AUDIT REPORT

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

Audit Report on the Purchasing and Inventory Practices Of the Office of the Public Advocate

MJ07-103A

June 29, 2007

THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has examined the purchasing and inventory practices of the Office of the Public Advocate (PAO). The audit covered Fiscal Years 2006 and 2007, through December 31, 2006.

The PAO evaluates whether City agencies are responsive to the public; recommends improvements in agency programs and complaint handling procedures; and serves as ombudsman, or go-between, for individuals who have problems obtaining service, assistance, or responses they need from City agencies. Audits such as this provide a means of ensuring that agencies maintain adequate financial controls and comply with City rules and regulations governing purchasing and inventory practices.

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

William C. Thompson, Jr.

Report: **MJ07-103A**
Filed: **June 29, 2007**

Table of Contents

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

Audit Report on the Purchasing and Inventory Practices of the Office of the New York City Public Advocate

MJ07-103A

AUDIT REPORT IN BRIEF

This audit determined whether the Office of the Public Advocate (PAO) maintains adequate financial controls over purchasing and inventory practices as required by PPB rules and Comptroller's Directives. The PAO evaluates whether City agencies are responsive to the public; recommends improvements in agency programs and complaint handling procedures; and serves as ombudsman, or go-between, for individuals who have problems obtaining service, assistance, or responses they need from City agencies.

During Fiscal Year 2006, the PAO had total expenditures of $2.9 million, consisting of $2.2 million for Personal Service (PS) and $724,144 for Other Than Personal Service (OTPS) expenditures.[1] For Fiscal Year 2007, the PAO's adopted expense budget included $2.6 million for PS and $398,611 for OTPS expenditures.

Audit Findings and Conclusions

The PAO has implemented adequate financial controls over many aspects of its purchasing and inventory practices, as required by PPB rules and Comptroller's Directives, and has taken action to improve compliance with these rules and regulations to address and correct several deficiencies cited in a previous audit.

However, the PAO lacked required competition for four purchases from vendors (each paid in excess of $5,000), inappropriately divided purchase transactions, and lacked documentation to verify and attest to the receipt of goods purchased and paid for. In addition, while all sampled equipment was accounted for, the PAO did not maintain a complete and accurate inventory record of its physical assets inventory.

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[1] According to the Comptroller's *Comprehensive Annual Financial Report for Fiscal Year 2006*.

Audit Recommendations

To address these issues the audit made seven recommendations. Among them, we recommend that the PAO should:

- Ensure that all applicable PPB rules and Comptroller's Directive #24 are followed when procuring goods and services, especially regarding the solicitation of competitive bids and the prohibition of split purchases for goods or services greater than $5,000.

- Maintain adequate documentation and records to evidence the receipt of purchased goods, including the quantity, condition, date, and name of receiver.

- Ensure that accurate, detailed inventory records are maintained to reflect equipment serial numbers, descriptions, locations, user assignments, and asset identification tag numbers of agency assets. These records should be updated as needed to reflect the acquisition, disposal, reassignment or relocation of assets, and should be reconciled periodically to ensure accuracy and completeness.

PAO Response

The PAO generally agreed with all six recommendations made in this report. The full text of the PAO response is included as an addendum to this report.

INTRODUCTION

Background

The Office of the Public Advocate (PAO) evaluates whether City agencies are responsive to the public; recommends improvements in agency programs and complaint handling procedures; and serves as ombudsman, or go-between, for individuals who have problems obtaining service, assistance, or responses they need from City agencies. The PAO also monitors the effectiveness of the City's public information and education efforts, and monitors compliance of City officers and agencies with the New York City Charter.

During Fiscal Year 2006, the PAO had total expenditures of $2.9 million, consisting of $2.2 million for Personal Service (PS) and $724,144 for Other Than Personal Service (OTPS) expenditures.[2] For Fiscal Year 2007, the PAO adopted expense budget included $2.6 million for PS and $398,611 for OTPS expenditures. PS expenditures covered the salaries of up to 31 full-time employees, while OTPS expenditures covered the procurement of supplies, materials, and services necessary to support agency operations.

In accordance with the City Charter, Administrative Code, and Rules of the City of New York, the Mayor, the Comptroller, and various oversight agencies have established rules and regulations to standardize administrative, financial, and management procedures across all City agencies. The City's Procurement Policy Board (PPB) promulgates rules governing City procurement and contracts. The Comptroller's Internal Control and Accountability Directives (Comptroller's Directives) contain rules and regulations that cover a broad array of management issues, internal controls, and procedures important to the efficient and effective operation of City agencies. All City agencies and elected officials are expected to comply with these rules and regulations.

