



City of New York

OFFICE OF THE COMPTROLLER

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COMPTROLLER



MANAGEMENT AUDIT

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Deputy Comptroller for Audit

Audit Report on the Use of Purchasing
Cards by the New York City Fire
Department

MJ15-099A

March 7, 2016

<http://comptroller.nyc.gov>



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NEW YORK, NY 10007

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March 7, 2016

To the Residents of the City of New York:

My office has audited New York City Fire Department (FDNY) to determine whether it had adequate controls over its use of purchasing cards (P-cards). We perform audits such as this to ensure that City agencies are adequately managing City resources and operating in accordance with their internal procedures and City rules and regulations.

The audit found that the FDNY lacked sufficient evidence to show that the P-card holders' monthly logs and supporting documentation were promptly reviewed and reconciled with the monthly P-card transaction statements. In addition, the FDNY did not appropriately segregate duties and require that a person other than the P-card holder (the purchaser) receive the purchased goods upon delivery or require the routine use of receiving reports to document receipt of goods purchased with P-cards. The audit further noted that cardholders did not consistently comply with P-card use requirements. With the exception of these deficiencies, the audit concluded that the FDNY had implemented adequate controls over the use of P-cards.

To address the weaknesses identified, the audit recommends that the FDNY ensure: that monthly P-card logs are reconciled with monthly statements prior to payment; that appropriate segregation of duties exists between the purchasing and receiving functions; that the receipt of goods and services is properly documented; that price quotes are obtained when required; and that sales tax is not charged for goods and services purchased with a P-card.

The results of the audit have been discussed with FDNY officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

If you have any questions concerning this report, please email my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

Table of Contents

EXECUTIVE SUMMARY	1
Audit Findings and Conclusions	1
Audit Recommendations.....	2
Agency Response.....	2
INTRODUCTION	3
Background	3
Objective.....	3
Scope and Methodology Statement.....	3
Discussion of Audit Results with FDNY	4
FINDINGS AND RECOMMENDATIONS.....	5
Lack of Evidence That P-Card Statements Are Reconciled Promptly.....	5
Recommendation	6
Inadequate Controls Over Receipt of Goods and Services	6
Recommendations	7
Instances of P-Card Holders' Noncompliance Observed.....	8
Supervisory Authorizations Not Consistently Obtained	8
Lack of Evidence of Solicitation of Bids.....	9
Sales Tax Erroneously Paid	9
P-Card Assigned to One Employee Was Inappropriately Used by Another	10
Recommendations	11
Other Issue	13
P-Cards Users Not Verified in the City's Payroll Management System.....	13
Recommendation	13
DETAILED SCOPE AND METHODOLOGY.....	15
ADDENDUM	

THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER MANAGEMENT AUDIT

Audit Report on the Use of Purchasing Cards by the New York City Fire Department

MJ15-099A

EXECUTIVE SUMMARY

This audit was conducted to determine whether the Fire Department of New York City (FDNY) has adequate controls over its use of purchase cards (P-cards). P-cards are credit cards issued by the City to agency staff, generally for small purchases, that enable agencies to speed up transaction processing times and reduce administrative costs through the reduction of paperwork and the elimination of some intermediate steps required by the City's traditional procurement processes.

The Comptroller's Office and the Department of Citywide Administrative Services (DCAS) have issued guidelines and procedures governing City agencies' authorization and use of P-cards. Among other things, in accordance with those guidelines, agencies must establish internal procedures that govern the use and control of P-cards.

In Calendar Year 2014, the FDNY had approximately 130 authorized P-card holders with single transaction limits ranging from \$5,000 to \$20,000. During the same year, the FDNY's P-card users made 4,802 P-card purchases (totaling \$4.3 million), the second highest amount of P-card purchases of all agencies with P-card use that year.

Audit Findings and Conclusions

The audit found that the FDNY lacked sufficient evidence to show that the P-card holders' monthly logs and supporting documentation were promptly reviewed and reconciled with the monthly P-card transaction statements. In addition, we found that the FDNY does not appropriately segregate duties and require that a person other than the P-card holder (the purchaser) receive the purchased goods upon delivery or require the routine use of receiving reports to document receipt of goods purchased with P-cards. By foregoing the proper segregation of duties between purchaser and receiver of goods and the routine use of receiving reports the FDNY increased the potential for fraud and inappropriate P-card use.

The audit also noted that cardholders did not consistently comply with P-card use requirements. This weakness indicates that management should strengthen its efforts to ensure cardholders' compliance with FDNY P-card policies and procedures across the agency as well as ensure that

agency personnel follow Comptroller's Memorandums #1-01 and 14-1, governing procurement, including P-cards.

With the exception of these deficiencies, the audit concluded that the FDNY had implemented adequate controls over the use of P-cards. Specifically, the FDNY implemented policies and procedures governing the authorization, use, approval, and accountability over P-cards. Further, these policies and controls incorporate key provisions of Comptroller's Memorandum and DCAS' Citywide P-card policies and guidelines. If consistently applied, the FDNY policies and procedures will help ensure that: (1) goods and services purchased using P-cards are appropriate; (2) transactions are made by authorized cardholders and are paid for promptly; and (3) P-card transactions are not used to circumvent established City and agency procurement requirements and regulations.

Audit Recommendations

To address the findings raised in this audit, the audit makes 10 recommendations, including:

- The FDNY should ensure that cardholder monthly P-card/credit card logs be promptly reconciled with the monthly statements prior to payment.
- The FDNY should require appropriate segregation of duties, so that designated individuals other than the purchaser receive the ordered goods upon delivery.
- The FDNY should require the use of receiving reports or suitable alternative documentation (e.g., invoices or packing slips), sign and date the documentation, and note the quantity and condition of goods received. Any shortages, discrepancies and/or damage to the goods on delivery should be documented.
- The FDNY should require that when a service is purchased via a P-card, a department head co-sign a statement acknowledging that the service was satisfactorily completed. Any problems or deficiencies with the service should be noted as well.
- The FDNY should ensure that its P-card holders obtain price quotes and appropriately document them on the P-card tabulation sheets when procuring goods valued in excess of \$5,000 with a P-card or purchases that are grant-funded, as required by FDNY procedures.
- The FDNY should remind all of its P-card holders that, as a government agency, the FDNY should not be charged sales tax for any goods and/or services procured for agency use with a P-card.

