



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

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Comptroller

**Audit Report on the
Small Procurement Practices of the
Department of Business Services**

MD02-080A

June 14, 2002

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EXECUTIVE SUMMARY

Background

The New York City Department of Business Services (DBS) was established pursuant to Local Law 61 on July 1, 1991. DBS assists small businesses through a variety of programs. In addition, DBS purchases goods and services for the Fulton Fish Market, and the Mayor's Office of Film, Theatre, and Broadcasting, and it funds the New York City Economic Development Corporation (EDC) through a contract.

During Fiscal Year 2001, DBS encumbered funds for small procurements totaling \$772,944. Small procurements are defined as the purchase of goods and services totaling \$25,000 or less; construction and construction-related services totaling \$50,000 or less; and information technology totaling \$100,000 or less.

Objectives

The objectives of the audit were to determine whether DBS complied with applicable purchasing procedures regarding its small procurements, including the City's Procurement Policy Board (PPB) Rules, Comptroller's Directives #1, #6, #24, and #25, and its own formal procedures.

Scope and Methodology

The scope of our audit was small procurements for the period July 1, 2000, through June 30, 2001.

To gain an understanding of DBS purchasing procedures, we interviewed the agency's Contracting and Procurement Officer, Fiscal Director, Accounts

Payable Supervisor, Chief Auditor, and Budget Analyst. We also reviewed DBS's *Fiscal Unit Procedures Manual* and *Agency Procurement Procedures*, and applicable Comptroller's Directives and PPB Rules.

To determine whether DBS complied with PPB Rules and Comptroller's Directives, we selected two random samples: a sample of 27 purchase orders (that represented 107 invoices and 79 payment vouchers), totaling \$129,350, from 284 purchase orders; and a sample of 13 miscellaneous vouchers, totaling \$14,724, from 47 miscellaneous vouchers.

We reviewed the supporting documentation for each of our sampled transactions to determine whether:

- Purchasing documents were appropriately prepared and approved.
- Purchases were made through the City's Requirements Contracts, when available.
- Object codes were correctly charged.
- Bids were solicited in accordance with PPB Rules.
- Payments were supported by invoices and were for agency-related expenses.

We determined whether the same or similar goods or services were purchased during Fiscal Year 2001 from the same vendor within one month, using different purchase orders. We then determined whether purchase orders from a vendor, when totaled, exceeded the small purchase limits of § 3-08 of the PPB Rules even though they were individually below those limits.

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.

Results in Brief

DBS generally complied with applicable PPB Rules, Comptroller's Directives, and its own formal procedures, when processing small procurements. However, there were problems with some of its purchasing practices.

Incomplete Bid Documentation

Of the sample of 27 purchase orders, DBS failed to solicit the required bids for three (28%) of the 11 purchase orders that required competitive bidding. These three purchases totaled \$25,261. DBS officials stated that two of the three purchases were for consulting services that were sole-source and therefore did not require bids. However, we did not see PPB-required written documentation stating that only one source for these purchases was available. For the third purchase, training courses from Learning Tree International, DBS officials stated that it did not have to be competitively bid since it fell under § 1-02 of the PPB Rules, *Transactions Not Subject to the PPB Rules*. However, this section of the PPB Rules is limited to attendance at training seminars (i.e., a class for a special purpose). Learning Tree International offers training courses that are general in nature and widely offered by numerous suppliers.

Split Purchase

DBS made a purchase totaling \$51,065 for training courses offered by Learning Tree International by issuing three purchase orders a few days apart. The purchase orders were each under \$25,000; however, when added together, they exceeded this amount. Had the three purchase orders been made as one purchase, DBS would have had to award a contract under the more competitive provisions of § 3-02 of the PPB Rules (rather than § 3-08), which requires, among other things, public advertisement of the opportunity to bid on a contract.

DBS Used Incorrect Object Codes

A total of 11 (41%) purchase orders, totaling \$53,923, from the sample of 27 purchase orders were charged to incorrect object codes. The use of the correct object code allows an agency to categorize the type and amount of a particular expense item within a fiscal year. This information is used to generate the year-end reports that identify expenditure patterns.

Purchase Orders Were Prepared And Approved After the Invoice Dates

Purchase orders for seven (26%) of the sampled 27 purchases were prepared and approved after the date of the invoices. For example, the order for a purchase made from D & R Auto Parts was dated July 18, 2000, and the invoice was dated July 10, 2000. Purchase orders are used to document the approval to purchase an item and to clearly state to the vendor the items ordered and terms of the sale. Preparing a purchase order after an item has been received defeats this purpose.

Late Vendor Payments

DBS did not pay 14 (14%) of the 107 invoices in the sample within the time frames specified by the PPB Rules. These invoices were paid from 31 to 150 days past those time frames. Late payments can cause DBS to incur additional expenses.

