

# AUDIT REPORT

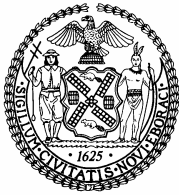


CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
BUREAU OF MANAGEMENT AUDIT  
**WILLIAM C. THOMPSON, JR., COMPTROLLER**

## **Audit Report on the Use of Procurement Cards By the Fire Department**

*MD08-072A*

**May 5, 2008**



THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
1 CENTRE STREET  
NEW YORK, N.Y. 10007-2341

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WILLIAM C. THOMPSON, JR.  
COMPTROLLER

**To the Citizens of the City of New York**

Ladies and Gentlemen:

In accordance with the responsibilities of the Comptroller contained in Chapter 5, §93, of the New York City Charter, my office has audited whether the New York City Fire Department has adequate controls over the use of procurement cards.

Procurement cards are credit cards used by City agency personnel for purchasing goods and services. We audit the purchasing practices of City agencies such as the Fire Department to ensure that it expends public funds appropriately and in accordance with established procedures and safeguards.

The results of our audit, which are presented in this report, have been discussed with FDNY officials, and their comments have been considered in preparing this report.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at [audit@comptroller.nyc.gov](mailto:audit@comptroller.nyc.gov) or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in cursive script that reads 'William C. Thompson, Jr.'.

William C. Thompson, Jr.

**Report:** MD08-072A  
**Filed:** May 5, 2008

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**ADDENDUM   FDNY Response**

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

**Audit Report on the  
Use of Procurement Cards  
By the Fire Department**

**MD08-072A**

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**AUDIT REPORT IN BRIEF**

The audit determined whether the Fire Department (FDNY) has adequate internal controls over the use of procurement cards (p-cards). P-cards are credit cards used by City personnel for purchasing goods and services for City programs and operations. During Fiscal Year 2007, FDNY had 11 active purchasing card users with transactions totaling \$93,496, and 8 active travel card users with transactions totaling \$103,664.

**Audit Findings and Conclusions**

The FDNY has inadequate internal controls over the use of p-cards. The FDNY allowed purchases to be made by individuals who were not cardholders and had an inadequate independent review of p-card purchases. P-card purchases lacked receipts, receiving reports, and user logs. In addition, there was an inadequate segregation of duties with regard to p-card transactions. As a result of these weaknesses, there is an increased risk that errors and unauthorized charges may go undetected, and an increased potential for fraud or the misappropriation or misuse of funds.

**Audit Recommendations**

Based on our findings, we make eight recommendations, five of which are listed below. The FDNY should:

- Ensure that only authorized cardholders use the p-cards.
- Reevaluate the p-card program to determine whether it is necessary to issue more cards to prevent purchases made by unauthorized individuals.
- Ensure that one unit is assigned the responsibility of conducting an adequate, independent review of p-card purchases and that the review is sufficiently documented and performed prior to authorizing payment.

- Ensure that cardholders submit receipts and receiving reports for all purchases to the Accounts Payable Unit. If a receipt or receiving report is not available, a note indicating the reason should be attached to the purchase log.
- Require all cardholders to maintain and submit logs of p-card purchases to the Accounts Payable Unit to aid in the reconciliation of the monthly statements.

**FDNY Response**

In its response, FDNY officials generally agreed with the audit's findings and recommendations.

## **INTRODUCTION**

### **Background**

The Fire Department (FDNY) responds to fires, public safety and medical emergencies, disasters, and terrorist acts to protect life and property. The FDNY maintains approximately 250 firehouse and ambulance stations and responds to more than 280,000 fire- and non-fire-related emergencies and approximately 1 million medical emergencies each year.

Procurement cards (p-cards) are credit cards used by City personnel for purchasing goods and services for City programs and operations. These cards can be used by purchasing personnel at a central office or by employees on field or road assignments. The primary benefits of p-cards are user convenience, the elimination of intermediate steps required by the City's traditional procurement processes, and a reduction in internal documentation needed to support a purchase and its payment.

The FDNY utilized a New York State contract with Citibank for the use of p-cards during Fiscal Years 2006 and 2007. The FDNY uses two types of p-card—purchasing cards and travel cards. FDNY's use of p-cards was authorized in April 2005; FDNY started using the purchasing cards issued by Citibank in July 2005 and the travel cards in August 2005.

