines. As of June 30, 2003, Business Integrity Commission's staff consisted of 66 full time employees—20 managerial employees, 21 non-managerial employees and 25 Security and Enforcement Section employees.

Objectives

The audit's objectives were to determine whether the Business Integrity Commission complied with certain City guidelines for payroll, timekeeping, and purchasing.

Scope and Methodology

This audit covered the period July 1, 2002, through June 30, 2003. We reviewed the Business Integrity Commission payroll and timekeeping functions and responsibilities and their relation to City Office of Payroll Administration (OPA) procedures, bulletins, and instructions for its Payroll Management System (PMS), and to Comptroller's Directives #1 and #13. We conducted walk-throughs of the timekeeping and payroll operations on September 29, 2003, and September 30, 2003, interviewed appropriate personnel, and documented our understanding through narratives. We attained an understanding of the way the Business Integrity Commission processes its procurement and purchasing documents for Other Than Personal Services (OTPS) by reviewing the City's Procurement Policy Board (PPB) rules in effect for Fiscal Year 2003 and to Comptroller's Directives #1, #3, #24, and #25. We conducted a walk-through of the OTPS process on September 15, 2003, interviewed appropriate personnel, and documented our understanding of the process in a narrative.

Payroll and Timekeeping

To determine whether all Business Integrity Commission employees are bona fide, in accordance with OPA regulations and Comptroller's Directive #13, we judgmentally sampled 33 of

the 66 employees (50 percent), comparing the names listed on the payroll register to their timekeeping records. On February 26, 2004, we witnessed a payroll distribution and observed whether employees signed for their checks or pay stubs (if the pay is deposited directly in the bank) and whether the name on each employee's picture identification matched the name on the payroll register. In addition, we determined whether employees' salaries were within the City's ranges for their civil service titles.

We evaluated the Business Integrity Commission's internal controls over timekeeping procedures to determine the nature and extent of testing to be performed. We reviewed specific timekeeping records that included the Security and Enforcement Section (SES) Daily Roll Call Log, Employee Time Reports (ETRs), the City PMS 920 Reports—biweekly computer-generated printouts of all time adjustments made for employees—and leave slips for all employees for the three-month period October–December 2002, to assess the controls at calendar year-end. We reviewed the SES Daily Roll Call Logs and non-managerial and managerial ETRs for completeness, accuracy, and reliability. In that regard, we determined whether all non-managerial and managerial time sheets and the SES Daily Roll Call Logs included daily arrival and departure times, and whether the hours recorded added up to at least 35 hours.

We then reviewed the ETRs, employee leave slips, and the PMS 920 Reports for accuracy and proper approvals. In that regard, we compared time adjustments recorded in the roll call logs and timesheets to employee leave slips and compensatory time slips to determine whether the time earned or used was accounted for, and whether the times and dates correctly matched those recorded on the roll call logs and timesheets. We determined whether the time recorded was correctly posted and recorded on the respective ETR, and whether leave slips and ETRs were properly authorized and correctly entered in PMS. We compared the ETRs to the PMS 920 Reports to determine whether annual and sick leave use was properly recorded on PMS.

Purchasing, Procurement, and Vouchering

To determine whether the Business Integrity Commission complied with the purchasing, procurement, and vouchering guidelines of Comptroller's Directives #3, #24, and #25, we judgmentally sampled 78 (46%) of the 168 purchase orders totaling \$354,586 for the one-year audit period, and all 63 Imprest Fund vouchers, totaling \$2,410, and all 34 miscellaneous vouchers, totaling \$44,230, for that period. Thus, we sampled \$401,226, or 77.8 percent of the Business Integrity Commission's \$515,102 purchases. In addition, we reviewed rent and utility payments made directly by the City Department of Citywide Administrative Services (DCAS), and telephone payments by the City Department of Information Technology and Telecommunications (DoITT) that were not included in the above total.

We reviewed each purchase order, requisition, payment voucher, invoice, and the corresponding documentation in the voucher package to determine whether the items purchased were reasonable and necessary, and contained the required documentation to support the purchase. We also determined whether the purchases were charged to the correct budget codes, object codes, and time periods, whether instances of split purchasing were evident, whether there were any duplicate payments, and whether they were properly authorized. To determine whether the voucher amounts were calculated correctly, we recalculated the amounts on the supporting requisitions and vendor invoices and traced them to the voucher totals. In addition, we determined whether there was adequate segregation of duties over the purchase functions by reviewing purchase orders and

vouchers. Specifically, we determined whether the employees who prepared the purchase orders and vouchers were not the same employees who authorized them.

