



City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



FINANCIAL AUDIT

Marjorie Landa

Deputy Comptroller for Audit

Follow-up Audit Report on the Civil
Service Commission's Financial and
Operating Practices

FP20-094F

November 2, 2020

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

November 2, 2020

To the Residents of the City of New York:

My office has audited the Civil Service Commission (CSC) to determine whether the CSC implemented the seven recommendations made in a prior audit (Audit #FK17-070A) of CSC's financial and operating practices. We conduct follow-up audits such as this to increase accountability by ensuring that agencies take appropriate actions to address identified program weaknesses.

This follow-up audit found that out of the seven prior audit recommendations, the CSC implemented three recommendations, partially implemented three recommendations, and did not implement one recommendation. Specifically, the CSC implemented recommendations that it: maintain accurate and complete inventory records; charge purchases to the correct object codes; and carefully review its prior and current Comptroller's Directive #1 Agency Evaluation of Internal Controls to ensure their accuracy in all respects. In addition, the CSC partially implemented three recommendations which pertained to inventory practices and segregation of duties for purchasing and inventory. Finally, the CSC did not implement the recommendation that it document policies and procedures for inventory in writing and communicate them to staff.

Based on our follow-up audit we recommend that the CSC: (1) document and separately maintain the results of periodic inventory counts; (2) further segregate the duties of preparing purchase requests, approving payments, and maintaining inventory records and if the recommended segregation of duties is not possible then CSC should implement compensating controls; and (3) include policies and procedures for inventory in the CSC's current Administrative Procedures.

The results of the audit have been discussed with CSC officials, and their comments have been considered in preparing this report. The CSC's complete written response is attached to this report.

If you have any questions concerning this report, please e-mail my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
Audit Findings and Conclusion	1
Audit Recommendations.....	2
Agency Response.....	2
AUDIT REPORT	3
Background	3
Objective.....	3
Scope and Methodology Statement.....	3
Discussion of Audit Results	4
RESULTS OF FOLLOW-UP AUDIT	5
RECOMMENDATIONS	9
DETAILED SCOPE AND METHODOLOGY.....	10
ADDENDUM	

THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

Follow-up Audit Report on the Civil Service Commission's Financial and Operating Practices

FP20-094F

EXECUTIVE SUMMARY

The objective of this audit was to determine whether the Civil Service Commission (CSC) implemented the seven recommendations made in the prior audit report relating to the audit of its financial and operating practices.

The CSC is an independent, non-mayoral agency that hears and renders decisions on appeals by candidates who were disqualified and removed from an eligible civil service employment list and appeals by City employees on disciplinary matters. A majority of the appeals can be classified within one of two categories:

- Appeals by applicants or appointees who have been disqualified from a civil service appointment based on character, medical, psychological, or other reasons; or
- Appeals by City employees who have been disciplined for misconduct or incompetence.

A prior New York City Comptroller's Office audit was conducted to determine whether the CSC maintains reliable and effective internal control systems over cash receipts, expenditures, and inventory as required by the New York City Comptroller's Directives. The audit found various internal control weaknesses related to the CSC's financial and operating practices; see *Audit Report on the Civil Service Commission's Financial and Operating Practices* (Audit #FK17-070A), issued on June 23, 2017. The audit report included seven recommendations to address the internal control weaknesses found. In this report, we discuss the implementation status of each of those seven recommendations.

Audit Findings and Conclusion

Of the seven prior audit recommendations, we determined that the CSC implemented three recommendations, partially implemented three recommendations, and did not implement one recommendation. Specifically, the CSC implemented recommendations that it: maintain accurate and complete inventory records; charge purchases to the correct object codes; and carefully review its prior and current Comptroller's Directive #1 Agency Evaluation of Internal Controls to ensure their accuracy in all respects. In addition, the CSC partially implemented the three

recommendations pertaining to inventory practices and segregation of duties for purchasing and inventory. Finally, the CSC did not implement the recommendation to document policies and procedures for inventory in writing and communicate them to staff.

