

# AUDIT REPORT



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

## **Audit Report on Expenditures for Other Than Personal Services By the New York County District Attorney's Office**

*MJ05-132A*

**December 22, 2005**



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 audited the New York County District Attorney's Office to determine whether it had adequate controls over its Other Than Personal Services expenditures to ensure that they were valid and that payments were correctly executed.

The City supports the five District Attorneys' Offices by providing yearly tax-levy appropriations; the District Attorneys use these funds for general operating expenses. We audit such organizations to ensure that City funds are expended appropriately and in accordance with established procedures and safeguards.

The results of our audit, which are presented in this report, have been discussed with District Attorney's Office officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at [audit@Comptroller.nyc.gov](mailto: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: MJ05-132A**

**Filed: December 22, 2005**

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

**Audit Report on Expenditures for  
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**AUDIT REPORT IN BRIEF**

This audit determined whether the New York County District Attorney's Office had adequate controls over its Other Than Personal Services (OTPS) expenditures to ensure that they were valid (i.e., for proper business purposes) and that payments were correctly executed. The scope of this audit covered the period July 1, 2004, through June 30, 2005 (Fiscal Year 2005).

**Audit Findings and Conclusions**

We determined that the District Attorney's Office has adequate controls in place to ensure that OTPS expenditures are valid and correctly executed. We also found that the District Attorney's Office generally complied with the City's purchasing guidelines as stated in the Procurement Policy Board (PPB) rules and the *Comptroller's Internal Control and Accountability Directives* (Comptroller's Directives). The District Attorney's Office followed the Comptroller's Directives relevant to purchasing and processing vouchers. It also had established proper controls that provided assurance that proper segregation of duties exists among recording, authorizing, and maintenance of custody. We also determined that goods and services purchased were reasonable expenditures related to the duties of the District Attorney's Office.

However, we identified three weaknesses in District Attorney's Office controls. The District Attorney's Office used miscellaneous vouchers for some purchases that should have been made through purchase orders, did not always obtain bids as required, and did not have a consolidated procurement procedures manual.

**Audit Recommendations**

We made three recommendations to the New York County District Attorney's Office that it should:

- Limit the use of miscellaneous vouchers to those purchases in which the estimated or actual expenditures cannot be determined, in accordance with Comptroller's Directive #24.
- Obtain bids for purchases over \$5,000, in accordance with PPB rules.
- Document its procurement process in a consolidated procurement procedures manual.

## INTRODUCTION

### **Background**

Under the New York State Constitution, District Attorneys are constitutional officers elected every four years. Under the State's County Law, the City's five District Attorneys protect the public by investigating and prosecuting criminal conduct in their respective counties and enforce the provisions of the penal law and other statutes. Their principal activities include preparing information and gathering resources for court hearings, and presenting trial and appeal cases in court.

The PPB rules contain guidelines for the City's purchasing functions. The Comptroller's Directives contain guidelines that cover a broad array of management issues, internal controls, and procedures important to the efficient and effective operation of City agencies, including guidelines for City purchasing.

During Fiscal Year 2005, Other Than Personal Services (OTPS) expenditures for the New York County District Attorney's Office (District Attorney's Office) were \$6,744,345, as recorded in the City Financial Management System.<sup>1</sup>

### **Objective**

Our audit objective was to determine whether the New York County District Attorney's Office had adequate controls over its OTPS expenditures to ensure that they were valid (i.e., for proper business purposes) and that payments were correctly executed.

### **Scope and Methodology**

We reviewed the District Attorney's Office OTPS purchases for Fiscal Year 2005 (July 1, 2004, through June 30, 2005), the scope of this audit.

We reviewed previous Comptroller's audits of the District Attorney's Office to determine whether there were any reportable conditions identified in those audits that called for follow-up. These audits were: *Audit Report on the Financial and Operating Practices of the New York County District Attorney's Office July 1, 1995 to June 30, 1997* (FP97-175A, issued December 9, 1997) and *Follow-up Audit of the Financial and Operating Practices of the New York County District Attorney's Office, July 1, 1998, to June 30, 1999* (FP00-086F, issued October 18, 2000). No reportable conditions were identified relating to our current audit's objective.

To obtain a general understanding of the procedures and regulations with which the District Attorney's Office is required to comply, we reviewed the following documents:

- PPB rules, §3-08, "Small Purchases"
- Comptroller's Directive #1, "Principles of Internal Control"

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<sup>1</sup> As of July 11, 2005.

