



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

WILLIAM C. THOMPSON, JR.
Comptroller

**Follow-Up Audit on the
New York City Department of Finance
Small Procurement and Vouchering Practices
July 1, 2000, to June 30, 2001**

FR02-177F

June 25, 2002

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SUMMARY OF FINDINGS AND CONCLUSIONS

This report discloses the results of a follow-up audit conducted to determine whether the New York City Department of Finance (Finance) has implemented the 12 recommendations made in our previous audit report, *Audit Report on The Department of Finance Small Procurement and Vouchering Practices* (Audit No. FR98-096A, issued May 1, 1998). The previous audit evaluated Finance's compliance with Procurement Policy Board (PPB) Rules; Comptroller's Directives, and other City guidelines pertaining to its small procurement and vouchering practices. In this report, we discuss each of the previous report's recommendations in detail, as well as the current implementation status of each recommendation.

During our previous audit, the auditors found that Finance generally complied with PPB rules and Comptroller's Directives when using purchase orders. However, Finance's small procurement operation did not comply with provisions of the City Charter, PPB rules and Comptroller's Directives related to small purchase contracts and miscellaneous vouchers. Specifically: Finance split purchases made from eight vendors into 21 small purchase contracts, thereby circumventing the competitive bidding requirements of the PPB rules; paid for travel expenses that did not meet the requirements of Comptroller's Directive #6; and failed to determine the lowest prevailing market price for 20 purchases made through New York State contracts, as required by PPB rules. Furthermore, Finance charged incorrect object codes for four small contracts, nine purchase orders and three miscellaneous vouchers.

Our previous audit made 12 recommendations to Finance. Of the 12 recommendations, five were implemented, two were not implemented, and five were not applicable. The details of those recommendations and their implementation status follow. Finance should:

1. "Ensure that all contracts awarded to vendors are in compliance with PPB rules relating to small purchases. Further Finance should not artificially divide contracts as a means of circumventing the small-procurement thresholds." **IMPLEMENTED**

2. "Follow the emergency procurement procedures prescribed in the section 3-06 of the PPB rules when procuring goods or services under emergency circumstances." **NOT APPLICABLE**
3. "Research the market to determine that the rates listed in the New York State contracts are equal to, or lower than, the prevailing market prices at the time of procurement. Finance should document this research in the contract files." **NOT APPLICABLE**
4. "Ensure that any procurement of a sole source provider is fully justified and supported, in accordance with the PPB rules" **NOT APPLICABLE**
5. "Determine that the price submitted and awarded to a lone responsive bidder is fair and reasonable. This conclusion should be documented in the contract file." **NOT APPLICABLE**
6. "Ensure that its contract files contain documentation to support its award to contractors who are not the lowest bidders. In addition, Finance should forward the appropriate documentation to PPB." **NOT APPLICABLE**
7. "Not use miscellaneous vouchers in cases where purchase orders, agency encumbrances, or interagency vouchers are required." **IMPLEMENTED**
8. "Carefully monitor its employees' travel expenses and disallow those that are not in compliance with Comptroller's Directive #6." **NOT IMPLEMENTED**
9. "Ensure that Purchasing Unit's staff properly encumber funds by preparing and processing purchase orders before items are purchased." **IMPLEMENTED**
10. "In cases where a purchase order account has been incorrectly closed, contact the Comptroller's Office to have purchase orders reinstated." **IMPLEMENTED**
11. "Provide adequate segregation of duties by ensuring that the person preparing the purchase order is not the same person who approves the purchase order." **IMPLEMENTED**
12. "Carefully review the City's Chart of Accounts and use the correct object codes for its expenses." **NOT IMPLEMENTED**

To address the problems that still exist, we now recommend that Finance:

1. Comply with the Comptroller's Directive #6 when reimbursing employees for work-related travel expenses.
2. Carefully review the chart of accounts and use the correct Object Codes for its expenses.

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. The 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.

Agency Response

The matters covered in this report were discussed with officials from Finance during and at the conclusion of this audit. A preliminary draft report was sent to Finance officials and was discussed at an exit conference on June 3, 2002. On June 5, 2002, we submitted a draft report to Finance officials with a request for comments. We received a written response from Finance on June 19, 2002. Finance stated that it agrees with and will implement the report's recommendations. The full text of Finance's comments is included as an addendum to this report.

