



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

WILLIAM C. THOMPSON, JR.
Comptroller

**Audit Report on the
Small Procurement and Vouchering Practices of the
Department of Youth and Community Development**

MG02-079A

May 29, 2002

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and Vouchering Practices of the Department
of Youth and Community Development**

MG01-074A

EXECUTIVE SUMMARY

Background

The New York City Department of Youth and Community Development (DYCD) supports youth and community services through contracts with a broad network of community-based organizations throughout New York City. DYCD supports a variety of youth activities, including structured recreation, athletics, tutoring and remedial education, leadership development, delinquency prevention, cultural enrichment, counseling, adolescent health care, substance abuse prevention, and runaway and homeless programs. In addition, DYCD provides services through the Federal Community Action Program that help the City's low-income residents become self-sufficient. Through this program, DYCD provides training, job placement services, adult literacy, and basic education programs. DYCD also provides services to legal immigrants who are interested in becoming United States citizens.

The fiscal year 2001 Executive Budget for DYCD was \$14,943,511 for Personal Services (PS) and \$95,695,381 for Other Than Personal Services (OTPS). Of the OTPS amount, \$11,040,700 was spent on small procurements, consisting of 437 purchase orders totaling \$961,231 and 947 small purchase contracts totaling \$10,079,469. In addition, DYCD issued 28 miscellaneous vouchers totaling \$2,388,330.

The City's Procurement Policy Board (PPB) Rules and specific Comptroller's Directives govern agency procurement procedures. § 3-08 of the PPB Rules deals with small purchases; Comptroller's Directives #6, #24, and #25, respectively, address miscellaneous agency expenses, internal controls over purchasing, and the use of miscellaneous vouchers. DYCD also has its own small procurement procedures that are based on the applicable City requirements.

Objective

Our audit objective was to determine whether DYCD's small procurement operation complies with PPB Rules and applicable Comptroller's Directives.

Scope and Methodology

The audit covered the period July 1, 2000, to June 30, 2001. To determine whether DYCD complied with PPB Rules and the Comptroller's Directives, we obtained and reviewed the applicable rules. To obtain an understanding of DYCD's small procurement operation, we interviewed DYCD staff members responsible for the procurement and vouchering process.

We audited \$25,000-and-under contracts, small purchase orders, and miscellaneous vouchers. For purchase orders, we used a random sample of 61, as well as a judgmental sample of 15 vouchers, to determine whether there was evidence of split purchases. The total value of the purchase order sample was \$284,844. We reviewed all 28 miscellaneous vouchers issued by DYCD during fiscal year 2001, totaling \$2,388,330, and a sample of 74 small purchase contracts, of which 70 were discretionary-fund contracts, and therefore not subject to competitive selection requirements.

We examined each transaction's supporting documentation, including contracts, purchase orders, purchase requisitions, order specifications, bid invitations, and voucher payments, to determine whether purchase documents were appropriately prepared and approved; whether instances of split purchases were evident; whether bids were solicited when required; whether authorized signatures appeared on all required documents; whether purchase documents contained adequate specifications; whether purchases had been made through Requirements Contracts, when available; whether miscellaneous vouchers were used correctly; and whether correct object codes were used.

Results in Brief

DYCD generally complied with PPB Rules and Comptroller's Directives in that purchase orders contained adequate specifications, there was no evidence of split purchases, purchase orders had the required signatures, and in most cases, purchases were made through Requirements Contracts, when applicable.

However, we found that in some instances DYCD's small procurement operation did not comply with certain provisions of the PPB rules and Comptroller's Directives, or with DYCD's own procedures, as follows:

- Proof of receipt was not always obtained before issuing payment to vendors.
- Two purchase orders were prepared after the invoices were received.
- Five files showed that only four bids, rather than the required five, were solicited.
- Purchase requisitions forms were not always prepared. Six files did not include a purchase requisition and two contained a requisition that did not include the required signature.
- 21 invoices were not marked “vouchered” as required.
- Incorrect object codes were used for 15 purchases.
- Nine miscellaneous vouchers violated provisions of Comptroller’s Directive #25.

