

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

WILLIAM C. THOMPSON, JR.
Comptroller

**Audit Report on the
Small Procurement and Vouchering Practices
Of the Department of Cultural Affairs**

MJ02-115A

June 17, 2002

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

**Audit Report on the
Small Procurement and Vouchering Practices
Of the Department of Cultural Affairs**

MJ02-115A

EXECUTIVE SUMMARY

Background

The mission of the New York City Department of Cultural Affairs (DCLA) is to sustain and promote the cultural life of the City. DCLA represents and serves nonprofit cultural organizations and public-oriented science and humanities institutions. The department is an advocate and source of funding for those institutions. Among other things, it provides operational support to institutions in City-owned facilities.

DCLA spent \$1,059,084 for Other Than Personal Services (OTPS) direct agency purchases in Fiscal Year 2001. Of this amount, it spent \$471,691 on small procurements,¹ consisting of 134 purchase orders totaling \$403,895, two small contracts totaling \$37,211, and 112 miscellaneous vouchers totaling \$30,585.

Rules governing an agency's handling of small procurements are found in the City's Procurement Policy Board (PPB) Rules and the Comptroller's Directives. § 3-08 of the PPB Rules deals with small purchases, and Comptroller's Directives #6, #24, and #25 deal with miscellaneous agency expenses, internal controls over purchasing, and miscellaneous vouchers, respectively.

¹ Procurement Policy Board Rules define small procurements as purchases of: (1) goods and services of not more than \$25,000; (2) construction and construction-related services of not more than \$50,000; and (3) information technology of not more than \$100,000.

Objective

The objective of this audit was to determine whether DCLA complied with the PPB rules and Comptroller's directives governing small procurement and vouchering practices, and to verify the accuracy and propriety of payments the agency made to vendors for small OTPS purchases.

Scope and Methodology

The scope of the audit was Fiscal Year 2001.

We obtained and reviewed the City's annual financial statements to determine DCLA's OTPS budget, its actual expenditures, and the specific accounts it charged those expenditures to. We asked DCLA personnel to provide us with a list of all purchase orders, miscellaneous vouchers, and small contracts that they considered related to small purchases. We also obtained a printout of all OTPS general fund payments from the City's Financial Management System (FMS) for Fiscal Year 2001.

We obtained and reviewed the PPB Rules and Comptroller's Directives to determine the small procurement procedures that DCLA must follow. To gain an understanding of DCLA's small procurement operation, we interviewed personnel responsible for each phase of the procurement and vouchering process.

To determine whether DCLA complied with applicable regulations, we sampled 53 purchases totaling \$179,462 and performed compliance testing. To test DCLA's internal control structure regarding small purchases, we determined whether the duties for the requisition, preparation of purchase orders, approval, and processing of invoices functions were segregated, and whether they were performed by different individuals.

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. The audit was performed in accordance with the New York City Comptroller's audit responsibilities as set forth in §93, Chapter 5, of the New York City Charter.

Results in Brief

In some areas, DCLA complied with PPB Rules and Comptroller's directives when processing small purchases. Specifically, we found that DCLA: charged purchases to the correct object codes; used requirement contracts when available; and properly authorized and used miscellaneous vouchers.

However, there were a number of areas in which DCLA's small procurement practices did not comply with provisions of the PPB Rules and Comptroller's directives related to small purchases.

DCLA had no type of purchase requisitions (as recommended by Comptroller's Directive #24) in the purchasing files for 13 of the 26 purchase orders we reviewed. Without purchase requisitions, DCLA is limited in its ability to document that the specific goods and services requested by authorized personnel are purchased.

While DCLA generally did not artificially divide procurements to circumvent the PPB Small Purchase Rule, there was one instance in which it failed to use a competitive sealed bidding process to award a procurement in excess of the Small Purchase Rule \$25,000 threshold. DCLA purchased theater lighting totaling \$26,493.14 from the same vendor by issuing three purchase orders.

At the exit conference, DCLA officials stated that they do not consider this to be one procurement, because the purchases were made on behalf of three different institutions. We disagree with that contention. Although the requests originated from three different institutions, the purchase orders were generated from one location (DCLA). Accordingly, DCLA should have treated these requests as one procurement. Officials further stated that they cannot anticipate when different institutions will request similar goods and services at the same time. However, DCLA issued the purchase orders for the theater lighting on the same day. Therefore, it knew or should have known that the total value of these purchases exceeded the small purchase limits and should have used a competitive sealed bidding process, as required.

Five of the 26 of the purchase orders reviewed lacked adequate specifications—such as a description of goods or services and the unit price, or the address of the supplier—as required by Comptroller's Directive #24.

For 18 of the 53 sampled purchases, invoices were not marked "Vouchered" when payments were made, as required by Comptroller's Directive #24.

DCLA's purchasing files contained evidence that the agency solicited bids for purchases in which bids were required by PPB Rules. However, the files contained no evidence that bids were solicited from the required minimum of five vendors. This limited the agency's ability to obtain a competitive price.

The voucher packages for all 26 purchases contained the proper certifications required by Comptroller's Directive #24. However, 25 of the packages had inadequate documentation to support payments to vendors. Twenty-two packages lacked documentation that the goods were received (a receiving report), and five packages lacked a complete purchase order. Two voucher packages contained neither a receiving report nor a complete purchase order.