INTRODUCTION

Background

The New York City Department of Finance (Finance) administers and enforces the tax laws; collects taxes, judgments, and other charges; educates the public about its rights and responsibilities in order to achieve the highest level of voluntary compliance; and protects the confidentiality of tax returns. Finance processes parking summonses and provides an adjudicative forum for motorists who wish to contest them. Finance also provides collection enforcement services for private-sector creditors, including judgment decisions rendered in Supreme, Civil, Family, and Small Claims Courts.

In fiscal year 2001, Finance spent \$4,300 on one small purchase contract and \$1,137,964 on 931 purchase orders. Under PPB rules, these purchases are considered small purchases.¹

Finance also issued 316 miscellaneous vouchers totaling \$216,135, to pay for travel expenses, utility bills, and reimbursement payments. Those payments are governed by Comptroller's Directives #6 and #25.

Objective, Scope and Methodology

The objective of this follow-up audit was to determine whether Finance implemented the 12 recommendations made in the previous audit, *Audit Report on The Small Procurement and Vouchering Practices* (FR98-096A, issued May 1, 1998).

This audit covered the period from July 1, 2000, to June 30, 2001.

We reviewed the previous report and its 12 recommendations as well as Finance's response to the report. We also reviewed PPB Rules; Comptroller's Directives; and other applicable City laws, regulations, and policies².

In order to gain an understanding of Finance's small procurement operation, as well as the flow of documents, we interviewed relevant personnel from the Finance Procurement and Accounts Payable Unit, and conducted a walk-through for each phase of the small procurement and vouchering process. We prepared a narrative of the small procurement operation that enabled us to identify the internal controls in place, as well as the flow of documents.

Our review was limited to small purchase contracts, purchase orders, and miscellaneous vouchers in the amount of \$25,000 or less. We examined one small purchase contract awarded to one vendor in fiscal year 2001, totaling \$4,300, to determine compliance with applicable rules

¹ Procurement Policy Board rules define small purchases as those procurements in value of not more than \$25,000 for goods and services, not more than \$50,000 for construction and construction-related services, and not more than \$100,000 for information technology purchases.

² Procurement Policy Board rules in effect at the time of each purchase were used to evaluate Finance's performance.

and guidelines. We also randomly selected 30 purchase orders totaling \$31,524 issued to 28 vendors, and 30 miscellaneous vouchers totaling \$14,389.

We reviewed each transaction's supporting documentation, including one small contract, one advice of award, purchase orders, purchase requests, specifications, bid invitations, determinations of award, voucher payments, and file memoranda, to determine whether:

- purchasing documents were appropriately prepared and approved;
- instances of split purchasing were evident;
- documentation of price comparisons were included for intergovernmental purchases;
- bids were solicited, when required;
- purchase orders contained adequate specifications;
- funds were encumbered prior to receipt of goods and services;
- vouchers had sufficient documentation to support payment;
- correct voucher types were used; and
- correct object codes were used.

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. The 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.

Agency Response

The matters covered in this report were discussed with officials from Finance during and at the conclusion of this audit. A preliminary draft report was sent to Finance officials and was discussed at an exit conference on June 3, 2002. On June 5, 2002, we submitted a draft report to Finance officials with a request for comments. We received a written response from Finance on June 19, 2002. Finance stated that it agrees with and will implement the report's recommendations. The full text of Finance's comments is included as an addendum to this report.

**OFFICE OF THE COMPTROLLER
NEW YORK CITY**

DATE FILED: *June 25, 2002*

RESULTS OF THIS FOLLOW-UP AUDIT

PREVIOUS FINDING: “Finance purchased goods and services from eight vendors, totaling \$409,011, by issuing 21 small purchase contracts. These contracts were individually at or under \$25,000 but when added together by vendor and by date issued, the contracts exceeded the small procurement threshold. By not combining these purchases, Finance circumvented the small purchasing requirements of Section 3-08 of the PPB rules...”

Previous Recommendation #1: “Finance should ensure that all contracts awarded to vendors are in compliance with PPB rules relating to small purchases. Further, Finance should not artificially divide contracts as means of circumventing the small procurement threshold.”

Previous Agency Response: “Finance agrees with this recommendation, and will ensure full compliance with PPB rules relating to small purchases, including the combining of purchase requests when possible.”

Current Status: IMPLEMENTED

Our audit testing did not disclose any instances in which Finance divided purchases to circumvent small procurement thresholds. Consequently, we consider this recommendation implemented.

Previous Recommendation #2: “Finance should follow the emergency procurement procedures prescribed in section 3-06 of the PPB rules when procuring goods or services under emergency circumstances.”