This audit makes seven recommendations. The Department of Youth and Community Development should:

1. Ensure that proof of service for delivery of goods (i.e., receiving and inspection reports) is obtained before vendors are paid for goods and services received. These documents should be maintained in the payment files, in accordance with Comptroller’s Directive #24.
2. Ensure that it always properly encumbers funds by preparing and processing purchase orders before items are purchased.
3. Ensure that the required five vendors are always solicited for bids when purchases total \$2,500 or more, and that the bids are always documented.
4. Ensure that properly authorized purchase requisition forms are used for all procurements.
5. Ensure that employees mark all invoices “vouchered” to avoid duplicate payment.
6. Ensure that its staff uses the correct object codes when recording expenses.
7. Ensure that it does not use miscellaneous vouchers in cases in which purchase orders, agency encumbrances, or Intra-City vouchers are required.

Agency Response

The matters covered in this report were discussed with DYCD officials during and at the conclusion of this audit. A preliminary draft report was sent to DYCD officials and discussed at an exit conference on April 17, 2002. On April 22, 2002 we submitted a draft report to DYCD officials with a request for comments. We received a written response from DYCD on May 6, 2002. The response stated in part:

“We would like to thank you for working with us to identify possible improvements to our small procurement processes. In general, we certainly agree with the audit findings . . .”

“DYCD would like to thank the Comptroller’s Office for its continuous communication with DYCD officials throughout the course of the audit. These discussions made us aware of areas for improvement and allowed us to implement corrective action plans immediately.”

DYCD agreed with recommendations one through six, and did not indicate whether it agreed with recommendation seven. However, it appears that the circumstances that led to this last recommendation involved a process that may not be applicable to DYCD in the future.

DYCD’s response to this report included both its comments on the report and additional documentation (attachments) relating to specific findings. DYCD agreed that those attachments were included for the auditors’ benefit only and did not have to be appended to this report. Other than those attachments, the full text of DYCD’s comments is included as an addendum to this report.

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INTRODUCTION

Background

The New York City Department of Youth and Community Development (DYCD) supports youth and community services through contracts with a broad network of community-based organizations throughout New York City. DYCD supports a variety of youth activities, including structured recreation, athletics, tutoring and remedial education, leadership development, delinquency prevention, cultural enrichment, counseling, adolescent health care, substance abuse prevention, and runaway and homeless programs. In addition, DYCD provides services through the Federal Community Action Program that helps the City's low-income residents become self-sufficient. Through this program, DYCD provides training, job placement services, adult literacy, and basic education programs. DYCD also provides services to legal immigrants who are interested in becoming United States citizens.

The fiscal year 2001 Executive Budget for DYCD was \$14,943,511 for Personal Services (PS) and \$95,695,381 for Other Than Personal Services (OTPS). Of this OTPS amount, \$11,040,700 was spent on small procurements¹ consisting of 437 purchase orders totaling \$961,231 and 947 small purchase contracts totaling \$10,079,469. In addition, DYCD issued 28 miscellaneous vouchers totaling \$2,388,330.

Three divisions are involved in the procurement process at DYCD: the Contract Procurement Division handles solicitations and orders for services, the Administrative Services Division handles those for goods, and the Financial Management Division handles vouchering and payment for both types of purchases.

DYCD is one of the agencies responsible for processing contracts awarded to not-for-profit organizations at the request of City Council Members and Borough Presidents. Such

¹ Procurement Policy Board Rules define small procurements as purchases of goods and services of \$25,000 or less, construction-related services of \$50,000 or less, and computer-related goods and services of \$100,000 or less.

contracts are funded by elected officials' individual budget appropriations, known as discretionary funds, and are not subject to competitive bidding requirements.²

The City's Procurement Policy Board (PPB) Rules and specific Comptroller's Directives govern agency procurement procedures. § 3-08 of the PPB Rules deals with small purchases; Comptroller's Directives #6, #24, and #25, respectively, address miscellaneous agency expenses, internal controls over purchasing, and the use of miscellaneous vouchers. DYCD also has its own small procurement procedures that are based on the applicable City requirements.

Objective

Our audit objective was to determine whether DYCD's small procurement operation complies with PPB Rules and applicable Comptroller's Directives.

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We audited \$25,000-and-under contracts, small purchase orders, and miscellaneous vouchers. For purchase orders, we used a random sample of 61 as well as a judgmental sample of 15 vouchers to determine whether there was evidence of split purchases. The total value of the purchase order sample was \$284,844. We reviewed all 28 miscellaneous vouchers issued by DYCD during fiscal year 2001, totaling \$2,388,330, and a sample of 74 small purchase contracts, of which 70 were discretionary-fund contracts and therefore not subject to competitive selection requirements.