DCLA had inadequate segregation of duties over some aspects of the purchasing and payment functions. For all 26 purchase orders reviewed, the person who prepared the purchase order was the same person who prepared the payment vouchers. DCLA officials stated that due to the size of the agency, they do not have a large enough staff to adequately segregate the purchasing and vouchering functions. However, a representative from the City's Financial Information Services Agency told us that her agency had previously informed DCLA that it had enough staff to comply with the Comptroller's Directives regarding segregation of duties and is therefore not exempted from this requirement.

Recommendations

The audit resulted in ten recommendations to DCLA, some of which are listed below. DCLA should:

- Ensure that it follows the competitive solicitation requirements in the PPB Rules for any procurement that exceeds the small purchase limits.
- Ensure that purchase orders contain adequate specifications to document the exact terms of purchases.
- Ensure that it solicits a minimum of five bids for all small purchases exceeding \$2,500, as required by the PPB Rules.
- Ensure that it receives a receiving report for all goods received.
- Reconcile receiving reports to purchase orders and invoices as part of each Pre-Audit Certification required by Comptroller's Directive #24 before making payments to vendors.

DCLA Response

The matters covered in this report were discussed with DCLA officials during and at the conclusion of this audit. A preliminary draft report was sent to DCLA officials and was discussed at an exit conference on May 13, 2002. On May 21, 2002, we submitted a draft report to DCLA officials with a request for comments. We received a written response from DCLA on June 6, 2002. In its response, DCLA generally agreed to comply with the audit's recommendations. However, the agency disagreed with our finding that it failed to obtain competitive sealed bids for a procurement that exceeded small purchase limits. The full text of DCLA's comments is included as an addendum to this report.

Table of Contents

INTRODUCTION	1
Background	1
Objective	2
Scope and Methodology.....	2
DCLA Response.....	3
FINDINGS AND RECOMMENDATIONS.....	4
Correct Object Codes	4
RECOMMENDATION	5
Miscellaneous Vouchers were Properly Authorized and Used.....	5
Requirement Contracts Were Used When Available.....	5
Weaknesses in DCLA’s Small Procurement Operation.....	6
Lack of Purchase Requisitions	6
RECOMMENDATION	6
DCLA Did Not Obtain Competitive Sealed Bids As Required by the PPB Small Purchase Rule For a Procurement totaling \$26,493.....	7
RECOMMENDATION	10
Some Purchasing Documents Contained Inadequate Specifications	10
RECOMMENDATION	11
Invoices were not Stamped “Vouchered” when Payment was Made	11
RECOMMENDATION	11
The Minimum of Five Vendors Were Not Solicited, As Required By PPB Rules.....	11
RECOMMENDATIONS.....	12
Voucher Packages Contained Insufficient Documentation to Support Payments	12
RECOMMENDATIONS.....	13
Inadequate Segregation of Duties	14
RECOMMENDATION	14
ADDENDUM	

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

**Audit Report on the
Small Procurement and Vouchering Practices
Of the Department of Cultural Affairs**

MJ02-115A

INTRODUCTION

Background

The mission of the New York City Department of Cultural Affairs (DCLA) is to sustain and promote the cultural life of the City. DCLA represents and serves nonprofit cultural organizations and public-oriented science and humanities institutions including zoos, botanical gardens, and historical and preservation societies. The department is an advocate and source of funding for those institutions. Among other things, it provides operational support to institutions in City-owned facilities. It also provides capital funds for design and construction services and equipment for institutions in both City-owned and non-City-owned facilities. In addition, it provides program funding for arts organizations.

DCLA spent \$1,059,084 for Other Than Personal Services (OTPS) direct agency purchases in Fiscal Year 2001. Of this amount, it spent \$471,691 on small procurements,² consisting of 134 purchase orders totaling \$403,895, two small contracts totaling \$37,211, and 112 miscellaneous vouchers totaling \$30,585.

Rules governing an agency's handling of small procurements are found in the City's Procurement Policy Board (PPB) Rules and the Comptroller's Directives. § 3-08 of the PPB Rules deals with small purchases, and Comptroller's Directives #6, #24, and #25 deal with miscellaneous agency expenses, internal controls over purchasing, and miscellaneous vouchers, respectively.

² Procurement Policy Board Rules define small procurements as purchases of: (1) goods and services of not more than \$25,000; (2) construction and construction-related services of not more than \$50,000; and (3) information technology of not more than \$100,000.

Objective

The objective of this audit was to determine whether DCLA complied with the PPB rules and Comptroller's directives governing small procurement and vouchering practices, and to verify the accuracy and propriety of payments the agency made to vendors for small OTPS purchases.

Scope and Methodology

The scope of the audit was Fiscal Year 2001.

We obtained and reviewed the City's annual financial statements to determine DCLA's OTPS budget, its actual expenditures, and the specific accounts it charged those expenditures to. We used the supporting schedules of the financial statements to determine the specific accounts to which DCLA charged its OPTS expenditures.

We asked DCLA personnel to provide us with a list of all purchase orders, miscellaneous vouchers, and small contracts that they considered related to small purchases. We also obtained a printout of all OTPS general fund payments from the City's Financial Management System (FMS) for Fiscal Year 2001. We compared the two lists for completeness.

We obtained and reviewed the PPB Rules and Comptroller's Directives to determine the small procurement procedures that DCLA must follow. To obtain an understanding of DCLA's small procurement operation, we interviewed personnel responsible for each phase of the procurement and vouchering process. From this information, we designed and conducted a walk-through and prepared a narrative of the small procurement operation that enabled us to identify the internal controls in place, as well as the flow of documents.