- Comptroller’s Directive #3, “Procedures for the Administration of Imprest Funds”
- Comptroller’s Directive #24, “Agency Purchasing Procedures and Controls”

We requested and obtained the following materials from District Attorney’s Office officials:

- Organizational chart
- Fiscal Year 2005 Modified Budget
- Chart of Accounts used in the City’s Financial Management System (FMS)
- List of employees with access to FMS, and their authorization levels
- List of authorized signatories on invoices and checks

To obtain an understanding of the District Attorney’s Office purchasing procedures and controls, we spoke with those persons responsible for overseeing the purchasing function, including requisition, purchasing, authorization, and payment.

The persons we interviewed included:

- Administrative Assistant District Attorney
- Fiscal Director
- Fiscal Deputy Director
- Director of Operations
- Fiscal Assistants
- Deputy Management Information Services (MIS) Director

To determine whether OTPS payments made by the District Attorney’s Office were valid and correctly executed, we selected a sample of payments to review. We obtained from FMS a list of all payments made by the District Attorney’s Office in Fiscal Year 2005. In Fiscal Year 2005, the District Attorney’s Office processed 4,030 vouchers covering 4,980 payments totaling \$6,744,345. Based upon our analysis, we noted that the sum of payments totaling \$250 or more represented more than 96 percent of the total dollars. We therefore excluded payments totaling less than \$250 from our test population. This brought our test population to 2,588 payments totaling \$6,515,848. From this population, we selected a random sample of 203 items totaling \$427,294.<sup>2</sup> In addition, we judgmentally selected for review the four largest-value payments in the population. These totaled \$782,426, bringing our total sample to 207 payment vouchers totaling \$1,209,720. The breakdown of these payment vouchers is as follows:

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<sup>2</sup> The size of our sample was intended to allow us the option of projecting our sample results to the entire population at meaningful confidence and precision levels.

- 104 payment vouchers totaling \$537,175;
- 99 miscellaneous payment vouchers totaling \$670,627; and
- four reimbursement vouchers totaling \$1,918.<sup>3</sup>

For these sampled purchases, we obtained all of the available documentation to determine whether the appropriate purchasing, receiving, and payment controls existed. We determined whether:

- purchase documents were appropriately prepared and approved;
- bids were solicited, when required;
- authorizations were present for all required documents;
- vouchers had sufficient documentation (e.g., receiving report, invoice) to support payment;
- miscellaneous vouchers were used correctly;
- correct object codes were used; and
- goods and services purchased were reasonable expenditures related to the duties of the District Attorney's Office.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

### **Discussion of Audit Results**

The matters covered in this report were discussed with District Attorney's Office officials during and at the conclusion of this audit. A preliminary draft report was sent to those officials and was discussed at an exit conference on November 16, 2005. On November 17, 2005, we submitted a draft report to District Attorney's Office officials with a request for comments. We received a written response from District Attorney's Office officials on December 2, 2005. In their response, the District Attorney's Office officials agreed with the audit's recommendations.

The full text of the District Attorney's Office officials' response is included as an addendum to this report.

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<sup>3</sup> Payment Vouchers are used to make payments on Purchase Documents or FMS Contract Documents for general purchases from external vendors. Miscellaneous Payment Vouchers are used for general purchases made without Purchase Documents or FMS Contract Documents, for example, when establishing an Imprest Fund account. Miscellaneous Payment Vouchers are to be used on a limited basis when the estimated or actual future liability is not determinable. Reimbursement Vouchers are used to reimburse (replenish) an Imprest Fund account.



## FINDINGS

The District Attorney's Office has adequate controls in place to ensure that OTPS expenditures are valid and executed correctly. We also found that the District Attorney's Office generally complied with the City's purchasing guidelines as stated in the PPB rules and the Comptroller's Directives. The District Attorney's Office followed the Comptroller's Directives relevant to purchasing and processing vouchers. It also had established proper controls that provided assurance that proper segregation of duties exists among recording, authorizing, and maintenance of custody. We also determined that goods and services purchased were reasonable expenditures related to the duties of the District Attorney's Office.

However, we identified three weaknesses in District Attorney's Office controls. The District Attorney's Office used miscellaneous vouchers for some purchases that should have been made through purchase orders, did not always obtain bids as required, and did not have a consolidated procurement procedures manual.

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

### **Purchase Documents Were Appropriately Prepared and Approved**

Our examination of the District Attorney's Office records revealed that the purchasing staff properly used purchase orders in encumbering agency funds. Further, the sampled purchase orders were properly processed and authorized by District Attorney's Office personnel.