We examined each transaction's supporting documentation, including contracts, purchase orders, purchase requisitions, order specifications, bid invitations, and voucher payments, to determine whether:

- purchase documents were appropriately prepared and approved;
- instances of split purchases were evident;
- bids were solicited, when required;
- authorized signatures appeared on all required documents;
- purchase documents contained adequate specifications;

² Approximately 94 percent of the 947 small purchase contracts were discretionary fund contracts.

- purchases had been made through Requirements Contracts, when available;
- miscellaneous vouchers were used correctly; and
- correct object codes were used.

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

Agency Response

The matters covered in this report were discussed with DYCD officials during and at the conclusion of this audit. A preliminary draft report was sent to DYCD officials and discussed at an exit conference held April 17, 2002. On April 22, 2002 we submitted a draft report to DYCD officials with a request for comments. We received a written response from DYCD on May 6, 2002. The response stated in part:

“We would like to thank you for working with us to identify possible improvements to our small procurement processes. In general, we certainly agree with the audit findings . . .”

“DYCD would like to thank the Comptroller's Office for its continuous communication with DYCD officials throughout the course of the audit. These discussions made us aware of areas for improvement and allowed us to implement corrective action plans immediately.”

DYCD agreed with recommendations one through six and did not indicate whether it agreed with recommendation seven. However, it appears that the circumstances that led to this last recommendation involved a process that may not be applicable to DYCD in the future.

DYCD's response to this report included both its comments to the report and additional documentation (attachments) relating to specific findings. DYCD agreed that those attachments were included for the auditors' benefit only and did not have to be appended to this report. Other than those attachments, the full text of DYCD's comments is included as an addendum to this report.

**OFFICE OF THE COMPTROLLER
NEW YORK CITY
DATE FILED: MAY 29, 2002**

FINDINGS AND RECOMMENDATIONS

DYCD generally complied with PPB Rules and Comptroller's Directives, as follows:

- purchase orders contained adequate specifications,
- there was no evidence of split purchases,
- purchase orders had the required signatures, and
- in most cases, purchases were made through Requirements Contracts, when available.

However, we found that in some instances DYCD's small procurement operation did not comply with provisions of the PPB rules and Comptroller's Directives, or with DYCD's own procedures, as discussed below.

Proof of Receipt Was Not Always Obtained Before Issuing Payments to Vendors

We reviewed 76 payment files directly related to the purchase orders we reviewed. We found that four (5%) of the 76 files lacked a signed receiving report or any other evidence to confirm that the goods or services were received. A receiving (or inspection) report contains the receipt date, the description and quantity of the goods or services received, and the identity of the receiving clerk; thus it constitutes written evidence of receipt and acceptance of property or services by an agency official.

Comptroller's Directive #24 states that inspection and receiving reports should be included in the payment file and reviewed to ensure that payment is made only for goods or services received.

Recommendation

The Department of Youth and Community Development should:

1. Ensure that proof of service for delivery of goods (i.e., receiving and inspection reports) is obtained before vendors are paid for goods and services received. These documents should be maintained in the payment files, in accordance with Comptroller's Directive #24.

DYCD Response: "DYCD has . . . implemented stronger controls to ensure that receiving reports are always signed and maintained in the files so that payments can be made based on affirmation that goods/services have been received."

Purchase Orders Were Prepared After Invoices Were Received

Two purchase orders were prepared after the invoices were received from the vendors. Purchase orders should always be prepared before delivery of goods and services and before payments to vendors for two reasons. First, the purchase order lists the items ordered and terms of the sale. If the purchase order is prepared after the item is received, that purpose of the purchase order is defeated. Second, and more importantly, a purchase order is the principal way that agencies encumber funds. Encumbering the funds, before payments are made, allows agencies to properly authorize and monitor expenditures.

Directive #25 states, pertaining to the encumbrance function, “Generally Accepted Accounting Principles for government require that commitments related to unperformed contracts or other purchase agreements for goods and services be recorded on the books of account by encumbering budgeted funds. . . .”

Recommendation

The Department of Youth and Community Development should:

2. Ensure that it always properly encumbers funds by preparing and processing purchase orders before items are purchased.

DYCD Response: Along with its response DYCD provided documentation to show why, in two cases, certain goods/services were received before purchase orders were prepared: In one case goods were received on a trial basis, and the other case was an emergency purchase. With regard to the two issues still cited in the report DYCD stated, “For Purchase Order 17993, the Planning, Research and Program Development department (PRPD) held a graduation ceremony for its Family Development Credentialing program for which photos were taking of the graduating class. PRPD submitted the request for purchase on 10/17/00, 13 days after the 10/4/00 graduation. PRPD was instructed at the time the request for purchase was received that this was not agency protocol and that they must submit a request for purchase in advance of the services being delivered. . . . For Purchase Order 22227, the Department was incorrect in processing a payment to a vendor for last-minute supplies.”