Previous Agency Response: “Finance agrees, and will carefully consider whether the procurement of goods or services is an emergency circumstance.”

Current Status: NOT APPLICABLE

Finance did not process any emergency procurements during the audit period. Therefore, we consider this recommendation not applicable.

PREVIOUS FINDING: “Finance did not always follow section 3-09 of the PPB rules when making purchases through existing New York State contracts. According to PPB rules, an agency may procure goods and services from the New York State Office of General Services, provided that the Contracting Officer has determined in writing that the price is lower than the prevailing market price. The PPB

rules define the prevailing market price as prices commonly paid by the public either through a standard price list or catalogue.”

Previous Recommendation #3: “Finance should research the market to determine that rates listed in the New York State contracts are equal to, or lower than, the prevailing market prices at the time of the procurement. Finance should document this research in the contract files.”

Previous Agency Response: “Since receiving the November 24, 1997, memo from DMSS [Department of Citywide Administrative Services’ Division of Municipal Supply Services] . . . Finance has been in compliance with this recommendation.”

Current Status: NOT APPLICABLE

Finance did not purchase any items off State contracts during the audit period. Therefore, we consider this recommendation not applicable.

PREVIOUS FINDING: “Finance awarded contract #97B6784, totaling \$9,999, as a sole source procurement . . . the purchase file was inadequate to support a sole source purchase, in accordance with Section 3-05 of the PPB rules.”

Previous Recommendation #4: “Finance should ensure that any procurement of a sole source provider is fully justified and supported, in accordance with the PPB rules.”

Previous Agency Response: “Finance agrees.”

Current Status: NOT APPLICABLE

None of the procurements reviewed involved an award to a sole source provider. Therefore, we consider this recommendation not applicable.

PREVIOUS FINDING: “Finance awarded three contracts where only one responsive bid was received for each. Finance did not comply with section 3-08 of the PPB rules. Specifically, section 3-08 states: ‘a response of no bid’ is not a responsive bid. If only one responsive bid or offer is received in response to a solicitation, an award may be made to that supplier if the Contracting Officer determines in writing that the price submitted is fair and reasonable and that other suppliers had a reasonable opportunity to respond. Such determination shall be documented and included in the agency procurement file.’

“In each case, the contract file did not have documentation to indicate that the price submitted was fair and reasonable.

According to the PPB, determining the fairness of prices would include comparing proposed prices received from all bidders, as well as prior proposed prices and contract prices.”

Previous Recommendation #5: “Finance should determine that the price submitted and awarded to a lone responsive bidder is fair and reasonable. This conclusion should be documented in the contract file.”

Previous Agency Response: “Finance always determines that the price submitted and awarded to a lone responsive bidder is fair and reasonable, and will ensure that such documentation is included in its contract file.”

Current Status: NOT APPLICABLE

As stated earlier, none of the procurements reviewed involved an award to a sole source provider. Therefore, we consider this recommendation not applicable.

PREVIOUS FINDING: “Finance awarded one of the 35 contracts reviewed to a vendor who was not the lowest bidder. However, the contract file did not contain documentation to support the award to this vendor, in accordance with section 3-02 of the PPB rules. Section 3-02 of the PPB rules, states that the Agency Chief Contracting Officer determines that the lowest bidder is either not responsible or does not meet the requirements and criteria set forth in the Invitation for Bids . . . the lowest bidder shall immediately be notified in writing of such determination.”

Previous Recommendation #6: “Finance should ensure that its contract files contain documentation to support its award to contractors who are not the lowest bidders. In addition, Finance should forward the appropriate documentation to PPB.”

Previous Agency Response: “Although Finance agrees with this recommendation in principal [sic], and does comply with this rule, it should be noted that in this audit, the auditors comment inaccurately reflects that Finance did not choose the lowest bidder, when in fact it did.”

Current Status: NOT APPLICABLE

Since none of the procurements reviewed involved an award to a sole source provider we consider this recommendation not applicable.

PREVIOUS FINDING: “[Of] 35 miscellaneous vouchers issued by Finance . . . 15 violated provisions of Comptroller’s Directive #6 and Directive #25 . . . Finance should have encumbered funds for eight . . . purchases by

issuing purchase orders or agency encumbrances. In addition, Finance used eight miscellaneous vouchers to pay travel expenses. These expenses were for items that were in excess of allowable amounts, that were undocumented, or that were for unallowable items, per Directive #6.”