Objective

The objective of this audit was to determine whether the PAO maintains adequate financial controls over purchasing and inventory practices as required by PPB rules and Comptroller's Directives.

Scope and Methodology

The audit scope period covered Fiscal Years 2006 and 2007 through December 31, 2006 (i.e., July 1, 2005–December 31, 2006). To achieve our audit objective, we carried out the following procedures.

To gain an understanding of the resources available to, and the operations of, the PAO we reviewed: the New York City Charter, Chapter 2, §24; the Executive Budget for Fiscal Years 2006 and 2007; the Comptroller's *Comprehensive Annual Financial Report for Fiscal Year 2006*; and relevant information obtained from the PAO Web site and other sources.

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[2] According to the Comptroller's *Comprehensive Annual Financial Report for Fiscal Year 2006*.

Evaluation of Controls

To gain an understanding of the internal controls over purchasing and inventory functions, we reviewed the PAO self-assessment of its internal controls covering calendar year 2005, performed in compliance with New York City Comptroller's Directive #1 and submitted to the Comptroller's Office. We also reviewed the PAO policies and procedures, interviewed PAO officials and staff, conducted a walkthrough of purchasing and inventory procedures, and ascertained whether there was sufficient segregation of duties over the approval, recording, and payment functions. Further, we reviewed a previous audit of the PAO conducted by the Comptroller's Office and noted findings and conditions in that audit[3] that addressed matters relevant to this audit.

We evaluated the adequacy of, and determined whether, the PAO's purchasing and inventory policies and procedures generally conformed with applicable criteria, including:

- PPB rules §1-04, "Contract Information"; §3-08, "Small Purchases"; and §4-06, "Prompt Payment";
- Department of Investigation, *Standards for Inventory Control and Management* (July 1992);
- Comptroller's Directive #1, "Principles of Internal Controls"; Directive #3, "Procedures for the Administration of Imprest Funds"; Directive #6, "Travel, Meals, Lodging and Miscellaneous Agency Expenses"; and Directive #24, "Purchasing Function—Internal Controls."

Tests of Purchase Transactions and Procedures

An electronic file containing all PAO general fund expenditures as reported in the City's Financial Management System (FMS) for Fiscal Years 2006 and 2007 through December 31, 2006, was obtained and reviewed. We identified the quantity, types, and total amount of the purchasing transactions for the period.

The OTPS funds for the scope period, totaling $438,904, were expended on 532 payment vouchers for the purchase of goods and services. From the population of 532 payment vouchers, we segregated the transactions into three categories: (1) purchases of less than $100; (2) purchases of $100 and greater; and (3) vouchers payable to the PAO to replenish the imprest fund account. Based on materiality, we targeted purchases of $100 or more. We randomly selected 25 payment vouchers, totaling $23,223, from the targeted population of 356 vouchers totaling $423,816. We excluded from testing 136 payment vouchers, totaling $5,351, for purchases of less than $100. The remaining 40 payment vouchers, totaling $9,737, for imprest fund replenishment were incorporated into tests associated with the imprest fund account and related transactions (discussed later).

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[3] *Audit Report on the Financial and Operating Practices of the Office of the Public Advocate July 1, 2002 to December 31, 2003* (Audit #MH04-135A), issued June 30, 2004.

We requested the vouchers and supporting documentation (i.e., purchase requisitions, purchase orders, order specifications, receiving documents, invoices, bid invitations, etc.) for the 25 sampled vouchers. The vouchers and supporting documentation for each of the sampled transactions were examined to provide assurance that: (1) required purchasing documents were appropriately prepared and approved; (2) goods or services were certified as received; (3) payments were appropriately authorized, made promptly in the correct amount to the correct vendor, and charged to the proper budget codes and fiscal year; (4) the expenditures were for legitimate and necessary business purposes; and (5) all documentation was duly canceled (marked “vouchered” or “paid” to prevent duplicate payment) upon payment.

Based on the results of tests involving sampled payment vouchers, we identified vendors with total payments of $5,000 or more in Fiscal Year 2006 and determined whether the transactions for those vendors were awarded in compliance with PPB rules and recorded in compliance with Comptroller’s Directive #24.