Auditor Comment: Based on documentation that DYCD attached to its response, we deleted from this report two examples of purchase orders issued after goods and services were received. Nevertheless, for the other two purchase orders, DYCD agreed that purchase orders should have been prepared prior to procuring goods and services.

Small Procurement Solicitation Practices Were Not Always in Compliance with Applicable City Rules and Regulations

Of the 76 small purchase orders we reviewed, ten were for amounts above the bid threshold of \$2,500, and thus required bids. Five of the ten files showed that only four bids, rather than the required five, were solicited. When we asked why only four bids were solicited, DYCD officials said that in all of those cases more than five bids were solicited, but that DCYD did not record the non-responsive bids on the tabulation sheets.

Of the 74 small purchase contracts that we reviewed, 70 were for discretionary contracts funded at the request of a City Council Member or Borough President. The remaining four were let in accordance with normal bidding requirements. Each of the four files contained lists of vendors from whom proposals were solicited and a copy of the proposal submitted by the winning vendor. In two instances only one proposal was received. In the other two instances, the files did not contain evaluations that rated each vendor who submitted proposals, and there were no copies of the proposals received from vendors who were not awarded contracts.

§ 3-08 of the PPB Rules requires that “For procurements in value over \$2,500 through the small purchase limits, at least five suppliers shall be solicited at random . . .”

Soliciting a smaller number of vendors than required reduces competition and may result in higher costs. Furthermore, contract files should include documentation of compliance with bidding rules, including the names of all vendors invited to bid, all bids or proposals received, and score sheets showing how the selected vendor was determined.

Recommendation

The Department of Youth and Community Development should:

3. Ensure that the required five vendors are always solicited for bids when purchases total \$2,500 or more, and that the bids are always documented.

DYCD Response: “DYCD has . . . instituted new procedures to ensure that all five bids are maintained in the files in the future. . . . The four contracts let in accordance with the normal solicitation requirements did not contain all of the necessary documentation as required by the PPB rules. In Fiscal 2002, the Department has instituted a new small purchase procedure, which in the future will ensure the Agency adheres to the PPB rules requirement for documentation.”

Purchase Requisitions Were Not Always Prepared

DYCD did not always prepare purchase requisition forms to identify the need for goods and services, as recommended by Comptroller's Directive #24. Of the 76 purchase order files in our sample, six did not include a purchase requisition and two contained a requisition that did not include the required signature.

Comptroller's Directive #24 states that the purchasing process should start with an internal requisition regardless of the cost of the item or whether the purchase is from an outside vendor or another City agency. Written purchase requisitions provide a permanent record of the source and specifications of the request and ensure that authorized agency personnel approve the purchase of all goods and services.

Recommendation

The Department of Youth and Community Development should:

4. Ensure that properly authorized purchase requisition forms are used for all procurements.

DYCD Response: In its response, DYCD included a copy of a memo sent to the DYCD staff. It stated, "I would like to remind everyone of the DYCD the procedure for small (under \$25,000) purchasing of non-stock items. A request for purchase form must be completely filled out, signed by a cabinet member and forwarded to me. Under no circumstance should anybody procure or make a commitment to a vendor for any type of purchase."

Some Invoices Paid Were Not Marked "Vouchered"

DYCD did not always stamp invoices "vouchered" when paid. We reviewed a sample of 76 purchase orders (with their related 258 invoices), and found that six of those purchase orders had a total of 21 invoices that were not marked "vouchered". For example, one purchase order file, for the services of an Executive Secretary, contained 37 invoices totaling \$24,999. However, only 25 invoices were marked "vouchered".

§ 9.5 (e) of Comptroller's Directive #24 states, "all parts of the voucher package should be marked vouchered." Although we did not find any instances in which duplicate payments were made, paid invoices not marked vouchered could result in duplicate payments.

Recommendation

The Department of Youth and Community Development should:

5. Ensure that employees mark all invoices “vouchered” to avoid duplicate payment.

DYCD Response: “Financial Management has reminded employees preparing invoice payments and supervisors approving invoices to strictly adhere to Comptroller’s Directive #24 Sec 9.5 to ensure that all parts of the invoices are marked vouchered.”