In June 2001, the Comptroller's Office issued Comptroller's Memorandum #01-1, "Guidelines for the Use of Procurement/Purchasing Cards," which provides guidelines for City agencies in authorizing, paying, and complying with the City's procurement policies and procedures when using p-cards.

According to the FDNY's Agency Chief Contracting Officer (ACCO), cardholders can purchase up to the available balance of \$5,000 without the Commissioner's approval. There are a few individuals who are allowed to purchase up to \$10,000 in emergency situations, but only with prior approval from the Commissioner.

During Fiscal Year 2007, FDNY had 11 active purchasing card users with transactions totaling \$93,496, and 8 active travel card users with transactions totaling \$103,664. FDNY officials stated that purchasing cards are mainly used in emergency situations to sustain and support the Incident Response Team that responds to emergencies as well as by the Marine Division to purchase fuel for the boats. They are also used by cardholders to purchase meals and other necessary purchases while traveling. The travel cards are used for employee travel expenses, including air fare, hotels, and car rentals.

### **Objective**

The objective of this audit was to determine whether the FDNY has adequate internal controls over the use of p-cards.

## **Scope and Methodology**

The scope period of this audit is Fiscal Year 2007.

To gain an overall understanding of the FDNY p-card program, we reviewed and used as criteria Comptroller's Memorandum #01-1, Comptroller's Directive #1, "Principles of Internal Control," Comptroller's Directive #24, "Agency Purchasing Procedures and Controls," the State contract with Citibank, and the FDNY Credit Card Use Policy. In addition, we interviewed FDNY officials responsible for overseeing the p-card program.

To determine whether only authorized cardholders are using the p-cards and whether they are aware of the rules and regulations, we obtained a list of all FDNY p-card users and compared the names on the list with the names of users on each of the Citibank card statements. We also reviewed FDNY files to see whether all cardholders had completed and signed a Cardholder's User Agreement. In addition, we reviewed the City's Payroll Management System to verify that cardholders are actual employees of the FDNY.

We examined all FDNY Citibank statements for Fiscal Year 2007 to determine whether the bills were paid on time. We judgmentally selected for review the three highest consecutive month's bills for both the purchasing card and the travel card. We selected August, September, and October 2006 for the purchasing card, with 171 transactions totaling \$43,971 (of the \$93,496 in total transactions covering Fiscal Year 2007) and March, April, and May 2007 for the travel card, with 122 transactions totaling \$34,201 (of the \$103,664 in total transactions covering Fiscal Year 2007).

We tested the purchases to determine whether they were approved, whether invoices or charge receipts describing the purchases were present and matched the charges on the credit card statement, and whether receiving reports were present and logs of card use were maintained by each user. We also tested the purchased items to ascertain whether they were available through the Department of Citywide Administrative Services (DCAS) Requirements Contracts, since p-cards, except in cases of emergency, should generally not be used for items that can be obtained from these contracts.

In addition, we determined whether any purchases exceeded the individual purchase thresholds, and whether any purchases were split to circumvent the purchasing thresholds.

The results of these tests, while not projectable to the entire population of p-card purchases in Fiscal Year 2007, provided a reasonable basis for us to determine whether the FDNY has adequate controls over the use of its p-cards.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the Comptroller, as set forth in Chapter 5, §93, of the New York City Charter.

## **Discussion of Audit Results**

The matters covered in this report were discussed with FDNY officials during and at the conclusion of this audit. A preliminary draft report was sent to FDNY officials and discussed at an exit conference held on April 1, 2008. On April 11, 2008, we submitted a draft report to FDNY officials with a request for comments. We received a written response from FDNY officials on April 17, 2008. In their response, FDNY officials generally agreed with the audit's findings and recommendations, stating: "the Department . . . intends to utilize [the] recommendations wherever possible."

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



## **FINDINGS AND RECOMMENDATIONS**

The FDNY has inadequate internal controls over the use of p-cards. The FDNY allowed purchases to be made by individuals who were not cardholders and had an inadequate independent review of p-card purchases. P-card purchases lacked receipts, receiving reports, and user logs. In addition, there was an inadequate segregation of duties with regard to p-card transactions. As a result of these weaknesses, there is an increased risk that errors and unauthorized charges may go undetected, and an increased potential for fraud or the misappropriation or misuse of funds.

