

AUDIT REPORT



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

Audit Report on the Financial and Operating Practices of the Office of Special Narcotics

FP07-074A

January 7, 2008



THE CITY OF NEW YORK
DEPARTMENT 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 audited the compliance of the Office of Special Narcotics with certain purchasing and inventory procedures.

The Office of Special Narcotics investigates cases brought to it by federal, State, and local law enforcement agencies and prosecutes felony narcotics cases throughout the City's five counties. The Office routinely works with prosecutorial agencies from other states and from foreign countries. We audit City agencies such as this to ensure that they comply with procurement rules and inventory control procedures.

The results of our audit, which are presented in this report, have been discussed with the Office of Special Narcotics officials, and their comments have been considered in the preparation of 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 black ink, appearing to read "William C. Thompson, Jr.", written in a cursive style.

William C. Thompson, Jr.

WCT/fh

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

**Audit Report on the
Financial and Operating Practices of the
Office of Special Narcotics**

FP07-074A

AUDIT REPORT IN BRIEF

This audit determined whether the Office of Special Narcotics (the Office) is complying with certain purchasing and inventory procedures and controls as set forth in the New York City Comptroller's Internal Control and Accountability Directives (Comptroller's Directives) #3, #6, and #24; applicable Procurement Policy Board (PPB) rules; and the Department of Investigation *Standards for Inventory Control and Management*.

Audit Findings and Conclusions

The Office of Special Narcotics generally adhered to Comptroller's Directives #3, #6, #24, and applicable Procurement Policy Board rules. In addition, our examination of Other Than Personal Service expenditures disclosed no instances in which monies were improperly used. However, the Office did not fully comply with certain requirements. Specifically, the Office:

- Processed 18 of the 67 imprest fund purchases using the incorrect voucher type.
- Processed six miscellaneous purchases using the incorrect voucher type.
- Did not indicate the vehicle identification number of the City vehicle that was used on 6 of 38 personal expense forms, totaling \$556.
- Split six imprest fund purchases for replenishment of the postage meter to circumvent the \$250 expenditure limit established in Comptroller's Directive #3.
- Did not always ensure that inventory records were complete and accurate.

We recommend that the Office of Special Narcotics ensure that:

- The imprest fund purchases are used for the purchase of supplies, materials, and small equipment. Other allowable imprest fund purchases include employee expenses for local transportation and out-of-town travel costs.
- The appropriate type of voucher is used to process its purchases.
- Employees include the vehicle identification number on the personal expense form when using a City-owned vehicle.
- All imprest fund expenditures comply with the provisions of Comptroller's Directive #3.
- Tag numbers are included for each item listed on the inventory list.
- Identification tags are affixed to all items.
- Complete and accurate inventory records of all equipment items are maintained.

INTRODUCTION

Background

The Office of Special Narcotics was established in 1971 to enhance the response of law enforcement to serious drug problems in the City. In accordance with New York State Judiciary Law, Article 5-B, §177-C, the five City District Attorneys jointly formulated the plan that created the Office of Special Narcotics. The Office was granted concurrent jurisdiction to investigate cases brought to it by federal, State, and local law enforcement agencies and was given authority to prosecute felony drug cases throughout the City's five counties. The Office routinely works with prosecutorial agencies from other states and from foreign countries.

The Office of Special Narcotics is headed by a Special Assistant District Attorney, appointed by the five City District Attorneys, who initiates and implements policies and procedures concerning the prosecution of felony narcotics cases and directs the internal operations of the Office of Special Narcotics.

During Fiscal Year 2006, Other Than Personal Service (OTPS) expenditures for the Office of Special Narcotics amounted to \$452,884.

Objectives

This audit was conducted to determine whether the Office of Special Narcotics is complying with certain purchasing and inventory procedures and controls as set forth in the New York City Comptroller's Internal Control and Accountability Directives #3, #6, and #24; applicable Procurement Policy Board rules; and the Department of Investigation *Standards for Inventory Control and Management*.

Scope and Methodology

This audit covered the period July 1, 2005, through June 30, 2006.

To obtain an understanding of the purchasing and inventory procedures and regulations with which the Office of Special Narcotics is required to comply, we reviewed relevant provisions of: Comptroller's Directives #3, "Procedures for the Administration of Imprest Funds"; #6, "Travel, Meals, Lodging and Miscellaneous Agency Expenses"; #24, "Agency Purchasing Procedures and Controls"; applicable Procurement Policy Board rules; and the Department of Investigation (DOI) *Standards for Inventory Control and Management*. We also reviewed the Financial Integrity Statement for Calendar Year 2006 submitted by the Office in accordance with Comptroller's Directive #1, "Financial Integrity Statement filing for Calendar Year 2006." We interviewed staff of the Office to obtain an understanding of the purchasing procedures and to determine how physical assets are safeguarded.