Audit Recommendations

Based on the audit, we made three recommendations, including that the CSC should:

1. Document and separately maintain the results of periodic inventory counts.
2. Further segregate the duties of preparing purchase requests, approving payments, and maintaining inventory records. The CSC should implement compensating controls if the recommended segregation of duties is not possible.
3. Include policies and procedures for inventory in the CSC's current Administrative Procedures.

Agency Response

In its response, the CSC generally agreed with the three recommendations and outlined the actions it has taken, and plans to take, to implement each of them.

AUDIT REPORT

Background

The CSC is an independent, non-mayoral agency that hears and renders decisions on appeals by candidates who were disqualified and removed from an eligible civil service employment list and appeals by City employees on disciplinary matters. A majority of the appeals can be classified within one of two categories:

- Appeals by applicants or appointees who have been disqualified from a civil service appointment based on character, medical, psychological, or other reasons; or
- Appeals by City employees who have been disciplined for misconduct or incompetence.

The New York City Charter, Chapter 35, Section 813(a) provides that the CSC shall consist of five members who are appointed by the Mayor and serve for overlapping terms of six years. The Charter also provides that the Mayor shall designate a Chair and Vice Chair and that Commissioners shall be paid on a per diem basis for attendance at regularly scheduled meetings and hearings.

The Comptroller's Office conducted and released an audit of the CSC's Financial and Operating Practices (Audit #FK17-070A) on June 23, 2017. The audit found that the CSC did not maintain accurate and complete inventory records to account for newly acquired office equipment, did not tag its office equipment, and did not conduct periodic inventory counts. In addition, "CSC did not segregate the duties for purchasing goods and services and maintaining inventory records among its staff. It also charged purchases to incorrect object codes and did not document policies and procedures in writing and effectively communicate them to staff." Based on these findings, the 2017 audit made seven recommendations. The CSC generally agreed with the report's seven recommendations and described actions taken to address six of them. It did not address the report's remaining recommendation—to carefully review its prior and current Agency Evaluation of Internal Controls pursuant to Comptroller's Directive #1 to ensure their accuracy in all respects.

In the Comptroller's Comprehensive Annual Financial Report for Fiscal Year 2019, the CSC reported expenditures totaling \$1,030,078. Of that amount, \$958,463 (93.05 percent) was for personal services and \$71,615 (6.95 percent) was for other than personal services.

Objective

To determine whether the CSC implemented the seven recommendations made in the prior audit report, entitled *Audit Report on the Civil Service Commission's Financial and Operating Practices* (#FK17-070A), issued June 23, 2017.

Scope and Methodology Statement

We conducted this performance audit in accordance with Generally Accepted Government Audit Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance

with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope period of this audit was Fiscal Year 2019. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with CSC officials during and at the conclusion of this audit. A preliminary draft report was sent to the CSC officials and discussed at an exit conference held on October 6, 2020. On October 19, 2020 we submitted a draft report to CSC with a request for written comments. We received a written response from CSC on October 23, 2020.

In its response, the CSC generally agreed with the three recommendations and outlined the actions it has taken, and plans to take, to implement each of them.

The full text of the CSC's response is included as addendum to this report.

RESULTS OF FOLLOW-UP AUDIT

We determined that the CSC implemented three of the seven recommendations of the 2017 audit, partially implemented three recommendations, and did not implement one recommendation. Specifically, the CSC implemented recommendations that it: maintain accurate and complete inventory records; charge purchases to the correct object codes; and carefully review its prior and current Comptroller's Directive #1 Agency Evaluation of Internal Controls to ensure their accuracy in all respects. The CSC partially implemented the three recommendations pertaining to inventory practices and segregation of duties for purchasing and inventory. Finally, the CSC did not implement the recommendation to document policies and procedures for inventory in writing and communicate them to staff.

2017 Audit Finding: "CSC Did Not Maintain Accurate and Complete Inventory Records"

The 2017 audit found that the CSC did not tag and include all office equipment on its inventory of assets. The Department of Investigation's (DOI's) *Standards for Inventory Control and Management* states, "Permanent records are maintained, centrally, to track all non-consumable goods issued to each agency unit. . . . Readable, sturdy property identification tags (reading 'Property of the City of New York') with a sequential internal control number are assigned and affixed to valuable items." The 2017 audit also found that the CSC did not update its inventory list as items were purchased and did not conduct periodic inventory counts. By not tagging equipment and maintaining accurate inventory lists, an agency incurs a risk that such items could be misplaced, lost, or stolen without detection.