### **Purchases Made by Persons Other Than Cardholders**

The FDNY is allowing persons other than the cardholders to make purchases. According to Comptroller's Memorandum #01-1, agency procedures must incorporate measures to ensure that only authorized personnel use procurement cards. Furthermore, §2.1.2 of the Memorandum states that "agencies must insure that . . . Cards are not 'loaned' or used by anyone other than the employee or employees authorized to use it." In addition, the contract between the State and Citibank states, "The card is not transferable and may not be used by anyone other than the cardholder."

The FDNY Deputy ACCO informed us that on occasion, non-authorized users are allowed to use cards issued to other individuals to make purchases, but that they first must get permission from the Chief of that particular bureau. This practice appeared to be prevalent within the Marine Division where the pilots are given one of the purchasing cards by their commanding Chief to refuel the boats. For example, in 24 (80%) of the 30 Marine Division fuel purchases, totaling \$7,597, in which a signed receipt was present, the charges were made by someone other than the cardholder. This amount represents 83 percent of the \$9,153 in Marine Division fuel purchases reviewed that had a signed receipt during the sampled months of August, September, and October 2006. There were an additional 71 Marine Division fuel purchases made with the purchasing cards during these three sampled months, which totaled \$14,552; however, we could not determine who made the purchase because the receipts were not signed.

Since written authorization is not required prior to making purchases and since there was an inadequate review of purchases (discussed in the following section), allowing non-cardholders to use the p-cards increases the potential for fraud and misuse of the cards. In addition, the agency may lose control over the use of p-cards since it does not keep track of the non-cardholders who use each card.

### **Recommendations**

FDNY should:

1. Ensure that only authorized cardholders use the p-cards.

***FDNY Response:*** "The FDNY will comply with this recommendation."

2. Reevaluate the p-card program to determine whether it is necessary to issue more cards to prevent purchases made by unauthorized individuals.

***FDNY Response:*** “We will issue additional p-cards in order to ensure that transactions are made only by the authorized card-holders. We felt there was a risk with many cardholders, but we understand this is required and will comply.”

### **Inadequate Independent Review of Purchases**

The FDNY is not performing an adequate independent review of purchases, as required by Comptroller’s Memorandum #01-1. There is no formal reconciliation procedure in place to ensure that the p-card statements are reconciled in a timely manner and documented. In addition, although FDNY officials claim that reconciliations are being performed, the reconciliations are being performed despite the lack of supporting receipts and receiving reports and in the absence of a purchase log. The lack of a formal reconciliation procedure, necessary documents, and purchase logs, prevents a meaningful review of p-card transactions and permits errors to go undetected.

#### **No Formal Reconciliation Procedure**

The FDNY does not have a formal reconciliation procedure in place to ensure that reconciliations are documented and performed in a timely manner. There is no reconciliation form to provide evidence of reconciliations performed, the dates of the reconciliations, and the identity of the reviewer through a signature. In addition, the FDNY does not reconcile the statements until after payment is made. According to the Assistant Commissioner of Budget and Finance and the Accounts Payable Supervisor, it is FDNY policy to pay the p-card statements each month upon receipt to avoid any late fees and finance charges and to reconcile the statements after payment has already been made.

According to §2.3.4 of the Memorandum #01-1, “Agency staff independent of the card holders must conduct monthly reviews of each card holder’s activity to ensure that the card is being used in accordance with the rules and procedures established by the agency.” Furthermore, §2.2 of the Memorandum states that when the p-card statements arrive, they “must be promptly compared to the card usage report or log and receiving reports before authorizing payment . . . [and that] discrepancies between the agency record and card issuer’s statement must be investigated and resolved to the satisfaction of vouchering personnel or other appropriate agency staff.” The Memorandum allows agencies to pay the statements promptly in full even if there are unresolved discrepancies or billing disputes; however, it is the responsibility of the FDNY to ensure that there is adequate recordkeeping to maintain close control over such billing errors, disputes, and similar matters to ensure that appropriate adjustments are made in successive billing periods. Without this documentation, it is possible that errors may go undetected.