Tests of Compliance with Comptroller’s Directives #3, #6, #24, and PPB Rules

The Office of Special Narcotics issued a total of 675 payment vouchers totaling \$392,385 (excluding “Special Expenditures,” object code #460) for purchases in Fiscal Year 2006—501 miscellaneous vouchers, 161 purchase vouchers, and 13 imprest fund vouchers. Of the 675 vouchers processed during Fiscal Year 2006, we randomly selected 50 miscellaneous vouchers, selected the 16 highest dollar value purchase vouchers, and 5 highest dollar value imprest fund vouchers. We examined each voucher for the requisite approvals and authorizations for evidence that the transactions were for proper business purposes and for adequate documentation. We also determined whether the proper purchase document was used to initiate the purchase of goods or services. Each of the 71 purchase vouchers was examined to ascertain whether: it was properly coded; an authorized purchase document was on file; sales and excise taxes, if applicable, were properly excluded from payments; and bids were obtained when required by PPB rules. For the 50 miscellaneous vouchers, we also determined whether the vouchers were issued for only allowable purposes.

To assess Office of Special Narcotics controls over the imprest fund, we selected five imprest fund vouchers issued during Fiscal Year 2006 and related supporting documentation. Specifically, we examined the 63 canceled checks related to those vouchers for: authorized signatures and amounts; a specific payee (as opposed to “bearer” or “cash”); an endorsement; and a “void after 90 days” inscription on each check. We also traced the canceled checks to the bank statements and determined whether appropriate bank reconciliations were performed. Finally, we determined whether imprest fund expenditure amounts were within the \$250 allowable amount specified in Comptroller’s Directive #3.

The results of the above tests of 71 vouchers, while not projected to all payment vouchers, provided a reasonable basis to assess Office of Special Narcotics compliance with Comptroller’s Directives #3, #6, and #24.

Tests of Inventory Records and Compliance with DOI Inventory Standards

We randomly selected 50 of the 641 major equipment items (including monitors, CPUs, printers, fax machines, and vehicles) listed on the Office’s most current inventory records and observed whether they were present. It should be noted that 5 of the 50 items selected (one broken fax machine, three obsolete type writers, and one obsolete transcriber) were no longer in use and therefore sent to be salvaged. We also determined whether 25 office and computer equipment items that we observed at the premises of the Office of Special Narcotics during our walkthrough were listed on its inventory records. Finally, we checked whether all items examined were properly tagged as property of the Office of Special Narcotics. The results of the above tests of 75 inventory items, while not projected to all major equipment items, provided a reasonable basis to assess Office of Special Narcotics controls over inventory, as specified in the *DOI Standards for Inventory Control and Management*.

Scope Limitation

The Office of Special Narcotics states that it uses funds in its “Special Expenditures” account to pay for confidential expenditures, such as protection of witnesses, paid informants, and surveillance operations. It expended \$77,954 from this account in Fiscal Year 2006. We accepted the assertion of the Office of Special Narcotics that our audit of “confidential” expenditures might jeopardize current or future investigations and related criminal justice activities. Accordingly, during this audit we did not review transactions posted to this account.

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 officials of the Office of Special Narcotics during and at the conclusion of this audit. A preliminary draft report was sent to the Office of Special Narcotics and was discussed at an exit conference held on October 29, 2007. On November 8, 2007, we submitted a draft report to Office of Special Narcotics officials with a request for comments. We received a written response from the Office of Special Narcotics on November 19, 2007. In its response, the Office of Special Narcotics agreed with all of the audit report recommendations.

The full text of the Office of Special Narcotics response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

The Office of Special Narcotics generally adhered to Comptroller's Directives #3, #6, #24, and applicable Procurement Policy Board rules. In this regard:

- Items purchased were necessary for Office of Special Narcotics operations;
- The amounts paid to vendors were properly calculated and excluded sales tax;
- All payment vouchers were accompanied by appropriate invoices or receipts;
- Imprest fund checks had the required authorized signatures, designated specified payees, and had the inscription "void after 90 days";
- The imprest fund bank account was reconciled appropriately; and
- Except for the salvaged equipment, all equipment selected for the inventory testing were verified as present.