Invoices Are Not “Clocked In” When Received

Only six of the 107 invoices in the sample were “clocked in” when received by DBS, either by using a date stamp or by writing the date on the invoice. The City’s Financial Management System (FMS) uses the clock-in date to determine an agency’s adherence to § 4-06 of the PPB Rules regarding timeliness of payments. If DBS does not clock in invoices when they are received, FMS uses an earlier date (the date of the invoice, or the fifth day after the postmark date on the envelope containing the invoice). This affords the agency less time to pay the invoice and remain in compliance with the prompt payment procedures outlined in the PPB Rules.

DBS Does Not Maintain a File of the Signatures of Persons Authorized to Approve Purchase Requisitions and Certify Invoices for Payment

DBS does not maintain signatures on file for department heads or their designees who are authorized to approve purchase requisitions (prior to their submission to DBS’s Fiscal Division) and certify invoices to be paid. Comptroller’s Directive #24 states that the signatures of employees authorized to sign certifications must be on file.

Invoices Were Not All Marked “Vouchered”

For 20 (26%) of the 79 voucher packages reviewed in the sample, not all parts, especially the invoice, were marked “vouchered.” By not stamping all parts of the voucher file as “vouchered,” especially all copies of the invoices, DBS increases the chance of duplicate payments.

Inadequate Documentation For a Payment Totaling \$20,000

A payment, totaling \$20,000, was made by DBS to the Economic Development Corporation (EDC) for reimbursement of its share of the cost to install wall coverings and carpet on its floor. DBS and EDC occupy premises at 110 William Street. As part of its contract with DBS, EDC is to pay all maintenance and lease charges, and DBS is to reimburse EDC for a portion of

these charges. DBS procurement files for this purchase contained a purchase requisition, a purchase order, and a memo from EDC asking DBS for reimbursement. However, the DBS files did not contain any invoices to support the installation of wall coverings and carpet, or any information on how its share of the costs was allocated.

The City's Requirements Contract Was Not Used For a Purchase

DBS did not use an existing Requirements Contract for the purchase of ten Laser Jet Toner Cartridges (4V), totaling \$1,289. DBS purchased the toner cartridges from Big Apple Office Supplies (an outside vendor) when it could have purchased the toner cartridges from Industries for the Blind of NYS, a vendor with a City Requirements Contract.

Recommendations

This audit makes 10 recommendations to DBS officials, the most significant of which are that DBS should:

- Ensure that bids are solicited in accordance with PPB Rules.
- Ensure that purchases are charged to the correct object codes.
- Ensure that reimbursements made to EDC for expenses incurred are supported with invoices and with information on how its share of the costs was allocated.

DBS Response

The matters covered in this report were discussed with officials from DBS during and at the conclusion of this audit. A preliminary draft report was sent to officials from DBS and discussed at an exit conference on April 18, 2002. On May 13, 2002, we submitted a draft report to DBS officials with a request for comments. We received a written response from DBS on June 3, 2002. DBS officials generally agreed with the audit's findings and recommendations and have taken steps to implement most of the audit's recommendations. The response stated:

“With the recent transition, [the] Commissioner . . . has begun a process of reorganizing the agency structure and streamlining its operations with the intent to be more efficient and productive to better serve the small business community. . . . we have already implemented controls and procedures that can be expected to eliminate the issues identified.”

The full text of the DBS response is included as an addendum to this report.

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INTRODUCTION

Background

The New York City Department of Business Services (DBS) was established pursuant to Local Law 61 on July 1, 1991. DBS assists small businesses through a variety of programs. DBS provides technical assistance to start-up and expanding businesses; encourages the participation of minority and women-owned businesses in the City's procurement process; provides assistance to businesses affected by unavoidable disasters; offers savings in business taxes and energy costs; and enforces equal employment opportunity by contractors.

In addition, DBS purchases goods and services for the Fulton Fish Market, and the Mayor's Office of Film, Theatre, and Broadcasting, and it funds the New York City Economic Development Corporation (EDC), through a contract.

During Fiscal Year 2001, DBS encumbered funds for small procurements totaling \$772,944. Rules governing an agency's handling of small procurements are included in § 3-08 of the City's Procurement Policy Board (PPB) Rules. Small procurements are defined as the purchase of goods and services totaling \$25,000 or less; construction and construction-related services totaling \$50,000 or less; and information technology totaling \$100,000 or less.

Objectives

The objectives of the audit were to determine whether DBS complied with applicable purchasing procedures regarding its small procurements, including PPB Rules, Comptroller's Directives #1, #6, #24, and #25, and its own formal procedures.

Scope and Methodology

The scope of our audit was small procurements for the period July 1, 2000, through June 30, 2001.