Agency Response

FDNY officials agreed or partially agreed with nine of the audit's 10 recommendations and disagreed with the recommendation that it reconcile cardholders' monthly P-card/credit card logs with monthly statements prior to payment.

INTRODUCTION

Background

P-cards are credit cards issued by the City to agency staff that enable agencies to speed up transaction processing times and reduce administrative costs. The primary benefits of P-cards are user convenience, expedited deliveries, the elimination of certain intermediate steps required by the City's traditional procurement processes, and a reduction in paperwork. Vendors also benefit by speedier payment and reduced transaction costs. The City's current P-card issuer is U.S. Bank through a master agreement awarded by DCAS in 2014.

The Comptroller's Office and DCAS have issued guidelines and procedures governing City agencies' authorization and use of P-cards.¹ In accordance with those guidelines, agencies must establish internal P-card procedures and policies that require, among other things, that: (1) only authorized personnel make transactions for appropriate uses; (2) goods are paid for promptly by authorized personnel; and (3) P-card transactions are not used to circumvent or by-pass an individual cardholder's single transaction limit. Agencies must also ensure that P-card holders are aware of and use P-cards in accordance with agency policies, the City's Procurement Policy Board (PPB) Rules and the Comptroller's Internal Control and Accountability Directives that address procurement of goods and services.

The FDNY protects the lives and property of New York City residents and visitors as first responders to fire, public safety, and medical emergencies, disasters and terrorist acts. The FDNY enforces public safety codes. It also promotes public safety through its fire prevention, investigation, and education programs.

In July 2005, the FDNY implemented the use of P-cards to make micro purchases of needed goods and services. In 2013, the City increased the P-card spending limit to \$20,000 from \$5,000 to match the new small purchase limit of the same amount. In Calendar Year 2014, the FDNY had approximately 130 authorized P-card holders with single transaction limits ranging from \$5,000 to \$20,000. During the same year, the FDNY's P-card users made 4,802 P-card purchases (totaling \$4.3 million), the second highest amount of P-card purchases of all agencies with P-card use that year.

Objective

To determine whether the FDNY has adequate controls over its use of P-cards.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance

¹ DCAS' Office of Citywide Purchasing, "Purchasing Card (P-card) Policies and Guidelines" (updated December 2013), Comptroller's Memorandum #01-1, "Guidelines for Use of Procurement/Purchasing Cards" (issued June 22, 2001) and Comptroller's Memorandum #14-1, "Updates to Comptroller's Memorandum #01-1" (issued 9/11/2013).

with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The audit scope covered Calendar Year 2014 (January 1–December 31, 2014). Please refer to the Detailed Scope and Methodology section at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results with FDNY

The matters covered in this report were discussed with FDNY officials during and at the conclusion of this audit. A preliminary draft report was sent to FDNY officials on December 7, 2015, and was discussed at an exit conference held on December 30, 2015. On February 1, 2016, we submitted a draft report to FDNY officials with a request for comments. We received a written response from FDNY officials on February 12, 2016. In their response, FDNY officials agreed or partially agreed with nine of the audit's 10 recommendations and disagreed with the recommendation that it reconcile cardholders' monthly P-card/credit card logs with monthly statements prior to payment.

The full text of the FDNY's response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

We found that the FDNY lacked sufficient evidence to show that the P-card holders' monthly logs and supporting documentation were promptly reviewed and reconciled with the monthly P-card transaction statements from U.S. Bank. In addition, we found that the FDNY does not specifically require that a person other than the P-card holder (the purchaser) receive the purchased goods upon delivery or require the routine use of receiving reports to document receipt of goods purchased with P-cards. Foregoing the proper segregation of duties between purchaser and receiver of goods and the routine use of receiving reports increases the potential for fraud and inappropriate P-cards use.

We also observed that cardholders did not consistently comply with requirements, which indicates the need for management to strengthen its efforts to improve cardholders' compliance with these FDNY P-card policies and procedures across the agency as well as to ensure that agency personnel follow Comptroller's Memorandums #1-01 and 14-1.

With the exception of these deficiencies, we found that the FDNY has implemented adequate controls over the use of P-cards. Specifically, the FDNY has implemented policies and procedures governing the authorization, use, approval, and accountability over P-cards. Further, these policies and controls incorporate key provisions of Comptroller's Memorandum and DCAS' Citywide P-card policies and guidelines. If consistently applied, the FDNY policies and procedures will help ensure that: (1) goods and services purchased using the P-cards are appropriate; (2) transactions are made by authorized cardholders and are paid for promptly; and (3) P-card transactions are not used to circumvent established City and agency procurement requirements and regulations.

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

Lack of Evidence That P-Card Statements Are Reconciled Promptly

The FDNY appropriately segregates the review and reconciliation of the monthly P-card transaction statements from U.S. Bank with the P-card holders' monthly logs and supporting documentation. However, the FDNY lacked sufficient evidence to show that the statements and logs were reviewed and reconciled promptly, as is required by Comptroller's Memorandum 1-1.

FDNY procedures direct that each P-card holder keep a monthly P-card transaction log and submit it along with supporting documentation to the accounts payable department each month. There, designated employees review and reconcile the monthly card holder statements to the card holder logs and supporting documentation. According to FDNY officials, it takes "generally about one month" to complete the P-card reconciliation.

We found that the FDNY accounts payable department date-and-time stamps the P-card logs upon receipt from the P-card holders and maintains a spreadsheet tracking information on each P-card users' total purchases for each month. However, there was no documentation or records from which we could be assured that the reconciliations were performed and completed in a timely fashion. Without controls in place to ensure the prompt review and reconciliation of statements to the monthly logs and supporting documentation, the risk that unauthorized purchases may not be identified and subsequently recouped increases.

