

AUDIT REPORT

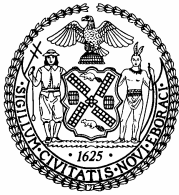


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Procurement Practices of the Office of Payroll Administration

ME07-053A

June 12, 2007



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

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 the compliance of the Office of Payroll Administration (OPA) with the Procurement Policy Board (PPB) rules, the Comptroller's Directives, and its own procedures.

OPA is responsible for ensuring prompt and accurate payment of City employee's wages and salaries. We audit City agencies such as this to provide a means of ensuring that City funds are spent efficiently and in full compliance with established guidelines.

The results of our audit, which are presented in this report, have been discussed with officials of OPA, and their comments have been considered in preparing this report. Their complete written response is attached to 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 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: ME07-053A
Date: June 12, 2007

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

Audit Report on the Procurement Practices
Of the Office of Payroll Administration

ME07-053A

AUDIT REPORT IN BRIEF

This audit determined whether the Office of Payroll Administration (OPA) procurement practices relating to non-capital expenditures complied with applicable Procurement Policy Board (PPB) rules and Comptroller's Directives, and its own procedures.

The Office of Payroll Administration is responsible for ensuring prompt and accurate payment of City employees' wages and salaries. OPA is also responsible for coordinating payroll policies and procedures among City agencies; ensuring City compliance with applicable Federal, State, and City employment tax regulations; distributing and accounting for the City's payroll; and ensuring the integrity, accuracy, and operational effectiveness of the City's payroll system.

For Fiscal Year 2006, the Office of Payroll Administration had a modified budget of \$4,028,835 for Other Than Personal Services (OTPS) costs, of which OPA spent \$2,905,432.

Audit Findings and Conclusions

Our review of OPA's procurement practices indicated that the agency has established an adequate segregation of duties for its procurement practices. In addition, OPA registered all its contracts with the Comptroller's Office and adequately documented its receipt of goods and services.

However, OPA needs to address several deficiencies in order to improve its internal controls and fully comply with PPB rules, Comptroller's Directives, and its own procedures. These deficiencies include the lack of supporting documentation for purchases, the inappropriate use of miscellaneous vouchers, the use of incorrect object codes, the late payment of vendor invoices, and weak inventory controls relative to its computer assets.

Audit Recommendations

To address these issues, the audit recommends, among other things, that OPA:

- Ensure that request-for-purchase forms are completed and approved, in accordance with OPA procedures, before funds are committed.
- Ensure that increases in purchase-order amounts are properly justified and authorized.
- Ensure that miscellaneous payment vouchers are used in accordance with Comptroller's Directive #24.
- Require that invoices are date-stamped upon receipt and/or that the dates of the certification of the receipt of goods or services are recorded.
- Ensure that all invoices are paid within 30 days of receipt of the invoice or of the certified receipt of the goods or services provided.
- Maintain an independent inventory list that will show key information on all its computer assets, such as the purchase date, date equipment was placed in service, location, staff assignment, date equipment was taken out of service, and the date and manner in which equipment was discarded. The list should be regularly updated to include additions, transfers, and disposals of equipment. Periodic physical inventories should be performed for all assets.

Agency Response

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

INTRODUCTION

Background

The Office of Payroll Administration is responsible for ensuring prompt and accurate payment of City employees' wages and salaries. OPA is also responsible for coordinating payroll policies and procedures among City agencies; ensuring City compliance with applicable Federal, State, and City employment tax regulations; distributing and accounting for the City's payroll; and ensuring the integrity, accuracy, and operational effectiveness of the City's payroll system.

For Fiscal Year 2006, the Office of Payroll Administration had a modified budget of \$4,028,835 for Other Than Personal Services costs, of which OPA spent \$2,905,432.

Objective

To determine whether OPA procurement practices relating to non-capital expenditures complied with applicable Procurement Policy Board rules and Comptroller's Directives, and its own procedures.

Scope and Methodology

The scope of the audit was OPA procurement practices relating to non-capital expenditures in Fiscal Year 2006 (July 1, 2005 through June 30, 2006).