Previous Recommendation #7: “Finance should not use miscellaneous vouchers in cases where purchase orders, agency encumbrances or interagency vouchers are required.”

Previous Agency Response: “DOF agrees.”

Current Status: IMPLEMENTED

All 30 miscellaneous vouchers we reviewed were in accordance with Directives #6 and #25. Specifically, the expenses were for allowable amounts and for items that were allowed by the Directives. Therefore, we consider this recommendation implemented.

PREVIOUS FINDING: “Of the 35 miscellaneous vouchers we reviewed, 21 related to reimbursements for travel expenses incurred by Finance personnel. Six of the 21 vouchers did not fully comply with the requirements of Directive #6.”

Previous Recommendation #8: “Finance should carefully monitor its employees’ travel expenses and disallow those that are not in compliance with Comptroller’s Directive #6.”

Previous Agency Response: “Finance agrees.”

Current Status: NOT IMPLEMENTED

Of the 30 miscellaneous vouchers reviewed, 24 were for travel reimbursements to employees. Twelve of the 24 travel reimbursements were not processed in accordance with Directive #6. Specifically, these expenses were not properly documented, approved and/or exceeded amounts allowable under the Directive. For example, a miscellaneous voucher (#010TTFIN170) processed for \$122.76 in gas, parking, and cell phone charges was not supported by any vendor receipts or invoices. Similarly, for another miscellaneous voucher (#010TTFIN239) Finance did not have an "Approval/Request for Out-of-City Trip" form showing that written approval was obtained in accordance with the Directive. Therefore, we consider this recommendation not implemented.

PREVIOUS FINDING: “Four purchase orders were prepared after an invoice was received from the vendor. A primary purpose of a purchase order is to notify a vendor of the exact items ordered and to restate the terms of sale. Purchase orders are the principal way for an agency to

encumber funds. Preparing purchase orders after invoices are received from vendors does not allow an agency to properly authorize and monitor its expenditures. Furthermore, receiving goods or services before a purchase order has been authorized understates the agency's liabilities because outstanding obligations are not recognized until FISA processes the encumbrance document."

Previous Recommendation #9: "Finance should ensure that Purchasing Unit's staff properly encumber funds by preparing and processing purchase orders before items are purchased."

Previous Agency Response: "Finance agrees."

Current Status: IMPLEMENTED

For all 30 purchase orders reviewed, Finance properly prepared and processed the purchase orders before the items were purchased. Therefore, we consider this recommendation implemented.

PREVIOUS FINDING

"Finance issued a voucher to make a partial payment, which is designated by a "P," the scanner at FISA picked up the "P" as an "F," which represents a final payment; consequently, the purchase order was closed. After realizing what had occurred, Finance issued another purchase order so the rest of the payment could be made. However, this procedure is incorrect. Finance should have re-opened the purchase order by contacting the Comptroller's Office. This would have allowed Finance to pay the outstanding balance on the original purchase order."

Previous Recommendation #10: "In cases where a purchase order account has been incorrectly closed, Finance should contact the Comptroller's Office to have purchase orders re-instated."

Previous Agency Response: "Finance agrees."

Current Status: IMPLEMENTED

None of the 30 purchase orders reviewed were improperly closed and reinstated. Therefore, we consider this recommendation implemented.

PREVIOUS FINDING

"On five occasions purchase orders were prepared and approved by the same individual. Specifically, the Director of Purchasing

and the Deputy Director of Purchasing prepared and approved the purchase order. This is a violation of Directive #24, which requires that these functions be segregated to ensure that all purchases are properly authorized.”

Previous Recommendation #11: “Finance should provide adequate segregation of duties by ensuring that the person preparing the purchase order is not the same person who approves the purchase order.”

Previous Agency Response: “Finance has already implemented this recommendation.”

Current Status: IMPLEMENTED

For all 30 purchases reviewed, the individuals who prepared the purchase orders were different than those who approved them. Therefore, we consider this recommendation implemented.

PREVIOUS FINDING: “Finance charged the incorrect object code for four contracts, nine purchase orders, and for three miscellaneous vouchers. Incorrect object codes prevent Finance from identifying the type and amount of a particular expense item within a fiscal year. This, in turn, distorts the year-end reports that identify expenditure patterns. Such a distortion can compromise management’s ability to properly plan future budgets.”

Previous Recommendation #12: “Finance should carefully review the Chart of Accounts and use the correct object codes for its expenses.”