Tests of Imprest Fund Account and Related Transactions

We reviewed the PAO imprest fund expenditures for the six months of July 1, 2006, through December 31, 2006. These months were judgmentally selected as they represented current periods to determine whether account transactions were handled appropriately. Relevant supporting documentation was examined to determine whether the expenditures were authorized, permissible, and within allowed amounts. We also reviewed the bank statements for the same period, reconciled the check register and replenishment vouchers to the bank statements, ensured that all checks were accounted for, and were made payable to specified payees, not to “bearer” or “cash.”

Test of Computer and Electronic Equipment Inventory

To test the accuracy and completeness of the PAO computer and electronic equipment inventory record, we obtained an electronic file containing the PAO computer and electronic equipment inventory dated December 28, 2006, and ascertained the quantity and types of equipment and the information (i.e., equipment models, serial numbers, physical location, and assigned PAO asset tag numbers) used to identify the assets contained therein. We evaluated the inventory record for duplicate entries and missing information. We conducted a walk-through of PAO offices to identify where equipment was located and the physical controls over those assets. Thirty-two items were randomly selected from the 305 items included on the inventory record and traced to the physical assets. Also, 32 additional equipment items in PAO offices were randomly selected and traced back to the inventory record.

The results of the above tests in which samples were drawn, while not projectible to their respective population(s), provided a reasonable basis to assess the adequacy of the PAO financial controls over its OTPS expenditures and physical assets, and its compliance with applicable City rules and regulations.

The reliability and integrity of the PAO computer-processed expenditure data was not evaluated, since all purchasing functions are processed through the City’s FMS information technology system, which is reviewed by the City's external auditors as part of their annual audit of the City's financial statements.

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

<u>Discussion of Audit Results</u>

The matters covered in this report were discussed with PAO officials during and at the conclusion of this audit. A preliminary draft report was sent to PAO officials and discussed at an exit conference held on May 15, 2007. We submitted a draft report to PAO officials with a request for comments on May 31, 2007. We received a written response from PAO officials on June 21, 2007. The PAO generally agreed with all six of the recommendations made in this report. The PAO stated:

> "We would like to thank the Office of the Comptroller for the professional and thorough manner in which they conducted this audit. Although we do not agree with some of the report, the audit process and the recommendations have led to a more effective internal management of purchasing and inventory."

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

FINDINGS AND RECOMMENDATIONS

The PAO has implemented adequate financial controls over many aspects of its purchasing and inventory practices, as required by PPB rules and Comptroller's Directives, and has taken action to improve compliance with these rules and regulations to address and correct several deficiencies cited in a previous audit.

However, the PAO lacked required competition for purchases from four vendors (each paid in excess of $5,000) inappropriately divided six purchase transactions, and lacked documentation to verify and attest to the receipt of goods purchased and paid for. In addition, while all sampled equipment was accounted for, the PAO did not maintain a complete and accurate inventory record of its physical assets inventory. These matters are discussed in greater detail in the following sections of this report.

Weaknesses in the Procurement Procedures

Our review of sampled payment vouchers and imprest fund transactions determined that the PAO did not competitively solicit and award bids, according to the PPB rules, for small purchases in excess of $5,000 and inappropriately divided purchase transactions in a manner prohibited by the PPB rules. From sampled payment vouchers, we identified other instances of noncompliance, such as the lack of documentation to verify the receipt of goods, indicating that the PAO must do more to ensure that PPB rule §3-08 and Comptroller's Directive #24 are consistently followed.

Lack of Required Competition

During Fiscal Year 2006, the PAO paid four vendors (detailed in Table I below), each in excess of $5,000, a total of $97,597 (13%) out of the agency's total $724,144 OTPS expenditures and transfers, without soliciting the appropriate number of competitive bids.

The PPB rules require that agencies must either orally or in writing solicit competitive bids from at least five vendors for small purchases greater than $5,000 but less than $25,000.[4] For small purchases greater than $25,000 but less than $100,000, a written solicitation should be made describing the agency's purchase requirements. The bid should "be awarded to the lowest responsive and responsible bidder that has made the most advantageous offer." After the award determination is made, the agency's Contracting Officer should then issue a purchase order or a contract, as appropriate, to the successful bidder. Further, the Contracting Officer should retain a record (procurement file) that details the particulars of the small purchase.

[4] The PPB defines small purchases as any procurement at or below the small purchase limits, which is currently $100,000 for all goods and services, including computer- and construction-related transactions.