In addition, our examination of Other Than Personal Service expenditures disclosed no instances in which monies were improperly used. However, the Office did not fully comply with certain requirements. These instances of minor noncompliance, which did not detract from our opinion, are discussed in detail in the following sections of this report.

Incorrect Voucher Type Processed

Eighteen of the 67 imprest fund purchases processed by the Office of Special Narcotics used the incorrect voucher type. For example, the Office processed 13 reoccurring postage refills and 5 Federal Express deliveries using the imprest fund vouchers (PVR); however, according to Comptroller's Directive #24, the appropriate type of voucher for these purchases is the payment voucher (PVE).

We also found that six miscellaneous purchases were processed using the incorrect voucher type. For example, the Office of Special Narcotics purchased a pager service, telephone service, and Internet access using the miscellaneous voucher (PVM); however, the appropriate type of voucher for these purchases is the payment voucher (PVE).

Comptroller's Directive #24 states that "Miscellaneous Payment Vouchers (PVMs) may be used only when estimated or actual future liability is not determinable, or a contract or a Purchase Document is not required or applicable."

Use of incorrect vouchers prevents agencies from pre-encumbering funds for purchases from external vendors, thereby potentially compromising management's ability to plan future budgets. The Office should be able to estimate its expenditures for postage and

telecommunication services based on its previous year charges and prepare a purchase document to encumber the funds for the current year.

Recommendations

The Office of Special Narcotics should ensure that:

1. The imprest fund purchases are used for the purchase of supplies, materials, and small equipment. Other allowable imprest fund purchases include employee expenses for local transportation and out-of-town travel costs.
2. The appropriate type of voucher is used to process its purchases.

Office of Special Narcotics Response: “Although we have agreed to make the changes as recommended, we must take issue with your suggestion that the use of the wrong voucher type may compromise our office’s ability to plan future budgets. That is because our office does not rely on the system alone to plan our budget. In fact, our budgets have been balanced for each of the 35 years the office has existed.”

Personal Expense Forms Did Not Include Sufficient Information

The Office of Special Narcotics did not always properly complete the personal expense forms. We found that 6 of 38 personal expense forms, totaling \$556, did not indicate the vehicle identification number of the City vehicle that was used.

Comptroller’s Directive #6 states that if an employee uses a City-owned vehicle, the employee should include the agency-assigned vehicle number on the expense forms.

Recommendation

3. The Office of Special Narcotics should ensure that employees include the vehicle identification number on the personal expense form when using a City-owned vehicle.

Office of Special Narcotics Response: “We have re-emphasized to staff members that they must comply with the requirement that office vehicle numbers must be included in personal expense forms. We are in compliance with this recommendation.”

Imprest Fund Issues

The Office of Special Narcotics split six imprest fund purchases for replenishment of the postage meter to circumvent the \$250 expenditure limit established in Comptroller’s Directive #3. The Office of Special Narcotics replenished the postage meter as needed. However, on three separate occasions, the Office issued two checks (\$250 each) on the same day to the same vendor to pay for the postage meter. An agency cannot split its purchases by issuing two imprest fund checks for \$250 each to circumvent the \$250 limitation. Instead, as explained earlier, the Office

should prepare a purchase document to encumber the funds and issue a purchase voucher to expend the funds.

Comptroller's Directive #3 states, "Purchases must not be split to circumvent the \$250 expenditure limitation."

Recommendation

4. The Office of Special Narcotics should ensure that all imprest fund expenditures comply with the provisions of Comptroller's Directive #3.

Office of Special Narcotics Response: "We are now in compliance with the provisions of Comptroller's Directive#3."

Inventory Control Weaknesses

Of the most recent inventory records of the Office of Special Narcotics, which listed 641 equipment items, we randomly selected 50 items from the Office's inventory lists and observed an additional 25 items at the time of our walkthrough of the Office of Special Narcotics. Our review of the inventory lists revealed that some of the records were incomplete, inaccurate, or contained identification errors; some items were not found. Specifically:

- 42 items did not have their tag numbers on the inventory list;
- 10 items lacked tags affixed to the equipment;
- 3 items had an incorrect serial number on the inventory list;
- 2 items had incorrect locations on the inventory list;
- 2 items observed were not included on the inventory list;
- 5 items that were salvaged were included on the inventory list; and
- 2 items had the incorrect tag number on the inventory list.

