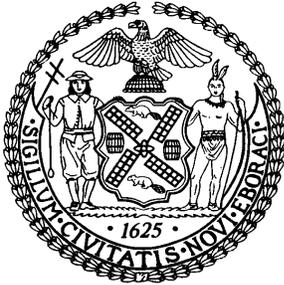


AUDIT REPORT



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

Audit Report on the Payroll, Timekeeping, and Purchasing Practices Of the Conflicts of Interest Board

MG04-129A

June 15, 2004



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 Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has examined the Conflicts of Interest Board payroll, timekeeping, and purchasing practices. The audit covered Fiscal Years 2003 and 2004 through April 16, 2004.

The results of our audit, which are presented in this report, have been discussed with the Conflicts of Interest Board officials, and their comments were considered in the preparation of this report.

Audits such as this provide a means of ensuring that the Conflicts of Interest Board and other city agencies comply with applicable personnel, payroll, timekeeping, and small procurement policies and procedures.

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: MG04-129A
Filed: June 15, 2004

Table of Contents

AUDIT IN BRIEF.....	1
Audit Findings and Conclusions	1
Audit Recommendations.....	2
COIB Response.....	2
INTRODUCTION.....	3
Background.....	3
Objectives.....	3
Scope and Methodology.....	3
Discussion of Audit Results.....	6
FINDINGS AND RECOMMENDATIONS.....	7
Physical Assets Inventory Records Required Updating.....	7
Recommendation.....	8
Two Management Employees’ Annual Salaries In Excess of Maximum Allowed Amount.....	9
Recommendations.....	9
ADDENDUM: COIB Response	

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

**Audit Report on the
Payroll, Timekeeping, and Purchasing Practices
Of the Conflicts of Interest Board**

MG04-129A

AUDIT IN BRIEF

This audit of the Conflicts of Interest Board (COIB) determined whether the COIB maintains adequate internal controls over its personnel, payroll, timekeeping, small purchases, and physical assets, in compliance with applicable City rules and regulations.

Audit Findings and Conclusions

Our audit determined that the COIB maintains adequate internal controls over its timekeeping, payroll, and small purchases. These controls are applied and adhered to on a consistent basis. With the exception of its physical assets inventory, we determined that in all material aspects, the COIB complied with the requirements outlined in Comptroller's Directives #1, #3, #6, #13, and #24, as well as with the PPB rule governing small purchases (Chapter 3, §3-08) and New York City leave regulations for managerial and non-managerial employees.

We determined that the COIB paid employees for the proper number of hours worked, and maintained properly executed and authorized leave forms and correctly processed leave transactions on employee PMS records. In addition, we determined that purchases were properly accounted for, and legitimate and necessary for COIB operations, and purchases made using the imprest fund were appropriately documented. Furthermore, the imprest fund checking account was properly reconciled on a monthly basis and all transactions were appropriately handled.

While we determined that for the most part the COIB's physical assets were satisfactorily safeguarded from theft, we determined that the COIB did not maintain a complete and accurate inventory of its physical assets. After advising COIB officials of our findings, they took appropriate actions to correct this weakness. Also, we found that the annual salaries for two management employees slightly exceeded the allowed maximum level, as established by the City's *Pay Plan Schedule For Management Employees* (PPME). These findings are discussed in greater detail in the body of this report.

Audit Recommendations

To address these issues, the audit made the three recommendations. The COIB should:

- Ensure that all changes to equipment (additions, deletions, relocation, etc.) are reflected in the agency's central equipment inventory record as they occur.
- Make the necessary payroll adjustments to ensure that employees are paid within established salary ranges.
- Ensure in the future that all salary changes remain within allowed limits.

COIB Response

The matters covered in this report were discussed with COIB officials during and at the conclusion of this audit. A preliminary draft report was sent to COIB officials and discussed at an exit conference held on May 5, 2004. On May 13, 2004, we submitted a draft report to COIB officials with a request for comments. We received a written response from COIB officials on May 21, 2004. In their response, COIB officials agreed with the audit's findings and recommendations, stating:

"The Conflicts of Interest Board ('COIB') agrees with the findings of the draft report and will comply with its recommendations . . . We thank you for the professional and courteous conduct of your staff during the course of this audit. As a small, non-mayoral agency we look to these audits as a means of ensuring that the COIB is conducting its business in accordance with Comptroller's Office regulations and procedures."