Table I

Summary of Vendors for Which Bids Were Not Solicited and (or) with Split Purchase Transactions

	Lack of Competition (Bids Not Solicited)		Split Purchases		
Vendor	**Total Amount Paid in FY 2006**	**Quantity and Type of FMS Purchase Documents Used*(a)***	**Total Amount Involving Split Purchases**	**Quantity and Type of FMS Documents Used in Split Purchases**	**Good or Service Purchased**
MNJ Technologies Direct, Inc.	$63,252	27-PD 2-CT	$30,018	7-PD	Computer equipment and related accessories
Jon Da Printing, Inc.	$13,440	8-PD	$7,870	2-PD	Printing and stationary
Viking, Inc.	$11,191	11-PD	$6,077	2-PD	Computer equipment and accessories and other supplies.
Office Depot, Inc.	$9,714	7 PD	$9,006	2-PD	Office furniture
Commercial Flooring	Not Applicable- Covered by Requirements Contract		$10,581	3-PD	Installation of carpet tiles
Total	$97,597		$63,552	16-PD	

Note: *(a)* FMS documents used for purchases of goods or services out of non-capital funds include:
"PD"- Micro Purchase Document used to encumber funds for purchases <= $5,000.
"PC"- FMS Small Purchase Document used to encumber funds for purchases >=$2,500 and <=$10,000.
"CT"- FMS Contract Document used to encumber funds for the purchases >$10,000

As reflected above, one of the vendors (Jon Da Printing) was paid more than $5,000 in Fiscal Year 2006, with ongoing services in Fiscal Year 2007, to provide recurring service throughout the year, while one other (Office Depot) generally represented a single transaction or project that was artificially divided (discussed below). Moreover, the two remaining vendors (MNJ Technologies, and Viking, Inc.) were paid for computer equipment and related accessories purchased or delivered on various dates throughout the year, for which certain purchases were also inappropriately divided.

To maximize efficiency and economy, the PAO should have reasonably anticipated the expenses associated with these purchases at the beginning of the fiscal year and competitively solicited bids for the goods or services, pursuant to the PPB's small purchases rule, to ensure that the vendors offering the most competitive prices were selected. The PAO also should have determined whether the goods were available from existing Department of Citywide Administrative Services (DCAS) requirements contracts, such as it did with Commercial Flooring for the installation of carpet tiles.

Split Purchases

The PAO inappropriately divided (split) purchases for six purchase transactions, totaling $63,552, during Fiscal Year 2006.

PPB rule §3-08 expressly prohibits the artificial dividing of a procurement transaction to circumvent the competitive bidding requirement for small purchases of more than $5,000. In addition, Comptroller's Directive #24 states that City agencies may not artificially split purchases by the use of purchase documents (PC and PD) when a contract document (CT) is required. For Requirements Contracts the PG document is used to encumber general funds and link the purchase to the related contract.

As reflected in Table I above, the PAO used a total of 16 PD documents to inappropriately divide the purchase of goods and services procured from five separate vendors.

For the vendor, MNJ Technologies Direct, the PAO inappropriately divided two purchases, totaling $30,018, of computer equipment and accessories procured in December 2005 and May 2006. For the December 2005 purchase, the PAO split the single purchase, totaling $15,028, on four separate PD documents, for which the vendor issued four separate invoices.

Similarly, in May 2006, the PAO split a single purchase, totaling $14,990, using three PD documents for which the vendor issued three invoices. Even though the vendor issued multiple invoices in both cases, considering that the goods were received and billed within a period of two weeks or less in both cases, we determined each of these transactions to be a single purchase for which the PAO should have issued a CT document.

For the vendor Commercial Flooring, while the PAO purchased the service provided from a DCAS requirement contract, it inappropriately divided the purchase using incorrect purchase documents. Specifically, the PAO completed a purchase agreement with Commercial Flooring and the vendor issued one invoice in the amount of $10,581; however, the PAO divided this single transaction using three separate PD documents, each for $3,527, issued on May 16, 2006, rather than using the appropriate PG document. Similarly, for the vendor Office Depot the PAO prepared a purchase agreement for purchase of office furniture, totaling $9,006; yet, it divided the transaction using two separate PD documents, each in the amount of $4,503. Further, on June 23, 2006, the PAO purchased letterheads, envelopes and other stationary supplies, totaling $7,870, from Jon Da Printing, which issued two invoices and for which the PAO generated two corresponding PD documents, one for $3,465 and another for $4,405. Even though the vendor issued two invoices, since both invoices were billed on the same date for similar goods, and freight charges were billed on only one of the invoices, we considered the two transactions to be a single purchase that was inappropriately divided.