Incorrect Object Codes

DYCD used incorrect object codes for 15 (20%) of the 76 purchases we reviewed. The most frequent mistakes were using a general category when there was a more specific code that applied to the purchase, and using a supply code for equipment, or vice versa. For example, in three instances, DYCD used code 600 for purchase orders for training and examination fees. Code 600 is a general code for services not otherwise classified. DYCD should have used code 685, which is for education services. In another case, code 332 was used for the purchase of 20 laser-jet cartridges. Code 332 is for data processing equipment; code 199, for data processing supplies, should have been used.

Comptroller’s Directive #24 § 8.4 (b) (9) states that the reviewer should examine the accounting and budget codes used for each purchase to assure that the proper budget lines are charged. The use of the correct object code allows the agency to track expenses by category within a fiscal year and generate year-end reports that identify expenditure patterns. The use of incorrect object codes compromises management’s ability to plan future budgets.

Table I, on the following page, lists the 15 purchase orders for which an incorrect object code was used.

TABLE I

Incorrect Object Codes

PO #	Description	Amount	DYCD Code	Correct Code	Comments
09711	Reproduction & tri-fold of FDC brochure	\$345	600	615	Code 600 is for contracted services that are not otherwise classified. This PO was for printing services for which 615 is the code.
13659	Rental of bottled water coolers	\$720	412	403	Code 412 is for miscellaneous rentals. Code 403 specifically lists water cooler rental.
14177	Toner cartridges for xerox	\$510	100	101	Code 100 is for supplies not specifically listed in other codes. Code 101 is for printing supplies.
14916	20 laserjet toner cartridges	\$2,400	332	199	Code 332 is for equipment. Code 199 is for supplies.
16570	Multimedia projector and supplies	\$16,219	332	330	Code 332 is for data processing equipment. Code 330 is for instructional equipment, including audiovisual equipment.
17658	Transcribing services for various conferences	\$3,034	600	622	Code 600 is for services not otherwise classified. Code 622 specifically includes stenographic services.
18025	Replacement light bulb for multimedia projector	\$410	332	100	Code 332 is for purchase of data processing equipment. A light bulb constitutes supplies, not equipment and therefore falls into code 100.
18226	Cleaning both sides of 40 cubicle panels	\$960	600	624	Code 600 is for services not otherwise classified. Code 624 is for cleaning services.
20074	Various reproduction costs	\$2,498	600	615	Code 600 is for services not otherwise classified. Code 615 is for printing services.
20075	Various reproduction cost	\$2,499	600	615	Same as previous.
20429	FDC training & exam fees	\$4,400	600	685	Code 600 is for services not otherwise classified. Code 685 is for education services.
20432	FDC training fees	\$15,400	600	685	Same as previous.
20436	FDC training & exam fees	\$7,700	600	685	Same as previous.
21027	Literature file, 2 headphones	\$560	100	300	Code 100 is for supplies. Code 300 is for equipment.
21783	Posters	\$690	600	615	Code 600 is for services not otherwise classified. Code 615 is for printing services.
TOTAL	15	\$58,345			

Such pervasive use of incorrect codes can prevent DYCD from tracking expenditures by category during the year and may distort year-end reports. In addition, the use of incorrect object codes compromises management’s ability to plan future budgets.

Recommendation

The Department of Youth and Community Development should:

6. Ensure that its staff uses the correct object codes when recording expenses.

DYCD Response: “the Chart of Accounts that describes object codes is ambiguous. . . . the Comptroller’s Office recommended that PO 14177 for toner cartridges for a copier be coded as 101 for ‘printing supplies’; in contrast, the Comptroller’s Office recommended that PO 14916 for toner cartridges *for a printer* be coded as 199 for ‘supplies’. So the Comptroller’s Office

recommended Code 101 be utilized for toner cartridges for copier, but not for toner cartridges for a printer . . . DYCD suggests that the Chart of Accounts be updated to eliminate such ambiguities in the future. Further DYCD has directed staff to use specific codes for purchases where they are clearly applicable rather than general codes.”

Auditor Comment: We did not find the listing of object codes to be ambiguous. We did recommend that object code 101 be used for toner cartridges for the copier and object code 199 be used for toner cartridges for the printer. Object code 199 relates specifically to “Data Processing Supplies.” The description states that agencies should charge to this account all supplies associated with the operation of personal computers, printers, and data processing equipment. Therefore, 199 was appropriate for the toner cartridges for the printer, but not for the copying machine, which is not considered data processing equipment.