Previous Recommendation #1: "Tag and inventory all office equipment with a useful life of more than one year as required by DOI's Standards for Inventory Control and Management."

Previous CSC Response: "CSC has tagged and inventoried all office equipment with a useful life of more than one year as required by DOI's Standards for Inventory Control and Management."

Current Status Recommendation #1: IMPLEMENTED

In the current audit, we found that the CSC tagged and inventoried office equipment with a useful life of more than one year as required by the DOI Standards. However, during an inventory count conducted by our office on February 19, 2020, we found an additional printer that was not part of the inventory list of 143 items provided by the CSC. While the printer was properly tagged, it was not listed on the inventory list provided. Thus, although the CSC implemented the recommendation, the agency needs to ensure that it includes all covered items in its inventory list; in that regard, we urge the CSC to document its inventory counts not less than annually, including with a report to agency management, as discussed below. That practice should enable the CSC to identify and correct any errors or omissions reasonably promptly.

Previous Recommendation #2: "Conduct periodic inventory counts, document results of counts, and update inventory records, as needed."

Previous CSC Response: "We have conducted a thorough inventory count, documented that count, updated inventory records, and will continue to do so every six months beginning December 2017."

Current Status Recommendation #2: PARTIALLY IMPLEMENTED

In the current audit, we found that except for one printer, the CSC generally maintained a complete and updated inventory list. Even though the CSC stated that it conducted annual inventory counts as required by the DOI Standards, it was unable to provide any documentation showing the results of these inventory counts. The CSC explained that “an inventory check is done using the one inventory list. Any updates are done on that same list. No other document was created except for the transitional list (2019-2020) to facilitate the purchase of our new computers and the use of our newly purchased equipment tags.” However, according to the DOI Standards, an inventory audit should be conducted annually and a report should be prepared and submitted to management to report the result.

2017 Audit Finding: “CSC Did Not Segregate Duties Among Staff for Purchasing and Inventory”

The 2017 audit found that a single CSC employee (the CSC Director of Administration) was generally responsible for ordering, approving, and certifying receipt of goods and services, maintaining inventory records, and approving payments. Comptroller’s Directive #1, *Principles of Internal Control*, states, “Key duties and responsibilities need to be divided or segregated among different staff members to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.” Alternatively, if the CSC cannot segregate those responsibilities due to staffing limitations, it should implement compensating controls to reduce the risk that an error or fraud could occur and go undetected. Compensating controls include regular supervisory review of work performed by individuals who have custody of assets and who also approve or record transactions affecting those assets.

Previous Recommendation #3: “Segregate the duties for ordering, approving, and certifying receipt of goods and services; maintaining inventory records; and approving payments.”

Previous Recommendation #4: “Implement compensating controls if the CSC cannot fully segregate the responsibilities for ordering, approving, and certifying receipt of goods and services; maintaining inventory records; and approving payments.”

Previous CSC Response: “The Commission has divided the responsibility for authorizing transactions, processing and recording them, reviewing transactions, receipt of goods and services and handling of assets. Purchases over \$250.00 require the approval of both the Chair and Vice-Chair of the Commission, and receipt of such goods must be verified by a Commissioner, as well as administrative staff. Smaller purchases have comparable procedures in place.”

Current Status Recommendations #3 and #4: PARTIALLY IMPLEMENTED

In the current audit, we found that the CSC did segregate the responsibility for approving purchase request forms, receipt of goods, and approving payments. However, the responsibility of preparing the purchase request forms, approving payments, and maintaining inventory records remains with a single employee, without any compensating controls in place. To minimize the risk of error or fraud, key duties such as those should be separated. Alternatively, the CSC should implement compensating controls if the CSC cannot fully segregate these key duties.

Previous Recommendation #5: “Carefully review its prior and current Comptroller’s Directive #1 Agency Evaluation of Internal Controls submitted to the Office of the Comptroller and the Mayor’s Office to ensure their accuracy in all respects.”

Previous CSC Response: None

Previous Auditor Comment: The CSC did not address this recommendation.