Recommendation

1. The FDNY should ensure that cardholder monthly P-card/credit card logs be promptly reconciled with the monthly statements prior to payment.

FDNY Response: FDNY disagreed with the recommendation and stated: “Due to the magnitude of the P-card logs to be reviewed, and the fact that the overwhelming majority of logs are confirmed as accurate, the FDNY has elected to perform the reconciliation on a post-audit basis to assure that the payment is made to the bank without incurring credit card interest and late fees on the transactions. FDNY can notify the bank or directly notify the vendor to resolve a disputed transaction and receive a credit for incorrect charges. The use of the post-audit methodology was also sanctioned by the Office of the Comptroller in a prior P-card audit report, dated May 5, 2008, where it was noted that if FDNY chooses not to review the P-card prior to authorizing payment, it should ensure that an adequate review of these purchases and investigation of discrepancies be performed within an established timeframe. The purchases are predominately reviewed within the established timeframes by FDNY. However, it was noted in the new audit report that there was not adequate proof of the activity. To address this concern, the reconciliation report will be time-stamped by the reviewer upon completion, signed by the reviewer and the authorized supervisor. Moreover, copies of all email notifications to the bank and/or P-card holder will be attached to each reconciliation report.”

Auditor Comment: The FDNY’s disagreement appears to be with the timing of the reconciliation, not the reconciliation itself. With respect to the prior audit of the FDNY’s P-card usage conducted by the Comptroller’s Office, we did not “sanction” FDNY’s post-audit methodology. To the contrary, we noted that the FDNY management chose not to review P-card transactions before authorizing payment and advised that the FDNY should ensure that an adequate review of those purchases and the investigation of any noted discrepancies are well documented and performed within the timeframes it established. We maintain that it is preferable to reconcile P-card statements prior to paying them. However, it is also critical that the statements be reviewed and reconciled in a timely fashion. As we state in the current audit report, we found that the FDNY lacked sufficient evidence of such reconciliations being performed on a timely basis, if at all. We are pleased that the FDNY will be taking steps to ensure that such evidence exists.

Inadequate Controls Over Receipt of Goods and Services

Comptroller's Directives 1 and 24 both establish that conflicting functions (e.g., ordering, receiving, invoice processing, payment authorizations, and maintaining custody of assets) should be appropriately “divided or segregated among different staff to reduce the risk of error or fraud.” In other words, duties should be segregated to reduce the possibility of someone perpetrating and concealing errors or irregularities in the normal course of performing his or her duties without any independent review. Further, Comptroller’s Memorandum #01-1 establishes that receiving reports should be used. It states that the receiving reports should be compared to the card issuer’s monthly statements as well as the cardholder’s log before payment is authorized.

FDNY officials stated that,

confirmation of receipt of goods/services is required for all grant-related items procured with a P-card. Where practical, a Receiving Report is required. Where this is not practical, agency guidelines require that the completed monthly credit card log, signed by the card holder and counter-signed by the card approver, along with supporting documentation (Invoice and/or receipt) serve as the receiving report, which are maintained by the Fiscal Services department.

However, our review found that none of the documents that the FDNY considers to be receiving documents noted the quantity or condition of goods received or date of receipt. Nor did they provide assurance that all goods were received as ordered for agency use.

Although the FDNY's authorized P-card users each signed a User Agreement acknowledging that as the cardholder s/he should not be the person to complete a receiving report and that another person should receive the purchased items, we found that the FDNY P-card policies and procedures do not specifically require that a person other than the P-card holder (the purchaser) receive the purchased goods upon delivery. Moreover, as noted above, the FDNY does not require the routine use of receiving reports to document receipt of goods purchased with P-cards. Our review of sampled supporting documentation revealed that the invoices and/or shipping documents were generally made out to the attention of the P-card user that placed the order. Further, these documents were not consistently signed as received. Moreover, for those that were signed, the signatures were not sufficiently legible to determine the signatory's name. Nonetheless, the FDNY's failure to require someone other than the purchaser to receive goods and to clearly document that fact and that the goods were received increases the risk of potential misuse of P-cards.

Documenting the receipt and acceptance of goods and services by someone other than the cardholder provides reasonable assurance that the organization actually received what it is paying for. Thus, the failure to properly segregate duties between purchaser and receiver of goods and the absence of receiving reports and proper segregation of duties increases the potential for fraud and the inappropriate use of P-cards.

Recommendations

2. The FDNY should require appropriate segregation of duties, so that designated individuals other than the purchaser receive the ordered goods upon delivery.

FDNY Response: The FDNY partially agreed, stating: "The FDNY procedures note that a receiving report should be utilized and signed by an individual separate from the purchaser. However, the procedure also notes that this should be done 'where practical'. In most cases this is not a practical procedure and such a requirement would essentially negate the ability of our staff to rapidly acquire and receive goods for the support of critical agency services.

"The FDNY does agree that a separate individual should receive the goods and issue a receiving report or alternative documentation when goods are delivered by the vendor to a specific facility, if the facility has adequate staff to complete this task. Moreover, the FDNY agrees that when a service is rendered, the authorized approver of the service should co-sign the statement of receipt. These procedures have been updated and will be disseminated to all P-card holders and authorized approvers."

Auditor Comment: Although the FDNY argues that there are many circumstances under which it is not practical for the items to be received and a receiving report

prepared by a person other than the cardholder, it fails to identify what those circumstances are, apparently leaving it to the discretion of the cardholders. The FDNY should identify the circumstances under which segregation of these duties is not practical and establish the guidelines that should be followed when such circumstances exist.

3. The FDNY should require the use of receiving reports or suitable alternative documentation (e.g., invoices or packing slips), sign and date the documentation, and note the quantity and condition of goods received. Any shortages, discrepancies and/or damage to the goods on delivery should be documented.

FDNY Response: The FDNY partially agreed, stating: "Please refer to response to Recommendation #02."

Auditor Comment: At a minimum, the FDNY should ensure that a record exists that documents the receipt of the goods or services purchased. As we state in the report, none of the documents that the FDNY considers to be receiving documents noted the date of receipt or the quantity or condition of goods received. Consequently, we urge the FDNY to fully implement this recommendation.

