



City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



MANAGEMENT AUDIT

Marjorie Landa

Deputy Comptroller for Audit

Audit Report on the Department of
Transportation's Controls over the Use
of Purchasing Cards

MD15-095A

February 22, 2016

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, NY 10007

SCOTT M. STRINGER
COMPTROLLER

February 22, 2016

To the Residents of the City of New York:

My office has audited the New York City Department of Transportation (DOT) to determine whether there were adequate controls over its use of purchasing cards (P-cards). We perform audits such as this to ensure that City agencies are adequately managing City resources and operating in accordance with their internal procedures and City rules and regulations.

The audit determined that DOT has inadequate controls over the use of P-cards. Although supporting documentation was present for most of the sampled P-card transactions, the audit found that the P-card request forms and the approved user agreements (which define the conditions for card usage) were not consistently maintained. The audit also found that requests for changes to cardholders' transaction limits were not consistently documented and that required approvals were not consistently obtained and/or maintained. Other deficiencies identified included: improperly completed P-card checklists; transaction logs that were not approved; limited evidence of split purchase reviews; and late submission of P-card packages. The audit also found inadequate controls over the inventory of equipment purchased with the P-cards.

To address these issues, the audit recommended that DOT ensure that properly approved P-card request forms and user agreements are maintained; all transaction limit changes are properly documented and approved; transaction logs are properly approved by the cardholders' approver/manager; checklists are properly completed and required steps performed before certifying the transaction packages; transaction reviews are conducted to identify possible split purchases; payment packages are submitted timely by cardholders; and all inventory items are tagged, recorded and accounted for.

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

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

Sincerely,

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

Scott M. Stringer

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
Audit Findings and Conclusion	1
Audit Recommendations.....	2
Agency Response.....	2
AUDIT REPORT	4
Background	4
Objective.....	5
Scope and Methodology Statement.....	5
Discussion of Audit Results with DOT	5
FINDINGS AND RECOMMENDATIONS.....	8
Most Files Contained Adequate Supporting Documentation	8
Recommendations	8
Non-Compliance with P-Card Documentation Requirements	9
Request Forms and Approved User Agreements Inconsistently Maintained	9
Spending Limit Requests and Changes Not Documented or Approved.....	10
Recommendations	10
Inadequate Reviews and Reconciliations	11
Recommendations	14
Lack of Segregation of Duties.....	15
Recommendation.....	15
Inadequate Controls Over Inventory Purchased with P-cards	16
Recommendations	17
Other Matter	17
Non-Compliance with Procedures for P-Card Transactions at or Greater than \$10,000	17
Recommendations	18
DETAILED SCOPE AND METHODOLOGY.....	19
ADDENDUM	

THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER MANAGEMENT AUDIT

Audit Report on the Department of Transportation's Controls over the Use of Purchasing Cards

MD15-095A

EXECUTIVE SUMMARY

The objective of this audit was to determine whether the Department of Transportation (DOT) has adequate controls over its use of purchasing cards (P-cards). New York City government P-cards are agency-issued credit cards that facilitate quick processing of micro-purchases (up to and including \$20,000) and enable invoice payments at a reduced administrative cost. P-cards allow agencies to obtain goods and services in a timely and efficient manner, eliminate many small dollar value invoices from the accounts payable process, and ensure that vendors are paid promptly.

Agencies and cardholders must comply with the requirements outlined in the Purchasing Card Policies and Guidelines (Citywide Guidelines) issued by the Department of Citywide Administrative Services (DCAS), and Comptroller's Memorandum #01-1, *Guidelines for the Use of Procurement/Purchasing Cards*, issued by the New York City Comptroller.

DOT is the City agency responsible for the condition and operation of approximately 6,000 miles of streets, highways and public plazas, 789 bridges and the nine boats in the Staten Island Ferry program. As of May 2015, DOT had 105 P-card holders. In addition to the Citywide P-card rules, DOT has its own P-card policies and procedures. For the period covering January 2014 (when the City transitioned to U.S. Bank as its new P-card vendor) through May 2015, DOT's P-Card purchases totaled \$6.16 million.

Audit Findings and Conclusion

The audit found that DOT has inadequate controls over the use of P-cards. Although supporting documentation was present for most of the sampled P-card transactions, we found that DOT's P-card request forms and approved user agreements (which define the conditions for card usage) were not consistently maintained, requests for changes to transaction and monthly limits were not consistently documented, and required approvals were not consistently obtained and/or maintained. In addition, we found deficiencies such as improperly completed P-card checklists, transaction logs that were not approved, limited evidence of split purchase reviews, and late submission of P-card packages. Furthermore, there was a lack of segregation of duties between the purchaser and receiver of P-card purchases and there were inadequate controls over the inventory of equipment purchased with the P-cards.

Audit Recommendations

Based on the audit we make 15 recommendations, including:

- DOT should ensure that properly approved P-card Request Forms and user agreements are maintained.
- DOT should ensure that all transaction limit changes, including those greater than \$10,000, are properly documented and approved on the required forms and that the forms are maintained.
- DOT should ensure that the transaction logs are properly approved by the cardholders' approver/manager.
- DOT should ensure that cardholders' approvers strengthen their monitoring of the P-card transactions and ensure that checklists are properly completed and required steps performed before certifying the transaction packages.
- DOT should ensure that a review of transactions is conducted to identify possible split purchases and that an adequate inquiry into these purchases is performed and documented.
- DOT should ensure the timely submission of payment packages by cardholders.
- DOT should ensure that the functions of ordering and receiving goods and services are adequately segregated.
- DOT should ensure that all inventory items are tagged, recorded, and accounted for and that periodic reconciliations are done for all inventoried items purchased with P-cards.

Agency Response

In its response, DOT disagreed with the findings and recommendations, stating that no corrective action is required for eight of the 15 recommendations and that no further corrective action is required for four. DOT stated that it will consider implementing or has implemented the remaining three recommendations.

Overall, DOT disagreed with the audit's findings and presented a number of arguments in support of its contention that the audit's assessment is inaccurate. However, the arguments that DOT presents reflect a lack of understanding of internal controls, the standards by which we conduct our audits, and the audit's objective.

Throughout its response, DOT appears to argue that the fact that the agency has procedures governing the P-card program is an indication that its internal controls are adequate. However, having a set of procedures in and of itself is not indicative of an adequate system of controls; those procedures must also be followed on a consistent basis. According to Generally Accepted Government Auditing Standards (GAGAS) Section 6.21, failure to do so constitutes an operational deficiency. DOT's apparent unwillingness to recognize this important distinction is of concern to us and raises doubts as to its ability to correct the deficiencies identified in this report.

DOT also argues that the audit did not adhere to certain aspects of GAGAS. However, DOT's arguments are based on a misunderstanding of GAGAS and, at times, the audit findings themselves. For example, DOT states in its response that "the cause of some audit findings were not always properly identified and/or included, which is required by GAGAS as an element of a

finding.” DOT incorrectly references GAGAS Section 6.76 to support its claim. However, rather than supporting DOT’s contention, Section 6.76 merely explains the concept of “cause” when it is included as an element of a finding. In fact, rather than supporting DOT’s position, GAGAS Section 6.73 expressly states that the finding elements identified in an audit depend on the objectives of that audit and that, depending on the audit objectives, the development of certain elements (such as the cause) may not be necessary.

DOT also contends that the auditors did not properly consider or present information that was provided during the course of the audit. However, that is not the case. Rather than failing to consider all the information we received, the auditors did in fact carefully review and consider everything DOT provided. However, we do not agree with DOT that some of the information it presented constituted sufficient evidence to cause us to alter our findings. In accordance with GAGAS, we relied on sufficient, appropriate evidence to form our judgments. The fact that our view of the evidence differs from that of DOT does not reflect a failure to adhere to GAGAS, but instead reflects the independent exercise of our judgment, as is required by GAGAS.