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

INTRODUCTION

Background

The Conflicts of Interest Board (COIB) was created by Chapter 68 of the New York City Charter¹ as the ethics board for the City of New York. The COIB is charged with interpreting and enforcing the Conflicts of Interest Law and the City's Financial Disclosure Law (Section 12-110 of the City's Administrative Code). As part of its operation, the COIB is responsible for educating City employees regarding ethical standards, issuing advisory opinions to prospective, current, and former City employees, reviewing current and prior opinions of its predecessor agency, the Board of Ethics, and receiving and reviewing financial disclosure statements.

The COIB consists of five board members who are appointed by the Mayor and confirmed by the City Council. These five board members serve staggered six-year terms. The mayor designates the Chairperson. For Fiscal Year 2004, the COIB adopted budget totals approximately \$1.5 million: Personal Services (PS) of \$1.33 million covering the salaries of up to 20 full-time employees; and Other Than Personal Services (OTPS) of \$173,493 for the purchase of supplies, materials, and services necessary to support agency operations. For Fiscal Year 2003, the COIB budget totaled approximately \$1.6 million; Personal Services (PS) of \$1.41 million covering the salaries of up to 21 full-time employees; and Other Than Personal Services (OTPS) of \$197,154.

The Mayor, the Comptroller, and various oversight agencies have established rules and regulations to maintain uniformity and standardize administrative, financial, and management procedures among all City agencies, and to ensure the integrity of the City's management and financial systems. The Comptroller's Internal Control and Accountability Directives (Comptroller's Directives) are a body of such rules and regulations that cover a broad array of management issues, internal controls, and procedures important to the efficient and effective operation of City agencies. The City's Procurement Policy Board promulgates rules governing City procurement and contracts. The Department of Citywide Administrative Services (DCAS) establishes leave regulations for managerial and non-managerial City employees. All City agencies are expected to comply with these various rules and regulations.

Objectives

The objective of this audit was to determine whether the COIB maintains adequate internal controls over its personnel, payroll, timekeeping, small purchases, and physical assets, in compliance with applicable City rules and regulations.

Scope and Methodology

The audit scope period was Fiscal Years 2003 and 2004 through April 16, 2004. To achieve our audit objective, we interviewed the COIB Director of Administration, the Deputy Director of Administration, and the Director of Management Information Systems to gain an understanding of the internal controls and processes over personnel, payroll, timekeeping, and purchasing activities, as well as the controls over physical assets. We assessed and determined the adequacy of the COIB's

¹ Revised New York City Chapter, effective January 1990.

internal controls. As part of our assessment, we reviewed COIB policies and procedures over personnel, payroll, timekeeping, purchasing, and inventory practices. We then reviewed these procedures for adequacy and determined whether the COIB consistently followed them. In addition, we reviewed the Fiscal Year 2003 Executive Budget, Chapter 25 of the Charter of the City of New York, and other relevant information to develop an understanding of the agency and its operations.

Tests of Personnel, Payroll, and Timekeeping Practices

As part of our review of the COIB personnel, payroll, and timekeeping practices, we reviewed the timekeeping records for the months of July 2002 and January 2004. We judgmentally selected these two months to determine whether the COIB had in force and maintained adequate controls over timekeeping and payroll on a consistent basis during Fiscal Years 2003 and 2004; we chose to test the beginning of Fiscal Year 2003 and the most current month (at time of testing) in Fiscal Year 2004. Our audit tests included a review of leave request forms and weekly time sheets for all managerial and non-managerial employees to determine whether the COIB maintained appropriate leave request documentation to support employee leave use. We also tested whether all leave request forms were properly approved and signed by supervisory personnel.

With the assistance of the Comptroller's Electronic Data Processing (EDP) Audit Group, we obtained a printout from the City Payroll Management System (PMS)² detailing payroll information—title, current salary, employment status, leave time charges and use—of all COIB employees during July 2002 and January 2004. We then reconciled the COIB employee leave records and biweekly payroll data entry forms to the PMS information to determine whether employee leave occurrences were charged to appropriate leave balances and entered in PMS accurately. We also obtained and reviewed a printout from PMS listing total leave charges for each employee by leave type and PMS codes³ for the period January 1, 2003, through December 31, 2003, to determine whether instances of leave use for the most recent calendar year were appropriately classified and within allowed limits.

