

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

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**WILLIAM C. THOMPSON, JR.**  
*Comptroller*

**Follow-up Audit Report on the  
Office of Payroll Administration  
Small Procurement Operation  
July 1, 2000, to June 30, 2001**

**FR02-178F**

*June 17, 2002*

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

**Follow-up Audit Report on the  
Office of Payroll Administration  
Small Procurement Operation**

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**SUMMARY OF FINDINGS AND CONCLUSIONS**

This follow-up audit determined whether the Office of Payroll Administration (OPA) implemented the recommendations made in an earlier audit, *Audit Report on the New York City Office of Payroll Administration Small Procurement Operation* (FR97-150A, issued June 25, 1997). That report evaluated the compliance of OPA's small procurement operation with Procurement Policy Board (PPB) rules, Comptroller's Directives, local laws, and other City guidelines. In this report, we discuss the previous audit's findings and recommendations, as well as the current implementation status of each recommendation.

The previous audit found that OPA: violated PPB rules by artificially dividing purchases in order to meet the small purchase requirements; did not always solicit bids, when required; did not, as required by PPB rules, indicate in its purchase files that the price paid was lower than the prevailing market rate when it purchased items from vendors with State contracts; charged the incorrect object codes; did not always provide adequate justification for using sole source vendors; and, issued purchase orders that lacked complete specifications. Consequently, the previous report made six recommendations.<sup>1</sup>

Of the six recommendations made in the previous report, two have been implemented, two have been partially implemented, one has not been implemented, and one is not applicable. The details of the earlier recommendations and their current implementation status follow.

OPA should:

- "Obtain bids and enter into contracts with vendors when required to do so by the PPB rules." **IMPLEMENTED**
- "Provide adequate justification when using sole source vendor(s)." **NOT APPLICABLE**
- "Issue purchase orders with complete specifications, as required by Directive #24." **PARTIALLY IMPLEMENTED**

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<sup>1</sup> The previous report contained seven recommendations. However, one recommendation appeared twice in that report. Therefore, this report combines the implementation status of those recommendations.

- “Obtain bids for procurements in excess of \$2,500, as required by the PPB rules.” **IMPLEMENTED**
- “Document its inter-governmental transactions by having its ACCO [Agency Chief Contracting Officer] prepare a written approval for these types of transactions, and document that the price paid was lower than the prevailing prices, as required by PPB rules. The approval and price analysis prepared by the ACCO should be kept on file.” **NOT IMPLEMENTED**
- “Ensure that the correct object code is charged for all purchases.” **PARTIALLY IMPLEMENTED**

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

- Ensure that all purchase orders contain clear, precise, and accurate specifications.
- Make a concerted effort to research the market to determine that the prices listed in the New York State contracts are lower than the prevailing market prices at the time of procurement. OPA should document this research in the purchase files.
- Carefully review the Chart of Accounts and use the correct object codes for its expenses.

### **Agency Response**

The matters covered in this report were discussed with OPA officials during and at the conclusion of this audit. A preliminary draft report was sent to OPA officials on May 20, 2002. On May 22, 2002, OPA decided that an exit conference would not be necessary. On May 23, 2002, we submitted a draft report to OPA officials with a request for comments. We received a written response from OPA on June 7, 2002. OPA stated that it has taken or will take the steps necessary to “assure that the cited recommendations are fully implemented.” The full text of OPA’s comments is included as an Addendum to this report.

## **INTRODUCTION**

### **Background**

The Office of Payroll Administration (OPA) is responsible for supporting the development and implementation of New York City's computerized Payroll Management System (PMS). PMS annually generates approximately eight million payroll checks and check stubs for City employees (excluding employees of the Health and Hospitals Corporation, Transit Authority, and Housing Authority). OPA is also responsible for maintaining the integrity and accuracy of the processing and distribution of the payroll and for the accounting for payroll funds.

In Fiscal Year 2001, OPA spent \$141,261 on small procurements that included one small purchase contract totaling \$13,820 and 85 purchase orders totaling \$127,441.<sup>2</sup>

Further, OPA issued 14 miscellaneous vouchers totaling \$65,795. Miscellaneous vouchers are used to pay expenses for which the exact amounts cannot be determined in advance, such as travel expenses and utility bills. Those payments should be made in accordance with Comptroller's Directives #6 and #25. Miscellaneous vouchers are also used to make payments to pension funds, union welfare funds, and annuity funds.