In summary, after carefully considering DOT’s response, we found its arguments to be without merit and find no basis to alter our audit findings.

The full text of DOT’s response is included as an addendum to this report.

AUDIT REPORT

Background

New York City government P-cards are agency-issued credit cards that facilitate quick processing of micro-purchases (up to and including \$20,000) and enable invoice payments at a reduced administrative cost. P-cards allow agencies to obtain goods and services in a timely and efficient manner, eliminate many small dollar value invoices from the accounts payable process, and ensure that vendors are paid promptly. The City's P-card program is overseen by DCAS through the Citywide Program Administrator. The Citywide Program Administrator is a DCAS employee who provides agencies with technical assistance and support and is also the primary liaison with the bank that issues the P-cards, U.S. Bank.

Agencies and cardholders must comply with the requirements outlined in the Citywide Guidelines issued by DCAS, and Comptroller's Memorandum #01-1, *Guidelines for the Use of Procurement/Purchasing Cards*, issued by the New York City Comptroller. According to the Citywide Guidelines, single transaction limits can be set within the following groupings: \$0 to \$5,000; \$5,001 to \$10,000; and \$10,001 to \$20,000. The Citywide Guidelines require P-card holders to keep purchase receipts and record purchases in the P-card Transaction Log. In January 2014, the City transitioned from its prior P-card vendor, Bank of America, to a new vendor, U.S. Bank. During the transition period, all cardholders received new P-cards and training on U.S. Bank's web-based card management system, Access Online. In addition, the City issued revised Citywide Guidelines.

DOT is the City agency responsible for the condition and operation of approximately 6,000 miles of streets, highways and public plazas, 789 bridges and the nine boats in the Staten Island Ferry program. As of May 2015, DOT had 105 P-card holders. In addition to the Citywide P-card rules, DOT has its own P-card policies and procedures. Pursuant to those policies and procedures, DOT has set P-card single-transaction limits at \$1,000, \$2,500, \$5,000 and \$20,000. In addition, DOT requires pre-approvals for some categories of purchases, including computer equipment, furniture, and digital cameras. The Citywide Guidelines require an approver/manager to review and reconcile each P-card holder's transactions and statements. After purchases have been made, the DOT Fiscal Affairs unit performs post-audits of all P-card transactions and follows up with cardholders and approvers regarding any issues. P-Card holder statements and supporting documents are due at DOT's Fiscal Affairs unit by the 18th of the next billing cycle after they are incurred.

DOT's Office of the Auditor General issued an internal report, *Audit of Procurement Card Purchases*, in January 2015 of the period from January 2013 through March 2013. This audit found that pre-approvals were not obtained for all purchases requiring them, that cardholders who made purchases were also the recipients of the merchandise in 27 percent of the transactions sampled, and that transaction logs were not always signed by the approver.

In Fiscal Year 2014, P-card spending for both Mayoral and Non-Mayoral agencies totaled \$22.7 million. DOT had the highest total P-card expenditures of all City agencies with \$5 million. This represents 16 percent of all P-card expenditures, City-wide. For the period covering January 2014 (when the City transitioned to U.S. Bank as its new P-card vendor) through May 2015, DOT's P-Card purchases totaled \$6.16 million.

Objective

The objective of this audit was to determine whether DOT has adequate controls over its use of P-cards.

Scope and Methodology Statement

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

The primary audit scope was January 2014 through May 2015. In addition, inventory tests were conducted in September 2015.

Discussion of Audit Results with DOT

The matters covered in this report were discussed with DOT officials during and at the conclusion of this audit. A preliminary draft report was sent to DOT and discussed at an exit conference held on December 22, 2015. On January 20, 2016, we submitted a draft report to DOT with a request for comments. We received a written response from DOT officials on February 3, 2016. DOT disagreed with 12 of the audit's 15 recommendations, stating that no corrective action was required because the agency was already in compliance. DOT stated that it will consider implementing or has implemented the remaining three recommendations. Overall, DOT disagreed with the audit's findings and stated,

We have reviewed the report's findings and after much consideration have concluded that the report's overall assessment that the DOT has inadequate controls over the P-Card program is not accurate. While we agree with the principles of internal controls stated in the report recommendations, we do not agree with the audit methodology, and the sufficiency of evidence used to support the report findings. In short, this report exaggerates the internal control weaknesses in DOT's P-Card program and is therefore misleading.

DOT presents a number of arguments to support its position that the audit's assessment is inaccurate. Unfortunately, DOT's arguments demonstrate a lack of understanding of internal controls, the standards by which we conduct our audits, and the audit's objective.

For example, DOT claims that the approach taken in this report is inconsistent with the "reasonable assurance standard" defined by the U.S. Government Accountability Office (GAO).¹ DOT states, "Internal control systems are not designed to provide absolute assurance that internal controls are effective. The report criteria for assessing the adequacy of internal controls are inconsistent with the GAO standards and present an unrealistic and unachievable requirement." However, this audit report does not state or even suggest that internal controls are intended to

¹ GAO is the federal agency that issues GAGAS.

provide “absolute assurance.” Rather, the audit concludes that DOT does not have reasonable assurance that its P-card expenditures *are properly reviewed, approved, and documented*.

In addition, throughout its response, DOT fails to address the weaknesses in its review and approval processes that the audit documented. Instead, it appears to argue that the fact that the agency has procedures governing the P-card program demonstrates that its internal controls are adequate. However, having a set of procedures in and of itself is not indicative of an adequate system of controls; those procedures must also be followed on a consistent basis. According to GAGAS Section 6.21, failure to do so constitutes an operational deficiency.² DOT’s apparent unwillingness to recognize this important distinction is of concern to us and raises doubts as to its ability to correct the deficiencies identified in this report.

DOT also argues that since both DOT and DCAS monitor P-card transactions, “it is incorrect to state that DOT alone has inadequate controls, as this is a shared responsibility.” This statement is based on a misunderstanding of both the audit’s objective and management’s responsibility regarding controls. The objective for this audit was to assess DOT’s controls over the use of P-cards. Consequently, we appropriately evaluated only those functions that are to be carried out by DOT. Contrary to DOT’s contention, ensuring that DOT personnel follow applicable rules is not a “shared responsibility.” That responsibility falls on DOT alone.

Further, DOT argues that the audit did not adhere to certain aspects of GAGAS. However, DOT’s arguments are predicated on its misinterpretation of key sections of GAGAS and of the audit findings. For example, DOT states in its response that “the cause of some audit findings were not always properly identified and/or included, which is required by GAGAS as an element of a finding.” DOT incorrectly references GAGAS Section 6.76 to support its claim. However, rather than supporting DOT’s contention, Section 6.76 merely explains the concept of “cause” when it is included as an element of a finding.³

By contrast, GAGAS Section 6.73 expressly states that the finding elements identified in an audit depend on the objectives of that audit and that, depending on the audit objectives, the development of certain elements (such as the cause) may not be necessary. Pursuant to Section 6.73,

Auditors should plan and perform procedures to develop the elements of a finding necessary to address the audit objective. ... *The elements needed for a finding are related to the objectives of the audit.* Thus, a finding or set of findings is complete to the extent that the audit objectives are addressed and the report clearly relates those objectives to the elements of a finding. For example, an audit objective may be to determine the current status or condition of program operations or progress in implementing legislative requirements, and not the related cause or effect. In this situation, *developing the condition would address the audit objective and development of the other elements of a finding would not be necessary.* [Emphasis added.]