To gain an understanding of OPA procurement practices, interviews were conducted with numerous agency officials: the Director of Administrative Services, the Chief Financial Officer, the Agency Chief Contracting Officer (ACCO), the Purchasing Officer, the Budget Assistant, and the Accounts Payable, Payroll and Benefits person. We also interviewed information technology unit staff to obtain information about OPA's maintenance of its computer inventory. In addition, walkthroughs were conducted of various OPA units that play a part in the procurement process.

Furthermore, to gain an understanding of the policies, procedures, and regulations governing OPA procurement practices, we reviewed its purchasing procedures, relevant PPB rules, and Comptroller's Directives #1 (Agency Evaluation of Internal Controls) and #24 (Agency Purchasing Procedures and Controls). In addition, OPA's Fiscal Year 2006 budget and other relevant documentation were reviewed to gain an understanding of the agency and its procurement practices.

To determine if OPA complied with PPB rules, Comptroller's Directives, and its own procedures, we obtained from the New York City Financial Management System (FMS) a list of OPA's OTPS voucher payments, which totaled \$2,507,657 during Fiscal Year 2006. Excluding miscellaneous voucher payments, OPA's Fiscal Year 2006 OTPS payments over \$250 totaled

\$2,459,269. We identified 119 purchase documents related to such payments and judgmentally selected for testing the 10 largest purchases (totaling \$1,389,213). We also randomly selected 38 purchase documents from the remaining 109 purchase documents and reviewed the 38 highest voucher payments (totaling \$52,544) relating to these 38 purchases. The three miscellaneous vouchers payments over \$250 during Fiscal Year 2006 totaled \$26,973. We tested OPA's two largest miscellaneous voucher payments (totaling \$15,000) during Fiscal Year 2006. This gave us a combined sample of 50 purchases (totaling \$1,456,757) to review. We requested all relevant documentation for our sampled purchases.

For the sampled purchases, we determined whether appropriate bids were obtained and whether the purchases were properly authorized, supported by sufficient documentation, charged to the correct object code, and paid on time. We also determined whether there was an adequate segregation of duties in OPA procurement practices.

To determine whether OPA attempted to avoid bidding rules by splitting purchases during Fiscal Year 2006, we sorted the entire population by vendor and determined whether there were purchases of the same good or service within any six-month period that aggregated to \$5,000 or more.

To determine the adequacy of OPA controls over its computers, we obtained inventory records generated by its inventory tracking system, TrackIt, to identify the computers maintained by OPA. We then attempted to locate a randomly selected sample of computers on the list. We also conducted a walk-through of one OPA unit to determine whether the computers used by the staff of that unit were included in OPA inventory records.

We did not evaluate the reliability and integrity of the computer-processed purchasing data that we obtained from FMS, since the City's external auditors review this Citywide system as part of their annual audit of the City's financial statements.

The results of the above tests, while not statistically projected to their respective populations, provided a reasonable basis for assessing the compliance of OPA's procurement practices with the noted criteria.

Independence Disclosure

OPA is overseen by a two-member board of directors appointed by the Mayor, one representing the Mayor and one recommended by and representing the Comptroller. The Comptroller's designee was not involved in planning or conducting this audit, or in writing or reviewing this audit report.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City 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 OPA officials during and at the conclusion of this audit. A preliminary draft report was sent to OPA officials on March 30, 2007 and was discussed at an exit conference held on April 25, 2007. We submitted a draft report to OPA officials on May 4, 2007 with a request for comments. We received a written response from OPA officials on May 21, 2007.

In its response, OPA generally agreed with the audit's findings and recommendations. OPA stated that "the Office of Payroll Administration will work to ensure that all of the audit recommendations are implemented." OPA also stated that the recommendations "will assist us in ensuring that the Office of Payroll Administration continues to follow all Comptroller's Directives, PPB Rules and other accepted purchasing practices."

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

FINDINGS AND RECOMMENDATIONS

Our review of OPA's procurement practices indicated that the agency has established an adequate segregation of duties for its procurement practices. In addition, OPA registered all its contracts with the Comptroller's Office and adequately documented its receipt of goods and services.

However, OPA needs to address several deficiencies in order to improve its internal controls and fully comply with PPB rules, Comptroller's Directives, and its own procedures. These deficiencies include the lack of supporting documentation for purchases, the inappropriate use of miscellaneous vouchers, the use of incorrect object codes, the late payment of vendor invoices, and weak inventory controls relative to its computer assets.