The purpose of a Purchase Document, or purchase order, is to notify a vendor of the exact items ordered and to record the accounting transaction associated with the purchase. As stated in Comptroller's Directive #24, §4.1, "General Functions of Purchasing Documents": "Purchase Documents and FMS Contract Documents reserve or encumber funds from the purchasing agency's budget, close Requisitions, and reclassify the pre-encumbrance as an encumbrance. . . . Purchase Documents or FMS Contract Documents must be entered and accepted in FMS before a Payment Voucher can be entered and accepted to initiate vendor payment. Payment Vouchers written against an FMS Contract Document or a Purchase Document liquidate the encumbrance and record the expenditure." In addition, Purchase Documents provide the agency with a permanent record to document the purchase of goods or services and facilitate the review and approval process by agency personnel during the vouchering function.

Section 3-08 of the PPB rules states, in part: "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, and construction-related services. . . ."

Our sample of 104 payment vouchers totaling \$537,175 was related to 88 purchase orders. (Some purchase orders had more than one payment voucher in our sample.) Our examination of these purchase orders revealed that (1) the purchase orders were appropriately prepared and reviewed, (2) the purchase orders generally contained adequate specifications, and (3) computations were accurate.

### **Payment Vouchers Were Adequately Supported**

Our review of the payment vouchers paid by the District Attorney's Office for purchases revealed that they all contained the proper authorizations, as required by Comptroller's Directive #24.

Vouchering is the process whereby authorization for payment of goods and services received is documented. Comptroller's Directive #24, §6.0, also states that "Payment Vouchers require two approvals by FMS users as assigned by the agency." Each approver acts as a check on the other's decisions. Payment Voucher approvers must ensure, among other things, that: the correct voucher type is being used; the appropriate invoice is being paid; the goods or services have been received; and that the appropriate accounting and budget codes are being charged.

Our review of the 207 sampled vouchers and supporting documentation (such as invoices, reimbursement, and payment requests from individuals who provide services) in our sample revealed that all of them contained the required authorizations. We obtained a listing of all authorized individuals and reviewed the supporting documentation for all reviewed vouchers. Our review revealed that the payments were properly supported and approved by the bona fide authorized individuals. As part of our review, we also verified that there was evidence that the goods and services were received (as indicated on the invoices and payment request forms).

### **Correct Object Codes Were Used**

Our examination of District Attorney's Office records revealed that the purchasing staff properly reviewed the City's Chart of Accounts and generally used the correct codes for expenses.

Comptroller's Directive #24, §6.0, states, in part: "Payment voucher approvers must ensure that the appropriate accounting and budget codes are being charged. This includes charging the correct unit of appropriation and correct object code within that unit of appropriation."

The City's Chart of Accounts lists the object codes to be used for specific expenditures. If goods or services being purchased do not fall into the categories that are specifically identified, agencies may then use "general" object codes within each general category. The use of the correct object code is important because it allows the agency to categorize the type and amount of a particular expense item within a fiscal year. This information is used to generate the year-end reports that identify expenditure patterns. Expenditures by object code are also reported in the Comptroller's *Comprehensive Annual Financial Report for the City of New York*. The use of incorrect budget codes can compromise management's ability to properly plan future budgets.

Our examination of the 207 vouchers in our sample revealed that the correct object codes were used for 205 (99%) of them. The two exceptions were payments for security equipment

that were charged to object code 300 (Equipment-General) rather than object code 319 (Security Equipment).

### **Some Miscellaneous Vouchers Were Not Used Correctly**

Our review of a sample of 99 miscellaneous vouchers revealed 28 instances in which purchase orders should have been used instead.

Comptroller's Directive #24, "Agency Purchasing Procedures and Controls," §6.3, states: "Miscellaneous Vouchers may be used only when estimated or actual future liability is not determinable, or a contract or a Purchase Document is not required or applicable."

The inappropriate use of miscellaneous vouchers contributes to the distortion of City books of account by understating the City's outstanding obligations. Instances in which the use of a miscellaneous voucher would be appropriate include small purchases of supplies, carfare, and reimbursements to employees for out-of-pocket expenses. Inappropriate uses of miscellaneous vouchers include monthly rent payable on a lease or a license agreement, payments to postal and phone service providers, reimbursements to Imprest Funds, and purchases of supplies, equipment, materials, and services for which an FMS Contract Document or Purchase Document is required. Our review of 99 miscellaneous vouchers totaling \$670,627 revealed that 71 of them, totaling \$102,700, were properly prepared for District Attorney's Office operations and were charged to correct object codes.