Many of the object codes that we cited as being incorrect were straightforward. For example, a purchase order for the rental of bottled water coolers was charged to object code 412 “Rentals – Miscellaneous Equipment” when it should have been charged to object code 403, which specifically lists water cooler rentals. Furthermore, in 10 of the 15 cases, a general code was used instead of a specific code. That is why DYCD stated (above) that its staff will henceforth “use specific codes for purchases where they are clearly applicable rather than general codes.”

Improper Use of Miscellaneous Vouchers

Our review of 28 miscellaneous vouchers issued by DYCD found that nine, totaling \$1,956,727, violated provisions of Comptroller’s Directive #25. The nine vouchers, eight in the amount of \$225,000 each and one in the amount of \$156,727, were each issued for payment to a Charter School.

DYCD should have paid the Charter Schools with a voucher issued against a purchase order. Directive #25 states, “Miscellaneous vouchers were created explicitly for vouchering payments in situations when agencies cannot pre-determine the amount which will be spent for certain payments.” It further states, “Whenever agencies can pre-determine the amount of the estimated liability or the frequency or duration of the expected payments to be made, Advices of Award, Purchase Orders or an Agency Encumbrance must be used to encumber the estimated liability. Miscellaneous vouchers must not be used when estimated or actual future liability is determinable.” Since DYCD knew beforehand of the expenses that would be incurred with the Charter Schools, purchase orders should have been used instead of miscellaneous vouchers.

The inappropriate use of miscellaneous vouchers contributes to the distortion of the City’s books of account by understating outstanding obligations. It is important for DYCD to ensure compliance with Directive #25, which is designed to limit agencies’ use of miscellaneous vouchers.

Recommendation

The Department of Youth and Community Development should:

7. Ensure that it does not use miscellaneous vouchers in cases in which purchase orders, agency encumbrances, or Intra-City vouchers are required.

DYCD Response: “All nine (9) of these miscellaneous vouchers cited were for the same program – the Charter School initiative – which DYCD does not now and did not then administer. For this Board of Education initiative, DYCD received a directive from the Office of Management and Budget, which was working with the Office of the NYC Comptroller, to process payments on behalf of this program. The Fiscal 2001 funding request for this program was sent to DYCD on July 3, 2001; therefore, DYCD did not have an adequate timeframe in which to issue a purchase order. The Department received direction to process these payments as miscellaneous vouchers and did so. DYCD does not have any information about processing such payments in the future and therefore does not anticipate the need for any further miscellaneous vouchers or purchase orders for this program.”

Auditor Comment: Although DYCD had a short time frame in which to process these payments, these payments still could have been made using purchase orders rather than miscellaneous vouchers. Moreover, DYCD supplied us with no documentation to show that the Mayor’s Office of Management and Budget or the Comptroller’s Office directed that these payments be made using miscellaneous vouchers.



DEPARTMENT OF YOUTH AND COMMUNITY DEVELOPMENT

156 William Street
New York, NY 10038
(212) 442-5900 FAX (212) 442-5998
TTY (212) 442-5903

JEANNE B. MULLGRAV
Commissioner

May 3, 2002

Roger D. Liwer, *Assistant Comptroller for Audits*
Office of the NYC Comptroller
1 Centre Street, Room 1100 North
New York, N.Y. 10007-2341

Dear Mr. Liwer:

On Tuesday, April 30, 2002 this agency received the Draft Comptroller's Office Audit Report on the Small Procurement and Vouchering Practices of the Department of Youth and Community Development (DYCD). We would like to thank you for working with us to identify possible improvements to our small procurement processes.

In general, we certainly agree with the audit findings, though would hope that you would re-evaluate your characterization in the Executive Summary on page 2, and in the Findings and Recommendations section on page 4 that states in the pertinent part:

"DYCD complied in *some* areas with PPB Rules and Comptroller's Directives in that purchase orders contained adequate specifications, there was no evidence of split purchases, purchase orders had the required signatures, *and in most cases, purchases were made through requirement contracts, when available*. However we found that in *many* instances DYCD's small procurement operation did not comply with certain provisions of the PPB rules and Comptroller's Directives, or with DYCD's own procedures..."

From our evaluation of the audit findings, DYCD complied in *most* areas with PPB Rules and Comptroller's Directives. For example, the findings indicated that:

- In 95 percent of the cases, DYCD prepared receiving reports;
- In 96 percent of the cases, DYCD prepared purchase orders before invoices were received;
- In 94 percent of the cases, DYCD maintained five bids in the files;
- In 95 percent of the cases, DYCD maintained necessary documentation for small purchase contracts;

May 3, 2002

- In 90 percent of the cases, DYCD prepared Small Purchase Forms; and
- In 92 percent of the cases, DYCD marked invoices as vouchered.