We determined whether the Business Integrity Commission processed miscellaneous vouchers according to specific guidelines in Comptroller's Directive #25, *Guidelines for the Use and Submission of Miscellaneous Vouchers*. Specifically, we reviewed all 34 miscellaneous vouchers processed through the Business Integrity Commission for proper authorization, adequate supporting documentation, and purchase appropriateness, e.g., for such items as postage, ink and tape replenishment for the postage meter, legal transcripts, and work-related gasoline reimbursements.

We reviewed all 63 reimbursement vouchers processed during the audit period to determine whether the Business Integrity Commission administered its imprest fund in accordance with Comptroller's Directive #3, *Procedures for the Administration of Imprest Funds*. We reviewed whether individual charges exceeded the \$250 threshold and were for such allowable items as small purchases and employee reimbursement for local work-related travel. We also determined whether all checks had a specified payee and were not made out to "bearer" or to "cash," whether any duplicate payments were made to employees and vendors, and whether any payments were processed through "miscellaneous" vouchers.

Finally, we determined whether the Business Integrity Commission made payments to vendors within 30 days after the Invoice Received or Acceptance Date (IRA Date), in accordance with § 4-06(c)(2) of the PPB rules. In that regard, we compared the IRA Dates to the check issuance dates for all vouchers reviewed.

Although the results of the above tests are not projectable to the overall population, they did provide us with a reasonable basis to assess the Business Integrity Commission's compliance with the above-mentioned City guidelines for payroll, timekeeping, and purchasing.

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 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 Business Integrity Commission officials during and at the conclusion of this audit. A preliminary draft report was sent to Business Integrity Commission officials and was discussed at an exit conference on April 15, 2004. On April 16, 2004, we submitted a draft report to Business Integrity Commission officials with a request for comments. We received a written response from the Business Integrity Commission officials on April 28, 2004.

In their response, Business Integrity Commission officials detailed the Commission's timekeeping and procurement practices pertaining to the findings and described the corrective actions they have taken to implement the recommendations.

The full text of the Business Integrity Commission's comments is included as an addendum to this final report.

FINDINGS

Apart from the minor noted exceptions that follow, the Business Integrity Commission, is generally complying with the City's payroll, timekeeping, and purchasing guidelines. Specifically, we found that:

- All employees are bona fide.
- Employees signed for their pay-checks or pay stubs, as required by OPA procedures.
- Employee salaries were within the range of civil service titles.
- Leave and compensatory time slips were properly authorized and accounted for.
- Leave time taken was posted on the respective ETRs and entered in PMS.
- ETRs contained appropriate signatures indicating that they have been reviewed and approved.
- Purchase documents were appropriately prepared and approved.
- Goods and services procured appeared reasonable and necessary for the operation of the Commission.
- Funds were encumbered prior to the receipt of goods and services.
- Vouchers had sufficient documentation to support payment.
- No instances of split ordering were found.
- Expenditures were charged to the correct budget code, object code, and fiscal year.
- Authorized signatures appeared on all required documents.
- There was adequate segregation of responsibilities over the procurement process.
- Payments were made within the appropriate time frame specified in the PPB rules.
- Imprest fund checks did not exceed \$250 and included a specific payee.
- No imprest fund requests were charged to miscellaneous vouchers.
- Computations were verified for accuracy.

However, we noted several minor exceptions, which are described in the following sections of this report.

Sign-In/Sign-out Log for Non-Managerial Employees was not Retained

The sign in or log in book by which the Business Integrity Commission's 21 non-managerial employees' time is monitored daily is discarded after the arrival and departure times are compared to the respective ETRs. This differs from the Commission's practice to retain the Daily Roll Call Log for its SES employees.

Comptroller's Directive 13, § 4.0, states:

"Timekeeping is the aspect of the payroll process that creates the primary time records that are used to determine the salary or wages payable to employees. As such, it is one of the most important links in the agency's internal control structure for the payroll process. . . . Each work unit must designate a timekeeper to monitor and record daily attendance, absences, late arrivals and early departures under Citywide and agency time and leave policies and procedures. Agencies must establish and enforce practices and routines to ensure that timekeeping procedures produce reliable and accurate time records and reports."

Incomplete or Inaccurate Daily Security and Enforcement Section Employees Roll Call Logs

During our three-month review of the Business Integrity Commission timekeeping records, there were 17 instances in which five Security and Enforcement Section employees either did not sign in or did not sign out on the Daily Roll Call Logs, and there were four instances in which the daily times recorded by Security and Enforcement Section employees on the Daily Roll Call Logs did not match the times recorded on their corresponding ETRs.

Bids Not Obtained and Supporting Documentation Not Provided for Four Purchases

There were four instances in which the Business Integrity Commission did not follow the competitive bidding requirements set forth in the PPB rules. These purchases totaled \$54,818, and were for uniforms and related accessories and temporary employment services.