DOT’s assertion that GAGAS requires that all audit findings identify the cause of a condition is incorrect.

² GAGAS Section 6.21: “In performance audits, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis. ... *A deficiency in operation exists when a properly designed control does not operate as designed.*”[emphasis added]

³ GAGAS identifies the following as elements of a finding: criteria, condition, cause, and effect.

DOT also contends that the auditors did not properly consider or present information that was provided during the course of the audit. However, that is not the case. Rather than failing to consider all the information presented by DOT, the auditors did in fact carefully review and consider everything provided. However, we do not agree with DOT that some of the information it presented constituted sufficient evidence to cause us to alter our findings. In accordance with GAGAS, we relied on sufficient, appropriate evidence to form our judgments. The fact that our view of the evidence differs from DOT does not evidence a failure to adhere to GAGAS, but instead reflects the independent exercise of our judgment, as is required by GAGAS.

In summary, after carefully considering DOT's response, we found its arguments to be without merit. Our overall conclusion that DOT has inadequate controls over the P-card program is based on DOT's failure to ensure that many of the established P-card procedures are consistently followed by DOT personnel. As we state in this report, the audit found, among other things, 1) missing P-card requests for 82 percent of the cardholders, 2) no evidence of final review for 85 percent of the sampled transactions, and 3) 47 percent of sampled items valued at \$750 and above not recorded in inventory. We find no basis to alter our audit findings.

The full text of DOT's response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

We found that DOT has inadequate controls over the use of P-cards based on the deficiencies identified below. Although supporting documentation was present for most of the sampled P-card transactions, we found that DOT's P-card request forms and approved user agreements (which define the conditions for card usage) were not consistently maintained, requests for changes to transaction and monthly limits were not consistently documented, and required approvals were not consistently obtained and/or maintained. In addition, we found deficiencies such as improperly completed P-card checklists, transaction logs that were not approved, limited evidence of split purchase reviews, and late submission of P-card packages. Furthermore, there was a lack of segregation of duties between the purchaser and receiver of P-card purchases and there were inadequate controls over the inventory of equipment purchased with the P-cards.

These issues are discussed in more detail in the following sections of the report.

Most Files Contained Adequate Supporting Documentation

According to the Citywide Guidelines, "All receipts, charge slips, and other documentation must be maintained and made available to vouchering personnel." At DOT, these items are required to be part of the "transaction package" that must be created when P-cards are used. In addition, DOT requires that the transaction packages also contain the receiving report, which is essential to the reconciliation process as it lists goods that were received by the Agency and documents whether there was segregation of duties between the receiver and the purchaser. Invoices must also be maintained in the transaction packages. These are essential in the reconciliation process since they confirm the amount that was charged by the vendor and the amount paid by the cardholder. The Fiscal Affairs unit reviews each of these packages and the reviewers use a follow-up sheet to document any discrepancies or issues, including missing documentation, identified during their reconciliations.

In connection with this audit, we reviewed 75 sampled P-card transactions. Based on our review, we found that adequate supporting documentation was present for 72 (96 percent) sampled transactions. Of the remaining three transactions, one was missing a receiving report and an invoice, one was missing an invoice, and one transaction was not recorded on the Transaction Log.

However, the Fiscal Affairs unit reviewers did not identify these documents as missing on the follow-up sheet as required. This lack of documentation hinders the Fiscal Affairs unit review process and may lead to inappropriate payments and payments of sales tax.

After the exit conference for this audit, DOT officials provided a receiving report and invoice for the transaction cited above as missing both, stating that they overlooked them when we originally informed them in September 2015 of the missing documentation.

Recommendations

1. DOT should ensure that cardholders submit all required supporting documentation for P-card purchases.

DOT Response: "No Corrective Action Required – DOT already requires that cardholders submit all required supporting documentation for P-Card purchases through its

Purchasing Card Policies and Guidelines. The report indicates that 96 percent of the sampled transactions had adequate supporting documentation.”

Auditor Comment: As noted in the report, we identified instances where required information was missing and the file reviewers failed to note its absence. The recommendation was intended to have DOT strengthen compliance with its internal control requirements.

2. Fiscal Affairs should ensure that missing documents are identified, documented on the follow-up sheet, and obtained from the cardholders.

DOT Response: “No Corrective Action Required – As noted above, the report indicates that 96 percent of the sampled transactions had adequate supporting documentation.”

Auditor Comment: As noted in the report, we identified instances in which documentation was missing and not identified as such by the Fiscal Affairs reviewers on the follow-up sheet as required.

Non-Compliance with P-Card Documentation Requirements

Request Forms and Approved User Agreements Inconsistently Maintained

According to the Citywide Guidelines, “to be eligible to receive and use a P-card, an applicant must . . . receive written approval from his/her deputy Commissioner or other designee on the P-card Request Form.” After that approval, the cardholder is required to complete the P-card User Agreement. Further, the Agency Program Administrator is required to maintain a record of the approved P-card Request Form, training certificate, and signed user agreement.

However, we found that DOT did not have P-card Request Forms on file for 97 (82 percent) of 118 P-cards it issued. A DOT official explained that several months before the transition to U.S. Bank, the Citywide Program Administrator issued a list of all DOT cardholders to which U.S. Bank cards would automatically be issued and no request forms were required for these transitional cardholders. However, DOT could not provide the original request forms that pre-dated the switch to U.S. Bank either. In addition, of the User Agreements that were on file, we identified seven instances in which the User Agreements for replacement cards were not approved by the Agency Program Administrator.

At the exit conference, DOT officials stated that the request forms were not a requirement prior to U.S. Bank. The Citywide policy in effect prior to U.S. Bank becoming the City’s P-card vendor required that P-card applicants receive approval from their deputy commissioner via a memo giving justification for the card request, as well as transaction and monthly limits. However, no such memos were provided.

Without a properly approved P-card Request Form, DOT has limited assurance that the issuance of a P-card was properly authorized. Furthermore, unsigned User Agreements increase the risk that unauthorized employees can obtain a P-card.

Spending Limit Requests and Changes Not Documented or Approved

P-cards are established with spending and transaction limits called “profiles” which control the single transaction and monthly limits. The Citywide Guidelines state that “[r]equests for a single transaction limit greater than \$5,000, must be approved by the Agency ACCO⁴ then by the Citywide Program Administrator.” The guidelines also state that “agencies must maintain a written justification for all profile changes using the Credit Line Change and Request to unblock Merchant Category Code (MCC) form. Profile requests/changes greater than \$10,000 must be sent to, and will be processed by, the Citywide Program Administrator.”

We found that DOT did not properly document the changes in the cardholders’ spending limits as required. Our review of 10 profile changes disclosed that there were no MCC forms on file for five of them as required. For two of the five profile changes DOT subsequently provided email requests to DCAS for the increases. Seven of these 10 profile change requests were greater than \$10,000. However, four were not supported by the required forms. Also, in the remaining three instances where the forms were on file, only one was approved by the ACCO as required and none were approved by the Citywide Program Administrator. We also found no evidence that either the ACCO or the Citywide Program Administrator approved requests for P-card single transaction limits over \$5,000 for six out of seven cardholders reviewed.

It appears that these deficiencies occurred because DOT is not tracking changes to spending limits. The cardholder listing DOT initially provided in connection with this audit did not have updated spending limit information. Failure to track spending limit changes increases the risk that unauthorized increases will be given and excessive purchases could be made.