4. The FDNY should require that when a service is purchased via a P-card, a department head co-sign a statement acknowledging that the service was satisfactorily completed. Any problems or deficiencies with the service should be noted as well.

FDNY Response: FDNY partially agreed, stating: "Please refer to response to Recommendation #02."

Auditor Comment: We are pleased that the FDNY agrees in its response that when a service is rendered, the authorized approver of the service – which in many cases would be the department head - should co-sign the statement of receipt.

Instances of P-Card Holders' Noncompliance Observed

We found instances where procedures were not consistently followed, which indicates that the FDNY needs to strengthen its efforts to improve cardholders' compliance with the agency's P-card policies and procedures as well as Comptroller's Memorandums #1-01 and 14-1. Specifically, we found that monthly P-card purchase logs were not consistently approved/signed by the cardholders and/or their supervisors or Bureau/Unit Heads, as required. We also found that P-card users did not consistently obtain competitive price quotes (bids) and/or accurately document the bids obtained. Further, we found that one employee used another's P-card to order and pay for goods, some cardholders inappropriately paid sales tax although the City is exempt, and FDNY issued P-cards to three employees using names other than their legal names. These failures to comply with applicable requirements are discussed below.

Supervisory Authorizations Not Consistently Obtained

Although FDNY P-card holders maintained and submitted monthly purchasing logs as required, they did not consistently sign the logs or have them signed by their supervisors or Bureau/Unit

Head. These supervisors' signatures establish the approving manager's authorization, and are required by the FDNY procedures and Comptroller's Memorandum #01-1.

Of the 108 P-card logs reviewed for the 40 sampled employees covering the three months of October 1–December 31, 2014, we found deficiencies with 31 logs (29 percent), representing \$100,444.93 in purchases made by 13 cardholders. Specifically, we found that, although signed by the P-card holder, 24 of the logs were not signed by the Bureau or Unit head, and 7 others were not signed at all by either the P-card holder or a superior.

The failure to ensure that Bureau/Unit heads review, sign and approve monthly P-card logs for each authorized cardholder, increases the risk that a card holder may make unauthorized purchases or otherwise misuse the P-card.

Lack of Evidence of Solicitation of Bids

FDNY P-card users did not consistently obtain competitive price quotes (bids) or accurately document them when obtained, as required by the FDNY's P-card procedures. According to those procedures, when a purchase is expected to exceed \$5,000 or is grant-funded, the cardholder must contact three vendors, either online or by phone, for price comparisons. The P-card holder must complete a micro-purchase tabulation sheet indicating the name of each vendor contacted, their contact information, and price quotes received for the goods or services purchased. The cardholder must also sign the tabulation sheet and include it when submitting his/her monthly P-card log and supporting documentation.

Of the 674 transactions we reviewed, 45 required the cardholders to contact at least three vendors for competitive bids. One of the transactions exceeded \$5,000 and 44 were grant-funded. Overall, we found that 14 (31 percent) of these 45 transactions had some deficiency in either obtaining or documenting the bid quotes. Specifically, we noted the following:

- 6 grant-funded transactions, totaling \$19,001, lacked tabulation sheets and so no evidence was available to show that the P-card holders obtained the required bids;
- 4 transactions were supported by the required tabulation sheets reflecting the vendor information for three contacts as required, but the sheets were not signed by the P-cardholder; and
- 4 transactions were supported by the required tabulation sheets, however, the sheets had less than the required three bids and all were lacking vendor contact information.

By failing to obtain the required price quotes and appropriately documenting them, FDNY P-card holders not only violate FDNY's established policies and guidelines, they also serve to usurp the agency's controls governing the P-card use.

Sales Tax Erroneously Paid

FDNY records showed that sales tax, totaling \$5,862, was paid on P-card transactions of approximately \$66,000 in Calendar Year 2014, although FDNY is exempt from sales tax. In New York State, generally, "a governmental entity is exempt from payment of sales tax on its purchases when the entity is the purchaser, user or consumer of tangible personal property."

The record maintained by the accounts payable clerk assigned full-time to reconciling P-card holder logs to the monthly statements indicated that \$5,862 had been paid in sales tax by FDNY P-card holders in Calendar Year 2014. We also found that personnel did not record all erroneous payments of sales tax on the tracking spreadsheet. Specifically, the transactions we reviewed for the sampled 40 P-card holders for the period October 1–December 31, 2014, showed that 21 (53 percent) of the card holders erroneously paid \$1,991 in sales tax on purchases of approximately \$22,431. However, the spreadsheet only included \$1,818 in sales tax paid on transactions made by 17 of the 40 sampled P-card holders. Our review of supporting documentation disclosed another seven card holders who paid \$185.27 in additional sales tax on transactions during the same period. Therefore, the total amount of sales tax erroneously paid on transactions was greater than that recorded on the tracking spreadsheet.

The accounts payable clerk told us that when she observes that sales tax is paid on a transaction, she will contact the P-card user by email or phone to advise him/her that sales tax should not have been paid and instruct the person to contact the vendor to request reimbursement/recoupment of the sales tax amount that was erroneously paid. Our review of the P-card statements and supporting documentation for the test period showed that FDNY did indeed at times attempt to recoup the sales tax from the vendors, however, not consistently.

After discussing the matter with FDNY officials, the agency updated its “Procurement Card Procedures and Guidelines,” adding a section explicitly stating that the “FDNY is exempt of all taxes.” The section instructs staff what must be done in the event sales tax is erroneously paid on a P-card transaction. While this update is an important enhancement to the FDNY’s program, it still needs to monitor usage and ensure that P-card users consistently comply with agency procedures governing their use.

P-Card Assigned to One Employee Was Inappropriately Used by Another

For the 40 sampled P-card holders, we found that in all but one instance, the purchases made with P-cards were transacted by FDNY’s authorized P-card holders. However, we found that one cardholder loaned his P-card to a subordinate to make three purchases, despite being advised that FDNY procedures, Citywide P-card policies, and Comptroller’s Memorandum #01-1 *explicitly prohibit* the use of P-cards by anyone other than the assigned cardholder. P-cards are not to be loaned to or used by anyone other than the employee or employees authorized to use it.