There are a number of different individuals from different units within the FDNY who are responsible for reconciling certain types of purchases made with the p-cards, as follows:

- The Accounts Payable Supervisor is responsible for reconciling the Marine Division fuel purchases made with the purchasing cards and grant-related travel expenses made with the purchasing and travel cards;
- The Assistant Commissioner of Budget and Finance reconciles the travel-related purchases made with the purchasing card (the Assistant Commissioner is also a cardholder, which is in violation of the Memorandum and is discussed later in this report);
- The Assistant Commissioner of Budget and Finance’s Secretary (also known as the Travel Coordinator) reconciles the travel-related purchases made with the travel cards; and
- The Fleet Unit is supposedly responsible for reconciling the E-ZPass charges; however, the individual responsible for reconciling the E-ZPass charges stated that she does not receive a copy of the credit card statement. Without the credit card statement, a reconciliation of the charges from the E-ZPass statement cannot be performed.

When we reviewed the p-card statements maintained by the Accounts Payable Unit, there was no evidence that the statements were actually reconciled. Although the Accounts Payable Supervisor appeared to put a check mark next to the transactions she was responsible for reconciling (Marine Division fuel purchases and grant-related travel expenses) indicating that the purchase amount agreed with the supporting documentation, there is no evidence that the remainder of the transactions, i.e., those without check mark, were reconciled. When we asked the Accounts Payable Supervisor if she requests or receives any documentation or notification from the other units involved with the reconciliations indicating whether the charges are correct, she informed us that she does not. According to the Accounts Payable Supervisor, as long as she does not hear from the other units, she assumes the charges are correct.

It is the responsibility of the Accounts Payable Unit to ensure that all documents relating to the charges are reviewed to its satisfaction prior to authorizing payment. Without a formal reconciliation procedure and the use of a reconciliation form to document the review, especially considering that more than one person and unit is involved in the reconciliation process, there is no assurance that an adequate and complete review is being performed, and there is an increased risk that errors and unauthorized charges may go undetected. Further, as will be discussed in the following two sections of the report, the reconciliations are being completed without having all receipts and receiving reports and without the existence of a purchase log. All these issues combined may be hindering the FDNY’s efforts to identify errors or charges that may not be legitimate.

### **Lack of Receipts and Receiving Reports**

Receipts (i.e., invoices or charge receipts) and receiving reports were not present to support all purchases made. Receipts verify that the items were purchased and identify their cost, and receiving reports provide evidence that the goods or services received were satisfactory.

Section 2.2.1 of Comptroller's Memorandum #01-1 states, "All receipts and charge slips should be maintained on file and be available to vouchering personnel." The FDNY credit-card use policy that individuals sign when receiving a card also states, "The Cardholder must . . . provide all necessary supporting documentation to the Assistant Commissioner of Budget and Finance at the close of each month. Failure to do so will result in suspension of card privileges."

Moreover, the contract between the State and Citibank states that all purchases made using the procurement card should be supported by store receipts, charge slips, shipping details, etc., and that the documentation must be maintained and stored for reconciliation, auditing, and tax purposes. It also states that these documents will be necessary to resolve billing and shipping disputes.

Of the 293 transactions reviewed, totaling \$78,172, we found that vouchering personnel in the Accounts Payable Unit did not have purchasing and/or receiving documents for 45 (31%) of the 146 purchasing card transactions totaling \$13,994 that it was responsible for reviewing. (This represents 37 percent of the \$37,699 in purchases that the Accounts Payable Unit was responsible for reviewing.) In addition, the Accounts Payable Unit did not have any documentation supporting the remaining 147 transactions, totaling \$40,474, that were reviewed by the other units. These transactions consisted of:

- 20 purchasing card transactions that were reviewed by the Assistant Commissioner of Budget and Finance totaling \$4,373;
- 122 travel card transactions that were reviewed by the Travel Coordinator totaling \$34,201; and
- 5 E-ZPass charges made with the purchasing card totaling \$1,900.

It should be noted that for the 142 transactions that were reviewed by either the Assistant Commissioner or the Travel Coordinator, we observed documentation maintained by the Travel Coordinator that supported all of the transactions. Although the travel-related transactions were supported by documents maintained by the Travel Coordinator, the Accounts Payable Unit personnel had no evidence supporting these transactions. As stated previously, the Accounts Payable Supervisor assumes the charges are correct unless otherwise informed. The Accounts Payable Unit should have requested documentation supporting all purchases, including the travel-related and E-ZPass charges that it was not responsible for reviewing. It is the responsibility of the Accounts Payable Unit to inquire about all purchases and ensure that sufficient documentation is received supporting all purchases prior to authorizing payment.