### **Objective, Scope, and Methodology**

This follow-up audit determined whether OPA implemented the recommendations made in a previous audit, *Audit Report on the New York City Office of Payroll Administration Small Procurement Operation* (FR97-150A, issued June 25, 1997).

This follow-up audit covered the period July 1, 2000, to June 30, 2001.

To gain an understanding of OPA's small procurement operation, we interviewed OPA officials and obtained OPA's written operating procedures. From this information, we were able to identify the internal controls in place as well as the flow of documents in the procurement operation.

Our review was limited to purchase orders of \$25,000 or less for goods and services. We examined 44 of the 85 purchase orders for goods and services, totaling \$81,435, made by OPA during the audit period.

We reviewed each purchase order's supporting documentation and the corresponding payment vouchers to determine whether:

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<sup>2</sup> "Small purchases" are defined by Procurement Policy Board rules as purchases of: goods and services of not more than \$25,000 in value; construction and construction-related services of not more than \$50,000 in value; and information technology of not more than \$100,000, in value.

- orders were artificially divided so as not to exceed the threshold for “small purchases”;
- bids were solicited when required;
- all inter-governmental transactions reflected that proper analysis had been performed to determine that the price paid was lower than the prevailing market price;
- purchase documents contained adequate specifications;
- purchases for sole source vendors were justified in writing; and
- correct object codes were used.

In addition, we reviewed all purchase orders listed on the City’s Financial Management System (FMS) to evaluate the frequency of the Department’s procurement from specific vendors and the total amount paid to these vendors.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller’s audit responsibilities as set forth in Chapter 5, § 93, of the New York City Charter.

### **Agency Response**

The matters covered in this report were discussed with OPA officials during and at the conclusion of this audit. A preliminary draft report was sent to OPA officials on May 20, 2002. On May 22, 2002, OPA decided that an exit conference would not be necessary. On May 23, 2002, we submitted a draft report to OPA officials with a request for comments. We received a written response from OPA on June 7, 2002. OPA stated that it has taken or will take the steps necessary to “assure that the cited recommendations are fully implemented.” The full text of OPA’s comments is included as an Addendum to this report.

**OFFICE OF THE COMPTROLLER  
NEW YORK CITY**

**DATE FILED: *June 17, 2002***

## RESULTS OF THIS FOLLOW-UP AUDIT

**PREVIOUS FINDING:** “OPA violated the PPB rules by selecting NYSID [New York State Industries for the Disabled] and MTS [MultiTasking Systems], without competition. . . . OPA did not solicit proposals from vendors before selecting NYSID and MTS to provide temporary staff to prepare and process FICA [Federal Insurance Contributions Act] refund claims. . . . In fact, OPA’s purchases for the FICA Project appeared to be divided so that it could avoid the contracting requirement.”

**Previous Recommendation #1:** “OPA should obtain bids and enter into contracts with vendors when required to do so by the PPB rules.”

**Previous Agency Response:** “[OPA will] obtain bids and enter into contracts with vendors when required according to PPB Rules.”

**Current Status:** IMPLEMENTED

OPA obtained all required bids for the purchases we reviewed. In addition, there was no evidence that OPA split purchases to circumvent small purchase thresholds. Therefore, we consider Recommendation #1 implemented.

**PREVIOUS FINDING:** “OPA issued 66 purchase orders to NYSID and MTS totaling \$413,914 of which 40, totaling \$291,606, were issued to MTS, and 26, totaling \$122,308 were issued to NYSID for payment of FICA Project costs. We sampled 31 of these purchase orders, totaling \$212,839, and found that all but four were issued as sole source procurements. . . . OPA's statement seems to justify its need for temporary help; however, it does not justify its use of these vendors as sole source providers. . . .

“OPA processed purchase order OLE 1316P10010 totaling \$3,648 for ink rollers as sole source procurement. . . . There was no indication on the justification that there was only one source for the goods and/or what efforts OPA made to ensure that offers were solicited from other vendors, as required by PPB rules.”

**Previous Recommendation #2:** “OPA should provide adequate justification when using sole source vendor(s).”

**Previous Agency Response:** “[OPA will] provide adequate justification when using Sole Source vendor(s). OPA will not use the Sole Source Method of procuring goods and services unless the sole source bid strictly complies with the PPB rule 3.05. The Agency’s ACCO will approve sole source bids and provide written justification in accordance with PPB rule 3.05.”

**Current Status:** NOT APPLICABLE

None of the 44 sampled purchase orders involved awards to sole source vendors. Therefore, we consider recommendations #2 and #6 not applicable.