Tests of Purchasing Practices

To assess COIB purchasing practices, we evaluated all payment vouchers for OTPS expenditures made during the months of June, July, and August 2003 to determine whether all expenditures for those months were charged to the correct fiscal year and to the appropriate budget codes. We judgmentally selected these months as they represented the transition from Fiscal Year 2003 to Fiscal Year 2004. We also determined whether all expenditures had supporting documentation (invoices and purchase orders), were properly approved and duly canceled upon payment. In addition, to determine the accuracy of the voucher amounts, we traced each voucher to the supporting purchase orders and invoices.

² PMS is operated by the Office of Payroll Administration, a joint agency of the Mayor and Comptroller. PMS maintains time and leave records, posts accruals and deductions, stores employee history information, calculates pay, and generates checks or electronic transfers on a weekly or biweekly basis.

³ There is an extensive list of codes used in PMS to classify and track various types of paid and unpaid employee leave, such as documented and undocumented sick leave, sick leave for a family member, annual leave, jury duty, and leave with no pay.

Tests of Imprest Fund Checking Account and Related Transactions

We reviewed the COIB imprest fund expenditures for the three months of November 2003 through January 2004. These months were judgmentally selected as they represented current periods from which we could determine whether account transactions were handled appropriately. We examined relevant supporting vouchers and receipts to determine whether the expenditures were permissible and within allowed amounts, and whether any duplicate payments were authorized. We also reviewed the bank statements for the period January 1, 2003, to January 31 2004, to determine whether the imprest fund account was reconciled on a monthly basis. Furthermore, we determined whether checks drawn on the account were all accounted for and were made payable to specified payees, not to “bearer” or “cash.”

Test of Controls over Physical Assets

To determine the adequacy of the COIB controls over its physical assets, we requested a copy of the COIB physical assets inventory. We obtained from COIB officials a report of the agency’s computer assets inventory and a copy of its office supply inventory. We initially reviewed the computer equipment inventory report to ascertain the quantity and types of equipment and the information (i.e., serial numbers, physical location, and equipment models) used to identify the assets contained therein. We then conducted a walkthrough of COIB offices to match equipment descriptions and location assignments with those on the inventory records. We checked desktop computers, monitors, and printers, but excluded computer keyboards and computer mice from our testing as they are low-cost items and easily replaceable. During our walkthrough, we also assessed the physical controls and safeguards over physical assets and determined whether all equipment was included in the inventory records.

We also reviewed the general controls over the office supplies storeroom; however, we did not test the accuracy of the office supply inventory records since they represented the total supply inventory as of June 30, 2003, and therefore did not reflect the current supplies inventory. Moreover, the supply inventory consisted of relatively inexpensive consumable products (pens, paper clips, light bulbs, copier toner, etc.).

Applicable Criteria

To evaluate the COIB controls over payroll, timekeeping, and small purchases, we used the following sources as audit criteria:

- Comptroller’s Directive #1, Internal Control Checklist
- Comptroller’s Directive #3, Procedures for the Administration of Imprest Funds
- Comptroller’s Directive #6, Travel, Meals, Lodging and Miscellaneous Agency Expenses
- Comptroller’s Directive #13, Payroll Procedures

- Comptroller’s Directive #24, Purchasing Function—Internal Controls
- New York City leave regulations for managerial and non-managerial employees
- Procurement Policy Board rules, Chapter 3, §3-08, Small Purchases
- Department of Investigation’s Standards for Inventory Control and Management, July 1992.

Tests of Computer Data Reliability and Integrity

We did not evaluate the reliability and integrity of the COIB computer-processed data, since all payroll and purchasing functions are processed through the City PMS and Financial Management System (FMS), which are audited and attested to by the City’s external auditors.

The results of the above tests, while not projectable to their respective population(s) provided us with a reasonable basis to assess the adequacy of the COIB’s internal controls over its personnel, payroll, timekeeping, small purchases, physical assets, and its compliance with applicable City rules and regulations.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other audit 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 COIB officials during and at the conclusion of this audit. A preliminary draft report was sent to COIB officials and discussed at an exit conference held on May 5, 2004. On May 13, 2004, we submitted a draft report to COIB officials with a request for comments. We received a written response from COIB officials on May 21, 2004. In their response, COIB officials agreed with the audit’s findings and recommendations, stating:

“The Conflicts of Interest Board (‘COIB’) agrees with the findings of the draft report and will comply with its recommendations . . . We thank you for the professional and courteous conduct of your staff during the course of this audit. As a small, non-mayoral agency we look to these audits as a means of ensuring that the COIB is conducting its business in accordance with Comptroller’s Office regulations and procedures.”