In addition, for the 45 purchasing card transactions reviewed by the Accounts Payable Department that were cited above as not having purchasing and/or receiving documents, we found no evidence that the Accounts Payable Unit pursued the documents or was even aware that it did not have them.

Without receipts and receiving reports, the FDNY Accounts Payable Unit cannot identify what was purchased, the itemized costs, or whether all of the items purchased were actually received.

### **Lack of Purchase Log**

The FDNY does not require cardholders to keep a purchase log, nor does it keep a purchase log. Section 2.2.1 of Comptroller's Memorandum #01-1 requires that "Agency procedures must include . . . use of a PC spreadsheet or similar method to maintain a record or log of card usage as it occurs. The log should include enough information to enable vouchering staff to match card transactions with the card issuer's month end statement." In fact, the FDNY's own Credit Card Use Policy that was in effect during Fiscal Year 2007 states, "The Cardholder must maintain a log of all transactions. . . . Failure to do so will result in suspension of card privileges." However, this policy is not being enforced by FDNY officials; cardholders are not maintaining the required logs.

Although the FDNY did provide us with a purchase log, we later found out that this log was created specifically for us after we requested a log from FDNY officials. According to the Accounts Payable Supervisor, prior to our request she did not know about the log requirement.

A purchase log helps keep track of each p-card transaction and makes it possible to estimate total agency spending, identify and track documents and information that are lacking, and reconcile the monthly p-card statement. Comptroller's Memorandum #01-1 states, "When the card issuer's statement arrives it must be promptly compared to the card usage record or log and receiving reports before authorizing payment."

As noted in the "Lack of Receipts and Receiving Reports" section, cardholders do not always send documentation to the FDNY Accounts Payable Unit as required. A log would identify this lacking documentation so that it can be obtained. Without a log, the FDNY Accounts Payable Unit can not adequately monitor and review purchasing activity.

### **Recommendations**

FDNY should:

3. Ensure that one unit is assigned the responsibility of conducting an adequate, independent review of p-card purchases and that the review is sufficiently documented and performed prior to authorizing payment.

***FDNY Response:*** The FDNY partially agreed with this recommendation stating, "The FDNY will comply with this recommendation, with the exception that it will continue to perform [the review] on a post-audit basis. This is perfectly acceptable per terms of credit policy, which state that the FDNY has 60 days to notify Bank of America that a dispute exists, allowing ample opportunity for resolution or redress."

***Auditor Comment:*** If FDNY chooses not to review the p-card purchases prior to authorizing payment, it should ensure that an adequate review of these purchases and the

investigation of any noted discrepancies are well documented and performed within the established timeframe.

4. Ensure that cardholders submit receipts and receiving reports for all purchases to the Accounts Payable Unit. If a receipt or receiving report is not available, a note indicating the reason should be attached to the purchase log.

*FDNY Response:* “The FDNY will comply with this recommendation.”

5. Require all cardholders to maintain and submit logs of p-card purchases to the Accounts Payable Unit to aid in the reconciliation of the monthly statements.

*FDNY Response:* “The FDNY will comply with this recommendation.”

### **The FDNY Failed To Maintain a Proper Segregation Of Duties with Regard to the P-Card Program.**

There is a lack of segregation of duties in the processing of P-card transactions to final payment and their reconciliation to the Citibank credit card statements. The Assistant Commissioner of Budget and Finance who is the custodian of the p-card account had additional responsibilities including receiving monthly credit card statements, issuing credit cards, reconciling p-card transactions, collecting receipts and invoices from users and vendors, scheduling travel requests, and approving purchases.

Comptroller’s Directive 24 Section 3.2 states, “City agencies should assign different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities of allowing any person to be in a position to both perpetuate and conceal errors or irregularities in the normal course of performing his or her duties.”

As mentioned previously, we found that the monthly Citibank credit card statements are sent to the Assistant Commissioner of Finance and Budget, who also has two active credit cards. According to §2.2 of the Comptroller’s Memorandum #01-1, “Agencies must insure that the card issuer’s reports and statements are sent to individuals who are independent of those authorized to use the cards. Generally, this would be someone in the agency’s vouchering or accounts payable area.” As required by §2.3.4 of Memorandum #01-1, “Agency staff independent of the card holders must conduct monthly reviews of each card holder’s activity to ensure that the card is being used in accordance with the rules and procedures established by the agency.” A lack of proper segregation of duties increases the potential for fraud or the misappropriation or misuse of funds.