Section 28 of the DOI *Standards for Inventory Control and Management* states, "Permanent records are maintained, centrally, to track all non-consumable goods issued to each agency unit, including type of equipment, manufacturer, serial number, agency control number, condition, location, date issued, and the person(s) responsible for maintenance."

Recommendations

The Office of Special Narcotics should ensure that:

5. Tag numbers are included for each item listed on the inventory list.
6. Identification tags are affixed to all items.
7. Complete and accurate inventory records of all equipment items are maintained.

Office of Special Narcotics Response: “The Office of Special Narcotics Prosecutor is reviewing its inventory system and has instituted a new policy to insure that all necessary changes are made to bring our office into complete compliance with the DOI Standards for Inventory Control and Management.”



**Office of the
Special Narcotics Prosecutor
for the City of New York**

Bridget G. Brennan, Special Narcotics Prosecutor

80 CENTRE STREET, SIXTH FLOOR
NEW YORK, NY 10013
212-815-0400, GEN.
212-815-0440, FAX

November 14, 2007

Mr. John Graham
Deputy Comptroller
Audits, Accountancy & Contracts
Office of the Comptroller,
One Centre Street
New York, NY 10017-2341

Dear Mr. Graham:

Thank you for the opportunity to respond to your office's audit report on the financial and operating practices of the Office of Special Narcotics, from July 1, 2005 to June 30, 2006.

The Office of the Special Narcotics Prosecutor has an efficient and highly professional management team, as evidenced by the excellent record we have maintained in audits over the years. Once again, we were pleased that the Comptroller's audit found no serious deficiencies in our financial and operating practices.

In fact, the Comptroller's audit specifically stated that "the examination of OTPS expenditures disclosed no instances in which moneys were improperly used." It is also noteworthy that the auditors stated that OTPS funds are properly expended, that appropriate authorizations and back-up documentation are required and are present. The preliminary draft states that whatever findings auditors made were "in areas of MINOR noncompliance."(Emphasis added.)

We will continue to utilize our systems regarding expenditures of OTPS funds, back-up documentation, authorization for expenditures, and balancing of accounts. In addition, we will soon or have already implemented the recommendations contained in the audit report.

The following is our response to the report's recommendations:

Response to Recommendation #1 & #2

As we have explained to the comptroller's office, the estimated future expenditure for postal service is not determinable due to the nature of our business. Past expenditure for such services varied by as much as 50% from year to year depending upon the number and size of cases investigated and/or prosecuted each year.

Over the last five years, our office's OTPS budget has been cut by nearly 50%. It has become a challenge for us to pay our bills and keep services operational with such a dramatic reduction in funding. The revised Comptroller's Directive #24 issued during this difficult time period requires that

we start encumbering funds for telecommunication services, which is close to 20% of our total OTPS budget. We have since then been studying ways to comply with these changes while keeping the minimum operational flexibility we need to effectively investigate and prosecute cases.

Despite the difficulties we had to face to encumber funds for these services, we have managed to accomplish the task and are now in compliance with the Comptroller's Directive #24.

Although we have agreed to make the changes as recommended, we must take issue with your suggestion that the use of the wrong voucher type may compromise our office's ability to plan future budgets. That is because our office does not rely on the system alone to plan our budget. In fact, our budgets have been balanced for each of the 35 years the office has existed.

Response to Recommendation #3

We have re-emphasized to staff members that they must comply with the requirement that office vehicle numbers must be included in personal expense forms. We are in compliance with this recommendation.

Response to Recommendation #4

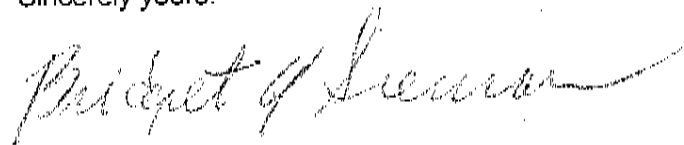
We are now in compliance with the provisions of Comptroller's Directive#3.

Response to Recommendation #5 to #7

The Office of the Special Narcotics Prosecutor is reviewing its inventory system and has instituted a new policy to insure that all necessary changes are made to bring our office into complete compliance with the DOI Standards for Inventory Control and Management.

Should you wish to discuss this response further or if you have any questions, please do not hesitate to call me at (212)815-0413.

Sincerely yours.



Bridget G. Brennan
Special Narcotics Prosecutor for the City of New York

Cc: Lawrence Welgrin
Audit Manager, Office of the Comptroller