Previous Agency Response: “Finance agrees.”

Current Status: NOT IMPLEMENTED

Finance charged incorrect object codes for six miscellaneous vouchers and two purchase orders. For example, Finance charged object code 453 on a miscellaneous voucher for out-of-town travel. According to the City's Chart of Accounts, Object Code 453 is for "Non-Local Travel Expenditures—General". However, since the business trips were for employees to attend training classes, Finance should have used Object Code 454, which is for out-of-City meals, transportation, lodging, and registration, incurred for education and training. As another example, purchase order # DOF02100819, for an electronic security lock, was charged to object code 400, which is for "Contractual Expenditures—General". Finance should have charged this expense to object code 319, which is for security equipment. (Appendix I lists all the purchases charged to incorrect object codes.) Based on the results of our tests, we consider this recommendation not implemented.

RECOMMENDATIONS

To address the problems that still exist, we now recommend that Finance:

1. Comply with the Comptroller's Directive #6 when reimbursing employees for work-related travel expenses.

Agency Response: "We agree and will properly document and approve reimbursable work-related expenses."

2. Carefully review the chart of accounts and use the correct Object Codes for its expenses.

Agency Response: "We agree and will do so."

APPENDIX I

**Purchases/Vouchers Charged
To Incorrect Object Codes**

Purchase Orders & Voucher Numbers	Cost Of Item	Description Of Item	Object Code Used and Description of Code	Correct Object Code and Description of Code
01OTTFIN107	\$ 411.00	Trip to assist in developing a Windows-based application to perform Sales Tax audits.	453 - Non-Local Travel Expenditures— General	454 - Non-Local Travel Expenditures— Special
01OTTFIN051	\$ 50.00	Attended a meeting of the Local Telecommunications Study Advisory Board.	453 - Non-Local Travel Expenditures— General	454 - Non-Local Travel Expenditures— Special
01OTTFIN077	\$ 441.00	Attended a Basic Civil School – Phase 2 - class given by the Sheriff’s Association.	453 - Non-Local Travel Expenditures— General	454 - Non-Local Travel Expenditures— Special
01OTTFIN124	\$ 560.30	Trip to assist in developing a windows based application to perform Sales Tax audits.	453 - Non-Local Travel Expenditures— General	454 - Non-Local Travel Expenditures— Special
01OTTFIN198	\$ 396.30	Trip to assist in developing a windows based application to perform Sales Tax audits.	453 - Non-Local Travel Expenditures— General	454 - Non-Local Travel Expenditures— Special
01OTTFIN094	\$ 265.00	Attended a mandatory NY State Dept. of Taxation & Finance training course for auditors.	453 - Non-Local Travel Expenditures— General	454 - Non-Local Travel Expenditures — Special
DOF02101534	\$ 161.50	Calculators and tape cartridges	100 – Supplies and Materials— General	315 - Office Equipment
DOF02100819	\$ 314.00	Electronic Security Lock	400 – Contractual Expenditures— General	319 - Security Equipment



FINANCE
NEW YORK
MARTHA E. STARK
COMMISSIONER

June 19, 2002

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

**RE: Draft Audit Report on the
New York City Department of Finance
Small Procurement and Vouchering Practices
July 1, 2000, to June 30, 2001
Audit Number: FR01-177F**

Dear Mr. Liwer:

Thank you for the opportunity to review and comment on the above referenced draft audit report, which confirms that the Department of Finance:

- is in compliance with Procurement Policy Board Rules relating to small purchases;
- does not use miscellaneous vouchers in cases where purchase orders, agency encumbrances or interagency vouchers are required;
- properly encumbers funds by preparing and processing purchase orders before items are purchased; and
- maintains adequate segregation of duties by ensuring that purchase orders are prepared and approved by different individuals.

The following are our responses to the auditor's specific recommendations:

Auditor's Recommendation #1 – The Department of Finance should comply with Comptroller's Directive #6 when reimbursing employees for work-related expenses.

Agency Response – We agree and will properly document and approve reimbursable work-related expenses.

Auditor's Recommendation #2 – The Department should carefully review the chart of accounts and use the correct Object Codes for its expenses.

Agency Response – We agree and will do so.

Thank you again for the opportunity to review this draft audit. If you have any questions regarding this response or require any additional information, please call Jesse Ostrow at 212.669.4480.

Sincerely,



Martha E. Stark
Commissioner

C: Rochelle Patricof
Jesse Ostrow
Maria Guccione