### **Recommendation**

6. The FDNY should segregate the responsibilities of the p-card program to ensure that no one individual controls all key aspects of a transaction.

***FDNY Response:*** “The FDNY will comply with this recommendation. All functions previously performed by the Assistant Commissioner will be assumed by the Travel Coordinator or by an Accounts Payable Representative. An accounts payable representative has now been assigned to perform reconciliation of all travel related p-card purchases to rectify the apparent violation of segregation of duties. This representative is neither a cardholder nor has purchasing authority.”

### **Lack of User Agreements on File**

The FDNY did not have User Agreements on file for 7 (23%) of the 31 credit cards (relating to three users) issued. Comptroller’s Memorandum #01-1 states, “It is recommended that agencies use ‘cardholder agreements,’ signed by the employee, which detail the terms and conditions of the card assignment.”

The FDNY does not have its own written policy or procedure regarding the use of p-cards. However, a FDNY official stated that cardholders are required to sign a User Agreement prior to the issuance of a p-card. If cardholders do not read and sign an agreement, there is no evidence that they were made aware of the terms and conditions of card use, which may lead to misuse of the card.

### **Recommendation**

7. The FDNY should ensure that all cardholders sign a User Agreement prior to being issued a p-card.

***FDNY Response:*** “It is worth noting that the 7 cards mentioned above represent only three (3) missing agreements, multiple cards being issued to two persons. Nonetheless, the FDNY will comply with the recommendation that all cardholders sign agreements prior to issuance.”

## **Other Issue**

### **Improper Recording of Contract in FMS**

The FDNY did not promptly register with the Office of Contract Administration (OCA) of the Comptroller's Office its contractual p-card obligations with Citibank. Prior to registering the contract with OCA, the FDNY created two Purchase Order (PO) documents in the amounts of \$39,000 and \$68,000 to cover its payments on purchases made with the p-cards until an FMS Contract Document was entered into the City's Financial Management System (FMS).

According to Comptroller's Directive #24, an FMS Contract Document must be used for purchases of goods and services that are greater than \$10,000. Moreover, contracts exceeding \$25,000 must be submitted to the OCA for review before it can be registered and recorded in FMS.

The FDNY has been using its p-cards with Citibank since July 2005 and continued its use throughout Fiscal Year 2007. FDNY officials should have notified OCA immediately that the contract with Citibank was being extended.

### **Recommendation**

The FDNY should ensure that:

8. FMS Contract Documents are used to record all purchases of goods and services exceeding \$10,000, as required by Comptroller's Directive #24, and that contracts exceeding \$25,000 are submitted to the Comptroller's Office for registration in a timely fashion.

***FDNY Response:*** "Representatives of the FDNY, and several other city agencies were advised in P-Card launch meetings with representatives from [Mayor's Office of Contract Services] that were held on June 18, 2007 that the FMS contract with Bank of America would not be in place before the beginning of the new fiscal year, and were advised to issue purchase orders in order to continue using Citibank cards in the short term. The FDNY will fully comply with Comptroller Directive #24."

***Auditor Comment:*** Our finding was referring to the transition period from Fiscal Year 2006 to Fiscal Year 2007, not to the transition period of Fiscal Year 2007 to Fiscal Year 2008 as referred to by FDNY in its response. The Citibank contract was being used by FDNY during Fiscal Years 2006 and 2007. In the future FDNY should ensure that contract documents are used to record all purchases of goods and services exceeding \$10,000, as required by Comptroller's Directive #24.





# FIRE DEPARTMENT

9 MetroTech Center, 8<sup>TH</sup> Floor - Brooklyn N. Y. 11201-3857

Nicholas Scoppetta  
*Fire Commissioner*



April 16, 2008

Mr. John Graham  
Deputy Comptroller  
Audits, Accountancy & Contracts  
Office of the Comptroller  
1 Centre Street  
New York, NY 10007

**Re: Audit Report on the Use of Procurement Cards by the Fire Department  
MD08-072A.**

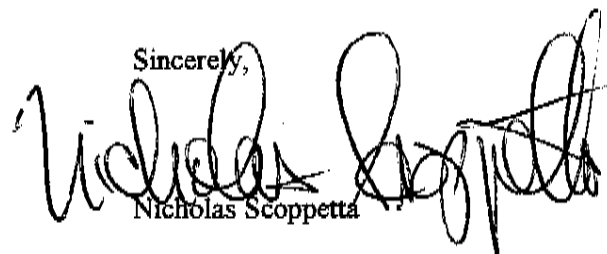
Dear Mr. Graham:

Attached is a copy of FDNY's response and Agency Implementation Plan (AIP) to the eight recommendations made by the Office of the Comptroller in the above mentioned audit.