To determine whether DCLA complied with applicable regulations, we sampled 53 purchases totaling \$179,462 and performed compliance testing. We reviewed the supporting documentation for each transaction sampled 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
- Purchases were made through requirements contracts, when available
- Miscellaneous vouchers were used correctly
- Correct object codes were used
- Receiving reports were obtained before vouchers were paid
- Invoices were stamped "vouchered" when payment was made

To test DCLA's internal control structure regarding small purchases, we determined whether the duties for the requisition, preparation of purchase orders, approval, and processing of invoices functions were segregated, and whether they were performed by different individuals.

Table I, below, lists the individual categories of purchases and the corresponding sample items we selected and examined.

TABLE I

Categories of Purchases and the Corresponding Sample Selected

Category Description	Population		Sample	
	Number of Items	Dollar Amount	Number of Items	Dollar Amount
Purchase Orders	134	\$403,895	26	\$131,732
Small Contracts	2	\$37,211	2	\$37,211
Miscellaneous Vouchers	112	\$30,585	25	\$10,519
Total	248	\$471,691	53	\$179,462

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. The audit was performed in accordance with the New York City Comptroller's audit responsibilities as set forth in §93, Chapter 5, of the New York City Charter.

DCLA Response

The matters covered in this report were discussed with DCLA officials during and at the conclusion of this audit. A preliminary draft report was sent to DCLA officials and was discussed at an exit conference on May 13, 2002. On May 21, 2002, we submitted a draft report to DCLA officials with a request for comments. We received a written response from DCLA on June 6, 2002. In its response, DCLA generally agreed to comply with the audit's recommendations. However, the agency disagreed with our finding that it failed to obtain competitive sealed bids for a procurement that exceed small purchase limits. The full text of DCLA's comments is included as an addendum to this report.

**OFFICE OF THE COMPTROLLER
CITY OF NEW YORK**

DATE FILED: June 17, 2002

FINDINGS AND RECOMMENDATIONS

In some areas, the Department of Cultural Affairs (DCLA) complied with PPB Rules and Comptroller's directives when processing small purchases. Specifically, we found that DCLA:

- charged purchases to the correct object codes;
- used requirement contracts when available; and
- properly authorized and used miscellaneous vouchers.

However, there were a number of areas in which DCLA's small procurement practices did not comply with provisions of the PPB Rules and the Comptroller's directives related to small purchases. Specifically, we found that DCLA:

- did not obtain purchase requisitions from cultural institutions before placing purchase orders;
- did not use a competitive sealed bidding process to award a procurement that exceeded PPB Small Purchase Rule limits;
- did not have adequate specifications in some purchasing documents;
- did not obtain the required number of bids for purchases over \$2,500;
- did not mark all invoices as "vouchered" when paying vendors;
- did not obtain receiving reports for goods received; and
- did not adequately segregate the purchasing and vouchering functions among different persons.

These findings are discussed in detail in the following sections of the report.

Correct Object Codes

DCLA generally used the correct object codes for its expenses, as required by Comptroller's Directive #24. For the 53 purchases reviewed, DCLA used the correct code for 49 (92%).

Comptroller's Directive #24, § 8.49 states:

"The reviewer should examine the accounting and budget codes used and determine that they are correct—the proper fund should be charged."

The City's Chart of Accounts lists the object codes to be used for specific categories. It is important to charge purchases to the correct object codes because this allows agencies to categorize expense types and the amounts spent for those types within a fiscal year. It also allows an agency to identify expenditure patterns. Using incorrect object codes can hinder management's ability to properly plan future budgets.

To determine whether DCLA used correct object codes, we examined the accounts that DCLA charged for the 53 purchases sampled. Of the 53 purchases, DCLA used the correct object codes for 49. For the remaining four items, two, which the agency incorrectly charged to

office services, were for professional services; one, which the agency charged to temporary services, was for cleaning services; and one, which the agency charged to other equipment, was for general construction in a building.

Recommendation

1. DCLA should ensure that its staff uses the correct object codes when recording purchase orders and miscellaneous vouchers.

Agency Response: “DCLA agrees with this recommendation. As stated in the Report, we have complied with this requirement in almost every instance and will take steps to ensure continued compliance in the future.”

Miscellaneous Vouchers Were Properly Authorized and Used

Based on our review of 25 sampled vouchers, DCLA properly authorized and used miscellaneous vouchers in accordance with Comptroller’s Directive #25.

Comptroller’s Directive #25, § 2.3 states:

“Miscellaneous Vouchers may be used only when estimated or actual future liability is not determinable and an Advice of Award, Purchase Order or Agency Encumbrance is not required or applicable.”

Miscellaneous vouchers would be appropriate for small purchases of supplies, carfare, payments to pension funds, and employee reimbursements for out-of-pocket expenses.

To determine whether DCLA properly used miscellaneous vouchers, we reviewed a sample of 25 vouchers totaling \$10,519. All 25 vouchers were used appropriately: they were used for allowable purposes, were properly prepared and approved, and were charged to the correct object codes.

Requirement Contracts Were Used When Available

None of the sampled purchase orders were used to purchase items otherwise available through requirement contracts. Accordingly, it appears that DCLA generally used requirement contracts when appropriate.