To obtain an understanding of DBS purchasing procedures, we interviewed the agency's Contracting and Procurement Officer, Fiscal Director, Accounts Payable Supervisor, Chief Auditor, and Budget Analyst. We also reviewed DBS's *Fiscal Unit Procedures Manual* and *Agency Procurement Procedures*, and applicable Comptroller's Directives and PPB Rules.

To determine the total encumbrances and payments made by DBS during Fiscal Year 2001 for small procurements, we obtained a list of all DBS encumbrances and payments from the City's Financial Management System; we also obtained a list of the same information from DBS officials. We compared both lists for completeness.

To determine whether DBS complied with PPB Rules and Comptroller's Directives, we selected two random samples: a sample of 27 purchase orders (that represented 107 invoices and 79 payment vouchers), totaling \$129,350, from 284 purchase orders; and a sample of 13 miscellaneous vouchers, totaling \$14,724, from 47 miscellaneous vouchers.¹

We reviewed the supporting documentation for each of our sampled transactions to determine whether:

- Purchasing documents were appropriately prepared and approved.
- Purchases were made through the City's Requirements Contracts, when available.
- Object codes were correctly charged.
- Bids were solicited in accordance with PPB Rules.
- There was adequate segregation of duties for all aspects of the purchasing process.
- Payments were supported by invoices and were for agency-related expenses.

¹ Our sample selection for the purchase orders was limited to small procurements of \$1,000 or more.

- Invoices were matched to purchase orders (for price and description), were compared to receiving reports, were checked for clerical accuracy, and were canceled to prevent duplicate payment.
- Payments were made to vendors within the 30-day time period mandated by § 4-06 of the PPB Rules.
- Miscellaneous vouchers were used correctly.

To determine whether there was evidence of split purchasing in violation of PPB Rule § 3-08 that applies to small procurements, we sorted all purchase orders issued by DBS for Fiscal Year 2001 by vendor name, purchase order date, and dollar amount. We reviewed the purchase orders to determine whether the same or similar goods or services were purchased from the same vendor within a short time period (one month) using different purchase orders. We determined whether any of these purchase orders for the same vendor, although individually below the small purchase limits set by § 3-08 of the PPB Rules for bidding, exceeded these limits when added together. To illustrate, for a \$3,000 purchase, an agency may attempt to forgo the competitive bidding required under § 3-08 by issuing three \$1,000 purchase orders a few days apart. In another example, for a \$30,000 purchase, an agency may attempt to forgo the broader outreach for competitive bidding required under § 3-02, including the need for public advertisement, by issuing two \$15,000 purchase orders a few days apart.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS), and included tests of the records and other auditing procedures we 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.

DBS Response

The matters covered in this report were discussed with officials from DBS during and at the conclusion of this audit. A preliminary draft report was sent to officials from DBS and discussed at an exit conference on April 18, 2002. On May 13, 2002, we submitted a draft report to DBS officials with a request for comments. We received a written response from DBS on June 3, 2002. DBS officials generally agreed with the audit's findings and recommendations and have taken steps to implement most of the audit's recommendations. The response stated:

“With the recent transition, [the] Commissioner . . . has begun a process of reorganizing the agency structure and streamlining its operations with the intent to be more efficient and productive to better serve the small business community we have already implemented controls and procedures that can be expected to eliminate the issues identified.”

The full text of the DBS response is included as an addendum to this report.

**OFFICE OF THE COMPTROLLER
NEW YORK CITY**

DATE FILED: June 14, 2002

FINDINGS AND RECOMMENDATIONS

DBS generally complied with applicable PPB Rules, Comptroller's Directives, and its own formal procedures, when processing small procurements. Specifically:

- purchase orders were appropriately prepared and approved,
- most purchases were adequately supported by vendor invoices;
- invoices were checked for clerical accuracy;
- payments matched invoice amounts;
- there was adequate segregation of duties for all aspects of the purchasing process;
- miscellaneous vouchers were properly utilized and authorized; and
- approval requests for out-of-City travel expenses were appropriately prepared and authorized and included detailed justifications.

However, there were problems with some of the purchasing practices of DBS, which are discussed in the following sections of this report.

Incomplete Bid Documentation

Of the sample of 27 purchase orders, DBS failed to solicit the required bids for three (28%) of the 11 purchase orders that required competitive bidding. These three purchases totaled \$25,261.

PPB Rules § 3-08 states that five suppliers are to be solicited for procurements costing more than \$2,500 but equal to or less than \$25,000 for goods and services, \$50,000 for construction-related services, and \$100,000 for information technology. Responsive bids or offers must be received from at least two suppliers.