Of the 674 transactions reviewed for the 40 sampled P-card holders for the period October 1 through December 31, 2014, we observed three transactions where a P-card of an authorized user was loaned to and used by another person to purchase two executive office chairs valued at approximately \$900 each and the installation of a carpet valued at \$4,000. These three transactions occurred in the same month. In all three instances, the Unit Director gave his card to a subordinate supervisor to place the orders and pay for the items. The employee who made the actual purchases was not the authorized P-card holder. Notwithstanding, he completed a P-card log sheet for the month, which was then approved (signed) by his superior, the authorized P-card holder.

We observed and verified that the chairs and carpeting were purchased and in use at FDNY headquarters. FDNY officials stated that the purchases were allowable because the cardholder was the supervisor of the employee who made purchase using the supervisor’s P-card. However,

their position is in violation of the City's and agency's own procedures. The use of a P-card by a person other than the named card holder increases the potential for fraud and misuse of the cards.

Conclusion

Collectively, the deficiencies in P-card holders' compliance with established procedures disclosed in our review of sampled transactions strongly indicates that the FDNY needs to foster better compliance among its cardholders. DCAS' Citywide P-card procedures provide a P-card checklist that highlights the major required functions and activities that all cardholders must follow when making a P-card transaction. The checklist serves to remind and hold accountable P-card holders for ensuring compliance with P-card procedures. Although not required, agencies are encouraged to use the checklist. However, we found that the FDNY did not use this checklist or anything similar.

Recommendations

5. The FDNY should instruct its accounts payable department to immediately return any P-card logs that are not signed by a Bureau/Unit Head to the P-card holder before authorizing payment of any related charges.

FDNY Response: The FDNY partially agreed, stating: "As noted in the response to Recommendation #01, the City holds a contract with U.S. Bank to supply P-cards to each agency. A condition of the credit card contract is that payments shall be made within twenty-five (25) calendar days after the billing statement closing date. Due to the magnitude of the P-card logs to be reviewed, and the fact that the overwhelming majority of logs are confirmed as accurate, the FDNY had elected to perform the reconciliation on a post-audit basis to assure that the payment is made to the bank without incurring credit card interest and late fees on the transactions. In the event that an unauthorized order is identified, a dispute can be expeditiously noted to U.S. Bank, but the contractually required payment will still be made by the deadline, with any determined reimbursement to be received once the dispute has been resolved. However, we do agree that any P-card logs are not cosigned by the authorized approvers should be returned to the unit for signature."

Auditor Comment: We are pleased that the FDNY agrees that P-card logs that are not co-signed by authorized approvers should be returned for signature. However, because the FDNY gives higher priority to paying the credit card statements over obtaining missing supervisory approvals, the risk that unauthorized purchases could go undetected is increased. Therefore, we urge the FDNY to fully implement this recommendation.

6. The FDNY should ensure that its P-card holders obtain price quotes and appropriately document them on the P-card tabulation sheets when procuring goods with P-card in excess of \$5,000 or those that are grant-funded, as required by FDNY procedures.

FDNY Response: "Partially Agree. The City rules governing micro-purchases of under \$20,000 do not mandate that such procurements require competition, and although competitive pricing is a preference by FDNY, the P-cards also presents an opportunity for the FDNY to acquire goods and services from minority and/or women owned business enterprises without the need for a quotation process (though remaining cognizant of the need to ensure reasonable pricing). For the purchase of

products that are grant funded, competitive quotes are not required for those items with a value less than \$3,000, and instructions in this regard are being forwarded to P-card users who make such purchases. FDNY has modified its procedures for P-cards to remain consistent with the City micro-purchase rules and the revised federal guidance and will notify all cardholders of these changes."

Auditor Comment: We recognize that City procurement regulations and requirements of federal grant programs may be amended over time and may differ from agency-established procedures, so long as those procedures are not more permissive than the City procurement rules. While we commend FDNY for being responsive in modifying its procedures to maintain consistency with other requirements, with respect to the audit scope period covered in this audit, we applied FDNY's procedures then in effect when assessing P-card transactions. As we noted herein and FDNY points out its response, those procedures clearly required that P-card holders were to obtain price quotes when procuring goods greater than \$5,000 or those that were grant funded.

7. The FDNY should remind all of its P-card holders that the FDNY is tax exempt and therefore sales tax should not be charged for any goods and/or services procured for agency use with P-cards.

FDNY Response: "Agree. FDNY agrees that sales tax should not be charged for any goods and/or services procured for agency use and has instructed the cardholders in this regard. This finding of the audit showed that \$5,862 was paid in sales tax in calendar year 2014 on total purchases in excess of \$4.5 million, indicating that more than 99.9% of the purchases were made correctly without the addition of sales tax.

"We do acknowledge that the payment of sales tax was incorrect in these few instances, and should not have been authorized by the card holder. The FDNY has notified the cardholders to contact the vendors to obtain a refund of the sales tax, and a portion of the tax was recovered as a credit to the P-cards, and the process of recovery ongoing. Cardholders are advised that sales tax is not applicable and will be periodically reminded that sales tax should not be charged for FDNY purchases."

8. The FDNY should remind all of its P-card holders that the cards are not to be used by anyone other than the authorized cardholders. P-card privileges should be immediately terminated for any user who violates this requirement.

FDNY Response: "Agree. The FDNY agrees that a P-card should not be used by anyone other than the authorized cardholder and strictly enforces this requirement. The audit report made a finding that one cardholder (now retired) allowed his subordinate to utilize his P-card in three purchases. The FDNY has carefully reviewed the other P-card logs and usage reports to determine the extent of the usage by individuals other than cardholder. We have determined that this is an isolated instance by one individual where the cardholder violated agency procedures, and is not indicative of a systemic problem."

Auditor Comment: The one cardholder who we found had inappropriately allowed another individual to use his P-card to make purchases was a person of reasonably high position within the agency, who should have set an example for subordinate employees. A negative precedent is established when a person in authority sidesteps

procedures. Reminding employees of the impropriety of allowing others to use his/her assigned card and the consequences of doing so serves as a preventive measure to communicate that the process is monitored.