Regarding the vendor Viking, Inc., the PAO paid $6,077 on May 23, 2006, on two PD-documents (one for $3,077 and one for $3,000) for the purchase of unknown goods. While a note in FMS described the goods "folders presentation," the PAO did not have any supporting documentation detailing and verifying the receipt, price, and quantity of goods purchased. Nevertheless, we considered this purchase to be inappropriately split due to the timing and description of goods in FMS.

The PAO should have anticipated total expenditures for these goods and issued the appropriate FMS purchase document either at the beginning of the budget year or when the decision to purchase was made in order to encumber funds in its budget against which all such purchases would be paid.

Inappropriately dividing purchases not only undermines the procurement process established by PPB rules and Comptroller's Directive #24, it may prevent the PAO from selecting the most responsible vendor offering the most competitive prices.

Other Instances of Noncompliance

The PAO did not have any of the required support documentation (purchase requisitions, vendor invoices, and delivery certifications) for three (12%) sampled vouchers, totaling $1,698 (7%), from the 25 sampled payment vouchers, totaling $23,223, selected for audit testing.

PPB rule §3-08 and Comptroller's Directives #1 and #24 require that for small purchases of $5000 or less, agencies should maintain documentation of such purchases that identifies the vendor from whom the item was purchased, the item purchased, the amount paid, and the execution (order, receipt and payment) of procurement transactions.

PAO officials asserted that the payments for the three missing voucher files were appropriate and accurate. One purchase, in the amount of $111, was for bottled water, and two others, totaling $1,587, were for office supplies. Even though the PAO maintains that the goods were appropriate for business purposes, without purchase requisitions, delivery certification, and invoices to reflect the purchase specifications (quantity, description, and pricing) for each transaction, there was no evidence to verify the quantity of goods received and the accuracy of the amounts authorized and paid for each transaction.

PAO officials attributed the absence of the documents to the delinquency of a former staff member in performing various assigned administrative duties, including maintaining agency files. Further, they said that since the employee left the agency on July 9, 2006, tighter procedures had been implemented to ensure the accuracy of agency records, particularly procurement transactions.

Of the 22 sampled payment vouchers, totaling $21,252, for which documentation was available, three vouchers, totaling $1,359, were covered by lease agreements that identified the leased equipment, terms of the lease, and the amount of monthly payments. For seven other vouchers, totaling $9,007, the PAO had proof of receipt of goods or services. However, for the remaining 12 vouchers, totaling $11,159, the PAO lacked documentation (i.e., signed bills of lading, packaging slips, or agency certification) or other proof attesting to the receipt of goods or services. Without proof of receipt the PAO cannot be assured that the goods or services paid for were actually acquired.

In addition, we noted the following instances of noncompliance with PPB rules and Comptroller's Directive #24. Specifically, our review disclosed that:

- Three purchase transactions (totaling $2,570) did not have approved agency purchase requisitions that detailed the purchase specifications (price, quantity, product or service description).

- Two transactions, totaling $1,356, had purchase requisitions that were prepared and approved by the same person.

- The payment voucher for $720 for one transaction was approved without a vendor invoice and other supporting documentation, and the transaction was classified under the incorrect budget code.

While our audit disclosed that the PAO has taken action to improve compliance with procurement regulations to address and correct several deficiencies cited in a previous audit, the weaknesses and instances of noncompliance discussed above indicate that the PAO needs to do more to ensure that strong controls are maintained over all aspects of its purchasing practices.

Recommendations

The PAO should:

1. Ensure that all applicable PPB rules and Comptroller's Directive #24 are followed when procuring goods and services, especially regarding the solicitation of competitive bids and the prohibition of split purchases for goods or services greater than $5,000.

PAO Response: The PAO generally agreed, stating: "[W]e will seek bids in every instance where the purchase exceeds $5,000, as is required by PPB rules and Comptroller's Directive #24."

2. Require that the functions of preparing and approving purchase documents, payment vouchers, and reimbursement requests are appropriately separated.