**PREVIOUS FINDING:** “All 31 purchase orders sampled contained incomplete specifications. . . . The purchase orders did not indicate what service or services OPA requested, and whether these specific services had been performed by the individuals. Therefore, OPA violated Comptroller’s Directive #24.”

**Previous Recommendation #3:** “OPA should issue purchase orders with complete specifications, as required by Directive #24.”

**Previous Agency Response:** “[OPA will] issue Purchase Orders with complete specifications, as required by Directive #24. OPA’s Financial Officer and/or Director of Administrative Services will confirm that correct and accurate specifications are included in the bid process and that the same specifications appear clearly on the Purchase Orders.”

**Current Status:** PARTIALLY IMPLEMENTED

The purchase orders for four of the 44 purchases we reviewed contained inadequate, inaccurate, or unclear specifications relating to the goods and services being ordered. For example, purchase order #131 2001P0006, issued to F & E Checkproctor Sales for equipment maintenance services, did not indicate the serial numbers of the equipment to be serviced. As another example, purchase order #2001P0012, issued to CompuServe Incorporated for online services, contained a number of miscalculations and amounts that did not match the vendor’s invoice. Based on the results of our tests, we consider Recommendation #3 partially implemented.

## **Recommendation**

1. OPA should ensure that all purchase orders contain clear, precise, and accurate specifications.

**Agency Response:** “OPA’s Director of Administrative Services and/or Agency Chief Contracting Officer (ACCO) will confirm that correct and accurate specifications appear clearly on all applicable purchase orders.”

**PREVIOUS FINDING:** “OPA issued voucher OSE 1316P10063 for \$3,708, payable to MCS Canon, for 36 toner cartridges. OPA’s files did not contain any indication that bids had been solicited for this procurement.”

**Previous Recommendation #4:** “OPA should obtain bids for procurements in excess of \$2,500, as required by the PPB Rules.”

**Previous Agency Response:** “All items between \$2,500 and \$25,000 will be governed strictly by small purchase rules as stated in the PPB Rules.”

**Current Status:** IMPLEMENTED

OPA obtained all required bids for the purchases we reviewed. In addition, documentation of all bids received was maintained in the OPA procurement files. Therefore, we consider Recommendation #4 implemented.

**PREVIOUS FINDING:** “OPA issued voucher OSE 1316P10079 for \$9,336 . . . to install computer cable under New York State Contract #T940114, and voucher OLE 1316P10128 for \$4,097 . . . for temporary office services under New York State Contract #C067123. Contrary to the requirements in the PPB rules, the supporting documents to these purchase orders did not indicate that OPA’s contracting officer had determined, in writing, that the prices were lower than the prevailing market prices, nor was there any written approval by the ACCO.”

**Previous Recommendation #5:** “OPA should document its inter-governmental transactions by having its ACCO prepare a written approval for these types of transactions, and document that the price paid was lower than the prevailing prices, as required by PPB rules. The approval and price analysis prepared by the ACCO should be kept on file.”



**Previous Agency Response:** “When using inter-governmental contracts, OPA’s Financial Officer and/or Director of Administrative Services will seek other price quotes to ensure that the inter-governmental price quote is lower, as defined in Section 1-07 of the PPB rules. The Agency’s ACCO will also review price quote analyses for intergovernmental purchases to ensure compliance with PPB rules. A written statement from the ACCO attesting to the fact that the bidding process complied with PPB rules will be filed.”

**Current Status:** NOT IMPLEMENTED

Six of the 44 purchase orders we reviewed involved purchases from vendors with New York State contracts. Given the low dollar amounts of the purchases, the ACCO was not required to issue a statement regarding adherence to bidding requirements. However, the purchase order files for five of the six purchases lacked written determinations that the prices obtained were lower than the prevailing market price, in accordance with the PPB rules. Therefore, we consider Recommendation #5 not implemented.

### **Recommendation**

2. OPA should make a concerted effort to research the market to determine that the prices listed in the New York State contracts are lower than the prevailing market prices at the time of procurement. OPA should document this research in the purchase files.

**Agency Response:** “When using state contracted vendors, OPA’s Director of Administrative Services and/or Agency Chief Contracting Officer (ACCO) will search for other pricing options to insure that the intergovernmental quoted price is lower, as required by PPB guidelines. A written statement by the ACCO or some other documentation, attesting to the fact that the research did indeed occur, and the results thereof will be placed in the corresponding purchase files.”