Recommendations

3. DOT should ensure that properly approved P-card Request Forms and user agreements are maintained.

DOT Response: “No Corrective Action Required – DOT complies with current DCAS guidelines regarding Cardholder Request and Agreement forms. This finding was based upon DOT not providing original request forms for those current cardholders who made original requests in 2001 to obtain a card. . . . The auditors did not acknowledge that in 2001 the program was in its inception and there was no provision in our bank agreement to maintain request forms. Unfortunately, DOT does not have the original banking agreement because it is beyond the 7 year record retention policy.”

Auditor Comment: As DOT states in its response, it does not have the original banking agreement, so we are unable to verify its claim that request forms were not required for P-cards issued at the program’s inception. Furthermore, DOT’s statement that this finding pertained only to cardholders whose original requests date back to 2001 is incorrect. Of the 97 P-cards we cite because they did not have request forms, only 12 (12 percent) were issued to cardholders who first received P-cards at the program’s inception in 2001. Nevertheless, we are pleased that DOT now intends to ensure that request forms and user agreements are maintained as required.

⁴ The ACCO is the Agency Chief Contracting Officer.

4. DOT should ensure that all transaction limit changes, including those greater than \$10,000, are properly documented and approved on the required forms and that the forms are maintained.

DOT Response: “No Corrective Action Required – DOT typically utilizes all required forms. The instances identified as missing documentation were due to extenuating circumstances (such as impending storms) that made the typical process impractical at the time; however, proper authorizations were maintained in a slightly modified format.”

Auditor Comment: Even though DOT claims that it typically utilizes all required forms, our testing revealed otherwise. DOT also failed to provide evidence that the transaction limits were increased due to extenuating circumstances that prevented the use of the MCC form. For two of the five cardholders cited, DOT provided emails it sent to DCAS requesting increase in a cardholder’s monthly transaction limit but provided no evidence that the increases were approved. In fact, after we presented this finding to DOT, we received an email attachment from its officials acknowledging that the changes to transaction limits were not formally documented and approved on the required forms.

5. DOT should ensure that its P-card holder listing accurately reflects up-to-date spending limit information of its P-card users.

DOT Response: “No Corrective Action Required – DOT uses Access-Online to perform this function. All current cardholder credit profiles are recorded in the U.S. Bank Web based Access-Online system. Changes made to cardholder profiles are also maintained in the U.S. Bank Access-Online system.”

Auditor Comment: While DOT asserts that U.S. Bank’s Access-Online system has complete and current cardholder information, DOT did not provide any evidence that it is using the data recorded in Access-Online to update the spending limits reflected in the P-card holder listing that the agency maintains. To the contrary, the P-card holder listing provided to us by DOT did not reflect up-to-date spending limit information for the P-card users. In addition, the information on some documents maintained by DOT and approved by designated officials—such as user agreements and request forms—did not always agree with the information in Access Online. Accordingly, we urge DOT to reconsider its response and implement this recommendation.

Inadequate Reviews and Reconciliations

The DOT Fiscal Affairs unit reviewers use a Review/Follow-Up Sheet to record any discrepancies or issues found during their reconciliations of the P-card transactions. Review/Follow-up sheets are then used by the Fiscal Affairs unit’s supervisor to record the final disposition of the issues identified.

The Fiscal Affairs unit’s procedure is to have P-card unit accountants review the P-card packages and submit their findings to the P-card Unit Supervisor. The unit supervisor then reviews the accountant’s findings and conducts a second review of each cardholder’s submission package. However, we found no evidence of such a second final review in 64 (85 percent) out of 75 P-card transaction packages we examined. For these 64 transactions, the unit supervisor initialed and dated the packages and then assigned the packages to individual reviewers for reconciliation. There was no evidence that the unit supervisor subsequently performed a second final review.

An inadequate review and approval process increases the risk that unauthorized and fraudulent purchases may occur and go undetected. We believe that the lack of proper oversight by the P-

card approvers and the Fiscal Affairs unit were a major factor in the deficiencies discussed in the following sections.

Checklists are Not Always Properly Filled Out

The Citywide Guidelines state that the P-card Checklist (checklist) should be used as part of the reconciliation process and included in a P-card transaction package, which is supposed to be created every billing cycle for each P-card used in transactions during the period. The checklist highlights the major actions all cardholders are required to take when making transactions and is to be signed by the cardholder and his/her approver, affirming that the information provided is complete and correct. For example, the checklist asks the cardholder and approver to confirm that purchases of equipment were entered into the appropriate inventory system, that all invoices and receiving reports are attached, and that approvals and documentation for purchases of \$10,000 or more were put in Access Online.

Our review of 75 transactions disclosed that 30 cardholders (40 percent) did not properly fill in all required fields on the checklist. As a result of the incomplete checklists, DOT has limited assurance that purchasers complied with the requirements, which increases the risk that DOT may pay for goods and services that were not received.

In addition, there were instances where boxes were incorrectly checked and required actions were not taken, contrary to the cardholders' and approvers' representations. For example, as discussed later in the report, some purchases of equipment were not entered into the inventory system although the cardholders affirmed that they had been entered. In addition, there were instances where invoices and receiving reports were not attached and purchases greater than \$10,000, totaling \$65,919, were not added to Access Online as required and affirmed by the cardholders. Furthermore, the incomplete and inaccurate information on the checklists cast doubt on the quality of the approver's review.

Transaction Logs Not Properly Approved

According to the Citywide Guidelines, a Transaction Log must be signed by the cardholder and a Reviewer/Approver to signify that the P-card purchases have been reviewed for accuracy and completeness. We found that 43 (57 percent) out of 75 transaction logs sampled were not signed by a designated reviewer/approver. This was also noted as an issue in the DOT *Audit of Procurement Cards*. The lack of proper review and authorization of purchases increases the risk that unauthorized purchases by cardholders and misuse of the agency's funds may occur and go undetected.

Limited Evidence of Split Purchase Reviews

The Citywide Guidelines require the monitoring of P-card usage to ensure compliance with all policies, including the prohibition against "split purchases," which are "purchases made by the same cardholder, on the same day, with the same merchant, where the total of the purchases exceeds that Cardholder's single transaction limit." DOT indicated that purchases over a short period of time from the same vendor are also considered to be potential split purchases. According to DOT officials, if a potential split purchase is discovered during the reconciliation of P-card purchases, the Fiscal Affairs unit makes an inquiry and the cardholder is asked to provide detailed information explaining the multiple purchases.

However, we found limited evidence that reviews for split purchases are being performed. Our review of the 5,350 transactions on the Expense Report, generated from Access Online, identified 21 instances, covering 65 transactions, of possible split purchases, in which a cardholder made

two or more purchases with a particular vendor on the same day, or within a few days. Those individual purchases, when combined, exceeded that cardholder's single transaction limit. The 21 instances included four groups of transactions where both the transaction dates and sales order dates were the same. DOT was unable to provide us with the transaction packages for four instances covering 10 transactions.⁵ These ten transactions totaled \$29,782.

In addition, we did not find any evidence that the P-card approvers or the Fiscal Affairs reviewers questioned the cardholders regarding these transactions when reviews and reconciliations were conducted. According to DOT officials, in many instances, the vendor waited to combine orders placed on different dates to lower shipping costs for DOT. However, none of the packages we reviewed stated this as an explanation for the instances we identified. Furthermore, when we questioned DOT officials about these possible split purchases, they had to reach out to the cardholders for explanations, a further indication that these purchases were not flagged as possible split purchases when made.

Unauthorized split purchases allow cardholders to make purchases in excess of their assigned single transaction limits without obtaining required approvals for such purchases. A failure to review potential split purchases increases the likelihood that they will be made in an effort to circumvent the P-card purchase caps.

DOT Response: "DOT provided copies of the comments section of the Access-Online program to the auditors that indicated that several transactions that the auditors believed were potential split orders were previously questioned and reconciled prior to the review. This is not acknowledged in the report and could be inconsistent with the report finding, which leads DOT to believe that all the evidence was not properly considered."