Current Status Recommendation # 5: IMPLEMENTED

Based on our review of the 2019 Comptroller’s Directive #1 evaluation that CSC submitted, we determined that the CSC has reviewed the Directive as it correctly answered the questions that relate to the scope of this follow-up audit.

2017 Audit Finding: “CSC Charged Purchases to Incorrect Object Codes”

The 2017 audit found that, of purchases totaling \$45,966 made during Fiscal Year 2016, the CSC charged purchases totaling at least \$3,293 to incorrect object codes. Comptroller’s Directive #24, *Agency Purchasing Procedures and Controls*, §6.0 states that “Payment Voucher approvers must ensure that . . . [t]he appropriate accounting and budget codes are being charged. This includes charging the correct unit of appropriation and correct object code within that unit of appropriation.” The CSC stated that the Department of Citywide Administrative Services (DCAS) processes the CSC’s purchases in the City’s Financial Management System (FMS) on its behalf and advises the CSC on which object codes should be used. However, DCAS informed the audit team that it merely processes purchases using information, including object codes, provided by the CSC and that it does not oversee the CSC. Charging purchases to incorrect object codes prevents City agencies, oversight authorities, and the public from seeing how City agencies spend the money allocated to them.

Previous Recommendation #6: “Charge purchases to the correct object code in accordance with Comptroller’s Directive #24, *Agency Purchasing Procedures and Controls*.”

Previous CSC Response: “The Comptroller’s recommendation concerning appropriate accounting and budget codes has been implemented. In particular, our payment voucher approver has requested accurate object codes from our budget liaisons at DCAS. Verification of these codes will be updated every six months beginning December 2017 to ensure that we are using the correct information when charging purchases.”

Current Status Recommendation #6: IMPLEMENTED

In the current audit, we found that in Fiscal Year 2019 the CSC charged purchases to the correct object codes. We also found evidence that DCAS reviewed the object codes that the CSC used on the purchase request forms and would notify the CSC if the object codes were not correct.

2017 Audit Finding: “CSC Did Not Document Policies and Procedures in Writing and Did Not Communicate Them to Staff”

The 2017 audit found that the CSC did not implement written policies and procedures to document its employees’ roles and responsibilities or the work processes to be followed to comply with applicable laws and regulations, carry out management directives, and meet agency goals.

Previous Recommendation #7: “Document policies and procedures in writing and communicate them to staff including, but not limited to, policies and procedures for timekeeping and payroll, inventory, and procurement.”

Previous CSC Response: “The Commission has codified its procedures in the attached document entitled, Civil Service Commission Administrative Procedures (Updated 6/17/17). This document includes procedures regarding recording and approving employee time; purchasing procedures, including requesting and ordering goods and services and receipt of goods and services; and, the deposit of revenue.”

Previous Auditor Comment: “The Civil Service Commission Administrative Procedures (Updated 6/17/17) provided by the CSC address many of the issues raised by this audit. However, they do not include the policies and procedures related to inventory. The audit team recommended that CSC should document the policies and procedures for inventory in writing and communicate them to staff.”

Current Status Recommendation #7: NOT IMPLEMENTED

The Administrative Procedures provided by the CSC does not include policies and procedures for inventory.

RECOMMENDATIONS

To address the issues that still exist, we reiterate our recommendations that the CSC should:

1. Document and separately maintain the results of periodic inventory counts.

CSC's Response: "The Commission has partially implemented the Comptroller's recommendation # 1, to document and separately maintain the results of periodic inventory counts. Our agency's annual inventory was underway when it was interrupted by the COVID-19 pandemic restrictions. The Commission is working remotely and therefore unable to complete the physical inventory. However, upon our return to our offices we will document separately our annual inventory counts keeping a copy of each year on file. An annual inventory report will be generated and submitted to the Agency Head with a copy to the Director of Administration."

2. Further segregate the duties of preparing purchase requests, approving payments, and maintaining inventory records. The CSC should implement compensating controls if the recommended segregation of duties is not possible.