To reduce the cost to City agencies for certain commodities that are commonly used, the Department of Citywide Administrative Services (DCAS) enters into requirement contracts with vendors on behalf of the City. Requirement contracts allow City agencies to purchase items directly from vendors or, if available, directly from the DCAS storehouse, without having to enter into contracts or go through a bid solicitation process.

In an August 1995 memorandum to agency heads, the DCAS Commissioner reminded agencies that commodities on requirement contracts must be purchased under requirement contracts. To determine whether DCLA complied with this policy, we reviewed the sampled purchase orders and miscellaneous vouchers and requirement contract list to determine whether any items purchased were available through requirement contracts.

For 25 of the 26 purchase orders reviewed, none were used to purchase items available through requirement contracts. One purchase order was used to purchase an item through a State requirement contract.

Weaknesses in DCLA's Small Procurement Operation

While DCLA's small procurement and vouchering operation was in compliance with City regulations in the areas discussed above, there were some weaknesses. Specifically, DCLA (1) did not always use purchase requisitions to support purchase orders, (2) did not adequately segregate the purchasing and vouchering functions, (3) did not use a competitive sealed bidding process to award a procurement that exceeded PPB Small Purchase Rule limits, (4) did not enter purchase specifications on all purchase orders, and (5) did not obtain receiving reports for goods received.

Lack of Purchase Requisitions

DCLA had no type of purchase requisitions (as recommended by Comptroller's Directive #24) in the purchasing files for 13 of the 26 purchase orders we reviewed.

Comptroller's Directive #24, § 4.0, states:

“It is recommended that the purchasing cycle start with the preparation of an internal requisition for all purchases, regardless of the amount or whether from an outside vendor or from another City agency.”

The purchasing files for 13 of the 26 sampled purchase orders contained some sort of purchase requisition (either a formal document or an e-mail message). For the other 13, DCLA officials stated that representatives from cultural institutions requested goods and services by phone.

Purchase requisitions provide a permanent reference source to facilitate the review and approval process, and provide some of the specifications that are needed in developing the purchase orders. Without purchase requisitions, DCLA is limited in its ability to document that the specific goods and services requested by authorized personnel are purchased.

Recommendation

2. DCLA should make sure that it obtains a purchase requisition, or a similar document, from the unit or institution making the request, indicating specific goods or services needed, before preparing purchase orders.

Agency Response: “So as to comply with Recommendation No. 2 in the future, DCLA will ask cultural organizations awarded capital appropriations for the purchase of goods and equipment to send us a written request specifying the items to be purchased.”

DCLA Did Not Obtain Competitive Sealed Bids as Required by the PPB Small Purchase Rule for a Procurement Totaling \$26,493

While DCLA generally did not artificially divide procurements to circumvent the PPB Small Purchase Rule, there was one instance in which it failed to use a competitive sealed bidding process to award a procurement in excess of the Small Purchase Rule dollar threshold.

DCLA purchased theater lighting totaling \$26,493.14, from the same vendor by issuing three purchase orders. (The lighting was for three different institutions.) The purchase orders were each at or below the small purchase threshold of \$25,000 for goods and services. However, when added together by specific items ordered, by vendor, and by date issued, the purchase orders exceeded those limits. By not combining these purchases, DCLA violated § 3-08 of the PPB Rules (the Small Purchase Rule), which prohibits the artificial dividing of contracts to keep their value below small purchase limits. In addition, if DCLA had properly treated these purchases as one procurement, it would have had to award a contract under the more competitive provisions of §3-02 of the PPB Rules, which requires, among other things, public advertisement of the opportunity to bid on a contract.

The purpose of the Small Purchase Rule is to enable procurements that fall within the small purchase limits to be achieved more expeditiously than under the rules for competitive sealed bids and competitive sealed proposals.³ However, utilization of the Small Purchase Rule permits a diminution of open competition since, unlike the rules for competitive sealed bids and competitive sealed proposals, the Small Purchase Rule allows an agency to seek bids from no more than five suppliers for one procurement without publicly advertising its need for the particular goods, service, or construction.

Procurement in New York State is governed by § 103 of the General Municipal Law (GML). That section provides that the award of purchase contracts and contracts for public works over a specified monetary threshold is to be made to "the lowest responsible bidder . . . after advertisement for sealed bids".

In its interpretation of § 103 of the GML, the New York State Comptroller's Office maintains that where it is known or can be reasonably anticipated that the aggregate amount to be expended on the same or similar goods or services during a fiscal year will exceed the monetary

³ Respectively, pursuant to §3-02 and §3-03, respectively, of the PPB Rules.

threshold, procurements must follow the competitive sealed bid process, including the requirement for public advertising.⁴

Table II below shows the instance we found in which DCLA artificially divided this procurement in a manner that kept it below the sealed competitive bid threshold, thereby avoiding the more competitive provisions of §3-02 of the PPB Rules.

TABLE II

Purchases Kept Under \$25,000 Sealed Competitive Bid Threshold

Vendor	Purchase Order	Date of Purchase	Type of Item	Purchase Amount
Big Apple Lights	00000021313	5/14/01	Theater Lighting	\$8,151.32
	00000021315	5/14/01	Theater Lighting	\$8,284.32
	00000021316	5/14/01	Theater Lighting	\$10,057.50
TOTAL				\$26,493.14

In that instance, DCLA purchased theater lighting from Big Apple Lights and filled out three purchase orders totaling \$26,419.14 on the same day.