9. The FDNY should consider implementing the use of the P-card checklist, as encouraged by DCAS, to foster its P-card holders' compliance with established procedures governing the use of the P-card.

FDNY Response: "Partially Agree. The FDNY provides P-card holders with instructions in use of the P-card. Furthermore, the P-card agreement, which is signed by each cardholder, details rules governing the utilization of the card. This agreement contains substantially the same compliance requirements as detailed on the DCAS checklist. FDNY has established a separate checklist for reference by the cardholders, but this list will not be required form for each transaction. The checklist conforms to procedures established by FDNY in use of the P-card."

Auditor Comment: We are pleased that the FDNY appears to largely agree with this recommendation as it has established and implemented the use of its own checklist instead of the DCAS P-card checklist to foster compliance with established procedures.

Other Issue

P-Cards Users Not Verified in the City's Payroll Management System

The FDNY issued P-cards to three employees using names other than their legal names as reflected in the City's Payroll Management System (PMS). The cards were issued in each person's nicknames. For example, one card was issued to "Jack" instead of "John," the cardholder's legal name. Another card was issued to "Margie" instead of the cardholder's legal name of "Maria," and the third card was issued in the name of "Jason" rather than in the cardholder's legal name of "Yat Wee."

This occurred because the FDNY's P-card Administrator does not verify the employee's name appearing on the approved P-Card User Agreement with PMS employee records. Instead, the administrator relies solely on the name that is printed on the signed user agreement. Without verifying the names of new P-card applicants through PMS there is an increased risk that P-cards could be issued to fictitious employees and used to make unauthorized purchases

Recommendation

10. The FDNY should ensure that P-cards are issued to employees in their legal names.

FDNY Response: "Agree. The audit report found that in three instances, cardholders had their common, work first names on the P-card. When applying for the P-card these individuals used these names on the applications. All employees applying for, and approved for P-cards, are verified by the P-card administrator, and no individual has

made any changes to their legal last names on the card, nor has the agency uncovered any fraud in the use of the P-card.

"FDNY is actively developing controls to verify that all P-cards are issued to individuals using their full legal name, as listed in the City's Payroll Management System (PMS). The P-card administrator will verify the candidate's legal name per PMS and ensure that it is used on the P-card Request form, prior to ACCO approval and forwarding the request to DCAS. The controls will include a printout of the cardholder's name from PMS, which will be attached to the cardholder application. Any cardholder application that does not conform will be rejected and returned to the applicant for re-submission with the correct legal name."

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The audit scope covered Calendar Year 2014 (January 1–December 31, 2014). To gain an understanding of how the FDNY's P-card program operates, the flow of transactions from request to payment, and the key controls over the entire process, we reviewed the FDNY's "Procurement Card Procedures and Guidelines" and "Purchasing Card User Agreement" form. We also interviewed key officials and conducted walkthroughs of related processes. To supplement our understanding of the City's overall P-card program, we reviewed the Department of Citywide Administrative Services' (DCAS) current contract with US Bank and its prior contract with Bank of America. Further, we reviewed a prior audit conducted by our office, entitled "*Audit Report on the Use of Procurement Cards by the Fire Department*" (#MD08-072A), issued May 5, 2008, and noted findings and conditions in that report relevant to this current audit.

We compared FDNY's procedures to DCAS' Office of Citywide Purchasing ("Purchasing Card (P-card) Policies and Guidelines," updated December 2013), Comptroller's Memorandum #01-1 ("Guidelines for use of Procurement/Purchasing Cards," issued June 22, 2001) and Memorandum #14-1 (Updates to Comptroller's Memorandum #01-1, issued September 13, 2013) to determine whether they addressed the key requirements and aspects of the Citywide P-card procedures and Comptroller's memorandums. These sources along with Comptroller's Directive #1 ("Principles of Internal Control") and Directive 24 ("Agency Purchasing Procedures and Controls") were used as audit criteria. We performed tests of controls, documented our understanding of those controls, and confirmed this information with FDNY officials.

According to FDNY records, in Calendar Year 2014 the agency had authorized 130 employees as P-card holders. We compared the names, titles, and employment dates included on the FDNY's list of P-card holders to the list of the FDNY's active employees in 2014, obtained from the City's Payroll Management System (PMS), to verify that the named P-card holders were FDNY employees.

In Calendar Year 2014, the FDNY's P-card users made 4,802 P-card purchases totaling \$4,266,794. For audit testing purposes, we targeted the last quarter of calendar 2014 (October 1–December 31, 2014) as our audit test period because it represented the time period with the most recently occurring transactions at the time the test was designed and conducted. For the three-month test period, 101 of the P-card holders made 1,232 purchases, totaling \$1,263,431.65 (30 percent of the annual total). For all 101 cardholders who made purchases in the three months October–December 2014, we determined whether FDNY had required that each complete and submit a Purchasing Card User Agreement and had been made aware of the rules and regulations regarding the use of P-cards.

We randomly selected 40 (40 percent) of the 101 P-card holders who made purchases during the three-month period October–December 2014. To do so, we stratified the card holders total purchases into five strata of \$5,000 increments (i.e., \$0.01–\$5,000.00, \$5,000.01–\$10,000, etc.)

up to \$20,000.01 and greater. Then, we randomly selected eight card holders from each strata for the total sample of 40 cardholders. Overall, these 40 sampled P-card holders made 674 purchases, totaling \$553,752.95 during the three-month test period, representing 44 percent of the total quarter's P-card expenditures of \$1,268,586 (13 percent of \$4.3 million, the FDNY's total P-card purchases made in Calendar Year 2014).