However, there were 28 miscellaneous vouchers that were used for items for which purchase orders would have been more appropriate. Those 28 vouchers totaled \$567,927; this amount included one voucher for \$410,742 (72%) to provide funding for the Police Athletic League Truancy Prevention Program. The remaining 27 vouchers, totaling \$157,185, were used to purchase items such as books, publication subscriptions, telephone expenses, delivery charges, and temporary employment services.

District Attorney's Office officials stated that miscellaneous vouchers were used because it was too cumbersome and time-consuming to use purchase orders each time the office purchased these items or services. (Most of these items were purchased at numerous times during the year.) Additionally, they stated that there were certain cases (such as in the use of temporary employment services) in which the dollar amount could not be predetermined. However, for items that are purchased at various times throughout the year, the District Attorney's Office could process one purchase order for the year, estimating the amount to be encumbered based on past use, and could draw down on the purchase order each time a payment is made. At the end of the year, the District Attorney's Office could modify the purchase order based on the actual expenditures.

**The District Attorney's Office Did Not Always Follow City Bidding Procedures as Required**

Our examination of the purchases related to our sampled payment vouchers revealed 12 instances in which bids should have been obtained. Of these, we found no evidence that the District Attorney's Office followed City bidding procedures for nine of them.

The PPB rules require that various solicitation procedures be conducted for purchases that exceed \$5,000. Section 3-08(c)(2)(i) states that for small purchases totaling between \$5,000 and \$25,000, either oral or written bid solicitations will suffice, while for purchases over \$25,000, only written solicitations will be satisfactory. Agencies are required to solicit a minimum of five vendors and obtain at least two responses.

Our sample of 104 payment vouchers was related to 88 purchase orders. Thirteen of those purchases were made through City or State requirements contracts and another eight related to service contracts (e.g., copier maintenance), so bidding was not required. Of the remaining 67 purchases, four totaled more than \$5,000 and another eight were partial payments of services provided during the year that exceeded \$5,000 in total and, therefore, required that the District Attorney's Office solicit bids. However, our examination of District Attorney's Office records revealed that bids were obtained as required for only three. The dollar amount of the remaining nine purchases totaled \$108,716. Table I, below, lists the nine purchases.

**Table I**

**Purchases for Which Bids Were Not Obtained as Required**

<b>Vendor Name</b>	<b>Item Description</b>	<b>Purchase Order No.</b>	<b>Purchase Order Date</b>	<b>Purchase Order Amount</b>
Cartridge Express, Inc.	HP8100 Toner Cartridges	PO 901 INT0K250332	10/25/2004	\$25,000.00
Fuji Photo Film USA Inc.	Fuji Special Photo Paper	PO 901 INT0K250092	8/2/2004	21,431.74
Construction Specialties	Acrovyn Wall Panel	PO 901 INT0K250221	9/9/2004	7,200.00
G & S Feldman Inc.	Storage Boxes with Tops	PO 901 INT0K250091	8/2/2004	18,375.00
Iron Mountain Information Management, Inc.	Maintenance Contract - Off-site Data Storage	PO 901 INT0K250075	7/26/2004	6,545.00
Iron Mountain Information Management, Inc.	Maintenance Contract- Off-site Data Storage	PO 901 INT0K250138	8/2/2004	9,432.00
LAN Associates	Technical Service and Maintenance Agreement	PO 901 INT0K250140	8/2/2004	6,360.00
Liberty Electrical Supply	40 Lighting Fixtures-- Lightolier Basket	PC 901 20050200041	6/2/2005	5,940.00
RE: Source New York	Supply and Install Azrock Tiles-Cortina Colors	PO 901 INT0K250248	9/13/2004	8,431.95
<b>Total</b>				<b>\$108,715.69</b>

District Attorney's Office officials stated that the vendors were selected based on an internal evaluation process using various indicators in addition to price. Based on those indicators, the District Attorney's Office determined that the vendors in question were best suited to provide those services. However, officials did not retain documentation of the process (e.g., indicators used, vendors contacted, final evaluation scores). To ensure that the District Attorney's Office is obtaining the needed goods and services at the best available price, it should solicit bids, as required. In its decision-making, the District Attorney's Office may consider other factors in addition to price when making its selection, but those factors should be noted in its bid documentation.

### **The District Attorney's Office Should Develop a Comprehensive Procedures Manual for Its Internal Procurement Process**

Internal controls provide reasonable assurance that management's objectives, including the safeguarding of its assets, are being achieved. Internal controls serve as the first line of defense in helping to prevent or detect errors and fraud. Comptroller's Directive #1 states that internal controls, such as agency guidelines, "should be documented in management administrative policies or operating manuals."