PAO Response: "The PAO agrees with the Comptroller's findings that further procedures were needed to separate functions in all cases. These additional procedures have been implemented and all appropriate personnel have been instructed to ensure the continued separation of functions."

3. Maintain procurement files and all supporting documentation in accordance with PPB rules.

PAO Response: The PAO generally agreed, stating: "The PAO identified problems with the maintenance of files prior to the Comptroller's audit and has improved training and supervision of employees who create and maintain these files in order to better comply with PPB rules."

4. Maintain adequate documentation and records (i.e., signed bills of lading, packaging slips, or agency certification) to evidence and attest to the receipt of purchased goods or services. For tangible goods such proof should include the quantity, condition, date, and name of receiver.

PAO Response: The PAO generally agreed, stating: "In response to the findings by the Comptroller's Office, the PAO created a form and instituted procedures to ensure better maintenance of documentation."

Paid Invoices Not Marked "Vouchered"

Comptroller's Directives #1 and #3 require that paid invoices be marked "vouchered" or stamped "paid" once a vendor is paid. None of the invoices and supporting documentation for the 22 sampled payment vouchers and 42 imprest fund transactions reviewed for the period July 1, 2006, through December 31, 2006, were marked "vouchered" or "paid." Instead, the PAO maintains a copy of the remittance check for each payment voucher and requires employees to sign for the receipt of a reimbursement check. While no double payments of sampled purchases were detected, the PAO could enhance its control against mistakenly paying an invoice more than once by canceling paid invoices or reimbursement requests and associated supporting documents.

Recommendation

The PAO should:

5. Ensure that all invoices and related supporting documentation are appropriately canceled (stamped "vouchered" or "paid") upon payment.

PAO Response: The PAO generally agreed, stating: "The PAO has begun stamping invoices 'paid'."

<u>Incomplete, Inaccurate Equipment Inventory Records</u>

The PAO properly labels its equipment assets with agency identification tags and maintains adequate safeguards over the equipment. While all of the sampled equipment was accounted for, the PAO inventory records did not reflect complete and accurate information (i.e., to reflect equipment serial numbers, description, location, user, and asset identification tag numbers) about the non-capital assets (computer and electronic equipment) in its inventory.

The Department of Investigation's *Standards for Inventory Control and Management* and Comptroller's Directive #1 require that a detailed, up-to-date inventory record or log be maintained for durable, non-capital assets (i.e., office equipment), which are particularly susceptible to theft and misuse. The inventory record or log should contain, at minimum, the internal control numbers assigned to each asset and be updated to account for the relocation of equipment.

Incomplete Inventory Records

Based on our inventory observations of the 32 computer equipment items randomly selected from the PAO inventory record, initially, four (13%) items could not be located, including three monitors and one processing unit. After being presented with our findings, PAO officials found one monitor and provided us with disposal records that included the three other items. Even though we accounted for all 32 randomly selected items, the inventory record was misstated by the three items that had been previously disposed of.

In addition, of the 32 computer items observed in the PAO office that were selected and traced to the inventory list, 3 (9%) of the 32 items were not included on the list, including 2 televisions and 1 computer monitor. The remaining 29 items (91%) were appropriately included in the PAO inventory.

Inaccurate Inventory Records

Our analysis identified inaccuracies in the PAO inventory record of on-hand, in-use computer and electronic equipment. Specifically, we determined that 41 (13.4%) of the total 305 entries of equipment reflected on the inventory report were erroneous, resulting from duplicate entries and other errors. For example, there were asset identification tag numbers that were recorded as being assigned to two or more different equipment items; the same serial numbers were recorded as belonging to one or more different equipment items; and equipment items were recorded as being assigned to one or more locations, or a combination thereof.

Upon being presented with these findings, PAO officials corrected the agency's inventory records. We reviewed the updated record and verified that it had been appropriately corrected.

Recommendation

The PAO should:

6. Ensure that accurate, detailed inventory records are maintained to reflect equipment serial numbers, descriptions, locations, user assignments, and asset identification tag numbers of agency assets. These records should be updated as needed to reflect the acquisition, disposal, reassignment or relocation of assets, and should be reconciled periodically to ensure accuracy and completeness.

PAO Response: The PAO generally agreed, stating: "'PAO officials corrected the agency's inventory records' [and] will continue to maintain records to ensure accuracy and completeness.