For the sampled 40 P-card holders, the FDNY provided us with the monthly U.S Bank statements for each P-card holder for the three months of October through December 2014. We reviewed statements and supporting documents and details of all transactions made by the sampled P-card holders for the stated test period to determine whether:

- Monthly P-card logs were completed, signed, submitted by the user and approved as required.
- Transactions and pricing were appropriately supported by invoices, charge receipts, and other appropriate documentation and matched the charges on the credit card statement.
- Receiving reports were present and, if so, whether they were signed by a person other than the P-card holder.
- Sales tax was not paid.
- Any purchase exceeded each card holder's single transaction limit and/or monthly limit.
- Any purchases were erroneously split to circumvent the purchasing thresholds.
- P-cards were not used for travel and/or meal expenses.

In addition, we determined whether the monthly transaction statements from U.S. Bank were compared promptly to the P-card holder's monthly logs and support documentation.

Finally, to determine whether the FDNY keeps an accurate record of inventory purchased with a P-card, we judgmentally selected a sample of 50 equipment and furniture items from the sampled purchases transacted between October 1 and December 31, 2014 made by P-card holders at FDNY's Brooklyn headquarters. Accompanied by FDNY personnel, we visited the various units/departments, spoke with officials there, observed the sampled items to verify their existence, and traced the items to the respective units' inventory records, where applicable.

The results of these tests, while not projectable to the entire population of P-card purchases in Fiscal Year 2014, provided a reasonable basis to determine whether the FDNY maintained adequate controls over the use of P-cards.



FIRE DEPARTMENT

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BROOKLYN, N.Y. 11201-3857

DANIEL A. NIGRO
Fire Commissioner

Suite 8W-6

February 12, 2016

Marjorie Landa
Deputy Comptroller
Bureau of Audit
The City of New York Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

Re: Audit Report on the Use of Purchasing Cards by the New York City Fire Department – MJ15-099A

Dear Deputy Comptroller Landa:

Attached is a copy of the Fire Department's response and Agency Implementation Plan (AIP) to the ten recommendations made by the Office of the Comptroller in the above mentioned audit.

Please thank your staff for the time and diligence that they put into this audit. The Department appreciates their efforts, and intends to utilize their recommendations as detailed in the AIP.

If you have any questions about our response or AIP, please contact Domenick Loccisano, Executive Director of Internal Audit and Control, at (718) 999-5180.

Sincerely,

Daniel A. Nigro

Attachment

c: Robert R. Turner II, First Deputy Commissioner
James Leonard, Chief of Department
Robert Sweeney, Deputy Commissioner and Chief of Staff
Edward M. Dolan, Deputy Commissioner for Strategic Initiatives and Policy
Stephen Rush, Assistant Commissioner for Budget and Finance
Kat Thomson, Assistant Commissioner for Management Analysis and Planning
George Davis III, Deputy Director Mayor's Office of Operations

FDNY Agency Implementation Plan

Audit #: MJ15-099A

Audit Name: Audit Report on the Use of Purchasing Cards by the New York City Fire Department

Rec. #:

01

Recommendation

The FDNY should ensure that card-holder monthly P-card/credit card logs be promptly reconciled with the monthly statements prior to payment.

FDNY Response: Disagree

As noted in the findings, the FDNY accounts payable maintains tracking information on each P-card users' total purchases for each month. The concern of the finding was to assure that the reconciliations are conducted in a prompt and timely fashion. Further, the recommendation noted that the reconciliation occur prior to payment. The City holds a contract with U.S. Bank to supply P-cards to each agency. A condition of the credit card contract is that payments shall be made within twenty-five (25) calendar days after the billing statement closing date. At the time the statements are received by FDNY, copies are sent to each P-card holder so that the charges can be verified prior to submission of the P-card log. Due to the magnitude of the P-card logs to be reviewed, and the fact that the overwhelming majority of logs are confirmed as accurate, the FDNY has elected to perform the reconciliation on a post-audit basis to assure that the payment is made to the bank without incurring credit card interest and late fees on the transactions. FDNY can notify the bank or directly notify the vendor to resolve a disputed transaction and receive a credit for incorrect charges. The use of the post-audit methodology was also sanctioned by the Office of the Comptroller in a prior P-card audit report, dated May 5, 2008, where it was noted that if FDNY chooses not to review the P-card prior to authorizing payment, it should ensure that an adequate review of these purchases and investigation of discrepancies be performed within an established timeframe. The purchases are predominately reviewed within the established timeframes by FDNY. However, it was noted in the new audit report that there was not adequate proof of the activity. To address this concern, the reconciliation report will be time-stamped by the reviewer upon completion, signed by the reviewer and the authorized supervisor. Moreover, copies of all email notifications to the bank and/or P-card holder will be attached to each reconciliation report.

FDNY Agency Implementation Plan

Audit #:MJ15-099A

02

Recommendation

The FDNY should require appropriate segregation of duties, so that designated individuals other than the purchaser receive the ordered goods upon delivery.

FDNY Response: Partially Agree

The development of the P-card has changed the dynamics of the procurement process for the Fire Department. The use of the P-cards has provided increased flexibility in obtaining goods and services while at the same time presenting opportunities to increase awards to minority and/or women owned business enterprises (though remaining cognizant of the need to ensure reasonable pricing). Moreover, the P-card has allowed us to reduce the time and cost of processing an order. We strongly believe that the reward for the expansion of the P-card program greatly outweighs the risks associated with a decentralized procurement program and we believe this audit, while identifying areas for improvement, supports our conclusions.

Currently, approximately 130 users have P-cards, and the majority of the cardholders are located in the field units providing emergency response and support functions. This increase in users was partially based on the recommendation by the Office of the Comptroller in the 2008 audit report. Most goods are purchased and received at the point of sale by the P-card holder, and are not delivered by the vendor to a central location. In many cases, tradespeople providing repairs and maintenance in FDNY facilities use the P-card to procure parts from local sources so that they can complete the repair expeditiously without the time-consuming burden of returning to a warehouse.

The FDNY procedures note that a receiving report should be utilized and signed by an individual separate from the purchaser. However, the procedure also notes that this should be done 'where practical'. In most cases this is not a practical procedure and such a requirement would essentially negate the ability of our staff to rapidly acquire and receive goods for the support of critical agency services.