Please thank your staff for the time and diligence that they put into this audit - the Department appreciates their efforts, and intends to utilize their recommendations wherever possible.

If you have any questions about our response or AIP, please contact our Chief Compliance Officer, Ray Saylor, at (718) 999-1728.

Sincerely,



Nicholas Scoppetta

Attachment

cc: Stephen Rush  
William Eimicke  
Robert Scott  
Ray Saylor

**Audit Report on the Use of Procurement Cards by the Fire Department MD08-072A.**

**INTRODUCTION**

**Background**

pg 1, para 5 – Clarification with regard to stated credit limits; cardholders with a \$5,000 limit per credit cycle are further limited to a single transaction limit of \$2,500 unless it is an emergency or otherwise approved by the Assistant Commissioner of Finance or the Director of Fiscal Services. No instance has been found in which either the transaction amount limit or the monthly limit was exceeded.

**FINDINGS AND RECOMMENDATIONS**

**Purchases Made by Persons Other than Cardholders**

pg 4, para 2 – In an effort to avert risk of procurement card abuse, the FDNY adopted a strategy of utilizing a minimum number of P-cards, intending thereby to limit exposure to misuse and abuse. While we now recognize the fallibility of this approach, we must note that the auditors uncovered no instances of card abuse.

pg 4, para 3 – With regard to statement ‘we could not determine who made the purchase because the receipts were not signed’.

The FDNY accepts this fact, but it is very likely that the vendor copy of the receipts were signed by the purchaser, and the client copies neglected. We will advise cardholders that they are required to sign the client copies prior to their submission with the completed and signed purchase log.

Recommendation 1. ‘Ensure that only authorized cardholders use the p-cards.’

The FDNY will comply with this recommendation.

Recommendation 2. ‘Reevaluate the p-card program to determine whether it is necessary to issue more cards to prevent purchases made by unauthorized individuals.’

We will issue additional p-cards in order to ensure that transactions are made only by the authorized cardholders. We felt there was a risk with many cardholders, but we understand this is required and will comply.

**Inadequate Independent Review of Purchases**

pg 5, para 3 – While acknowledging the direction per Comptroller’s Memorandum #01-1, Sect 2.2.4 that statements be reconciled ‘before authorizing payment’, it remains that the FDNY is continually advised by MOCS to expedite payment to the vendor prior to reconciliation in order to avoid interest charges and limit the city’s arrears. The latest such insistence was received via email on March 25, 2008, advising that ‘those that do not make any effort to bring these payments up to date by the end of the week, will unfortunately have their cards suspended until all payment issues have been resolved.’

**Audit Report on the Use of Procurement Cards by the Fire Department MD08-072A.**

**pg 5, para 4** – Due to staffing constraints and an increase of work volume due to grant-related purchases and payments and other factors, some segregation of duties were sacrificed in favor of a practical division of work responsibilities. While the travel-related p-card transactions were performed outside of the Accounts Payable unit, there were no instances of fraud or wrongdoing, nor were there any billing errors or deficiencies and all transaction disputes were followed and reconciled.

Furthermore, while supporting documentation was retained outside the Accounts Payable Unit, the Accounts Payable Supervisor was advised of all reconciliations by the Assistant Commissioner, her superior in a direct chain of command. An accounts payable representative has now been assigned to perform reconciliation of all travel related p-card purchases to rectify the apparent violation of segregation of duties. The representative is neither a cardholder nor has purchasing authority.

**pg 6, para 2** – With regard to E-ZPass payments.

The representative at Fleet Services will be provided with the necessary credit card statement in order to facilitate reconciliation, which will be reviewed by the Accounts Payable representative upon receipt in Fiscal Services. We will further advise the Fleet Representative that the purchase log must be completed and signed prior to submission.

**pg 6, para 3** – With regard to statement ‘According to the Accounts Payable Supervisor, as long as she does not hear from other units, she assumes the charges are correct.’