The Public Advocate for the City of New York

Betsy Gotbaum
Public Advocate

June 22, 2007

John Graham
Deputy Comptroller
Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
Executive Offices
1 Centre Street
New York, NY 10007

Dear Mr. Graham:

Thank you for the opportunity to review and respond to the findings and recommendations in the most recent draft of your Audit Report on the Purchasing and Inventory Practices of the Office of the New York City Public Advocate (MJ07-103A). We would like to thank the Office of the Comptroller for the professional and thorough manner in which they conducted this audit. Although we do not agree with some of the report, the audit process and the recommendations have led to a more effective internal management of purchasing and inventory.

As noted in the audit report, the Public Advocate's Office (PAO) had taken action to improve compliance with PPB rules and Comptroller Directives to correct deficiencies cited in a previous audit. Furthermore, as we stated in conversations with the Comptroller's Office during the audit process, the PAO had identified certain problems in 2006 through its established internal controls and oversight and therefore had implemented many of the recommendations contained in the audit report prior to the commencement of the audit process. This audit has nonetheless helped the PAO to better fulfill its commitment to maintaining the fiscal integrity of the office.

Following is the PAO response to each of the audit's findings:

1. Procurement Procedures

The Comptroller's Office audit identified four (4) instances where purchases were made without soliciting required bids. Please note that in the case of Jon Da Printing, in FY05, the PAO established through the bidding process that Jon Da provided the highest quality, lowest cost printing services. We relied on this prior bidding process in continuing to use the services of Jon Da for all of our printing needs.

In addressing those four instances, the Comptroller's Office states that the PAO should have determined whether goods or services were available from DCAS requirements contracts, as we did for the installation of carpet tiles. Regarding the purchase of office furniture, the PAO found that the vendor selected (Office Depot) provided a significantly lower price than provided through the requirements contract with Corecraft and Herman Miller. In the case of the purchase of computer equipment, the PAO learned in conversations with DCAS that there were no applicable requirements contracts.

The Comptroller's Office also states in the audit that the PAO should have reasonably anticipated expenses at the beginning of the year and competitively solicited bids when purchasing over $5000 from a vendor. However, because of the budget constraints faced by the PAO, the PAO does not have the luxury of anticipating non day-to-day essentials. Instead, these purchases, as in the case of office furniture, are made at the end of the fiscal year if there are funds remaining.

However, in response to this audit, we will seek bids in every instance where the purchase exceeds $5000, as is required by PPB rules and Comptroller's Directive #24.

The Comptroller's Office audit identified five (5) instances involving split purchase transactions. The PAO had also found such transactions in the above-mentioned 2006 internal review. At that time, the PAO instructed personnel on appropriate purchase transaction processes and subsequently has trained new staff to comply with PPB rules. It is our belief that the Comptroller's Office found no instances of non-compliance in purchases made after July 2006.

2. Separating functions of preparing and approving purchase documents, payment vouchers and reimbursement requests

Although safeguards existed in most cases to ensure that functions were separated, the PAO agrees with the Comptroller's findings that further procedures were needed to separate functions in all cases. These additional procedures have been implemented and all appropriate personnel have been instructed to ensure the continued separation of functions.

3. Maintaining supporting documentation

The PAO identified problems with the maintenance of files prior to the Comptroller's audit and has improved training and supervision of employees who create and maintain these files in order to better comply with PPB rules.

4. Maintaining documentation of proof of receipt of goods and services

In response to the findings by the Comptroller's Office, the PAO created a form and instituted procedures to ensure better maintenance of documentation.

5. Stamping invoices "vouchered" or "paid"

In response to the audit, the PAO has begun stamping invoices "paid". However, please note that the audit report states that no double payments were detected and the PAO asserts that for those imprest fund transactions that reimburse employees for certain expenditures, requiring employees to sign for receipt of reimbursement represents a much tighter control and proof of payment.

6. Maintaining inventory records

Although the Comptroller's Office found that the PAO properly labels its equipment assets and maintains adequate safeguards over such assets and that all of the sampled equipment was accounted for, the audit analysis also identified certain inaccuracies in the inventory records. The Comptroller's Office states in the audit report that "upon being presented with these findings [of specific inaccuracies], PAO officials corrected the agency's inventory records. [The Comptroller's Office] reviewed the updated record and verified that it had been appropriately corrected." The PAO will continue to maintain the records to ensure accuracy and completeness.

The PAO thanks the Comptroller's Office for the opportunity to respond to this audit.

Sincerely,

Anat Gerstein

Anat Gerstein
Chief of Staff