PPB Rules § 3-05, *Sole-Source Procurement*, states that, "Prior to entering into sole source negotiations, the ACCO [Agency Chief Contracting Officer] shall make a written determination that there is only one source for the required good, service, or construction." It further states that for sole source procurements of \$10,000 or less for goods and services and \$15,000 or less for construction and construction-related services, the written determination must include a description of the process by which the agency made the decision to pursue sole source procurement. For sole source procurements above these amounts, the written determination must include a description of the efforts made to ensure that offers were solicited from other sources.

Table I, which follows, summarizes the purchases in our sample that lacked the required bid documentation on file.

TABLE I

Three Purchases That Lacked the Required Bid Documentation on File

Vendor	Purchase Order Number	Amount
Solomon Osidele	1000085	\$ 3,675
Fatimah Gray	1000121	\$ 6,996
Learning Tree International	1000247	\$14,590
Total	3	\$25,261

DBS officials stated that the purchases from Solomon Osidele (consultant services) and Fatimah Gray (consultant services), were sole-source, and therefore did not require bids. However, we did not see PPB-required written documentation stating that only one source for these purchases was available. DBS officials initially told us that the purchase of training courses offered by Learning Tree International was a sole-source purchase. They later stated that the purchase did not have to be competitively bid since it fell under § 1-02 of the PPB Rules, *Transactions Not Subject to the PPB Rules*. However, with respect to training, this section of the PPB Rules is limited to attendance at training seminars (i.e. a class for a special purpose). Learning Tree International offers training courses that are general in nature and widely offered by numerous suppliers.

Even if DBS had considered the purchase exempt from the PPB Rules, under §1-02 written documentation must be in the files indicating that the process to be followed is in the best interest of the City.

DBS must ensure that the required number of vendors is solicited and the required number of bids is obtained for its purchases. If a purchase is to be considered sole-source, written justification for this decision must be maintained in the files.

Recommendation

1. DBS should ensure that bids are solicited in accordance with PPB Rules.

DBS Response: “With respect to the bids cited in the report, two of the vendors were consultants and were hired for their unique expertise. However, we recognize that documentation should have been in place indicating that they were sole source. In the future, DBS will indicate in all procurements the method of selection with appropriate justification. As for the third bid cited in your report, Learning Tree, DBS determined that the procurement was not subject to the PPB rules. . . . Accordingly, no bids were solicited for this procurement.”

Auditor Comment: Although we disagree with the determination made by DBS officials that the procurement of training courses is not subject to the PPB Rules, we are pleased that DBS will in the future “solicit bids for training courses,” as indicated in the response to recommendation #2.

Split Purchase

Our review of DBS’s small procurements during Fiscal Year 2001 found evidence of one split purchase, totaling \$51,065. DBS made a purchase totaling \$51,065 for training courses offered by the Learning Tree International, by issuing three purchase orders a few days apart. The purchase orders were each under \$25,000; however, when added together, they exceeded this amount.

PPB Rules § 3-08 states: “A procurement shall not be artificially divided in order to meet the requirements of this section.”

Table II below shows the split purchase.

TABLE II

Split Purchase to Avoid Bidding Requirements of PPB Rules

Vendor	Purchase Order #	Purchase Order Date	Description of Purchase	Purchase Order Amount
Learning Tree International	1000251	4/4/01	8-Course Training Passport *	\$14,590
	1000247	4/4/01	8-Course Training Passport *	\$14,590
	1000252	4/17/01	8-Course Training Passport *	<u>\$21,885</u>
Total				\$51,065

* The purchase of an 8-Course Training Passport entitles the purchaser to eight courses in 12 months.

Had the three purchase orders, shown in Table II, been made as one purchase, DBS would have had to award a contract under the more competitive provisions of § 3-02 of the PPB Rules (rather than § 3-08), which requires, among other things, public advertisement of the opportunity to bid on a contract. DBS must comply with the PPB

Rules regarding the bidding process for purchases to ensure that its procurement process is conducted in a fair and competitive manner.

Recommendation

2. DBS should ensure that it does not split purchases to circumvent PPB Rules bidding requirements.

DBS Response: “. . . in the future, DBS will solicit bids for training courses and it will not issue multiple purchase orders to the same vendor.”

DBS Used Incorrect Object Codes

A total of 11 (41%) purchase orders, totaling \$53,923, from the sample of 27 purchase orders, were charged to incorrect object codes. For example, DBS charged the \$1,235 rental of a water cooler from Pure Health Solutions to object code 431 (Leasing of Miscellaneous Equipment) rather than to object code 403 (Office Services). The City’s Chart of Accounts states that the rentals of safe-deposit boxes, post office boxes, and water coolers should be charged to object code 403.

Comptroller’s Directive #24, § 8.4, states that “the reviewer should . . . examine the accounting and budget codes used and determine that they are correct—the proper fund should be charged.”