This statement is refuted by the Accounts Payable Supervisor and should either be clarified or stricken from the final report. The Accounts Payable Supervisor’s assumption was that approval given by the Assistant Commissioner for travel-related purchases was valid and she did not require the documentation to be forwarded. As already mentioned, the FDNY has acknowledged that this practice violates segregation of duties and it will be discontinued.

Supporting documentation exists for all travel-related purchasing and review was performed by the Assistant Commissioner and the Travel Coordinator. The Marine Division charges (for fuel) were reviewed in Accounts Payable, for which most receipts were provided by the unit, although unsigned and without a Purchasing Log. As noted above, EZPass charges were reviewed by Fleet Services.

**pg 7, para 2** – With regard to statement ‘the Accounts Payable Supervisor assumes the charges are correct unless otherwise informed.’

The review of all travel-related p-card purchases was performed by the office of the Assistant Commissioner and all documentation was found to be complete and accurate. This division of duty was elected due to staffing limitations as well as due to a desire to be risk adverse, having all travel authorization thru the Assistant Commissioner, who in turn advised the Accounts Payable Supervisor as to what payments were authorized and what items were in dispute, pending resolution. In relation to travel purchases, the suggested assumption on the part of the A/P Supervisor is unfounded.

**Recommendation 3.** ‘Ensure that one unit is assigned the responsibility of conducting an adequate, independent review of p-card purchases and the review is sufficiently documented and performed prior to authorizing payment.’

The FDNY will comply with this recommendation, with the exception that it will continue to perform on a post-audit basis. This is perfectly acceptable per terms of credit policy, which state that the FDNY has 60 days to notify Bank of America that a dispute exists, allowing ample opportunity for resolution or redress.

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Recommendation 4. 'Ensure that cardholders submit receipts and receiving reports for all purchases to the Accounts payable Unit. If a receipt or receiving report is not available, a note indicating the reason should be attached to the purchase log.'

The FDNY will comply with this recommendation.

Recommendation 5. 'Require all cardholders to maintain and submit logs of p-card purchases to the Accounts Payable Unit to aid in the reconciliation of the monthly statements.'

The FDNY will comply with this recommendation.

**The FDNY Failed to Maintain a Proper Segregation of Duties with Regard to the P-Card Program**

Commissioner Rush was designated by the FDNY Commissioner to act as the custodian of the P-Card program, and to approve all of travel in the FDNY. While he is a card holder on behalf of the Agency, none of the charges made on his card have been on his behalf or to his benefit. All charges were made in support of agency functions or need, and have been fully documented and reconciled. There have been no findings of malfeasance or wrongdoing with regard to charges on his card.

It was thought to be risk adverse to have central control over purchases and to have a ready custodian in the interests on the Agency who could make approvals for purchases, potentially of an emergency nature. It is now recognized that this arrangement is not acceptable and the practice will be amended.

Recommendation 6. 'The FDNY should segregate the responsibilities of the p-card program to ensure that no one individual controls all key aspects of a transaction.'

The FDNY will comply with this recommendation. All functions previously performed by the Assistant Commissioner will be assumed by the Travel Coordinator or by an Accounts Payable Representative. An accounts payable representative has now been assigned to perform reconciliation of all travel related p-card purchases to rectify the apparent violation of segregation of duties. The representative is neither a cardholder nor has purchasing authority.

Recommendation 7. 'The FDNY should ensure that all cardholders sign a User Agreement prior to being issued a p-card.'

It is worth noting that the 7 cards mentioned above represent only three (3) missing agreements, multiple cards being issued to two persons. Nonetheless, the FDNY will comply with the recommendation that all cardholders sign agreements prior to issuance.

Recommendation 8. 'The FDNY should ensure that FMS Contract Documents are used to record all purchases of good and services exceeding \$10,000, as required by Comptroller's Directive #24, and that contracts exceeding \$25,000 are submitted to the Comptroller's Office for registration in a timely fashion.'

Representatives of the FDNY, and several other city agencies were advised in P-Card launch meetings with representatives from MOCS that were held on June 18, 2007 that the FMS contract with Bank of America would not be in place before the beginning of the new fiscal year, and were advised to issue purchase orders in order to continue using Citibank cards in the short term. The FDNY will fully comply with Comptroller Directive #24.