Lack of Supporting Documentation

Our review of purchasing files revealed that OPA did not have on file all the required documents, such as approved request-for-purchase forms, receipts, and invoices. Consequently, we could not confirm OPA compliance with applicable Comptroller's Directives and OPA procedures.

According to Comptroller's Directive #24:

“Agencies must, however, retain all documentation received from vendors, and other relevant information that is not processed through FMS. Depending on the purchase, the relevant information may include bids, proposals, executed contracts, invoices, inventory records, and any vendor-signed or vendor-generated documentation. Agencies should also retain documentation that is used for purchasing decision-making . . .”

Directive #24 also states:

“Requisitions are required when a purchase is expected to exceed the micro-purchase limits, currently set at \$5,000, or when a contract will be used for the purchase.”

However, OPA did not consistently maintain required purchasing documentation. There were a total of 10 (20%) from our sample of 50 purchases that were missing at least one key document. OPA did not have a total of 12 documents in the purchasing files relating to our sampled purchases: 10 approved requisition forms (including three requests for an increase in the original purchase-order amount), 1 invoice (concerning a \$379 expenditure on training), and 1 receipt (concerning a purchase of \$10,000 in postage). This may have resulted from a lack of proper management oversight: the officials responsible for approving the payments may not have properly reviewed voucher packages for completeness.

OPA officials informed us that they maintain approved request-for-purchase forms for all purchases regardless of amount. They also told us that request-for-increase forms must be prepared for any increase in the initial purchase-order amount.

However, OPA did not maintain approved requisitions for 10 purchases in our sample. For 4 purchases (one of which exceeded \$5,000) there were no request-for-purchase forms on file, for 3 purchases (ranging from \$2,345 to \$10,000) the request-for-purchase forms on file were not approved, and for 3 purchases there were increases in the initial purchase-order amounts for which OPA did not prepare request-for-increase forms. There were two increases for \$1,500 each for one vendor and one increase for \$137 for another vendor. OPA procedures require that a request-for-increase form be prepared any time a purchase-order amount is increased. The request-for-increase form includes a section where the requester must justify the reason for an increase, and his or her supervisor must approve the increase. The increases for these purchases were not justified by the requesters and were not properly authorized.

Since OPA did not have approved request-for-purchase forms on file for all its purchases, it is difficult to know whether appropriate OPA officials approved requested purchases and increases of purchase-order amounts before the funds were committed.

Recommendations

OPA should:

1. Ensure that request-for-purchase forms are completed and approved, in accordance with OPA procedures, before funds are committed.
2. Ensure that increases in purchase-order amounts are properly justified and authorized.

Agency Response: “As indicated, OPA already has procedures in place that require requests for purchase and requests for increases to purchases be authorized and approved before funds are committed. OPA will amend its internal procedures to require a two-step process: approvers will first review the entire purchase order folder and ensure that all required documents are in place; when satisfied that all required documents are in place, FMS documents to encumber funds will be approved. In addition, prior to this audit, but after the period being audited, OPA distributed to the entire agency its procedures for making purchases to reinforce that all purchases of goods or services must have the proper requisitions and authorizations prior to purchase.”

Auditor Comment: OPA has procedures in place, but it should ensure that those procedures are consistently followed by the staff.

Improper Sequence of Purchase Events

According to Comptroller’s Directive #24, “A Requisition is entered before placing an order with a vendor” and “before the agency places an order with a vendor, a Purchase

Document . . . or an FMS Contract Document . . . must be entered in FMS to close (clear) any Requisition associated with the purchase.” Contrary to this procedure, OPA sometimes places an order and receives a good or service or an invoice before completing the requisition or the purchase order.

There were five instances in which OPA placed an order and either received a good or service or an invoice before it completed a requisition or a purchase order. For example, in one instance, a requisition form was approved on May 4, 2006, and the purchase order was approved on May 9, 2006; however, the products were obtained on April 18, 2006, and the invoice was dated April 30, 2006. Those instances suggest that a lack of proper supervision is allowing purchases to be initiated without prior review and approval.

