

AUDIT REPORT

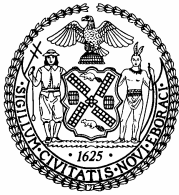


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Financial and Operating Practices of the City Civil Service Commission

MG08-099A

June 10, 2008



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 payroll, personnel, and purchasing practices of the City Civil Service Commission.

The City Civil Service Commission hears appeals both from disciplinary actions and from civil service employment decisions as the guardian of the City's merit system. Audits such as this provide a means of ensuring that City agencies comply with applicable payroll, personnel, and purchasing policies and procedures.

The results of our audit, which are presented in this report, have been discussed with officials from the City Civil Service Commission, and their comments were considered in the preparation of 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.
WCT/ec

Report: MG08-099A
Filed: June 10, 2008

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

**Audit Report on the
Financial and Operating Practices of the
City Civil Service Commission**

MG08-099A

AUDIT REPORT IN BRIEF

The audit determined whether the City Civil Service Commission (Commission) complied with applicable payroll, personnel, and purchasing procedures established by the agency, and those set forth in the Comptroller's Internal Control and Accountability Directives, New York City leave regulations, and Procurement Policy Board (PPB) rules. The Commission is a quasi-judicial body that hears appeals both from disciplinary actions and from civil service employment decisions as the guardian of the City's merit system. The Commission has five Commissioners, each appointed by the Mayor for a six year-term, and five employees.

The Comprehensive Annual Financial Report of the Comptroller (CAFR) for Fiscal Year 2007 reported actual expenditures of \$530,147 for the Commission, including \$463,471 for Personal Services and \$66,676 for Other Than Personal Services.

Audit Findings and Conclusions

We determined that the Commission generally complied with all City rules and regulations. However, our audit disclosed minor weaknesses in the Commission's purchasing practices, including that it: did not prepare purchase documents prior to the purchase of goods and services; did not document that purchased goods were received; and did not pay for purchases promptly. These conditions were not of sufficient materiality to detract from our overall opinion.

Audit Recommendations

To address these issues, we make four recommendations. The Commission should:

- Create a purchase document before the purchase of goods or services;
- Create one purchase document at the beginning of the fiscal year to encumber funds for services that will be periodically billed by one vendor;

- Ensure that receiving documentation for goods are certified and placed in its procurement files prior to making payments to vendors;
- Make payments to vendors within 30 days from the receipt of an invoice.

City Civil Service Commission's Response

In their response, Commission officials agreed with all four recommendations.

INTRODUCTION

Background

The Commission, guardian of the City's merit system, is a quasi-judicial body, authorized under Chapter 35, §813 of the New York City Charter. The Commission hears appeals both from disciplinary actions and from civil service employment decisions of the Commissioner of the Department of Citywide Administrative Services (DCAS) under three sections of the New York State Civil Service law: §50, §72, and §76. Commission officials told us that nearly 1,000 appeals were filed in Fiscal Year 2007: 90 percent were filed under §50 and almost all of the remaining appeals were filed under §76.

The Commission has five Commissioners, five full-time employees and three interns. Each Commissioner is appointed by the Mayor for a six year-term. In addition, each year one Commissioner is appointed to serve as Chairperson of the Commission. Commissioners are paid on a per diem basis, employees are salaried city workers, and interns are assigned from a paid work-study program.

The Comprehensive Annual Financial Report of the Comptroller (CAFR) for Fiscal Year 2007 reported actual expenditures of \$530,147 for the Commission, including \$463,471 for Personal Services and \$66,676 for Other Than Personal Services.

Objective

The objective of this audit was to determine whether the Commission complies with applicable payroll, personnel, and purchasing procedures established by the agency, and those set forth in the Comptroller's Internal Control and Accountability Directives, New York City leave regulations, and Procurement Policy Board (PPB) rules.

Scope and Methodology

The scope of this audit was Fiscal Year 2007. To achieve our audit objective, we interviewed officials and staff members of the Commission and conducted a walkthrough to gain an understanding of the internal control processes over payroll, personnel, purchasing, and inventory. For a general understanding of the roles of the Commissioners and Commission procedures, we also attended hearings on January 16, 2008 and on April 9, 2008. In addition, we reviewed the Fiscal Year 2007 CAFR and other relevant information to develop an understanding of the Commission's revenues and spending.

To evaluate its controls over personnel, payroll, purchasing, and inventory, we used the following sources as audit criteria:

- Comptroller's Directive 1, "Principles of Internal Control"
- Comptroller's Directive 13, "Payroll Procedures"

- Comptroller’s Directive 24, “Purchasing Function – Internal Controls”
- New York City Leave Regulations
- Conflicts of Interest Board’s (COIB) “Rules of the Board”
- Procurement Policy Board Rules
- Department of Investigation (DOI) Standards for Inventory Control and Management

We also reviewed the Comptroller’s Directive 1 Financial Integrity Statement for 2006 filed by the Commission on April 17, 2007, as well as the Commission’s response for those sections that applied to our audit objectives, including: Expenditures and Payables (E), Inventory (F), and Payroll and Personnel (G).