Table III, which follows, summarizes DBS Fiscal Year 2001 purchases charged to the incorrect object codes.

TABLE III

Summary of the 11 Purchases Charged to Incorrect Object Codes

Description of Purchase	Dollar Amount of Purchase	Object Code Charged	Object Code that Should Have Been Charged
Lexis Nexis on Line Subscription for Legal Unit at DBS	\$5,000	403—Office Services	337—Books-Other
2 Frame Relay 56K Line Services (Oct.–Nov.) Port Connection	\$1,026	403—Office Services	402—Telephone and Other Communications
2 Frame Relay 56K Lines for Film Office Port Connection	\$2,622	403—Office Services	402—Telephone and Other Communications
Rental of Water Cooler	\$1,235	431—Leasing of Miscellaneous Equipment	403—Office services
Payment to Solomon Osidele (an Instructor) for <i>Small Business Basics</i> Class	\$2,450	600—Contractual Services-General	685—Professional Services-Education-Contractual
Consulting Services from Fatimah Gray for Executive Office	\$6,996	600—Contractual Services-General	622—Temporary Services-Contractual
Ten HP Laserjet Toner Cartridges (4V)	\$1,290	100—Supplies and Materials-General	199—Data Processing Supplies
Consulting Services from James Topping (Program Manager) for the Lower Manhattan Energy Program to Oversee Operations	\$10,119	600—Contractual Services-General	686—Professional Services-Other-Contractual
Payment to Fenherre Cherubin (an Instructor) for <i>Small Business Basics</i> course	\$1,225	600—Contractual Services-General	685—Professional Services-Education-Contractual
Payment to Don Lee (an introductory Computer Instructor) for the Vendor Initiative Division at DBS	\$1,960	600—Contractual Services-General	685—Professional Services-Education-Contractual
Reimbursement to EDC for expenses incurred with the installation of carpet at the elevator and the installation of new wall coverings.	\$20,000	600—Contractual Services-General	608—Maintenance and Repairs-General-Contractual
Total	\$53,923	11	

The use of the correct object code allows an agency to categorize the type and amount of a particular expense item within a fiscal year. This information is used to generate the year-end reports that identify expenditure patterns. Expenditures by object code are also reported in the *Financial Report of the Comptroller*. The use of incorrect object codes can compromise management’s ability to properly plan future budgets.

Recommendation

3. DBS should ensure that purchases are charged to the correct object codes.

DBS Response: “The Department has distributed the chart of accounts to all agency procurement staff, and it will reinforce the correct use of the object codes to prevent future miscoding.”

Purchase Orders Were Prepared And Approved After the Invoice Dates

Purchase orders for seven (26%) of the sampled 27 purchases were prepared and approved after the date of the invoices. For example, the purchase order for a purchase made from D & R Auto Parts was dated July 18, 2000, and the invoice was dated July 10, 2000.

According to DBS officials, sometimes the prices are not known for a particular purchase, so DBS waits for the invoices to come in before processing purchase orders. In other instances, there may be emergency situations that require purchase orders to be prepared after the invoices.

Agencies are required to use miscellaneous vouchers when they cannot pre-determine the amount that is to be spent. Purchase orders are not required for miscellaneous vouchers. However, DBS did not use miscellaneous vouchers for the seven purchases we cited. PPB Rules § 3-06 states that an agency can make an emergency purchase, permitting the agency not to follow the normal procurement method, but only in the event of an unforeseen danger to life, safety, property or a necessary service. An emergency purchase must be documented in writing and must be approved by the Comptroller's Office and the Law Department. In the seven cases cited above, we saw no documentation stating that these were emergency purchases.

During the exit conference, DBS officials stated that sometimes when the Fulton Fish Market operates at night, emergencies arise that require purchase orders to be prepared after the invoices. However, only one of the seven purchases we cited in this section was for the Fulton Fish Market.

Purchase orders are used to document the approval to purchase an item and to clearly state to the vendor the items ordered and terms of the sale. Preparing a purchase order after an item has been received defeats this purpose. A purchase order is also the tool used by agencies to encumber funds. Encumbering funds before payments are made allows agencies to properly authorize and monitor expenses.

Recommendation

4. DBS should ensure that purchase orders are prepared before invoices are received.

DBS Response: "Necessary steps have been taken to ensure that purchase orders are prepared before invoices are received. Further, we will distribute the agency procurement policy to the staff of the Office of Film, Theatre and Broadcasting and the Fulton Fish Market. Also in the future, all utility and telecommunication bills will be paid through a miscellaneous voucher."

Late Vendor Payments

DBS did not pay 14 (14%) of the 107 invoices in the sample within the time frames specified by the PPB Rules. PPB Rules § 4-06, *Prompt Payment*, states that agencies are required to pay all vendors within 30 calendar days from the date the agency receives a proper invoice or 37 days from the date when the goods or services are received, whichever is later. These invoices were paid from 31 to 150 days past those time frames. Late payments can cause DBS to incur additional expenses.