Moreover, we found that in only *some* instances, DYCD's small procurement operation required better controls to ensure that PPB Rules and Comptroller's Office Directives are strictly followed with no exceptions. For example, DYCD expects to implement stronger controls to bring the aforementioned areas to 100 percent of compliance. Further, DYCD would like to work with the Comptroller's Office to obtain an updated and more specific Chart of Accounts so that the object codes can be more specific (rather than the general ones utilized in 19 percent of the cases). And, DYCD does not expect to process any further miscellaneous vouchers for Charter Schools.

Please also note that in cases where DYCD did not make purchases from City requirement contracts it was because DYCD's Administrative Services/Purchasing department found less expensive options than the requirement contracts – in accordance with the Rules and benefiting City taxpayers. We hope that you will consider these comments for changes to the final report.

We have reviewed the Draft Report carefully and you will find our point by point responses to follow:

- *Proof of Receipt was not always obtained before issuing payments to vendors.* The Comptroller's Office stated that only five (5) files of the sample of seventy-six (76) files they reviewed lacked a receiving report. In evaluating these five, as documented at the Exit Conference, the Department noted that there is a receiving report for one of them, dated May 18, 2001, though the individual verifying the purchase neglected to sign the PO; however, this individual did sign and date the packing slip for the goods, indicating that he had reviewed and approved the goods received. Hence, there was a receiving report for this purchase order for toner, and DYCD did affirm that there was receipt of the goods before processing payment. In the future, DYCD will ensure that staff sign not just the packing slips, but also the receiving reports in 100 percent of the cases. [See attached documentation.]

In addition, the remaining four receiving reports all applied to the same one initiative – a program which provides scholarships and books to participants in the Department's Family Development Credentialing (FDC) program. The Planning, Research and Program Development (PRPD) department, which administers this initiative, is responsible for verifying that the individuals listed in the invoices did in fact receive the quantity of books and scholarships specified. They have been instructed that they must prepare a formal receiving report to certify that goods/services were received.

In most cases, DYCD did comply with PPBR and Comptroller's Directive #24 as it relates to proof of receipt prior to payment. DYCD has, however, implemented stronger controls to ensure that receiving reports are always signed and maintained

in the files so that payments can be made based on affirmation that goods/services have been received. When a receiving report is not available upon request, Financial Management places a Certification Stamp on the invoice and seeks a signed certification of the goods/services received from the authorized personnel verifying that the articles, or services, specified on the invoice have been received, or performed, and that the quantity and quality have been verified.

- *Purchase Orders were prepared after invoices were received:* The Comptroller's Office stated that four (4) purchase orders were prepared after the delivery of goods and services. The Department evaluated the files for these four (4) purchase orders and found the following: 1) For Purchase Order 17266, the Human Resources department received a training video on a trial basis to determine whether it met the needs of the agency on 9/20/00 with a confirmation of order which reads "This is not an invoice"; one week later, Human Resources determined that, after trials made, the video was appropriate and prepared the request for purchase, dated 9/27/00; based on that request for purchase, Administrative Services/Purchasing prepared the purchase order. Therefore, in this instance, the Department followed all appropriate protocols. 2) For Purchase Order 17993, the Planning, Research and Program Development department held a graduation ceremony for its Family Development Credentialing (FDC) program for which photos were taking of the graduating class. PRPD submitted the request for purchase on 10/17/00, 13 days after the 10/4/00 graduation. PRPD was instructed at the time the request for purchase was received that this was not agency protocol and that they must submit a request for purchase in advance of the services being delivered. 3) For Purchase Order 19887, the Department's Information Technology division had an emergency with one of the servers supporting the application that drives the agency's business processes. IT had a vendor come in to address the problem on 1/24/01. After a diagnoses, the vendor recommended a new power supply for the Compaq Proliant 5000 Server. IT then requested that the vendor repair the server with the necessary part and was charged for the part and for labor costs to install that part. With information about what part was needed, and how long it took to install that part, IT was able to submit a Request for Purchase on 1/31/01 with this information to Administrative Services so that a Purchase Order could be prepared on 2/4/01. Hence, the emergent need necessitated the delivery of the service prior to preparation of the purchase order. 4) For Purchase Order 22227, the Department was incorrect in processing a payment to a vendor for last-minute supplies required by the Youth Empowerment Services (YES) Commission. Please see attached documentation.
- *Small Procurement Solicitation Practices were not always in compliance with applicable City Rules and Regulations:* Of the 76 purchase orders, 5 of the 9 required bids. For these 5 bids, DYCD did have 4 bids in the file, missing only one of the required five. However, in all instances identified, the fifth bid was conducted verbally though DYCD did not maintain bid information that was solicited from these non-

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responsive vendors in the file. DYCD has, however, instituted new procedures to ensure that all five bids are maintained in the files in the future.