**PREVIOUS FINDING:** “We found four purchase orders, totaling \$4,013, that OPA charged to incorrect object codes.”

**Previous Recommendation #7:** “OPA should ensure that the correct object code is charged for all purchases.”

**Previous Agency Response:** “[OPA will] ensure that the correct object code is charged for all purchases. . . . On rare occasions the Agency may be forced to charge

inappropriate object codes in emergency situations when goods and services are required immediately and budget modifications are delayed or funds have been ‘frozen’ by OMB. When these situations occur, OPA will create a report in which improper charges will be detailed and, as soon as practicable, correct them with budget modifications and appropriate journal entries. A memo of explanation from the OPA Financial Officer will be placed in the file.”

**Current Status:** PARTIALLY IMPLEMENTED

Two of the 44 purchases we reviewed were charged to incorrect object codes. For example, purchase order #1312001P0067 for a printer cartridge was charged to Object Code 1010 - Printing Supplies. However, OPA should have charged this expense to Object Code 1990 - Data Processing Supplies, according to the City’s Chart of Accounts. Object Code 1990 should be charged for all supplies associated with the operation of personal computers and printers. Based on these results, we consider Recommendation #7 partially implemented.

### **Recommendation**

3. OPA should carefully review the Chart of Accounts and use the correct object codes for its expenses.

**Agency Response:** “OPA will refer to the published Chart of Accounts to ensure that the correct object code is charged for all purchases.

“In rare cases, the Agency may be forced to charge inappropriate object codes in emergencies where the goods or services are required immediately and [emphasis in original] budget modifications have been delayed or funds have been frozen by OMB. If this takes place, OPA will document the improper charges in detail and, as soon as is practical, correct them with budget modifications and appropriate journal entries.”



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June 6, 2002

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Re: Follow-up Audit on OPA's Small Procurement Operation  
#FR02-178F

Dear Mr. Liwer

The Office of Payroll Administration has reviewed your draft report on your follow-up audit of OPA's small procurement operation for the period from July 1, 2000 to June 30, 2001.

OPA has taken, or will take, the following steps to adopt the recommendations presented in the report:

**Recommendation 1. OPA should ensure that all purchase orders contain clear, precise and accurate specifications.**

Full specifications were not included on four of the 44 reviewed purchase orders. OPA's Director of Administrative Services and/or Agency Chief Contracting Officer (ACCO) will confirm that correct and accurate specifications appear clearly on all applicable purchase orders.

**Recommendation 2. OPA should make a concerted effort to research the market to determine that the prices listed in the New York State contracts are lower than the prevailing market prices at the time of procurement. OPA should document this research in the purchase files.**

When using state contracted vendors, OPA's Director of Administrative Services and/or Agency Chief Contracting Officer (ACCO) will search for other pricing options to insure that the intergovernmental quoted price is lower, as required by PPB guidelines. A written statement by the ACCO or some other documentation, attesting to the fact that the research did indeed occur, and the results thereof will be placed in the corresponding purchase files.

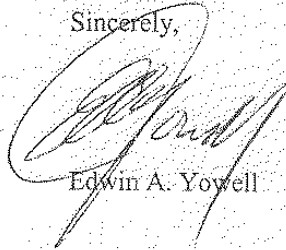
**Recommendation 3. OPA should carefully review the Chart of Accounts and use the correct object codes for its expenses.**

In two of the 44 examined purchase orders, the wrong object codes were used. OPA will refer to the published Chart of Accounts to ensure that the correct object code is charged for all purchases.

In rare cases, the Agency may be forced to charge inappropriate object codes in emergencies where the goods or services are required immediately and budget modifications have been delayed or funds have been frozen by OMB. If this takes place, OPA will document the improper charges in detail and, as soon as is practical, correct them with budget modifications and appropriate journal entries.

The above stated actions will assure that the cited recommendations are fully implemented. Furthermore, our Management Auditor will perform periodic internal audits aimed at ensuring compliance with the requirements as outlined in the PPB regulations and Comptroller's Directive #24. Thank you for your follow-up review of OPA's small purchase procedures. The Comptroller's assigned personnel performed their analysis in a thorough and professional manner.

Sincerely,



Edwin A. Yowell

cc: Elaine Doria, Director of Administrative Services  
Brian Newson, ACCO  
Lawrence Baum, Comptroller's Audit Manager  
Peggy Rose Viera, Mayor's Office of Operations  
Richard Valcich, Executive Director