During the exit conference, DBS officials stated that invoices for goods and services procured for the Fulton Fish Market and the Mayor's Office of Film, Theatre, and Broadcasting are sent directly to these entities. The invoices are then forwarded to DBS's Fiscal Division for processing. DBS officials stated that five of the invoices we cited were paid late because of the untimely submission of invoices from the Fulton Fish Market and the Mayor's Office of Film, Theatre, and Broadcasting. DBS should coordinate its efforts with these two entities to ensure the timely processing of invoices.

Recommendation

5. DBS should ensure that invoices are paid within the time frames specified in the PPB Rules.

DBS Response: "Most of the invoices cited in the report pertain to invoices received late from the Film Office and the Fulton Fish Market. Their Offices are located outside the main office of DBS and the invoices are sent directly to their location. In the future, we will coordinate with those offices to receive the invoices in a timely manner."

Invoices Are Not "Clocked In" When Received

Only six of the 107 invoices in the sample were "clocked in" when received by DBS, either by using a date stamp or by writing the date on the invoice. The PPB Prompt Payment Guidelines state:

"When an agency receives an invoice, the first thing that should be done is to immediately clock it in, either by a date stamp or simply noting when it was received.

"In the event the invoice is not date stamped, the date of the invoice or, if later, the postmark on the envelope, plus five days, will serve as the clock-in date."

The City's Financial Management System (FMS) uses the clock-in date to determine an agency's adherence to § 4-06 of the PPB Rules regarding timeliness of payments. If DBS does not clock in invoices when they are received, FMS uses an

earlier date (the date of the invoice, or the fifth day after the postmark date on the envelope containing the invoice). This affords the agency less time to pay the invoice and remain in compliance with the prompt payment procedures outlined in the PPB Rules, and may result in late fees that would not otherwise accrue if DBS clocked in all invoices.

Recommendation

6. DBS should ensure that invoices are clocked in when received.

DBS Response: “A clock/timer was purchased for the accounts payable unit and all in-coming invoices will be clocked-in when received.”

DBS Does Not Maintain a File of the Signatures of Persons Authorized to Approve Purchase Requisitions and Certify Invoices for Payment

DBS does not maintain signatures on file for department heads or their designees who are authorized to approve purchase requisitions (prior to their submission to DBS’s Fiscal Division) and certify invoices to be paid. Therefore, we were unable to determine whether the individuals from the departments who approved the purchase requisitions in our sample and certified the invoices to be paid had the authority to do so. Furthermore, 64 of the 107 invoices we reviewed had no certification stamp indicating that they should be paid.

Comptroller’s Directive #24 states that the signatures of employees authorized to sign certifications must be on file.

DBS should keep an updated list of the signatures of department heads or their designees authorized to approve purchase requisitions (prior to their submission to DBS’s Fiscal Division) and certify invoices for payment to ensure adequate controls over its procurement process.

Recommendation

7. DBS should ensure that a list is maintained that contains the signatures of department heads or their designees authorized to approve purchase requisitions (prior to their submission to DBS’s Fiscal Division) and certify invoices for payment.

DBS Response: “Each Unit within the agency will assign a procurement liaison to request in writing all needs for the Unit with the approval of its Director. The

procurement unit will maintain a list that contains the authorized signatures of Department heads or their designees.”

Invoices Were Not All Marked “Vouchered”

For 20 (26%) of the 79 voucher files reviewed in the sample, not all parts, especially the invoice, were marked “vouchered.” Comptroller’s Directive #24, § 8.5, states that all documents in the vouchering package should be stamped with the word “vouchered.” By not stamping all parts of the voucher file as “vouchered,” especially all copies of the invoices, DBS increases the chance of duplicate payments.

Recommendation

8. DBS should ensure that all parts of the voucher package, especially the invoices, are marked “vouchered” to avoid any duplicate payments.

DBS Response: “. . . DBS will implement the recommendation and mark ‘vouchered’ on all parts of the invoices.”

Inadequate Documentation For a Payment Totaling \$20,000

A payment, totaling \$20,000, was made by DBS to the Economic Development Corporation (EDC) for reimbursement of its share of the cost to install wall coverings and carpet on its floor. DBS and EDC occupy premises at 110 William Street—DBS occupies the 3rd floor and half of the 2nd floor, and EDC occupies the 4th through 6th floors and the other half of the 2nd floor. As part of its contract with DBS, EDC is to pay all maintenance and lease charges incurred with the building, and DBS is to reimburse EDC for a portion of these charges.