During the course of our audit, District Attorney's Office personnel provided us with memos and directives governing aspects of its procurement process, such as the authorized signatories for invoices of various types of purchases (i.e., general purchases, computer-related purchases, telephone expenses, temporary employment services, etc.); a listing of the allowable administrative expenses under the Demand Account<sup>4</sup> and the required authorizations; employee expenditure and reimbursement procedures (e.g., travel expense); and a flowchart of the procedures for using the Demand Account. However, there is no consolidated, written procedures manual for these and other areas, such as (1) the day-to-day purchasing operations, including the required purchasing request forms, approvals needed, and a listing of allowable purchases using payment vouchers and miscellaneous payment vouchers and (2) Imprest Fund purchasing and reconciliation procedures.

We believe that it is important that the District Attorney's Office develop a comprehensive procedures manual and disseminate it to the appropriate staff so that it would be better able to ensure that staff remain familiar with and follow the agency's guidelines.

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<sup>4</sup> The Demand Account is a cash account that the District Attorney's Office uses for the administrative operations of the office.

## RECOMMENDATIONS

The New York County District Attorney's Office should:

1. Limit the use of miscellaneous vouchers to those purchases in which the estimated or actual expenditures cannot be determined, in accordance with Comptroller's Directive #24.

***District Attorney's Office Response:*** "The office accepts that under Comptroller's Directive No. 24, the office should follow the procedures outlined in the Audit Report. The office will make diligent efforts to conform to your request."

2. Obtain bids for purchases over \$5,000 in accordance with PPB rules.

***District Attorney's Office Response:*** "As a result of the Comptroller's findings, the office has conducted an analysis of our purchasing activity, and begun to identify the personnel and procedures to better follow principles outlined in the PPB rules."

3. Document its procurement process in a consolidated procurement procedures manual.

***District Attorney's Office Response:*** "Having been made aware of this concern by the Comptroller's office in our meetings in connection with this audit, we have already begun to create such a document."

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ADDENDUM  
PAGE 1 of 2



ROBERT M. MORGENTHAU  
DISTRICT ATTORNEY

December 2, 2005

Mr. Greg Brooks  
Deputy Comptroller  
1 Centre Street  
New York, New York 10007

Re: Audit Report MJ05-132A

Dear Mr. Brooks,

Enclosed is this office's response to the above entitled Audit Report. As requested, we have addressed each recommendation, and included our proposed steps to address those recommendations.

We appreciate the professional manner in which your staff conducted this Audit.

Sincerely,

*Frederick J. Watts*  
by *Latonia T. G.*  
Dep Admin ADA

Frederick J. Watts  
Administrative Assistant District Attorney

FJW:rg

cc: Edward Carey

Response to Audit Report on Expenditures for OTPS by  
New York County District Attorney's Office -- MJ05-132A

December 2, 2005

This office was pleased although not surprised by the Comptroller's overall findings that "The District Attorney's Office has adequate controls in place to ensure that OTPS expenditures are valid and executed correctly...and generally complied with the City's purchasing guidelines...[and] that goods and services purchased were reasonable expenditures related to the duties of the District Attorney's Office." This response confines itself to the findings of three weaknesses in the office's controls.

Use of Miscellaneous Vouchers

The Audit Report accurately reveals that this office has found it more efficient to use miscellaneous vouchers for a small percentage of our OTPS budget. The office accepts that under Comptroller's Directive No. 24, the office should follow the procedures outlined in the Audit Report. The office will make diligent efforts to conform to your request.

City Bidding Procedures

The Audit Report reveals that in some instances, documentation of adherence to City bidding procedures was not found. We maintain that in many instances, we were justified in not bidding certain purchases, and that our approach resulted in requiring the most appropriate goods and services for the office. Nonetheless, the audit has revealed that bidding was done less consistently than it should have been. As a result of the Comptroller's findings, the office has conducted an analysis of our purchasing activity, and begun to identify the personnel and procedures to better follow principles outlined in the PPB rules.

Developing a Comprehensive Procurement Procedures Manual

This office accepts the Comptroller's recommendation.

As the Audit outlines, the office currently has a myriad of documented financial protocols which seek to outline and implement internal financial controls and thereby safeguard taxpayer resources. However, we accept the Comptroller's Office recommendation that the office would be better served by a consolidated procedures manual for our procurement process. Having been made aware of this concern by the Comptroller's office in our meetings in connection with this audit, we have already begun to create such a document.