The FDNY does agree that a separate individual should receive the goods and issue a receiving report or alternative documentation when goods are delivered by the vendor to a specific facility, if the facility has adequate staffing to complete this task. Moreover, the FDNY agrees that when a service is rendered, the authorized approver of the service should co-sign the statement of receipt. These procedures have been updated and will be disseminated to all P-card holders and authorized approvers.

FDNY Agency Implementation Plan

Audit #:MJ15-099A

- 03 Recommendation**
The FDNY should require the use of receiving reports or suitable alternative documentation (e.g., invoices or packaging slips), sign and date the documentation, and note the quantity and condition of goods received. Any shortages, discrepancies and/or damage to the goods on delivery should be documented.

FDNY Response: Partially Agree
Please refer to response to Recommendation #02.

- 04 Recommendation**
The FDNY should require that when a service is purchased via a P-card, a department head co-sign a statement acknowledging that the service was satisfactorily completed. Any problems or deficiencies with the service should be noted as well.

FDNY Response: Partially Agree
Please refer to response to Recommendation #02.

- 05 Recommendation**
The FDNY should instruct its accounts payable department to immediately return any P-card logs that are not signed by a Bureau/Unit Head to the P-card holder before authorizing payment of any related charges.

FDNY Response: Partially Agree
As noted in the response to Recommendation #01, the City holds a contract with U.S. Bank to supply P-cards to each agency. A condition of the credit card contract is that payments shall be made within twenty-five (25) calendar days after the billing statement closing date. Due to the magnitude of the P-card logs to be reviewed, and the fact that the overwhelming majority of logs are confirmed as accurate, the FDNY has elected to perform the reconciliation on a post-audit basis to assure that the payment is made to the bank without incurring credit card interest and late fees on the transactions. In the event that an unauthorized order is identified, a dispute can be expeditiously noted to U.S. Bank, but the contractually required payment will still be made by the deadline, with any determined reimbursement to be received once the dispute has been resolved. However, we do agree that any P-card logs that are not co-signed by the authorized approvers should be returned to the unit for signature.

FDNY Agency Implementation Plan

Audit #:MJ15-099A

06

Recommendation

The FDNY should ensure that its P-card holders obtain price quotes and appropriately document them on the P-card tabulation sheets when procuring goods with P-card in excess of \$5,000 or those that are grant-funded, as required by FDNY procedures.

FDNY Response: Partially Agree

The City rules governing micro-purchases of under \$20,000 do not mandate that such procurements require competition, and although competitive pricing is a preference by FDNY, the P-cards also presents an opportunity for the FDNY to acquire goods and services from minority and/or women owned business enterprises without the need for a quotation process (though remaining cognizant of the need to ensure reasonable pricing). For the purchase of products that are grant funded, competitive quotes are not required for those items with a value less than \$3,000, and instructions in this regard are being forwarded to P-card users who make such purchases. FDNY has modified its procedures for P-cards to remain consistent with the City micro-purchase rules and the revised federal guidance and will notify all cardholders of these changes.

07

Recommendation

The FDNY should remind all of its P-card holders that the FDNY is tax exempt and therefore sales tax should not be charged for any goods and/or services procured for agency use with P-cards.

FDNY Response: Agree

FDNY agrees that sales tax should not be charged for any goods and/or services procured for agency use and has instructed the cardholders in this regard. The finding of the audit showed that \$5,862 was paid in sales tax in calendar year 2014 on total purchases in excess of \$4.5 million, indicating that more that 99.9% of the purchases were made correctly without the addition of sales tax.

We do acknowledge that the payment of sales tax was incorrect in these few instances, and should not have been authorized by the cardholder. The FDNY has notified the cardholders to contact the vendors to obtain a refund of the sales tax, and a portion of the tax was recovered as a credit to the P-cards, and the process of recovery is ongoing. Cardholders were advised that sales tax is not applicable and will be periodically reminded that sales tax should not be charged for FDNY purchases.

FDNY Agency Implementation Plan

Audit #:MJ15-099A

08

Recommendation

The FDNY should remind all of its P-card holders that the cards are not to be used by anyone other than the authorized cardholders. P-card privileges should be immediately terminated for any user who violates this requirement.

FDNY Response: Agree

The FDNY agrees that a P-card should not be used by anyone other than the authorized cardholder and strictly enforces this requirement. The audit report made a finding that one cardholder (now retired) allowed his subordinate to utilize his P-card in three purchases. The FDNY has carefully reviewed the other P-card logs and usage reports to determine the extent of the usage by individuals other than cardholder. We have determined that this is an isolated instance by one individual where the cardholder violated agency procedures, and is not indicative of a systemic problem.

09

Recommendation

The FDNY should consider implementing the use of the P-card checklist, as encouraged by DCAS, to foster its P-card holders' compliance with established procedures governing the use of the P-card.

FDNY Response: Partially Agree

The FDNY provides P-card holders with instructions in use of the P-card. Furthermore, the P-card agreement, which is signed by each cardholder, details rules governing the utilization of the card. This agreement contains substantially the same compliance requirements as detailed on the DCAS checklist. FDNY has established a separate checklist for reference by the cardholders, but this list will not be a required form for each transaction. The checklist conforms to procedures established by FDNY in use of the P-card.

10

Recommendation

The FDNY should ensure that P-cards are issued to employees in their legal names.

FDNY Response: Agree

The audit report found that in three instances, cardholders had their common, work first names on the P-card. When applying for the P-card, these individuals used these names on the application. All employees

FDNY Agency Implementation Plan

Audit #:MJ15-099A

applying for, and approved for P-cards, are verified by the P-card administrator, and no individual has made any changes to their legal last names on the card, nor has the agency uncovered any fraud in the use of the P-card.

FDNY is actively developing controls to verify that all P-cards are issued to individuals using their full legal name, as listed in the City's Payroll Management System (PMS). The P-card administrator will verify the candidate's legal name per PMS and ensure that it is used on the P-card Request form, prior to ACCO approval and forwarding the request to DCAS. The controls will include a printout of the cardholder's name from PMS, which will be attached to the cardholder application. Any cardholder application that does not conform will be rejected and returned to the applicant for re-submission with the correct legal name.