DBS procurement files for this purchase contained a purchase requisition, a purchase order, and a memo from EDC asking DBS for reimbursement. However, the DBS files did not contain any invoices to support the installation of wall coverings and carpet, or any information on how its share of the costs was allocated.

We asked DBS officials to provide us the supporting documentation for the \$20,000 payment. DBS officials said that they pay “whatever EDC tells us to pay and it is more than reasonable” and added, “EDC has all of the documents.”

EDC provided us invoices that documented \$13,045 of the \$20,000 payment made by DBS. The balance of \$6,955 that DBS paid had no supporting documentation. DBS officials should ensure that before reimbursement is made to EDC for any expense,

all supporting documentation is presented for review and is kept in the DBS payment files.

Recommendation

9. DBS should ensure that reimbursements made to EDC for expenses incurred are supported with invoices and with information on how its share of the costs was allocated.

DBS Response: “As part of a necessary improvement to replace worn-out carpets, EDC contracted with a vendor to replace the carpeting EDC then billed DBS \$20,000 which represented the DBS share. However, the work of replacing the carpets was not completed during FY’01. EDC only paid the vendor partial payment in FY’01 and the remaining payments were made after the work was completed. If DBS contracted directly with other vendors to do the carpeting for DBS office space, it would have cost the City substantially more than the \$20,000.”

Auditor Comment: DBS officials did not address how they will implement the recommendation. Our audit did not question the purchase of carpeting or the costs involved. The recommendation was to ensure that DBS has adequate supporting documentation in its procurement files for any payments made to EDC for expenses associated with its share of the building.

The City’s Requirements Contract Was Not Used For a Purchase

DBS did not use an existing Requirements Contract for the purchase of ten Laser Jet Toner Cartridges (4V), totaling \$1,289. DBS purchased the toner cartridges from Big Apple Office Supplies (an outside vendor) when it could have purchased the toner cartridges from Industries for the Blind of NYS, a vendor with a City Requirements Contract.

The Commissioner of the Department of Citywide Administrative Services issued a letter to all City agencies in August 1995 that stated, “agencies are reminded that commodities on requirements contracts must be purchased under these contracts.”

Furthermore, DBS own purchasing procedures state, “when you need to obtain goods and/or services, first you should determine whether there is a City-wide requirements contract for that item.”

Recommendation

10. DBS should ensure that existing Requirements Contracts are used for purchases.

DBS Response: “. . . DBS will ensure that requirement contracts are utilized.”



THE CITY OF NEW YORK
DEPARTMENT OF BUSINESS SERVICES

ROBERT W. WALSH
COMMISSIONER

ANDREW I. SCHWAB
DEPUTY COMMISSIONER

June 3, 2002

Mr. Roger D. Liwer
Deputy Comptroller for Audits
Office of the Comptroller
1 Centre Street, Room 1100
New York, N.Y. 10007

Re: Audit report on the Small Procurement Practices
of the Department of Business Services
MD02-080A

Dear Mr. Liwer:

I appreciate the opportunity to review and comment on the draft report before its public release. The Department of Business Services (DBS) generally agrees with the audit findings and has already implemented most of the audit recommendations.

With the recent transition, Commissioner Walsh has begun a process of reorganizing the agency structure and streamlining its operations with the intent to be more efficient and productive to better serve the small business community. DBS has moved from a flat level organizational structure to one with various levels that better reflect the purpose and mission of the agency. Within the Administration Division, Shaazad Ali has been appointed Assistant Commissioner for Finance and Administration overseeing the Fiscal and Procurement Units. This focus will enable us to incorporate the changes set forth in the Audit report.

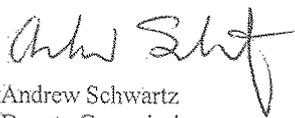
Although the indicated findings are not material, we have already implemented controls and procedures that can be expected to eliminate the issues identified. For example, the agency's new procurement officer has initiated a procedure to streamline the procurement process. Each Unit within the agency will assign a procurement liaison to request in writing all needs for the Unit, subject to the approval of its Director. This procedure specifically addresses the audit's recommendation of having a specimen signature on file for Directors who are authorized to approve procurement requisitions.

Department of Business Services
Response to the City Comptroller's Draft Report
Audit Number: MD02-080A

The attached response (Attachment 1) describes the current status of our implementation to add all the ten recommendations in the report and also details our comments to your audit team on some of your findings and general conclusion.

Please call our audit liaison, Mr. Ismail Mohamed, at (212) 618-8733 should you or your staff require further information.

Sincerely,



Andrew Schwartz
Deputy Commissioner

- c: Elizabeth Lusskin, Deputy Commissioner
- Shaazad Ali, Assistant Commissioner
- Ismail Mohamed, Chief Auditor

Attachment I
Page 1 of 3**Department of Business Services
Response to the City Comptroller's Draft Report
Audit Number: MD02-080A**

Recommendation 1: DBS should ensure that bids are solicited in accordance with PPB rules.