At the exit conference, DCLA officials disagreed with this finding. They stated that they do not consider this to be one procurement because the purchases were made on behalf of three different institutions, each with its own budget. Officials further stated that it was a coincidence that those services were requested by different institutions at the same time, with the result that the overall value exceeded the small purchase dollar threshold. Officials stated that they cannot anticipate when different institutions will request similar goods and services at the same time, and that they do not believe it is feasible to delay placing an order made by one institution to determine whether other institutions will place similar orders.

We disagree with DCLA’s contention that these purchases should not be classified as one procurement. Although the requests originated from three different institutions, the purchase orders were generated from one location (DCLA). Accordingly, DCLA should have treated these requests as one procurement. Moreover, we are not persuaded by DCLA’s contention that it cannot anticipate when similar purchase requests made by different institutions will exceed the small purchase limits, especially with respect to the instance cited above. As shown in Table II, DCLA did not have to anticipate when similar purchases were made by different institutions, for it issued the purchase orders for the theater lighting on the same day. It knew, or should have known, that the total value of these purchases exceeded the small purchase limits and should have used a competitive sealed bidding process, as required.

By not combining these purchases, DCLA was able to award the purchase orders without going through a full competitive sealed bid process. This includes, among other things, requirements for public advertisement so that all interested vendors have an opportunity to

⁴ 1991 Opns St Comp No. 91-64, p 169, 170; 1980 Opns St Comp No. 80-415, p120.

submit bids. To encourage broad-based competition from all segments of the vendor community, it is important that DCLA not artificially divide procurements and that DCLA follow the competitive solicitation requirements in the PPB Rules.

DCLA Response: In the DCLA response, officials generally agreed with the recommendation associated with this finding but disagreed with the finding itself. DCLA officials stated:

“[DCLA] agrees with this recommendation, but as stated in the Report, we differ with the Comptroller’s Office conclusion that the small purchase limit was exceeded in the case of the theater lighting purchases cited in the Report. Just to repeat our position on this issue, these purchases were funded by three different capital appropriations and were intended for three separate cultural organizations, each of which made its request independent of the others. Additionally, each purchase was made on the basis of independent bids obtained by the organization for which the relevant purchase was made.

“Had we combined these purchases into one procurement, we would have been required to refer such procurement to the Department of Citywide Administrative Services (DCAS) which, due to the volume of its workload, customarily takes at least six months to complete a given transaction. Furthermore, while we have not verified our position with DCAS, we believe that DCAS would have concurred in our view that three separate purchases were involved and refused to take on the responsibility of purchasing this equipment.

“We are particularly concerned with this recommendation in that we believe it to be impractical, and would not serve the interests of the organizations we serve. Aggregating purchases that are similar in nature would require that we delay the transaction until all of the organizations involved are ready to receive and use the equipment, thus negating our ability to respond to the individual scheduling needs of our constituency. Furthermore, as illustrated by the case cited by the Report where the combined value of three purchases at issue amounted to a little over \$26,000, in some instances we might be compelled to first go through the small purchase process for each purchase to determine whether in fact the limit of \$25,000 would be exceeded. This to us seems both inefficient and a duplication of effort.”

Auditor Comments: Regarding DCLA’s contention that these were three separate purchases, we maintain that DCLA, and not the three institutions, was the purchasing entity. As such, DCLA should have treated the theater lighting purchases as one procurement. DCLA is not allowed to ignore the PPB Rules because of the length of time needed to complete procurement. If the normal DCAS processing time was too long, and DCLA believed that the anticipated need for the theater lighting was compelling and time sensitive, it should have complied with the requirements of the Negotiated Acquisition Rule in the procurement of this lighting. Please note, also, that DCLA should have been aware at the beginning of the fiscal year that these institutions planned to purchase lighting. As officials told us during the course of the audit, each of the cultural institutions submits to DCLA a list of the items that it plans to purchase during the fiscal

year. Accordingly, DCLA could have petitioned DCAS to procure lighting services for all institutions that needed them that year.

Finally, we disagree with DCLA's argument that implementing this recommendation would be impractical and a duplication of effort. First, as stated above, DCLA should have been aware of the purchasing needs for each institution in advance of the fiscal year and therefore should have planned its procurement needs accordingly. Second, treating similar purchase requests as one procurement does not require that all of the goods be delivered to the cultural institutions at the same time. The terms of the procurement can be specified so that the goods are delivered according to the scheduling needs of each institution. Accordingly, our finding remains.

Recommendation

3. DCLA should ensure that it follows the competitive solicitation requirements in the PPB Rules for any procurement that exceeds the small purchase limits.

Agency Response: "DCLA agrees with this recommendation, but as stated in the Report, we differ with the Comptroller's Office conclusion that the small purchase limit was exceeded in the case of the theater lighting purchases cited in the Report."

Some Purchasing Documents Contained Inadequate Specifications

Some purchasing documents did not contain adequate specifications, in accordance with Comptroller's Directive #24, for 5 of the 26 of the purchase orders reviewed.