To determine whether the Commission complied with City leave regulations, we reviewed data from the City’s Payroll Management System (PMS) for all five full-time employees. We determined whether any employees carried excess leave balances and reviewed maximum or minimum salary ranges to determine whether all salaries were within the appropriate range. In addition, on March 20, 2008, we observed a payroll distribution to all employees, to ascertain whether all employees signed for their paychecks and payroll stubs. We also checked employee picture IDs to determine whether all employees were bona fide. Commission employees do not receive overtime or compensatory time.

To determine whether Commissioners and Commission employees are aware of the City’s conflicts of interest law, we reviewed training sign-in sheets and associated materials.

To evaluate the Commission’s purchasing practices, we used data from the City’s Financial Management System (FMS) and identified all payment vouchers issued by the office during Fiscal Year 2007. This included 64 purchases totaling \$66,676. To assess its purchasing practices, we examined all payment vouchers for the requisite approvals and authorizations, and for evidence that the transactions were for proper business purposes. We also determined whether each payment was correct, properly approved, promptly paid, and supported by adequate documentation (i.e., approval to purchase goods or services, certification that goods were received, and invoices stamped to prevent duplicate payment). In addition, we determined whether items were appropriately tagged and added to inventory when required. We also confirmed that the Commission does not use an Imprest Fund Account.

To determine the adequacy of the controls of the Commission over its physical assets, we interviewed an official in order to understand agency inventory policies and procedures. We obtained the agency’s current equipment inventory list of 92 items on April 8, 2007 and judgmentally selected nine items, including five items located in the Commission hearing room, two RIM Blackberries, and two laptop computers that were mainly used off-premises, to determine whether the items were on hand, tagged, and in the locations specified in the inventory records. In addition, on April 25, we judgmentally selected four equipment items located throughout the office, to determine whether the items were on the inventory list, in the specified locations, and tagged.

The City's external auditors review PMS and FMS as part of their annual audit of the City's financial statements. We therefore felt no need to specifically test the reliability and integrity of the payroll and purchasing data that we obtained from those systems.

The audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities 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 Commission officials during, and at the conclusion of, this audit. A preliminary draft report was sent to Commission officials and was discussed at an exit conference on May 7, 2008. On May 12, 2008, we submitted a draft report to Commission officials with a request for comments.

We received a written response from the Commission dated May 22, 2008. In their response, Commission officials agreed with all four recommendations stating that "the changes have already been implemented." The full text of the Commission response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

The Commission generally complied with applicable payroll, personnel, purchasing, and inventory policies and procedures. Specifically, we determined that all employees receiving pay were bona fide and those receiving paychecks signed for them. Employee salaries were within the salary ranges of their civil service titles and employees did not carry excess leave. In addition, Commissioners and all employees received conflict of interest training during the fiscal year.

We also determined that the Commission ensured that purchases were legitimate and necessary for its operations, properly accounted for, authorized, charged to the proper object codes, and properly solicited. In addition, physical assets were found on-site and tagged as property of the Commission, and inventory records were kept.

However, our audit disclosed that the Commission did not prepare purchase documents prior to the purchase of goods and services, did not document that purchased goods were received, and did not pay for purchases promptly. These conditions were not of sufficient materiality to detract from our overall opinion. Nonetheless, the details of the findings are discussed in the remaining sections of this report.

Purchase Documents Created After the Purchase of Goods and Services

Of the Commission's 63 purchases¹ in Fiscal Year 2007, which totaled \$65,692, we found that purchase documents, i.e. purchase orders (POs), were created after invoices were received for 41 purchases (65%), which represented \$52,253 (80%) of the purchases. Funds for purchases are not encumbered until a purchase order is created. A similar finding was reported in a previous audit of the Commission conducted by our office (Audit #FN04-124A, issued on February 28, 2005).

Comptroller's Directive 24, "Purchasing Function—Internal Controls" states that "Before the agency places an order with a vendor, a Purchase Document (PC, PCC, PD, PO) or an FMS Contract Document (CE, CT, CTC) must be entered in FMS." The directive goes on to state that "Purchase Documents and FMS Contract Documents reserve or encumber funds from the purchasing agency's budget." Therefore, the Commission should prepare all POs prior to placing orders for goods and services to ensure that funds are reserved for planned purchases.