To improve OPA control over its expenditures, no purchase should be made without first encumbering the funds. Therefore, requisitions and purchase orders should be prepared prior to the receipt of goods and services, as these documents represent OPA authorization to purchase goods or services. These documents also serve to encumber the funds and record the purchase.

Recommendation

3. OPA should ensure that all purchases are initiated by the preparation of requisitions and purchase orders, not by the receipt of an invoice or a good or service.

Agency Response: “... prior to this audit, but after the period being audited, OPA distributed to the entire agency its procedures for making purchases to reinforce that all purchases of goods or services must have the proper requisitions and authorizations prior to purchase.”

Auditor Comment: As stated previously, OPA should ensure that the procedures it has in place are consistently followed by the staff.

Improper Use of Miscellaneous Vouchers

Our review of OPA purchases disclosed that OPA inappropriately used miscellaneous payment vouchers (PVMs). According to Comptroller’s Directive #24, “PVMs may be used only when estimated or actual future liability is not determinable, or a contract or a Purchase Document is not required or applicable.”

Miscellaneous vouchers are used to pay expenses for which the estimated or actual amounts cannot be determined in advance, such as travel expenses and telephone bills. OPA used a PVM for \$5,000 to fund a Citywide program managed by the Department of Citywide Administrative Services that supplies agencies with college-student interns. According to OPA officials, DCAS contacts agencies using the program on a semester basis and asks for a commitment of funds. Therefore, the liability related to this program is determinable, since OPA knows in advance what amount to commit to the program. In addition, if needs arise, OPA may increase the amount of funds committed. OPA should use regular purchase documents for this

program. Comptroller's Directive #24 also states that unallowable uses of PVMs include "payments to postal and phone service providers." However, OPA used a PVM to pay \$10,000 for postage.

In order to have control over its expenses, OPA needs to ensure that PVMs are used appropriately and include in its budget all expenditures for which an estimated amount is determinable. The inappropriate use of PVMs contributes to the weakening of controls over OPA's expenditures because purchases made with PVMs do not use encumbered funds.

Recommendation

4. OPA should ensure that miscellaneous payment vouchers are used in accordance with Comptroller's Directive #24.

Agency Response: "The unintentional misuse of PVM's refers to two of OPA's on-going OTPS expenses, United States Post Office Metered Mail Postage Expense and Public Service Corps (PSC) students paid through DCAS. In FY '07, OPA had already ceased the use of PVMs to pay for DCAS' PSC program. This was after the period being audited. The agency, in FY'07, has and will continue to use an intra-city budget modification to pay DCAS. In FY'08, we will use PVE's to pay the USPS for postage."

Improper Use of Object Codes

OPA sometimes charges its OTPS expenditures to incorrect object codes. We found four instances in which it charged its purchases to incorrect object codes. For example, in one instance, OPA paid \$380 for two DVD players, but charged the expense to the general supplies and materials code (1000) rather than to the general equipment code (3000) or the instructional equipment code (3300). In another instance, OPA used different object codes relating to the same purchase.

OPA's budget uses object codes to account for and track expenditures. The tracking identifies variances from budgeted amounts to facilitate OPA's monitoring of its spending. For proper internal and budget controls, expenditures should be charged to the correct object codes. By not charging the expenditures to the correct object code, OPA is distorting its accounting records and budgetary process, since it will be difficult to accurately assess OPA's future needs for expenditures if it is not able to determine its actual expenses.

Recommendation

5. OPA should ensure that its staff charges all expenditures to the correct object codes.

Agency Response: "OPA unintentionally charged incorrect object codes in four instances, less than 10% of the documents reviewed. OPA will continue to strive to use correct object codes."

Non-compliance with PPB Prompt Payment Rule

According to §4-06 of the PPB rules, agencies are required to pay invoices within 30 days of receiving them. For 4 (9%) of the 47 invoices we reviewed, OPA paid the invoices more than 30 days after their receipt. The delay in payment ranged from 25 days to 61 days (one delay was of an indeterminate length). In addition, OPA consistently paid the current balance on the statement it received from a vendor and continually carried forward an old balance due. For example, for the billing period of August 1 to August 31, 2005, the amount due was \$815.86, but OPA only paid \$451.25, which was the current-activity amount. OPA should resolve this issue and pay the balance due if it is owed.