Comptroller's Directive #24 states that purchase orders are intended to document the exact items ordered and restate the conditions of sale. Purchase orders are used to record encumbrances for purchases, are a permanent record documenting purchases of goods and services, and facilitate the review and approval of payments during the vouchering function. Purchase orders should therefore include, at a minimum, the following:

- Vendor name and address
- Description of goods or services
- Quantity purchased
- Unit price

To determine whether DCLA complied with the directive, we examined the 26 sampled purchase orders. DCLA personnel approved all 26 purchases. However, the purchase orders for five of them did not contain adequate information, such as a description of goods or services and the unit price, or the address of the supplier. (The other 21 purchase orders contained adequate information.) Furthermore, DCLA had no purchase requisitions on file for four of the five purchases. Without a purchase requisition and purchase order, DCLA would be hindered when it reviews voucher packages to ensure that the specific goods or services received were actually requested.

Recommendation

4. DCLA should ensure that purchase orders contain adequate specifications to document the exact terms of purchases.

Agency Response: “We agree with this recommendation and, as stated in the Report, were in compliance in the case of 21 of the 26 purchases reviewed by the Comptroller's Office. . . . We will recommend that the form of purchase order contained in FMS be revised to reflect the information recommended by the Report, and in the meantime, we will prepare purchase orders by hand so that this information is contained in the file.”

Invoices were not Stamped “Vouchered” When Payment was Made

DCLA did not always stamp invoices “Vouchered,” in accordance with Comptroller’s Directive #24, when payments were made.

Comptroller’s Directive #24, § 9.5 (e) states that all parts of the voucher package should be marked “Vouchered,” to ensure that an agency does not make duplicate payments to a vendor. All documents associated with a purchase, such as the purchase order, invoice, and receiving report, are included in a voucher package.

To determine whether DCLA stamped invoices as vouchered, we reviewed the voucher packages for 53 sampled purchases. The invoices for 18 of the 53 purchases were not marked “Vouchered,” as required.

Recommendation

5. DCLA should ensure that it marks all parts of voucher packages, including invoices, as “Vouchered” to help prevent duplicate payments to vendors.

Agency Response: “We agree that vouchers once paid should be marked ‘Vouchered’ and have taken steps to ensure that this is done in the future.”

The Minimum of Five Vendors Were Not Solicited, As Required By PPB Rules

DCLA’s purchasing files contained evidence that the agency solicited bids for purchases in which bids were required by PPB Rules. However, the files contained no evidence that bids were solicited from the required minimum of five vendors. This limited the agency’s ability to obtain a competitive price.

PPB Rules state that agencies must solicit bids for purchases exceeding \$2,500 but less than the small-purchase limit. To determine whether DCLA complied with this requirement, we reviewed the 26 sampled purchase orders. Of the 26 purchase orders reviewed, 15 were not

subject to bidding requirements: five were less than the \$2,500 bidding threshold; two were sole-source purchases, three were purchased through New York State requirement contracts; and five represented payments related to other contracts. Purchasing files contained evidence that bids were solicited for all of the 11 other purchases.

However, DCLA did not consistently solicit the number of bids required by the PPB Rules. According to §3-08 of the PPB Rules, when a purchase exceeds \$2,500 but is less than the small-purchase limit, agencies must solicit bids (either oral or written) from at least five vendors, and at least two of them must be responsive. However, DCLA purchasing files indicate that no more than three bids⁵ were solicited by the requesting party in 10 of the 11 purchases.

To comply with the PPB Rules, DCLA should solicit a minimum of five bids for small purchases over \$2,500, and document those solicitations in its purchasing files.

Recommendations

DCLA should:

6. Ensure that it solicits a minimum of five bids for all small purchases exceeding \$2,500, as required by the PPB Rules.
7. Ensure that all bid solicitations are documented in the purchasing files.

Agency Response: “We agree with these recommendations and already comply with Recommendation No. 6. However, in the case of the purchases reviewed by the Comptroller's Office, we have not in the past always documented the number of bids solicited and those instances where the potential bidder did not respond. In the future, DCLA will ensure that we properly document the number of bids solicited and those instances where a prospective bidder did not respond.”

Voucher Packages Contained Insufficient Documentation to Support Payments

While the voucher packages for the sampled purchases in which payments were made contained the proper certifications, as required by Comptroller's Directive #24, many of them contained insufficient documentation to support payments to vendors.

The vouchering process includes certifications signifying that the voucher package has been properly reviewed and approved before payment is made. The Pre-Audit Certification acknowledges that the voucher and its supporting documentation (voucher package) have been reviewed. The Departmental Certification confirms that the expenditure is necessary and reasonable. The Agency Verification for FMS Processing indicates that the voucher can be

⁵ PPB Rules allow an agency to solicit fewer than five bids if there are fewer than five vendors providing the goods or services solicited; however, the files contained no evidence to indicate that this was the case.

submitted to FISA for payment. Comptroller's Directive #24 requires that the voucher package include all documentation (i.e., purchase order, invoice, and receiving report) supporting the purchase. § 3-08 of the PPB Rules also identifies items that should be in the purchasing file:

“Record. The procurement file for a small purchase shall include, at a minimum:
. . . date of contract award; purchase order or contract number; name and address of supplier; . . . invoice and receiving documentation; description of goods, services, construction.”

The voucher packages for all 26 purchases contained the proper certifications. However, 25 of the packages had inadequate documentation: 22 packages lacked documentation that the goods were received (a receiving report), and five packages lacked a complete purchase order. Two voucher packages contained neither a receiving report nor a complete purchase order.