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

FINDINGS AND RECOMMENDATIONS

Our audit determined that the COIB maintains adequate internal controls over its timekeeping, payroll, and small purchases. These controls are applied and adhered to on a consistent basis. With the exception of its physical assets inventory, we determined that in all material aspects, the COIB complied with the requirements outlined in Comptroller's Directives #1, #3, #6, #13, and #24, as well as with the PPB rule governing small purchases (Chapter 3, §3-08) and New York City leave regulations for managerial and non-managerial employees.

Specifically, we determined that the COIB paid employees for the proper number of hours worked. With respect to employee annual and sick leave, the COIB maintained properly executed and authorized leave forms and correctly processed leave transactions on employee PMS records.

Based on our review of OTPS payment vouchers, purchase orders, and invoices, and of imprest fund transactions, we determined that: purchases were properly accounted for, and legitimate and necessary for COIB operations. We also determined that expenditures were charged to the proper budget and object codes; purchases made using the imprest fund included supporting documentation such as receipts and invoices; the imprest fund checking account was properly reconciled on a monthly basis, and checks were drawn to specific parties as opposed to "bearer" or "cash." In addition, we determined that all expense reimbursement request forms were properly completed, contained required employee and approval signatures, and were supported with required receipts and other documentation.

While we determined that for the most part the COIB's physical assets were satisfactorily safeguarded from theft, as discussed below, following our inventory observation, we determined that the COIB did not maintain a complete and accurate inventory of its physical assets. After advising COIB officials of our findings, they took appropriate actions to correct this weakness. We also found that the annual salaries for two management employees slightly exceeded the allowed maximum level, as established by the City's *Pay Plan Schedule For Management Employees* (PPME). These findings are discussed in greater detail in the following sections of this report.

Physical Assets Inventory Records Required Updating

The COIB maintains an inventory of its equipment. However, following our initial observation and testing of the equipment inventory, we determined that the inventory record did not include all of the agency's computer equipment and other high-cost electronic equipment and machinery. We also observed that the COIB uses pre-numbered identification tags to track its computer equipment; yet, not all equipment was assigned an identification tag and control number.

Department of Investigation's *Standards for Inventory Control and Management*, Standard No. 28, requires, "An inventory of durable goods must be maintained by each end-user." In addition, it states that "readable sturdy property identification tags (reading 'Property of the City of New York') with a sequential internal control number are assigned and affixed to valuable items." Further, the standard states that a central inventory record should be maintained, contain the internal control number tag assignments, and be updated to account for relocation of goods.

During our initial walkthrough of COIB offices on March 11, 2004, we determined that the COIB maintains adequate physical safeguards over its physical assets. However, out of a total of 153 equipment items, we identified 58 (34%) that were not recorded on the COIB central inventory list. Some items not recorded included shredders, fax machines, copiers, and computer monitors and servers; 54 of the 58 items lacked affixed pre-numbered identification tags. The MIS director maintained a separate supplemental record for the other four items (network printers) that were assigned identification numbers.

We discussed our findings with COIB officials. They stated that the exclusion of the equipment was an oversight and that they would update their equipment inventory records. Subsequently, on April 7, 2004, COIB provided us an Asset Inventory Listing that included 36 of the 58 items previously found to be omitted from the COIB inventory. There remained 22 items excluded from the COIB central inventory record. These items consisted of equipment in the agency's computer center.

On April 15, 2004, the COIB provided us an updated printout of its inventory database. Upon reviewing the report, we determined that, following the April 7 inventory listing, the COIB had once again updated its inventory database to include *all* equipment items and had assigned identification-control numbered tags to the equipment. Specifically, the COIB took corrective action to update its records to include the 58 equipment items that we initially determined were not recorded in the COIB inventory records, including computer equipment in the computer center.

We verified the accuracy of the information in the updated report. We compared earlier COIB inventory reports to the new April 15 report and found that the information was consistent, exclusive of that for the recently added equipment items. To determine the accuracy of the information on the recent updates, we judgmentally selected 17 (29%) of the 58 items on the April 15, 2004, inventory list and matched the equipment information (ID tag numbers, equipment type, location, and serial numbers) against the actual equipment. We found that in all instances the inventory record accurately reflected the equipment information.