Furthermore, OPA procedures require that invoices be date-stamped when they are received to avoid delays in payment. However, OPA does not always stamp the receipt date on the invoice. For example, 8 (17%) of the 47 invoices in our sample (one invoice was missing, and the two miscellaneous vouchers did not require invoices) were not date-stamped. The payments of two of the eight invoices were delayed. One delay was for 61 days and the other was indeterminate. In addition to date-stamping the invoice, OPA also requires that the user certify the receipt of goods or services by stamping and signing off on the invoice when goods or services are received. However, the date of receipt of the goods or services is not recorded on the invoice. Therefore, since OPA neither dates its certification of the receipt of goods or services nor date-stamps the invoice upon receipt, it is difficult to track payment-due dates and avoid delays in payment.

As stated in §4-06 of the PPB rules, a payment-due date is the latest of “the date a proper invoice is actually received . . . or the seventh day after either the date on which the goods are actually delivered or the services are actually performed.” Since invoices are not always date-stamped upon receipt, OPA needs to record the dates of the certification of the receipt of goods or services. This will facilitate the tracking of the payment-due dates of invoices and avoid delays in payment.

When City agencies do not pay invoices within 30 days of receiving them, FMS may pay interest to the vendors for the delay in payment. However, OPA did not pay interest for any of the four late payments, because it entered incorrect vendor invoice receipt dates in FMS. For example, OPA received an invoice for \$150 from one vendor on January 25, 2006. However, when processing the payment voucher, OPA indicated in FMS that the invoice was received on March 13, 2006. This led FMS to identify the “interest eligibility date” for this invoice as being April 13, 2006. Since the invoice was paid on March 21, 2006, FMS did not pay interest to the vendor for the delay.

Recommendations

OPA should:

6. Require that invoices are date-stamped upon receipt and/or that the dates of the certification of the receipt of goods or services are recorded.

Agency Response: “OPA will amend its internal procedures to ensure that invoices will not be entered into FMS until they have been reviewed and accepted as accurate. OPA will amend its procedures to make clear that any invoices found to have inaccuracies that require the invoice to be returned to the vendor will be date stamped with the date that they were returned and documentation will be placed in the file to indicate that the invoice was returned. The date that an accurate invoice is received and accepted will be the entry date of payment and the date of record. The same procedures will be enumerated for invoices where the amount is in dispute.”

7. Ensure that all invoices are paid within 30 days of receipt of the invoice or of the certified receipt of the goods or services provided.

Agency Response: “The date that an accurate invoice is received and accepted will be the entry date of payment and the date of record. The same procedures will be enumerated for invoices where the amount is in dispute. OPA will also amend its internal procedures and practices to ensure that any invoices paid late due to OPA error are entered into FMS with correct dates so that any interest due the vendor will be paid.”

8. Ensure that all overdue account balances on vendors’ invoices are paid if owed.

Agency Response: OPA did not respond to this recommendation.

9. Ensure that correct invoice receipt dates are entered in FMS when processing payment vouchers.

Agency Response: “OPA will amend its internal procedures to ensure that invoices will not be entered into FMS until they have been reviewed and accepted as accurate. OPA will amend its procedures to make clear that any invoices found to have inaccuracies that require the invoice to be returned to the vendor will be date stamped with the date that they were returned and documentation will be placed in the file to indicate that the invoice was returned. The date that an accurate invoice is received and accepted will be the entry date of payment and the date of record. The same procedures will be enumerated for invoices where the amount is in dispute.”

Inadequate Controls over Computer Inventory

According to Comptroller’s Directive #1, detailed records should be maintained for physical assets, which should be positively identified. In addition, the inventory records should be periodically reconciled to reflect all changes. However, OPA neither maintains accurate inventory records nor identifies all computer equipment as City property. This lack of adequate inventory controls over OPA’s computer equipment significantly raises the vulnerability of this equipment to misuse and theft.