Section 3-08 e of the PPB rules states that "the procurement file for a small purchase shall contain at a minimum . . . invoice and receiving documentation, name of the bidder list or applicable commodity code, names of solicited suppliers and bid amounts, copy of advertisement or written solicitation, written bids and offers, all correspondence, bid tabulations, and written basis of award."

No Documentation of Oral Solicitation of Bids for One Small Procurement

There was one instance for the purchase of office furniture, totaling \$7,099, which lacked evidence that the purchase was awarded to the lowest bidder. Bid amounts were not provided as evidence that bids were solicited from the other noted vendors. Section 3-08 e (10) of the PPB rules states that "the procurement file for a small purchase shall contain at a minimum . . . quotations and notations pertaining to oral bid solicitations."

RECOMMENDATIONS

We recommend that the Business Integrity Commission:

1. Retain its sign-in/sign-out log for non-managerial employees.

Business Integrity Commission Response: Business Integrity Commission officials responded that they will require that all supervisors “maintain daily sign-in/sign-out logs, and these logs will be kept for . . . five years before being discarded.” They stated they have always had a sign-in and sign-out log system for its non-managerial employees, and that it was within the supervisors’ managerial discretion to retain or discard the logs after comparing them against the employee’s weekly timesheets.

2. Ensure that Security and Enforcement Section employees sign in and sign out on the Daily Roll Call Log and that their hours worked are accurately recorded on the ETRs.

Business Integrity Commission Response: Business Integrity Commission officials responded that they have implemented a two-step review process to ensure that all Security and Enforcement Section employees sign in and sign out on the logs, and that these logs are reviewed by the supervisors for accuracy.

3. Comply with the appropriate competitive bidding procedures and documentation requirements specified in the PPB rules.

Business Integrity Commission Response: With regard to uniform purchases, Business Integrity Commission officials stated that they considered this vendor sole-source, and that they were in compliance with Section 3-05(b)(1) of the PPB rules.

With regard to Court Reporter services and temporary employment services, Business Integrity Commission officials responded that all bids received from competitive court reporter companies and temporary employment services will be documented in writing. They stated that blanket orders were created projecting the annual expenditure amounts for the court reporter vendor and for the temporary agency vendor, and that the procurement officer called different vendors for bid quotes, but did not document the bids in writing.

Finally, for the purchase of office furniture, Business Integrity Commission officials responded that the procurement officer reviewed several catalogues and confirmed prices and availability with various vendors, but did not document the oral bids. They stated that in the future, all oral vendor bids will be documented in writing.

Auditor Comments: Contrary to the Business Integrity Commission’s assertion, the uniform purchases did not comply with Section 3-05 of the PPB rules. According to Section 3-05(b) “prior to entering into sole-source negotiations, the ACCO [Agency Chief Contracting Officer] shall make a determination that there is only one source for the required good, service, or construction.” The procurement files for these purchases must contain documentation showing that the ACCO made such a determination. The

file for this purchase did not contain this determination; rather it contained only a copy of the purchase order and the description of the items to be purchased.

4. Maintain complete procurement files that includes copies of vendor names, contact persons, bids, and telephone numbers.

Business Integrity Commission Response: Business Integrity Commission officials responded that the Commission “feels that the procurement rules were observed and complied with. Nonetheless, BIC will take steps to ensure that every purchase order is backed with information as to vendor names, contact persons, bids, and telephone numbers. This will apply to written and oral bids.”



BUSINESS INTEGRITY COMMISSION

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April 28, 2003

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1 Centre Street
New York, New York 10007-2341

**RE: BIC's Response to the Audit Report
on the Payroll, Timekeeping, and
Other Than Personal Services Expenditures
of the Business Integrity Commission
July 1, 2002 – June 30, 2003
FN04-079A**

Dear Mr. Brooks:

The Business Integrity Commission ("BIC") is in receipt of the draft of the above-captioned audit report and is submitting this response to the report's findings and recommendations. The Comptroller's staff audited this agency's payroll, timekeeping, and purchasing functions for fiscal year 2003, and basically found BIC adhered, overall, to applicable City policies and guidelines, with some minor exceptions. The Comptroller's Office made four recommendations to assist BIC in meeting internal control objectives to prevent and detect errors or irregularities. We now address the Comptroller's recommendations with respect to these minor exceptions.

1. Retain Sign-In/Sign-Out Log for Non-Managerial Employees

BIC has always had a sign-in and sign-out log system for its non-managerial employees. In the past it was within the supervisors' managerial discretion whether to retain or discard these logs after comparing the logs against weekly timesheets to ensure that non-managerial employees submitted reliable, accurate and truthful records and reports. Some unit supervisors kept these logs; others discarded them. In light of the Comptroller's recommendation, BIC will require all supervisors to maintain daily sign-in/sign-out logs, and these logs will be kept for the Comptroller's audit cycle of 5 years before being discarded.