In addition, we found that the Commission created separate POs to the same vendors for repeated purchases such as monthly subscriptions or maintenance and rental contracts. When the Commission has an annual agreement that is billed periodically, it should create a purchase document at the beginning of the fiscal year to encumber all the funds it has committed to the

¹ During Fiscal Year 2007, the Commission made 64 purchases, totaling \$66,676; however one intra-City purchase of paper from the Municipal Supplies Service for \$984.48 was excluded because it did not require a PO.

vendor and then issue multiple payments against that purchase document as it is periodically billed.

By using one purchase document, the Commission is also better able to determine which purchases² must follow stricter PPB rules. In Fiscal Year 2007, the Commission paid more than \$5,000 to five vendors.

In one case during Fiscal Year 2007, the Commission made 13 payments, not 12, to one vendor for a monthly subscription. We found the extra payment was made for services from the prior fiscal year. A Commission official confirmed that this extra payment should have been made in the prior year. Had the Commission utilized a single purchase document for this vendor each year, the missing payment would have been found during the prior year-end closing of FMS.

The Commission could improve the controls over its purchasing procedures and eliminate minor mistakes by encumbering funds prior to spending money, as well as encumbering funds for recurring purchases under one purchase document.

Recommendations

The Commission should:

1. Create a purchase document before the purchase of goods or services.
2. Create one purchase document at the beginning of the fiscal year to encumber funds for services that will be periodically billed by one vendor.

Commission Response: The Commission agreed.

Procurement Files Lack Certification of the Receipt of Goods

The Commission made 15 purchases of goods, totaling \$15,851, during Fiscal Year 2007, but none of the procurement files contained certification that the purchased goods were received. The physical inspection of goods received is required by §6.0 of Directive 24, which states that an agency must “ensure that goods or services have been received, and the receipt has been signed or approved by an authorized person” to ensure that the appropriate items purchased have been received. In addition, the §3-08 of the PPB rules states that “the procurement file for a small purchase shall include, at a minimum: invoice and receiving documentation.”

It is in the Commission’s best interest to certify the receipt of goods to avoid making payments for items that did not meet purchase document specifications, were not in working order, or were simply never sent by the vendor. Such certification should be documented by the Commission and filed in the procurement files.

² When purchases of goods or services from one vendor exceed \$5,000 in a fiscal year, §3.08 of PPB rules has stricter requirements on procurement solicitation methods and awards.

Recommendation

3. The Commission should ensure that receiving documentation for goods are certified and placed in its procurement files prior to making payments to vendors.

Commission Response: The Commission agreed.

Purchases Not Paid Promptly

The Commission did not pay vendors within 30 days for 15 (24%) of its 63 purchases. Section 4-06 of the PPB Rules⁽³⁾ requires that payments to vendors should be made within 30 days of the receipt of an invoice from the vendor. Late payments were mailed between 1 and 12 days after the 30 days had passed; however, the Commission did not have late fees charged by any of its vendors.

The Commission signed a contract for temporary legal assistance with one vendor, Yorkson Legal, Inc., in which the vendor specified that payment was due 15 days after the receipt of each weekly invoice. We found that none of the 15 invoices paid, totaling \$31,031, were mailed within the 15 days as stipulated by the contract. In fact, eight (53%) invoices were not even paid within 30 days as required by City rules.

By not paying its vendors within 30 days, the Commission is preventing the City from achieving its goal of efficiently and expeditiously processing contract payments so as to assure payment in a timely manner to firms and organizations that do business with the City.

Recommendation

4. The Commission should make payments to vendors within 30 days from the receipt of an invoice.

Commission Response: The Commission agreed.

³ The §4-06 of the PPB rules states: “The period available to an agency to make a timely payment of an invoice without incurring an interest penalty shall begin on the IRA [Invoice Received Acceptance] date . . . 30 days.”



New York City

CIVIL SERVICE COMMISSION

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Commissioner, Vice Chmn.

David S. Lande
Commissioner

Rudy Washington
Commissioner

Jose Maldonado
Commissioner

Norma I. Lopez
Director/General Counsel

May 22, 2008

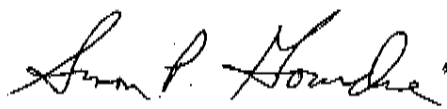
John Graham
Deputy Comptroller
NYC Office of the Comptroller
1 Centre Street
New York, New York 10007

Re: Draft Audit Report

Dear Mr. Graham:

Thank you for the opportunity to comment on the draft report issued to the Civil Service Commission ("Commission") on May 12, 2008. We are pleased that your review has determined that the Commission has generally complied with all City rules and regulations. We agree with the four recommendations made by the Audit regarding "minor weaknesses in purchasing practices" and the changes have already been implemented.

Very truly yours,


Simon P. Gourdine