Inaccurate and Incomplete Inventory List

OPA's computer equipment inventory list is maintained by inventory-tracking software called TrackIt, which tracks equipment logged into OPA's Local Area Network (LAN) and updates the records. However, the system does not provide information on the purchase of new computer equipment, the location of computer equipment not connected to the LAN, or the disposal of computer equipment that is no longer needed. Consequently, the inventory list maintained by OPA is incomplete.

As part of our test, we obtained OPA's inventory list and conducted an inventory test on January 19, 2007. We randomly selected 17 (10%) of the 166 computers on the list. We tried to locate those computers and determine whether they were assigned to the person indicated on the list.

We were able to locate 15 of the 17 computers in our sample. For one computer, OPA officials showed us a packed and sealed box that they stated the computer was in. The box was labeled "computer" and was, according to OPA officials, going to be moved to another OPA location. OPA informed us that the other computer was assigned to one of its consultants but did not provide evidence of this. In addition, 6 of the remaining 15 computers that we were able to locate either were not at the location indicated on the inventory list or were not assigned to the staff members listed.

We selected one OPA unit (the Citywide Payroll System Maintenance [CPSM] unit) and determined whether the computer equipment in that unit was on the inventory list. We visited the unit on January 19, 2007. The unit had 12 computers. Eight of the 12 computers were correctly identified on the inventory list. However, the remaining four were incorrectly identified on the inventory list in terms of where they were located or to whom they had been assigned.

Furthermore, OPA does not include laptops or computer equipment to be discarded on its inventory list. It has five laptops of which two are permanently assigned to OPA officials and three are available for borrowing. We also observed in the storeroom numerous computer-related assets that OPA officials told us would be discarded. The OPA Payroll Management System Development Division did not have records of this equipment, and unit officials told us that they were waiting for DCAS to pick up the assets. After we raised this issue, OPA prepared a list of 65 computer-related assets to be discarded. We were unable to confirm that all the computer equipment to be discarded by OPA was included on this list.

The weakness in OPA's inventory-tracking system resulted from the agency not maintaining an independent inventory list. The only list that it maintains is the one generated by TrackIt, which only tracks those computers logged into the LAN. TrackIt does not provide information about computers not logged into the LAN or about OPA's printers. A sound inventory list would provide tracking data on all computer assets, and would include such information as the purchase date, date equipment was placed in service, location, staff assignment, date equipment was taken out of service, and the date and manner in which equipment was discarded. OPA should, as required by Comptroller's Directive #1, maintain

detailed inventory records on all its vulnerable assets, including its computer equipment. The directive further requires that the inventory records be maintained by personnel who are not responsible for supervising the use of the assets and that periodic physical inventories of the assets be performed by personnel who are independent of the units maintaining the assets. The lack of an adequate set of inventory controls over OPA's computer equipment significantly raises the vulnerability of this equipment to misuse and theft.

Computer Equipment Not Always Tagged

Of the 32 computers we checked (the 15 computers we randomly selected from OPA's inventory list and were able to find, the 12 computers in the CPSM unit, and the 5 laptop computers), 3 computers (including one of the laptop computers) were not tagged or identified as OPA property, as required by Comptroller's Directive #1. In addition, two printers in the CPSM unit were not tagged.

It is necessary that all equipment be properly identified and tagged to mitigate the risks of misplacement or misappropriation of assets.

Recommendations

OPA should:

10. Maintain an independent inventory list that will show key information on all its computer assets, such as the purchase date, date equipment was placed in service, location, staff assignment, date equipment was taken out of service, and the date and manner in which equipment was discarded. The list should be regularly updated to include additions, transfers, and disposals of equipment. Periodic physical inventories should be performed for all assets.
11. Ensure that all computer equipment is properly tagged and recorded on the inventory list.

Agency Response: "OPA is currently taking steps to implement a different system of inventory control using Remedy software, which is in the process of being customized to meet the City's and this audit's requirements. When completed all of the key information recommended above will be captured. In addition, OPA's internal auditing staff will make period physical checks to ensure that inventory matches physical equipment and locations.

"OPA staff will make periodic checks to ensure that all equipment is properly tagged."