Auditor Comment: All information provided by DOT was taken into consideration and the report was modified where warranted. DOT only provided copies of the comments section of the Access-Online for nine of the 21 instances cited and the comments section for six of these nine instances were blank. The comments for two of the remaining three instances merely indicated the items that were purchased and only one included a justification for the split. However, we were unable to verify that this justification had not been added after we shared this finding with DOT. As such, we did not consider this information to be adequate evidence of split purchase reviews and had no basis to alter this finding.

Late Submission of P-card Packages

The billing cycle ends on the 27th day of the month and DOT's procedures require that all necessary documents for purchases must be delivered to the Fiscal Affairs unit by the 18th of the following month. Our review of 75 transaction packages revealed that 37 (49 percent) were not submitted to the Fiscal Affairs unit for a timely review. The lateness ranged from two calendar days to 137 calendar days; in 21 of the 37 instances, the packages were submitted more than one week (seven calendar days) after the submission due date.

Delays in submission of transaction packages may lead to delays in the reconciliation process and could delay the processing of credits (including recoupment of sales tax payments) and

⁵ The transaction packages include P-card billing statements, transaction logs, checklists, invoices, receiving reports, receipts, and any justifications or emails.

adjusting entries in FMS. This could also lead to misuse of City funds if unauthorized purchases are made and not identified as such in a timely manner.

Discounts Offered But Not Taken

According to Directive 24, “Agencies must make every effort to obtain rebates and discounts from vendors when economical, and when the City’s cash management policy permits.” Contrary to Directive 24, DOT did not take advantage of discounts offered in two of four instances where purchases qualified for discounts. For example, for one invoice in the amount of \$1,442, the vendor offered a sales discount of \$300 that was not taken. After we brought it to DOT’s attention, the vendor issued a credit for the discount two months later. The missed discounts should have been identified during the review and reconciliation of the payment packages.

Recommendations

6. DOT should ensure that the transaction logs are properly approved by the cardholders’ approver/manager.

DOT Response: “No Further Corrective Action Required – Based on a prior DOT internal audit recommendation, as of July 1, 2015, DOT revised its transaction log to require approver signatures. The report failed to note that such change was made and this recommendation was already being satisfied.”

Auditor Comment: The revision to the transaction log affected a period that fell outside the scope of the audit. We note, however, that although the prior DOT internal audit was issued in January 2015, this change was not implemented until after we discussed this finding with DOT officials in June 2015.

7. DOT should ensure that the Fiscal Affairs unit performs a thorough final review of the transaction packages to ensure that all required documents are properly completed, all supporting documentation is provided, offered discounts are taken, and any deficiencies are identified.

DOT Response: “No Further Corrective Action Required – The auditors recommend requiring supervisory signatures on the payment packages to show that the final review was complete. DOT was using the “File Stamp” as such indicator. Although DOT believes that the “File Stamp” was sufficient to indicate that the final review was complete, effective July 1, 2015, Fiscal Affairs implemented a procedure whereby the reviewing supervisor dated and initialed receipt of the payment package and dated and initialed completion of the final review of the package.”

Auditor Comment: The deficiencies we identify in the report—such as incomplete transaction logs, missed discounts, and incomplete and inaccurate checklists—were all found in payment packages that were nonetheless stamped “File.” Accordingly, we are pleased that DOT will now ensure that final reviews are documented and initialed by the reviewing supervisor.

8. DOT should ensure that cardholders’ approvers strengthen their monitoring of the P-card transactions and ensure that the checklists are properly completed and required steps performed before certifying the transaction packages.

DOT Response: “No Further Corrective Action Required . . . Since July 1, 2015, cardholders/ approvers have been sent monthly reminders of the importance of properly completing document packages, including checklists and transmittal logs before they are signed.”

Auditor Comment: We are pleased that DOT instituted a policy in July 2015 whereby monthly reminders are sent to cardholders/approvers regarding the checklists. We note, however, that this policy change was instituted after we discussed this issue with agency officials in June 2015.

9. DOT should ensure that a review of transactions is conducted to identify possible split purchases and that an adequate inquiry into these purchases is performed and documented.

DOT Response: “No Further Corrective Action is Required – The data presented in the report does not support its finding that DOT’s monitoring for split orders was insufficient. The report only identified 65 out of 5250 transactions (1.2%) as being potential split orders. DOT explained that these few transactions were reflections of the way DOT’s IT staff ordered equipment in the aggregate for the agency and the way that certain vendors process multiple purchases over short periods of time.”

Auditor Comment: This recommendation is based upon the fact that DOT provided minimal evidence that these 65 transactions were reviewed for potential splits when reconciliations were conducted. In such an environment, there is a significant risk that DOT would be hindered in identifying potential splits if the frequency of such transactions were to increase to material levels.

10. DOT should ensure the timely submission of payment packages by cardholders.

DOT Response: “DOT will evaluate options for addressing this finding to the extent practicable. Cardholders often must wait for required documentation before preparing transaction logs, checklists and submission of monthly packages to Fiscal Affairs.”

Lack of Segregation of Duties

According to the *Purchasing Card User Agreement*, the cardholder attests that s/he “cannot be the person who completes the Receiving Report. The items should be received by someone other than me. Where this is not practical, I agree to follow the guidelines established by my agency.” DOT, however, has not identified the circumstances under which segregation of these duties is not practical nor has it established the guidelines that should be followed when such circumstances exist. Consequently, it is left to the discretion of the cardholders whether or not it is appropriate to receive the items purchased.

We found that for 36 (49 percent) of 73 purchases, the cardholder who placed the order also received the items. In these instances, the receiving reports were signed by the purchaser. Segregation of duties was also cited as an issue in DOT’s *Audit of Procurement Card Purchases*. We discussed this issue with DOT officials but they did not provide an explanation as to why the lack of segregation of duties is still occurring, but stated that they are working on correcting this issue. The lack of proper segregation of duties increases the potential for fraud and the misappropriation or misuse of purchased equipment.

Recommendation

11. DOT should ensure that the functions of ordering and receiving goods and services are adequately segregated.

DOT Response: “DOT agrees with the segregation of duties principle. However, it may not be feasible in situations where there are only a few employees in unit [sic]. DOT will

issue a new directive to its P-Card users to implement the separation of duties principle and identify situations where this would be impractical.”

Inadequate Controls Over Inventory Purchased with P-cards

Pursuant to the Citywide Guidelines, “cardholders are responsible for . . . ensuring purchased items are appropriately tagged and recorded in the Agency inventory system, if applicable, prior to distribution.” In addition, Comptroller's Directive #1 requires that,

An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, computers and other equipment, which might be vulnerable to risk of loss or unauthorized use. Periodic counting and comparison to control records for such assets is an important element of control of these assets.

According to DOT officials, all items purchased with a P-card which are valued at \$750 or more, or purchases of iPads and cellular phones, are to be tracked and recorded in the DOT inventory systems. However, we found that this was not done on a consistent basis.

DOT does not have a centralized inventory system; each unit maintains an inventory tracking system for its purchases. Moreover, DOT does not ensure that units consistently account for the items purchased. Of 15 sampled items valued at \$750 and above, seven were not recorded by DOT units in their inventory records, including three Dell desktop towers purchased for a total of \$3,835. DOT was able to locate these desktop towers; two were listed in the IT directory because they are linked to the server and the third was located in an office.