2. Ensure that Security and Enforcement Section Employees Sign In and Sign Out on Daily Roll Call Log and Their Hours Worked Are Accurately Recorded on the ETRs

Even before the Comptroller's Office commenced its audit, the Director of the Security and Enforcement Section ("SES") was aware of the irregularities cited in the report and had already implemented remedial action to prevent such discrepancies from occurring. There is now a two-step review process. First, the SES timekeeper forwards the sign-in/sign-out logs to the supervisors, who are responsible for reviewing the daily logs against the timesheets. After the review by the supervisors, the timesheets are reviewed a second time by the SES timekeeper for completeness, accuracy, and truthfulness. If the timekeeper finds a discrepancy, the matter is directed to the attention of the SES Director. In addition, this review procedure will also be implemented for non-managerial employees working at the main office, 100 Church Street.

3. Comply With the Appropriate Competitive Bidding Procedures and Documentation Requirements Specified in the PPB Rules

The Comptroller's staff found purchases where they deemed BIC did not follow the competitive bidding requirements. These purchases were for SES uniforms, court reporter services, temporary employment agency services, and furniture. We now address each purchase.

- a. SES Uniforms

Before the SES Unit was incorporated into BIC pursuant to Chapter 63 of the New York City Charter, the SES Unit was under the Department of Small Business Services ("DSBS"), which previously had regulatory oversight of the public wholesale markets. Through the years the public wholesale market businesses knew the City's SES market enforcement inspectors simply by the uniforms. DSBS had consistently ordered these uniforms from one particular vendor, and BIC continued to use this vendor simply for continuity of the distinctive uniforms, allowing the SES market enforcement staff to appear distinct from other City enforcement personnel. To award the bid to other vendors each time BIC needs to order uniforms would alter the inspectors' appearance and possibly lead to confusion. As traffic agents are identified by their brown uniforms, so BIC market inspectors are identified by their unique black uniforms. To change the color or style of the uniforms may cause enforcement problems that can be avoided with foresight. Thus, to continue the process established by DSBS, BIC purchased uniforms from the same noncompetitive vendor. The total paid to this noncompetitive vendor during FY 2003 was under \$10,000. BIC, however, complied with Procurement Policy Board Rules ("PPBR") by adhering to the sole source procurement as set forth in PPBR Section 3-05(b)(1) which states: "For sole source procurements of \$10,000 or less for goods and

services...such determination shall include a description of the process by which the agency made such determination.”

b. Court Reporter Services and Temporary Employment Services

BIC created blanket orders with projected amounts for yearly expenditure for the court reporter vendor and temporary agency vendor because we could not project our need for these two services as they were on an as-needed basis. Each time a court reporter or temporary employment service was needed, it was deemed a separate purchase order. BIC's use of a court reporter can vary from four times per year to 25 times per year, depending on need. Similarly, we could not foresee our exact need for temporary employment services. This was on an as-needed basis, such as filling in at the reception area during the summer months when the majority of clerical staff took vacation, or special projects requiring extra clerical help such as archiving agency records.

Also, it was important that the court reporter service utilized provided accurate transcriptions of investigative proceedings. This was a determining factor in the selection of a court reporter service. It would be detrimental to the agency's functioning if transcripts were flawed and contained discrepancies. The court reporter services used by BIC in fiscal year 2003 provided accurate transcriptions of proceedings.

The process the procurement officer used in selecting the court reporter and temporary employment services was to call different vendors and get bid quotes. The procurement officer did not write down the oral bids. In light of the audit report, BIC will from here on in document the rates from competitive court reporter companies and temporary employment agencies to justify the procurements.

c. Office Furniture

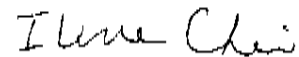
With regard to the office furniture, totaling \$7,099, the procurement officer reviewed several catalogues for prices and then confirmed prices and availability with the various vendors. Based on these factors, the procurement officer then decided from which vendor to purchase the furniture. The procurement officer did not document the oral bids, and will do so from here on in.

4. Maintain Complete Procurement Files That Includes Copies of Vendor Names, Contact Persons, Bids, and Telephone Numbers

The Comptroller's staff found five instances in which they deemed documentation was lacking. However, as explained above, BIC feels that the procurement rules were observed and complied with. Nonetheless, BIC will take steps to ensure that every purchase order is backed with information as to vendor names, contact persons, bids, and telephone numbers. This will apply to written and oral bids.

This concludes BIC's response to the Comptroller's recommendations.

Sincerely,



Ilene Chin
Deputy Commissioner for
Administration and Operations

cc: Robert Schulman, Acting Chair