OFFICE OF PAYROLL ADMINISTRATION

One Centre Street, Room 200N, New York, New York 10007

JOEL BONDY
Executive Director

May 21, 2007

Mr. John Graham
Office of the Comptroller
Bureau of Management Audit
One Centre Street
New York, N.Y. 10007

RE: Response to Audit Report
ME07-053A

Dear Mr. Graham:

The Office of Payroll Administration will work to ensure that all of the audit recommendations are implemented. The recommendations and our proposed course of action to implement them are recorded below:

Recommendation 1: Ensure that request for purchase forms are completed and approved, in accordance with OPA procedures, before funds are committed.

Recommendation 2: Ensure that increases in purchase order amounts are properly justified and authorized

Recommendation 3: OPA should ensure that all purchases are initiated by the preparation of requisitions and purchase orders, not by the receipt of an invoice or a good or service.

Response: As indicated, OPA already has procedures in place that require requests for purchase and requests for increases to purchases be authorized and approved before funds are committed. OPA will amend its internal procedures to require a two-step process: approvers will first review the entire purchase order folder and ensure that all required documents are in place; when satisfied that all required documents are in place, FMS documents to encumber funds will be approved. In addition, prior to this audit, but after the period being audited, OPA distributed to the entire agency its procedures for making purchases to reinforce that all purchases of goods or services must have the proper requisitions and authorizations prior to purchase.

Recommendation 4: Ensure that miscellaneous payment vouchers are used in accordance with Comptroller's Directive #24

Response: The unintentional misuse of PVM's refers to two of OPA's on-going OTPS expenses, United States Post Office Metered Mail Postage Expense and Public Service Corps (PSC) students paid through DCAS. In FY '07, OPA had already ceased the use of PVMs to pay for DCAS' PSC program. This was after the period being audited. The agency, in FY '07, has and will continue to use an intra-city budget modification to pay DCAS. In FY '08, we will use PVE's to pay the USPS for postage.

Recommendation 5: OPA should ensure that its staff charges all expenditures to the correct object codes.

Response: OPA unintentionally charged incorrect object codes in four instances, less than 10% of the documents reviewed. OPA will continue to strive to use correct object codes. When there is doubt as to which code to use, we will seek guidance from the Comptroller's Office.

Recommendation 6: Require that invoices are date stamped upon receipt and/or that the dates of the certification of receipt of goods and services are recorded.

Recommendation 7: Ensure that all invoices are paid within 30 days of receipt of the invoice or of the certified receipt of the goods or services provided.

Recommendation 8: Ensure that all overdue account balances on vendor's invoices are paid if owed.

Recommendation 9: Ensure that correct invoice receipt dates are entered in FMS when processing payment vouchers.

Response: OPA will amend its internal procedures to ensure that invoices will not be entered into FMS until they have been reviewed and accepted as accurate. OPA will amend its procedures to make clear that any invoices found to have inaccuracies that require the invoice to be returned to the vendor will be date stamped with the date that they were returned and documentation will be placed in the file to indicate that the invoice was returned. The date that an accurate invoice is received and accepted will be the entry date of payment and the date of record. The same procedure will be enumerated for invoices where the amount is in dispute. OPA will also amend its internal procedures and practices to ensure that any invoices paid late due to OPA error are entered into FMS with correct dates so that any interest due the vendor will be paid.

Recommendation 10: Maintain an independent inventory list that will show key information on all its computer assets, such as the purchase date, date equipment was placed in service, location, staff assignment, date equipment was taken out of service, and the date and manner in which it was discarded. The list should be regularly updated to include additions, transfers, and disposals of equipment. Periodic physical inventories should be performed for all assets.


Recommendation 11: Ensure that all computer equipment is properly tagged and recorded on the inventory.

Response: OPA is currently taking steps to implement a different system of inventory control using Remedy software, which is in the process of being customized to meet the City's and this audit's requirements. When completed all of the key information recommended above will be captured. In addition, OPA's internal auditing staff will make period physical checks to ensure that inventory matches physical equipment and locations.

OPA staff will make periodic checks to ensure that all equipment is properly tagged.

I thank you for your assistance throughout the audit and for the recommendations that will assist us in ensuring that the Office of Payroll Administration continues to follow all Comptroller's Directives, PPB Rules and other accepted purchasing practices.

Sincerely,



Joel Bondy
Executive Director

JB:epd
/dh

cc: M. Hafceez