DCLA officials stated that they usually verbally verify that the goods were received by calling the recipient. They said they use the vendor's invoice as the point of reference. However, the agency is required to reconcile the purchase order and the signed receipt to the voucher as part of the Pre-Audit Certification. Comptroller's Directive #24, §8.1, states that agencies are required to physically inspect goods upon receipt, prior to payment, to ensure that they meet purchase order or contract specifications. Failure to obtain a receiving report for goods received weakens an agency's internal controls over the receipt of goods and services.

Recommendations

DCLA should:

8. Ensure that it obtains a receiving report for all goods received.
9. Reconcile receiving reports to purchase orders and invoices as part of each Pre-Audit Certification required by Comptroller's Directive #24 before making payments to vendors.

Agency Response: “In the case of internal agency purchases, we believe that we are in compliance with these recommendations in that we ask a representative from the unit for whom the purchase is made to provide written confirmation on the invoice that the goods have been received. Alternatively, we sometimes use the packing slip sent with the item for this purpose. As to purchases made for our cultural organization, in almost every instance, the items purchased are shipped directly to the organization. In the future, we will ask the organization receiving the item to fill out and return to DCLA the receiving report section contained in the purchase order prepared for that purchase.”

Inadequate Segregation of Duties

DCLA had inadequate segregation of duties over some aspects of the purchasing and payment functions. For all 26 purchase orders reviewed, the person who prepared the purchase order was the same person who prepared the payment vouchers. This is in violation of Comptroller's Directive #24, *Purchasing Function - Internal Controls*.

Comptroller's Directive #24, § 8.2 states:

“To prevent errors and to safeguard assets, individuals performing the purchasing, receiving, and vouchering functions should be independent of each other.”

To determine whether DCLA complied with the directive, we examined the signatures and titles of the persons authorized to prepare and approve purchase orders, receive goods purchased, and prepare payment vouchers. For all 26 purchases, the person who prepared the purchase order was the same person who prepared the payment voucher.

We discussed this issue with DCLA. Officials stated that due to the size of the agency, they do not have a large enough staff to adequately segregate the purchasing and vouchering functions. Officials told us that in 1999 they petitioned the City to grant DCLA an exemption from certain procurement requirements based on the agency's size, such as adequate segregation of duties. (Officials showed us copies of memos they sent to the Comptroller's and Mayor's Offices regarding this issue.) However, a representative from the City's Financial Information Services Agency told us that her agency had previously informed DCLA that it had enough staff to comply with the Comptroller's Directives regarding segregation of duties and is therefore not exempted from this requirement.

Recommendation

10. DCLA should adequately segregate the purchasing and vouchering functions among different individuals, as required by Comptroller's Directive #24.

Agency Response: “We will again review Comptroller's Directive #24 to determine the best way of complying with these requirements given our existing staff resources. . . . As our staff has not expanded since the time we originally made this request, we may once again pursue small agency status after completing our review of Comptroller's Directive #24.”



CITY OF NEW YORK DEPARTMENT OF CULTURAL AFFAIRS

330 West 42nd Street
New York, NY 10036
phone: 212.643.7770
fax: 212.643.7780 / 7781 / 7715

www.nyc.gov/hlm/dclao

KATE D. LEVIN COMMISSIONER

June 5, 2002

Mr. Roger D. Liwer
Assistant Comptroller for Audits
Office of the Comptroller
Bureau of Audits
2 Centre Street, Room 1100
New York, New York 10007-2341

Re: **Audit Report on the Small Procurement and Vouchering Practices
Of the Department of Cultural Affairs
MJ01-115A**

Dear Mr. Liwer:

I am writing on behalf of the Department of Cultural Affairs (DCLA) in response to the May 21, 2002 draft of the above report (the Report).

Background

Just as a technical correction to the summary description of DCLA's mission contained in the Introduction, DCLA does not provide capital design services for the organizations it serves. Rather, DCLA provides capital funds for design as well as construction services.

Recommendation No. 1: DCLA should ensure that its staff uses the correct object codes when recording purchase orders and miscellaneous vouchers.

DCLA agrees with this recommendation. As stated in the Report, we have complied with this requirement in almost every instance and will take steps to ensure continued compliance in the future.

Recommendation No. 2: DCLA should make sure that it obtains a purchase requisition, or a similar document, from the unit or institution making the request, indicating specific goods or services needed, before preparing purchase orders.

In responding to this recommendation, we would like first to provide a bit of context. DCLA purchases items both for its own internal purposes and for use by a cultural organization for whose benefit City capital dollars have been appropriated to buy the item in question. With regard to items purchased for internal agency use, DCLA does require that the unit requesting these items make a written request specifying what is to be bought. However, in making a purchase for one of our cultural organizations, we have not previously thought it necessary to ask the organization to submit a written request for the following reasons: First, in our view, the request we make to the Office of Management and Budget for a Certificate to Proceed serves the purpose of a purchase requisition as such request specifically lists and provides details concerning the items to

be purchased. Additionally, as a rule, these items are identified by the organization in making its request for a City appropriation to fund the purchase.

So as to comply with Recommendation No. 2 in the future, DCLA will ask cultural organizations awarded capital appropriations for the purchase of goods and equipment to send us a written request specifying the items to be purchased.

Recommendation No. 3: DCLA should ensure that it follows the competitive solicitation requirements in the PPB Rules for any procurement that exceeds the small purchase limits.