Of the above mentioned 15 sampled items, only eight of them could initially be located. DOT was initially unable to locate seven items, including three items (one port switch and two mounted control units) that were not recorded in the inventory records and four items (two port switches and two routers) that were recorded. The total purchase cost for these seven items was \$11,534. Although DOT had some difficulty, it was later able to locate these items because they were recorded—with the exception of one port switch that was later recorded in December 2015—in another database implemented in August 2015 and maintained by its Hosting and Network Operations unit. In addition, one of the control units that was believed to be in use was later located in the closet in its original box. None of these items were tagged by DOT with an identifying number.

P-card items valued under \$750, with the exception of iPads and cellular devices, are not tracked and no inventory records are kept for the items. However, many of these items could be desirable and easily converted to personal use. We selected a sample of 11 purchases of equipment valued under \$750 to verify that they were being used for business purposes and to ascertain their location. Of the 11 purchases, six were iPads that we confirmed were inventoried by DOT's Telecommunication unit and we were able to locate and verify these items using an associated identification number generated by DOT. The remaining five purchases included 11 GPS devices, 11 scanners, and a GoPro digital camera. We were able to locate and positively identify the purchase of a GoPro camera which cost \$705.57 and the purchase of 10 scanners totaling \$3,865 using serial numbers located on the receiving reports. Although DOT was able to show us GPS devices, because these items were not inventoried or tracked and the invoices for the items did not contain serial numbers or other identifiable information, we were unable to positively identify these items as the ones purchased and verify that they were being used for appropriate business purposes. The total purchase price for the GPS devices was \$1,244. After the exit conference,

DOT provided a duplicate invoice it obtained from the vendor that listed the serial number for one of the GPS devices purchased to confirm that it was one of the same devices that we were shown.

When equipment is not inventoried, the risk that thefts may occur and go undetected, equipment may be disposed of improperly, and duplicate equipment may be unnecessarily purchased is increased.

Recommendations

12. DOT should track desirable items under \$750 in inventory.

DOT Response: “DOT will evaluate this recommendation to determine whether additional action is required. Low cost items may be more expensive to track than their actual replacement value and implementation of this recommendation may not be cost effective. Generally Accepted Government Auditing Standards specify that audit recommendations should, among other things be cost effective (see section 7.29).”

Auditor Comment: It is unlikely that recording desirable items under \$750 in inventory will be more expensive than their actual replacement value. Furthermore, by not tracking these items, there is an increased risk that items may be lost or stolen, necessitating an additional expense to replace them, or that duplicate equipment may be unnecessarily purchased.

13. DOT should ensure that all inventory items are tagged, recorded, and accounted for and that periodic reconciliations are done for all inventoried items purchased with P-cards.

DOT Response: “No Corrective Action Required – DOT complies with Citywide P-card Guidelines. DOT Divisions currently have procedures to determine the categories and value of assets that must be tagged, entered into respective inventories, and subject to periodic counts. However, DOT will implement new procedures agency-wide so that serial numbers will be documented on receiving reports.”

Auditor Comment: As this audit showed, although DOT has an inventory procedure, it is not being enforced. Furthermore, simply recording serial numbers on receiving reports will not correct the identified conditions. DOT should ensure inventory items are tagged, recorded, accounted for, and periodically reconciled as required by the Citywide Guidelines and Comptroller’s Directive #1.

Other Matter

Non-Compliance with Procedures for P-Card Transactions at or Greater than \$10,000

Pursuant to the Citywide Guidelines, transactions between \$10,001 and \$20,000 require cardholder and approver sign-offs and electronic attachments in Access Online so that DCAS can monitor spending. However, DOT failed to adequately enforce this requirement. We found that four of eight P-card transactions at or above \$10,000, totaling \$65,919, had no evidence that the sign-offs were documented in Access Online and supporting documentation was uploaded.

To ascertain the reason for the cardholders’ failure to upload the supporting documentation into Access Online, we attempted to interview the cardholders. However, we were unable to interview the cardholder who made three of the four purchases because he no longer works at DOT. When we met with the cardholder who made the remaining purchase, she was unable to log into the

system or explain the electronic documentation submission process. She stated that she did not use the system that often and did not remember her password. However, on the checklist the cardholder and the approver affirmed that supporting documentation and approvals were entered in Access Online. This makes the DCAS level of review more difficult because the agency cannot easily view supporting documentation for these purchases.

Recommendations

14. DOT should monitor the cardholders' utilization of Access Online for transactions at or greater than \$10,000 to ensure that required sign-offs and documents are present.

DOT Response: "No Corrective Action Required – The report reviewed 8 transactions over \$10,000, of which 4 were not properly entered into Access-Online. This was caused by a technical error of 2 cardholders, who after approving their transactions in Access-Online, were unsuccessful in uploading the required supporting documentation. Hard copies of all their required documentation were submitted. DOT has taken steps to better train all users, to eliminate such Access-Online 'upload' errors."

15. DOT should ensure that cardholders are adequately trained in using Access Online.

DOT Response: "No Corrective Action Required . . . DOT has taken steps to better train all users. Furthermore, cardholders are not approved for single transaction limits of \$10,000 or greater unless they successfully complete the U.S. Bank on-line training modules."

DETAILED SCOPE AND METHODOLOGY

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

The primary audit scope was January 2014 through May 2015. In addition, inventory tests were conducted in September 2015.

In order to obtain an understanding of the operations and responsibilities of various units within DOT, we conducted walkthroughs and interviews with agency officials and staff including: the Deputy Commissioner for Finance, Contracting and Program Management; Deputy Agency Chief Contracting Officer (ACCO); the Director and supervisors of the Fiscal Affairs unit; P-card approvers and cardholders.

To evaluate the controls over the P-card program, we obtained and reviewed the following: 1) *Office of Citywide Purchasing Card Policies and Guidelines*; 2) the city's P-card agreement with U.S. Bank; 3) the New York City Comptroller's Directives No. 1 (*Principles of Internal Controls*), No. 24 (*Agency Purchasing Procedures and Controls*), and No. 30 (*Capital Assets*); 4) NYC Procurement Policy Board Rules §3-08 *Small Purchases*; 5) Comptroller's Memorandum 01-1 *Guidelines for Use of Procurement/Purchasing Cards* and 14-1 *Update to Comptroller's Memorandum 01-1*; 6) DOT P-Card Guidelines; and 7) DOT Procedures including *P-Card Program Operating Tasks*, *P-Cards – Processing and Reviewing Payments*, *P-Cards – Outstanding Credits and Recoupments*. In addition, we reviewed DOT's organization chart highlighting each P-cardholder and approver and their respective units.

In order to assess the reliability of the computer-processed data, we examined the Authorized Card Users list (the List) provided to us in Excel format by DOT's Fiscal Affairs unit, which listed 108 cardholders as of January 2015, and compared its information to the DOT *Cardholders CY14 through Current-Lost Stolen Fraud Cards* (U.S. Bank Report) report generated from the U.S. Bank Access Online database as of May 2015. We also ascertained whether a signed user agreement and P-card request forms were maintained for each cardholder on the list and examined all user agreements in the file for accuracy and completeness. In addition, we examined the P-Card Expenses January 2014 to March 2015 transaction report (the Expense Report) listing the P-card transactions for the period and compared the information for 25 sampled transactions to the supporting documentation (transaction packages) for accuracy and completeness. Furthermore, to ensure that the Expense Report was complete, we randomly selected the month of December 2014 and obtained the transaction packages for this period. Of the 53 cardholders who made purchases in December 2014, we randomly selected five cardholders and compared all of the transactions in the packages to the Expense Report.

To determine whether DOT complies with the P-card policies and guidelines, and established adequate internal controls over the P-card program, we reviewed the Authorized Card User list and P-card user agreement files to determine whether required documents such as signed user agreements, request forms, and bank letters were maintained and properly approved when applicable for 108 cardholders.