CSC's Response: "Compensating controls for recommendation # 2 have being [sic] implemented as follows: Our Office Manager will be the primary person responsible for the maintenance of our equipment inventory. Her role in purchasing will be limited to only 3rd level approval for Punchout in FMS. She will not be included in any other undertaking involving purchasing of inventoried equipment."

3. Include policies and procedures for inventory in the CSC's current Administrative Procedures.

CSC's Response: "Recommendation # 3 was implemented. The policies and procedures for inventory were added to our current Administrative Procedures in response to the preliminary audit report."

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Audit Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the City Charter.

The scope of this audit was Fiscal Year 2019.

To obtain an understanding of the CSC's efforts in implementing our 2017 audit report's recommendations, we reviewed the prior New York City Comptroller's *Audit Report on the Civil Service Commission's Financial and Operating Practices* (Audit #FK17-070A) issued on June 23, 2017. We also requested and reviewed the CSC's internal written policies and procedures.

To gain an understanding of the rules and regulations with which the CSC is required to comply, we obtained and reviewed relevant sections of the New York City Comptroller's Internal Control and Accountancy Directives and Comptroller's Memoranda, including: Comptroller's Directive #1, *Principles of Internal Control*; Comptroller's Directive #13, *Payroll Procedures*; Comptroller's Directive #24, *Agency Purchasing Procedures and Controls*; Comptroller's Memorandum #14-1: Updates to Comptroller's Memorandum #01-1 Guidelines for use of Procurement/Purchasing Cards; City of New York, Financial Management System—Object Class Descriptions; and DOI's *Standards for Inventory Control and Management*.

We conducted a walkthrough meeting with the Director of Administration to understand the procurement process, the inventory process, and the steps taken by the CSC to implement the prior audit report recommendations.

We conducted physical observations of all CSC's inventory on February 19, 2020 to determine whether all 143 office equipment items listed on the CSC's most recent inventory records were located in the CSC's main office. During our observations, we also determined whether all items of office equipment that we observed on site were listed on the CSC's inventory records.

We obtained a report of Fiscal Year 2019 purchases from the City of New York Financial Management System (FMS). During Fiscal Year 2019, the CSC made 86 purchases, totaling \$34,069. We reviewed all the CSC procurement documentation and checked whether all purchases made in Fiscal Year 2019 were charged to the correct object code, properly approved, and supported by invoices, and whether office equipment with a useful life of more than one year was properly inventoried.

Finally, we reviewed the CSC's 2019 Comptroller's Directive #1 evaluation to determine whether the Directive was carefully reviewed.



**CITY OF NEW YORK
CIVIL SERVICE COMMISSION**

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Re: Follow-Up Audit Report on the Civil Service Commission's
Financial and Operating Practices FP20-094F

Dear Ms. Landa:

Thank you for the opportunity to review and respond to your October 19, 2020 draft of the above referenced audit. The Civil Service Commission ("Commission") appreciates the efforts taken by the Comptroller's office to be thorough in addressing our inquiries and concerns. We have made every effort to comply with your recommendations as discussed below.

The Commission has partially implemented the Comptroller's recommendation # 1, to document and separately maintain the results of periodic inventory counts. Our agency's annual inventory was underway when it was interrupted by the COVID-19 pandemic restrictions. The Commission is working remotely and therefore unable to complete the physical inventory. However, upon our return to our offices we will document separately our annual inventory counts keeping a copy of each year on file. An annual inventory report will be generated and submitted to the Agency Head with a copy to the Director of Administration. The annual inventory report will have a record retention of five years with record disposal in the sixth year.

Compensating controls for recommendation # 2 have being implemented as follows:
Our Office Manager will be the primary person responsible for the maintenance of our equipment inventory. Her role in purchasing will be limited to only 3rd level approval for Punchout in FMS. She will not be included in any other undertaking involving purchasing of inventoried equipment.

Recommendation # 3 was implemented. The policies and procedures for inventory were added to our current Administrative Procedures in response to the preliminary audit report.

It is our belief that the actions outlined above adequately address the Comptroller's recommendations. Please do not hesitate to contact me with any further questions or comments you may have.

Very truly yours,

A handwritten signature in black ink that reads "Nancy Chaffetz". The signature is written in a cursive, flowing style.

Nancy G. Chaffetz
Commissioner/Chair