DCA agrees with this recommendation, but as stated in the Report, we differ with the Comptroller's Office conclusion that the small purchase limit was exceeded in the case of the theater lighting purchases cited in the Report. Just to repeat our position on this issue, these purchases were funded by three different capital appropriations and were intended for three separate cultural organizations, each of which made its request independent of the others. Additionally, each purchase was made on the basis of independent bids obtained by the organization for which the relevant purchase was made.

Had we combined these purchases into one procurement, we would have been required to refer such procurement to the Department of Citywide Administrative Services (DCAS) which, due to the volume of its workload, customarily takes at least six months to complete a given transaction. Furthermore, while we have not verified our position with DCAS, we believe that DCAS would have concurred in our view that three separate purchases were involved and refused to take on the responsibility of purchasing this equipment.

We are particularly concerned with this recommendation in that we believe it to be impractical, and would not serve the interests of the organizations we serve. Aggregating purchases that are similar in nature would require that we delay the transaction until all of the organizations involved are ready to receive and use the equipment, thus negating our ability to respond to the individual scheduling needs of our constituency. Furthermore, as illustrated by the case cited by the Report where the combined value of three purchases at issue amounted to a little over \$26,000, in some instances we might be compelled to first go through the small purchase process for each purchase to determine whether in fact the limit of \$25,000 would be exceeded. This to us seems both inefficient and a duplication of effort.

In fact, DCLA goes out of its way to ensure that a competitive process is used in making small purchases for our cultural organizations. As a general rule, in addition to having the organization for which we are making the purchase obtain bids, we also do our own bidding process. First, based on the specifications for the product, we select five vendors from the VendorSource Centralized Bidders' List maintained by the Mayor's Office of Contracts (MOC). We then send the specifications to the vendors selected with a request that they bid on the purchase (a Vendor Outreach report is sent to MOC). Additionally, our Agency Chief Contracting Officer puts the purchase through the Bid Match system maintained at the Department of Business Services. These additional processes were not used in the case of the three purchases cited in the report in that, at that time, the Bid Match system was down and the Centralized Bidders List was not yet

in place. However, as stated above, it is our general policy to follow these procedures in the case of small procurements.

Recommendation No. 4: DCLA should ensure that purchase orders contain adequate specifications to document the exact terms of purchases.

We agree with this recommendation and, as stated in the Report, were in compliance in the case of 21 of the 26 purchases reviewed by the Comptroller's Office. We believe that the 5 purchases deemed non-compliant involved instances where the purchase orders contained in the file were generated through the City's Financial Management System (FMS). At this point in time, there are not sufficient fields in the purchase order form contained in FMS to enable us to include all of the information recommended by the Report--thus, compliance with Recommendation No. 4 requires that we generate a duplicate purchase order by hand. We will recommend that the form of purchase order contained in FMS be revised to reflect the information recommended by the Report, and in the meantime, will prepare purchase orders by hand so that this information is contained in the file.

Recommendation No. 5: DCLA should ensure that it marks all parts of voucher packages, including invoices, as "Vouchered" to help prevent duplicate payments to vendors.

We agree that vouchers once paid should be marked "Vouchered" and have taken steps to ensure that this is done in the future.

Recommendation No. 6: DCLA should ensure that it solicits a minimum of five bids for all small purchases exceeding \$2,500, as required by the PPB Rules.

Recommendation No. 7: DCLA should ensure that all bid solicitations are documented in the purchasing files.

Response to Recommendation Nos. 7 and 8: We agree with these recommendations and already comply with Recommendation No. 6. However, in the case of the purchases reviewed by the Comptroller's Office, we have not in the past always documented the number of bids solicited and those instances where the potential bidder did not respond. In the future, DCLA will ensure that we properly document the number of bids solicited and those instances where a prospective bidder did not respond.

Recommendation No. 8: DCLA should ensure that it obtains a receiving report for all goods received.

Recommendation No. 9: DCLA should reconcile receiving reports to purchase orders and invoices as part of each Pre-Audit Certification required by Comptroller's Directive #24 before making payments to vendors.

Response to Recommendation Nos. 8 and 9:

In the case of internal agency purchases, we believe that we are in compliance with these recommendations in that we ask a representative from the unit for whom the purchase is made to provide written confirmation on the invoice that the goods have been received. Alternatively, we sometimes use the packing slip sent with the item for

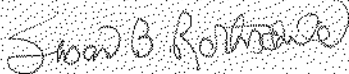
this purpose. As to purchases made for our cultural organizations, in almost every instance, the items purchased are shipped directly to the organization. In the future, we will ask the organization receiving the item to fill out and return to DCLA the receiving report section contained in the purchase order prepared for that purchase.

Recommendation No. 10: DCLA should adequately segregate the purchasing and vouchering functions among different individuals, as required by Comptroller's Directive #24.

We will again review Comptroller's Directive # 24 to determine the best way of complying with these requirements given our existing staff resources. As stated in the Report, we had previously requested small agency status from MOC, the City's Financial Information Services Agency and the Comptroller's Office because at that time we did not believe we had adequate personnel to fully comply (we do not have a record of receiving a response to this request from any agency). As our staff has not expanded since the time we originally made this request, we may once again pursue small agency status after completing our review of Comptroller's Directive #24.

If you have any questions concerning this response, please feel free to contact me at (212) 643-3924. Thank you for giving us the opportunity to respond to the findings and recommendations of the Report.

Sincerely yours,



Susan B. Rothschild
Deputy Commissioner

cc: Kate D. Levin