The Department of Business Services solicits bids in accordance with the PPB rules. The Department utilizes the "Bidmatch" system to solicit bids from a very wide range of vendors. With respect to the bids cited in the report, two of the vendors were consultants and were hired for their unique expertise. However, we recognize that documentation should have been in place indicating that they were sole source. In the future, DBS will indicate in all procurements the method of selection with appropriate justification. As for the third bid cited in your report, Learning Tree, DBS determined that the procurement was not subject to the PPB rules, as per section 1-02 of the PPB rules. Accordingly, no bids were solicited for this procurement.

Recommendation 2: DBS should ensure that it does not split purchases to circumvent PPB rules bidding requirement.

The report cited three purchase orders issued to Learning Tree. DBS did not artificially split these orders. In order to save money on training costs, the vendor requested a purchase order for each passbook. As per the vendor's advice at that time, it would have cost more if only one purchase order was issued. Also, since the procurement was for training, DBS determined that the procurement was not subject to the PPB rules as per section 1-02. However, in the future, DBS will solicit bids for training courses and it will not issue multiple purchase orders to the same vendor.

Recommendation 3: DBS should insure that purchases are charged to the correct Object codes.

The audit report cited 11 instances where the wrong budget codes were used. The Department has distributed the chart of accounts to all agency procurement staff, and it will reinforce the correct use of the object codes to prevent future miscoding.

Attachment I
Page 2 of 3

Recommendation 4: **DBS should ensure that purchase orders are prepared before invoices are received.**

Necessary steps have been taken to ensure that purchase orders are prepared before invoices are received. Further, we will distribute the agency procurement policy to the staff of the Office of Film, Theatre and Broadcasting and the Fulton Fish Market. Also in the future, all utility and telecommunication bills will be paid through a miscellaneous voucher.

Recommendation 5: **DBS should ensure that invoices are paid within the time frames specified in the PPB rules.**

The audit report revealed that 14 invoices were paid late. Most of the invoices cited in the report pertain to invoices received late from the Film Office and the Fulton Fish Market. Their Offices are located outside the main office of DBS and the invoices are sent directly to their location. In the future, we will coordinate with those offices to receive the invoices in a timely manner. Please note that the late payments cited in the report did not result in extra costs to the City.

Recommendation 6: **DBS should ensure that invoices are clocked in when received.**

DBS has implemented a procedure to ensure that all invoices are clocked-in. A clock/timer was purchased for the accounts payable unit and all in-coming invoices will be clocked-in when received.

Recommendation 7: **DBS should ensure that a list is maintained that contains the signatures of department heads or their designees authorized to approve purchase requisitions and certify invoices for payment.**

The Agency's new procurement officer has initiated a procedure to streamline the procurement process. Each Unit within the agency will assign a procurement liaison to request in writing all needs for the Unit with the approval of its Director. The procurement unit will maintain a list that contains the authorized signatures of Department heads or their designees.

Attachment I
Page 3 of 3

Recommendation 8: **DBS should ensure that all parts of the voucher package are marked "vouchered" to avoid any duplicate payments.**

The City FMS system already prevents the duplicate vouchering of invoices that have the same invoice number. As an additional precaution, DBS will implement the recommendation and mark "vouchered" on all parts of the invoices.

Recommendation 9: **DBS should ensure that reimbursements made to EDC for expenses incurred are supported with invoices and with information on how its share of the costs was allocated.**

DBS & EDC jointly occupy the premises located on the 2nd to 6th Floors at 110 William Street. EDC is the lone leaseholder for that space. As part of a necessary improvement to replace worn-out carpets, EDC contracted with a vendor to replace the carpeting from the second to the sixth floor. EDC then billed DBS \$20,000 which represented the DBS share. However, the work of replacing the carpets was not completed during FY'01. EDC only paid the vendor partial payment in FY'01 and the remaining payments were made after the work was completed. If DBS contracted directly with other vendors to do the carpeting for DBS office space, it would have cost the City substantially more than the \$20,000. For economic reasons, DBS and EDC hired one vendor to do all the carpeting in our jointly held space.

Recommendation 10: **DBS should ensure that existing requirement contracts are used for purchases.**

The audit report indicates that DBS did not use a requirement contract to procure laser toner cartridges. The requirement contractor for the City, Industries for the Blind, sells recycled toner cartridges for \$109 each. DBS purchased new toner cartridges from a different vendor for the same price. The purchase of the laser toner from the other vendor did not result in extra cost to the City and allowed the purchase of new, rather than recycled goods. However, going forward, DBS will ensure that requirement contracts are utilized.