We commend COIB for taking corrective action during the audit to update its records to accurately reflect its equipment inventory. Nevertheless, the COIB needs to ensure that going forward, the inventory records will be appropriately updated and accurately maintained. This will provide stronger controls and safeguards over the agency's equipment assets.

Recommendation

The COIB officials should:

1. Ensure that all changes to equipment (additions, deletions, relocation, etc.) are reflected in the agency's central equipment inventory record as they occur.

COIB Response: The COIB agreed, stating: "During the audit, we updated the agency inventory list to include all agency equipment. In the future, we will update this list whenever

new equipment is purchased or existing equipment is relocated. In addition, we will ensure that outdated equipment, removed for salvage, is eliminated from the inventory list.”

**Two Management Employees’ Annual Salaries
In Excess of Maximum Allowed Amount**

As reflected in Table I below, we found that the annual salaries for two COIB management employees exceeded the allowed maximum amount, given their respective assignment level, established by the PPME, effective since July 1, 2001.

Table I

Management Employees Paid in Excess of PPME Annual Salary Maximums

(a) Employee	(b) Assignment Level	(c) PPME Established Maximum	(d) Actual Annual Salary	(e) Amount in Excess
1	Level III	\$102,840	\$103,281	\$441
2	Level VIII	\$137,207	\$137,866	\$659

Minimum-maximum pay range scales are established for both management and non-management employees by the Department of Citywide Administration Services, Division of Personnel Management, for the purpose of ensuring salary uniformity for all City employees.

Recommendations

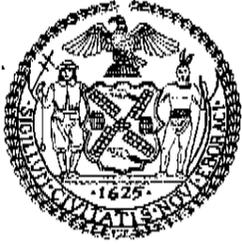
The COIB officials should:

2. Make the necessary payroll adjustments to ensure that employees are paid within established salary ranges.

COIB Response: The COIB agreed, stating: “We have corrected the managerial level for two employees on the PMS system.”

3. Ensure in the future that all salary changes remain within allowed limits.

COIB Response: The COIB agreed, stating: “In the future, we will ensure that all employees are paid within established salary ranges and that all salary changes remain within allowed limits.”



CITY OF NEW YORK
CONFLICTS OF INTEREST BOARD

2 Lafayette Street, Suite 1010

New York, New York 10007

(212) 442-1427

Fax: (212) 442-1455 TDD: (212) 442-1443

May 21, 2004

Greg Brooks
Député Comptroller
Policy, Audits, Accountancy
& Contracts
1 Centre Street
New York, NY 10007-2341

RE: Draft Audit Report
Audit Number: MG04-129A

Dear Mr. Brooks:

We are responding to your letter of May 13. The Conflicts of Interest Board ("COIB") agrees with the findings of the draft audit report and will comply with its recommendations, as follows:

1. Physical Assets Inventory Records Required Updating: *Ensure that all changes to equipment (additions, deletions, relocations, etc.) are reflected in the agency's central equipment inventory record as they occur.*

During the audit we updated the agency inventory list to include all agency equipment. In the future, we will update this list whenever new equipment is purchased or existing equipment is relocated. In addition, we will ensure that outdated equipment, removed for salvage, is eliminated from the inventory list.

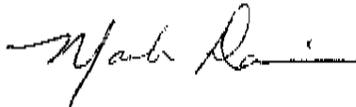
2. Two Management Employees' Annual Salaries In Excess of Maximum Allowed Amount: *Make the necessary payroll adjustments to ensure that employees are paid within established salary ranges.*

Ensure in the future that all salary changes remain within allowed limits.

We have corrected the managerial level for two employees on the PMS system. In the future, we will ensure that all employees are paid within established salary ranges and that all salary changes remain within allowed limits.

We thank you for the professional and courteous conduct of your staff during the course of this audit. As a small, non-mayoral agency we look to these audits as a means of ensuring that the COIB is conducting its business in accordance with Comptroller's Office regulations and procedures. The professional manner in which your staff conducted this audit greatly assisted us in meeting this goal.

Sincerely,



Mark Davies
Executive Director

C: Dorothy Baines, Audit Manager
Ute O'Malley