In addition, of the 74 small purchase contracts reviewed, 70 were for discretionary contracts, the remaining 4 were let in accordance with normal solicitation requirements. The four contracts let in accordance with the normal solicitation requirements did not contain all of the necessary documentation as required by the PPB rules. In Fiscal 2002, the Department has instituted a new small purchase procedure, which in the future will ensure the Agency adheres to the PPB rules requirement for documentation.

- *Purchase Requisitions were not always prepared:* Of the 76 files sampled, the Comptroller's Office identified six (6) where DYCD's required Purchase Requisition was not completed by staff, and two (2) where the Purchase Requisition was not signed by staff. Attached is documentation circulated by the Administrative Services/Purchasing department on May 1, 2002 reminding staff that they must complete a Purchase Requisition Form; staff had previously been advised to do so as well, per DYCD guidelines.
- *Some invoices were not marked "vouchered":* The Comptroller's Office found that eight (8) percent or 21 invoices of 258 reviewed (derived from the same sample of 76 purchase orders) were not stamped "vouchered". These 21 invoices were from six (6) purchase orders. Financial Management has reminded employees preparing invoice payments and supervisors approving invoices to strictly adhere to Comptroller's Directive #24 Sec 9.5 to ensure that all parts of the invoices are marked vouchered. However, as the Comptroller's Office noted, DYCD did not issue any duplicate payments.
- *Incorrect Object Codes:* The Comptroller's Office noted that DYCD should have utilized different coding for fifteen (15) of the seventy-six (76) purchases reviewed. As discussed at the Exit Conference, the Chart of Accounts that describes object codes is ambiguous. The document was last prepared by the Comptroller's Office seven (7) years ago, on July 14, 1995, and perhaps needs to be updated to eliminate this ambiguity. For example, the Comptroller's Office recommended that PO 14177 for toner cartridges for a copier be coded as 101 for "printing supplies"; in contrast, the Comptroller's Office recommended that PO 14916 for toner cartridges for a printer be coded as 199 for "supplies". So, the Comptroller's Office recommended Code 101 be utilized for toner cartridges for copier, but not for toner cartridges for a printer. Note that DYCD did not utilize Code 101 because DYCD does not have a formal operation for print media as many other City agencies do, and we believed that this Code applied to those operations.

Thus, the codes described in the Chart of Accounts may be universally confusing to auditors and auditees alike. DYCD suggests that the Chart of Accounts be updated

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to eliminate such ambiguities in the future. Further, DYCD has directed staff to use specific codes for purchases where they are clearly applicable rather than general codes.

- *Improper Use of Miscellaneous Vouchers:* The Comptroller's Office found that nine (9) of the total of twenty-eight (28) miscellaneous vouchers DYCD issued during this period violated Comptroller's Directive #25. All nine (9) of these miscellaneous vouchers cited were for the same program - the Charter School initiative - which DYCD does not now and did not then administer. For this Board of Education initiative, DYCD received a directive from the Office of Management and Budget, which was working with the Office of the NYC Comptroller, to process payments on behalf of this program. The Fiscal 2001 funding request for this program was sent to DYCD on July 3, 2001; therefore, DYCD did not have an adequate timeframe in which to issue a purchase order. The Department received direction to process these payments as miscellaneous vouchers and did so. DYCD does not have any information about processing such payments in the future and therefore does not anticipate the need for any further miscellaneous vouchers or purchase orders for this program. See attached documentation.

DYCD would like to thank the Comptroller's Office for its continuous communication with DYCD officials throughout the course of the audit. These discussions made us aware of areas for improvement and allowed us to implement corrective action plans immediately.

Please feel free to contact me directly or the Director of Internal Review, Maggie Slane at (212) 676-8216, if you have any questions or concerns.

Sincerely,



Jeanne B. Mullgrav
Commissioner

Attachments

- C: Michele F. Berman, *Deputy Commissioner for Administration*
Patricia A. Thomas, *Agency Chief Contracting Officer*
Debra Melito, *Director of Financial Management*
Gabriel Strol, *Director of Administrative/Purchasing Services*