Furthermore, we randomly selected 75 transactions for the period from January 2014 to May 2015 for review. We examined the supporting documentation to determine whether all required documents were included and properly completed in transaction packages; whether the purchases were properly approved and reviewed by the Fiscal Affairs unit staff; whether discounts offered by the vendors were taken; whether sales tax was charged; whether payments were made to U.S. Bank in a timely manner; and whether the functions of purchasing and receiving goods were segregated. We also determined whether the reconciliation was performed and any necessary adjusting journal entries were made for the 75 sampled transactions to ensure that the transactions were properly recorded in the city's Financial Management System (FMS). We also determined whether the transaction packages were submitted to the Fiscal Affairs unit timely for reconciliation.

To ensure that P-card monthly and single transaction limits were not exceeded by P-card holders, we examined the entire expense report for January 2014 to March 2015 and compared the monthly and single transaction purchase amounts to the monthly and transaction limit thresholds from the Authorized Card User list. We also reviewed the expense report for potential split purchases. When possible split purchases were identified, we requested the corresponding P-card packages for review.

To determine whether DOT made P-card payments to U.S. Bank in a timely manner, we generated a list of payments from FMS for January 2014 to July 2015 for review. We compared the payment listing to the monthly U.S. Bank statements for the period to ensure that statement balances were paid before the due date.

Moreover, we confirmed whether the cardholders with a single transaction limit greater than \$5,000 received U.S. Bank Access Online web-based training as required. In addition, we determined whether cardholders who made single purchases of \$10,000 or more uploaded electronic attachments and obtained electronic approval for each purchase in the Access Online system. We also examined all cardholders whose single transaction limits were greater than \$5,000 to ensure that appropriate approvals were obtained.

We determined whether DOT maintains written justifications for all profile changes using the MCC form for all cardholders whose single transaction and/or monthly limits were changed during the period of January 2015 to May 2015 to ensure that they were justified and legitimate. In addition, we determined whether profile requests/changes greater than \$10,000 were sent to and processed by the Citywide Program Administrator.

To determine whether DOT keeps an accurate record of inventory purchased with P-cards, we judgmentally selected a sample of 25 transactions made during the period from January 2015 to May 2015 that was comprised of 36 inventory items. To determine whether the items were received, recorded, tagged, and in use by DOT staff, we traced the items to the various inventory record-keeping systems utilized by DOT, when applicable, and observed the items.

The results of the above tests, while not projectable to their respective populations, provided a reasonable basis for us to determine whether DOT has adequate controls over the use of procurement cards.



Department of Transportation

POLLY TROTTEBERG, Commissioner

February 3, 2016

Ms. Marjorie Landa
Deputy Comptroller for Audit
Office of the New York City Comptroller
1 Centre Street, Room 1100
New York, N.Y. 10007

Re: The New York City Comptroller's Draft Audit Report on the Department of Transportation's Controls over the Use of P-Cards (MD15-095A)

Dear Ms. Landa:

Thank you for the opportunity to comment on the Draft Audit Report on the Department of Transportation's Controls over the Use of P-Cards. The Department of Transportation (DOT) recognizes the importance of maintaining adequate internal controls and is committed to ensuring agency compliance with internal control principles. We are pleased that this audit found no irregularities with respect to the type of purchases made with P-Card transactions and that the control weaknesses identified represent exceptions rather than a systemic breakdown of internal controls for the P-Card program.

We have reviewed the report findings and after much consideration have concluded that the report's overall assessment that the DOT has inadequate controls over the P-Card program is not accurate. While we agree with the principles of internal controls stated in the report recommendations, we do not agree with the audit methodology, and the sufficiency of evidence used to support the report findings. In short, this report exaggerates the internal control weaknesses in DOT's P-Card program and is therefore misleading.

Please find attached NYC DOT's agency response to the report findings and recommendations. Should you wish to discuss our response further, I can be reached at 212-839-4408.

Best Regards,

A handwritten signature in blue ink that reads "Amy Hutner".

Amy Hutner
Auditor General
New York City, Department of Transportation

NYC DOT P-Card Audit Response

The New York City Department of Transportation (DOT) appreciates the opportunity to provide comments in response to the New York City Comptroller's ("Comptroller") Audit Report (MD15-095A) on DOT's Controls over the Use of Purchasing Cards. DOT recognizes the importance of maintaining a strong system of internal controls and is committed to compliance with internal control principles. DOT is pleased that (1) this audit found no irregularities with respect to the type of purchases made with P-Cards and (2) that the control weaknesses identified in the audit represent exceptions rather than systemic problems with DOT's internal control system. Since there was no evidence that DOT made purchases in violation of the P-Card requirements and all items could be accounted for, DOT concludes that its existing controls provide reasonable assurance that DOT employees are using P-Cards for purchases in an appropriate manner. DOT recognizes that effective controls minimize the potential risk of fraudulent transactions. Although the audit findings suggest areas of perceived potential risk, no actual occurrences were identified.

Agency Comments/Concerns

DOT recognizes the importance of the internal control principles cited as recommendations in the report; however, it strongly disagrees with the report's conclusion as it appears that the evidence relied upon and cited in the report indicate that DOT has adequate controls over the P-Card program. DOT disagrees with the majority of the findings and recommendations contained in the report and has concerns about the methodology utilized in the audit.

- I. **Findings and Recommendations** – DOT disagrees with the auditors' overall finding that DOT has inadequate controls over the use of P-Cards. Below is a summary of DOT's responses to the audit's recommendations based on the perceived deficiencies.

	Report Recommendations	DOT Responses
1.	DOT should ensure that cardholders submit all required supporting documentation for P-Card purchases.	No Corrective Action Required – DOT already requires that cardholders submit all required supporting documentation for P-Card purchases through its Purchasing Card Policies and Guidelines. The report indicates that 96 percent of the sampled transactions had adequate supporting documentation.
2.	Fiscal Affairs should ensure that missing documents are identified, documented on the follow-up sheet, and obtained from the cardholders.	No Corrective Action Required – As noted above, the report indicates that 96 percent of the sampled transactions had adequate supporting documentation.
3.	DOT should ensure that properly approved P-card Request Forms and user agreements are maintained.	No Corrective Action is Required – DOT complies with current DCAS guidelines regarding Cardholder Request and Agreement forms. This finding was based upon DOT not providing original request forms for those current cardholders who made original requests in 2001 to obtain a card. DOT provided the list of cardholders who were "grandfathered in" to the later agreements and the original user agreements. The auditors did not acknowledge that in 2001 the program was in its inception and there was no provision in our bank agreement to maintain request forms. Unfortunately, DOT does not have the original

		banking agreement because it is beyond the 7 year record retention policy.
4.	DOT should ensure that all transaction limit changes, including those greater than \$10,000, are properly documented and approved on the required forms and that the forms are maintained.	No Corrective Action Required – DOT typically utilizes all required forms. The instances the auditors identified as missing documentation were due to extenuating circumstances (such as impending storms) that made the typical process impractical at the time; however, proper authorizations were obtained in a slightly modified format.
5.	DOT should ensure that its P-card holder listing accurately reflects up-to-date spending limit information of its P-card users.	No Corrective Action Required – DOT uses Access-Online to perform this function. All current cardholder credit profiles are recorded in the U.S. Bank Web based Access-Online system. Changes made to cardholder profiles are also maintained in the U.S. Bank Access-Online system.
6.	DOT should ensure that the transaction logs are properly approved by the cardholder's manager.	No Further Corrective Action Required – Based on a prior DOT internal audit recommendation, as of July 1, 2015, DOT revised its transaction log to require approver signatures. The report failed to note that such change was made and this recommendation was already being satisfied.
7.	DOT should ensure that the Fiscal Affairs unit performs a thorough final review of the transaction packages to ensure that all required documents are properly completed, all supporting documentation is provided, offered discounts are taken and any deficiencies are identified.	No Further Corrective Action Required – The auditors recommended requiring supervisory signatures on the payment packages to show that the final review was complete. DOT was using the “File Stamp” as such indicator. Although DOT believes that the “File Stamp” was sufficient to indicate that the final review was complete, effective July 1, 2015, Fiscal Affairs implemented a procedure whereby the reviewing supervisor dated and initialed receipt of the payment package and dated and initialed completion of the final review of the package.
8.	DOT should ensure that cardholders' approvers strengthen their monitoring of P-card transactions and ensure that the checklists are properly completed and required steps performed before certifying the transaction packages.	No Further Corrective Action Required – According to the DCAS Program Coordinator, the checklist is not a Citywide P-Card requirement, but it is a tool to assist the cardholder and approver to prepare their complete monthly submission. Since July 1, 2015, cardholders/ approvers have been sent monthly reminders of the importance of properly completing document packages, including checklists and transmittal logs before they are signed.
9.	DOT should ensure that a review of transactions is conducted to identify possible split purchases and that an adequate inquiry into these purchases is performed and documented.	No Further Corrective Action is Required – The data presented in the report does not support its finding that DOT’s monitoring for split orders was insufficient. The report only identified 65 out of 5250 transactions (1.2%) as being potential split orders. DOT explained that these few transactions were reflections of the way DOT’s IT staff ordered equipment in the aggregate for the agency and the way that certain vendors process multiple purchases over short periods of time.

		Even though DOT believes its monitoring for split orders was sufficient, it reorganized the P-Card administrator function to DOT's ACCO's office. This was done because DOT believes that the system could be strengthened as the ACCO would be in a better position to evaluate the P-Card purchases against other procurements made by the agency. The reorganization represents DOT's commitment to monitoring purchases for split orders. Although the report was critical of DOT's split order monitoring, it failed to acknowledge that DOT has preemptively taken steps to improve the process.
10.	DOT should ensure the timely submission of payment packages by cardholders.	DOT will evaluate options for addressing this finding to the extent practicable. Cardholders often must wait for required documentation before preparing transaction logs, checklists and submission of monthly packages to Fiscal Affairs.
11.	DOT should ensure that the functions of ordering and receiving goods and services are adequately segregated.	DOT agrees with the segregation of duties principle. However, it may not be feasible in situations where there are only a few employees in unit. DOT will issue a new directive to its P-Card users to implement the separation of duties principle and identify situations where this would be impractical.
12.	DOT should track desirable items under \$750.	DOT will evaluate this recommendation to determine whether additional action is required. Low cost items maybe more expensive to track than their actual replacement value and implementation of this recommendation may not be cost effective. Generally Accepted Government Auditing Standards specify that audit recommendations should, among other things be cost effective (see section 7.29).
13.	DOT should ensure that all inventory items are tagged, recorded, and accounted for and that periodic reconciliations are done for all inventoried items purchased with P-cards.	No Corrective Action Required – DOT complies with Citywide P-card Guidelines. DOT Divisions currently have procedures to determine the categories and value of assets that must be tagged, entered into respective inventories, and subject to periodic counts. However, DOT will implement new procedures agency-wide so that serial numbers will be documented on receiving reports.
14.	DOT should monitor the cardholders' utilization of Access Online for transactions at or greater than \$10,000 to ensure that required sign-offs and documents are present.	No Corrective Action Required – The report reviewed 8 transactions over \$10,000, of which 4 were not properly entered into Access-Online. This was caused by a technical error of 2 cardholders, who after approving their transactions in Access-Online, were unsuccessful in uploading the required supporting documentation. Hard copies of all their required documentation were submitted. DOT has taken steps to better train all users, to eliminate such Access-Online "upload" errors.
15.	DOT should ensure that cardholders are adequately trained in using ACCESS Online.	No Corrective Action Required – as noted above, DOT has taken steps to better train all users. Furthermore, cardholders are not approved for single transaction limits of \$10,000 or greater unless they successfully complete the U.S Bank on-line training modules.

II. Audit Criteria and Methodology

- Applicable Audit Criteria The approach taken in this report is inconsistent with the “reasonable assurance standard” as defined in GAO Internal Control Standards for the Federal Government.¹ Internal control systems are not designed to provide absolute assurance that internal controls are effective. The report criteria for assessing the adequacy of internal controls are inconsistent with the GAO standards and present an unrealistic and unachievable requirement. The report appears misleading as it suggests that pervasive control weaknesses were identified, which is counter to the evidence provided in the report.
- Citywide Requirements As noted above, DOT has internal controls in place, in addition to the Citywide P-Card rules, which together provide the required assurances sought by the auditors. In many instances, DOT partners with DCAS and the bank to ensure transactions are properly documented and authorized. DCAS has a full time P-Card analyst that monitors all P-Card transactions city-wide. U.S. Bank has internal controls and automated systems that continuously look for suspicious or fraudulent activity. Therefore it is incorrect to state that DOT alone has inadequate controls, as this is a shared responsibility. There are compensating controls established in the Citywide P-Card program which need to be considered in this analysis and were not addressed.
- Audit Methodology The Objectives, Scope, and Methodology (OSM) section of the report states that the results of the above tests, while not projectable to their respective populations, provided a reasonable basis for us to determine whether DOT has adequate controls over the use of procurement cards. Since the data is not projectable, it is not appropriate to use it to draw accurate definitive conclusions about the effectiveness of DOT’s internal controls of its P-Card program.

DOT recognizes that the report methodology is exception based. Although there is no statement explaining the method, DOT suggested adding such language to ensure that readers understand the report in its proper context and are able to draw balanced conclusions from its findings. Since this recommendation was not incorporated, DOT believes that the report can be easily misinterpreted.

- **Adherence to Generally Accepted Government Auditing Standards (GAGAS)** Although the OSM section of the report indicates that the auditors followed GAGAS, the cause of some audit findings were not always properly identified and/or included, which is required by GAGAS as an element of a finding². The report does not appear to acknowledge that the P-Card program was implemented by the City over a 15 year period and that the requirements evolved and changed over time. Some of the findings are based on lack of adherence to current requirements, which may or may not have existed at all times during the program’s existence.

¹ The definition states, “An internal control system is a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance that an entity’s objectives will be achieved”. (Pg. 5 GAO-14-704G Federal Internal Control Standards)

² Section 6.76 of GAGAS, Field Work Standards for Performance Audits: “The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria, which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and criteria.”

In addition, contrary to GAGAS³, the findings in the report do not always meet the sufficient evidence standard and does not reflect an analysis of all reliable evidence provided to the audit staff. DOT bases this opinion on the fact that important relevant evidence provided at the exit conference did not change the findings initially proposed in the preliminary draft report. For example, the report concludes that there was limited evidence of review for split orders. DOT provided copies of the comments section of the Access-Online program to the auditors that indicated that several transactions that the auditors believed were potential split orders were previously questioned and reconciled prior to the audit review. This is not acknowledged in the report and could be inconsistent with the report finding, which leads DOT to believe that all the evidence was not properly considered.

- Finally, although not a finding, the Comptroller references the DOT Office of the Auditor General's internal report stating, among other things, that pre-approvals were not obtained for all purchases requiring them. It should be noted that DOT included a comment in that internal audit stating that it follows the City's recommended practices, which do not call for pre-approval of all P-Card transactions.

³ Section 2.10 of GAGAS: " Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria."