

AUDIT REPORT

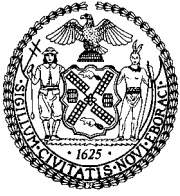


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Small Procurement and Vouchering Practices of the Department of Records and Information Services

ME06-058A

June 26, 2006



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

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has audited the compliance of the Department of Records and Information Services (DORIS) with applicable Procurement Policy Board rules and Comptroller's Directives governing small procurement and vouchering practices.

DORIS maintains and preserves the City's historical documents and publications, and responds to reference and research requests from the general public. We audit City agencies such as this to provide a means of ensuring that City funds are spent efficiently and in full compliance with established guidelines.

The results of our audit, which are presented in this report, have been discussed with DORIS officials, and their comments were considered in the preparation of this report. Their complete written response is attached to this report.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in cursive script that reads 'William C. Thompson, Jr.'.

William C. Thompson, Jr.

WCT/ec

Report: ME06-058A
Filed: June 26, 2006

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

**Audit Report on the Small Procurement
And Vouchering Practices of the
Department of Records and Information Services**

ME06-058A

AUDIT REPORT IN BRIEF

This audit determined whether the Department of Records and Information Services (DORIS) complies with applicable Procurement Policy Board (PPB) rules and Comptroller's Directives governing small procurement and vouchering practices. DORIS maintains and preserves the City's historical documents and publications, and responds to reference and research requests from the general public. DORIS is subdivided into three divisions: Municipal Archives, the Municipal Records Management Division, and the City Hall Library. For Fiscal Year 2005, DORIS expended \$2,006,537 for Other Than Personal Services (OTPS). Although DORIS handles most of its own purchases, procurements of goods costing more than \$25,000 are handled for DORIS by the Department of Citywide Administrative Services (DCAS), based on purchase requisitions prepared and approved by DORIS.

Audit Findings and Conclusions

Our review of DORIS's small procurement and vouchering practices indicated that the agency generally complied with applicable PPB rules and Comptroller's Directives. As required by those guidelines, DORIS has established an adequate segregation of duties for its small procurement practices. Also, based on our review of purchase documents relating to our sample, DORIS, in general, properly authorized purchases, encumbered agency funds, charged the correct object codes, sought and obtained the required number of bids, documented the receipt of goods and services, and made authorized payments on its small procurements, as required. In addition, miscellaneous vouchers were properly authorized and used, and the imprest fund was periodically reconciled, as required. However, DORIS occasionally used signature stamps in the approval of purchase documents. In addition, DORIS did not stamp the invoice receipt date on its vendors' invoices and did not record the dates of delivery of goods or services.

Audit Recommendations

To address these issues, we make the following recommendations:

- DORIS should discontinue the use of signature stamps on purchase documents.

- DORIS should stamp the invoice receipt date on its vendors' invoices and record delivery dates to track compliance with the PPB Prompt Payment rule.

Agency Response

In its response, DORIS officials agreed with the audit's findings and recommendations.

INTRODUCTION

Background

The Department of Records and Information Services maintains and preserves the City's historical documents and publications, and responds to reference and research requests from the general public. DORIS is subdivided into three divisions: Municipal Archives, the Municipal Records Management Division, and the City Hall Library. The Municipal Archives provide access to historical documents generated by the municipal government and serve all City agencies and employees as well as the general public. The Municipal Records Management Division ensures the maintenance of records that have continuing administrative, legal, and fiscal value to the City, while providing for the proper disposition of records that are no longer needed. The City Hall Library is the official depository for all reports and studies published by City agencies.

In Fiscal Year 2005, DORIS expended \$2,006,537 for Other Than Personal Services. Although DORIS handles most of its own purchases, procurements of goods costing more than \$25,000 are handled for DORIS by the Department of Citywide Administrative Services, based on purchase requisitions prepared and approved by DORIS. During Fiscal Year 2005, DORIS expended a total of \$895,389 for 381 payment vouchers that are the subject of this audit. These included 349 payment vouchers totaling \$880,898, 20 miscellaneous payment vouchers totaling \$4,628, and 12 payments vouchers to reimburse the imprest funds totaling \$9,863. In addition, in Fiscal Year 2005, DCAS charged DORIS \$1,106,968 for rental expenses, and \$4,180 was expended on net miscellaneous transactions.

The Mayor, the Comptroller, and various oversight agencies have established rules and regulations to standardize administrative, financial, and management procedures among all City agencies and to ensure the integrity of the City's management and financial systems. The Comptroller's Internal Control and Accountability Directives (Comptroller's Directives) are a body of such 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. The Procurement Policy Board promulgates rules governing City procurements and contracts. All City agencies are expected to comply with these rules and regulations. This audit reviewed DORIS's handling of small purchases, which, according to PPB rules, include those procurements costing less than \$100,000.

Objective

The objective of the audit was to determine whether DORIS complies with applicable PPB rules and Comptroller's Directives governing small procurement and vouchering practices.

Scope and Methodology

The scope of our audit was small procurements and vouchering practices for the period July 1, 2004, through June 30, 2005.

To gain an understanding of DORIS's purchasing practices, interviews were conducted with the agency's Director of Administration, Budget Officer, and Procurement Analyst. We also reviewed DORIS's purchasing procedures, PPB rules 3-08 (Small Purchases) and 4-06 (Prompt Payment), and Comptroller's Directives #3 (Imprest Funds), #6 (Miscellaneous Agency Expenses), and #24 (Agency Purchasing Procedures and Controls), which relate to our audit scope. In addition, the DORIS Fiscal Year 2005 budget and other relevant information were reviewed to gain an understanding of the agency and its small procurement operations.

To determine whether DORIS complied with applicable rules and regulations, we obtained a printout of DORIS's small procurement payments for Fiscal Year 2005. DORIS issued a total of 381 payment vouchers (including miscellaneous vouchers and imprest fund vouchers) in Fiscal Year 2005, totaling \$895,389. A randomly selected sample of 50 (13%) of the 381 payments was reviewed. The 50 payments totaled \$124,790 (14% of the \$895,389 paid on the 381 vouchers). For these purchases, we determined whether DORIS complied with the relevant PPB rules and Comptroller's Directives. Our sample consisted of 45 payment vouchers, three miscellaneous vouchers, and two payment vouchers to reimburse the imprest fund. The \$1,106,968 that DCAS charged DORIS for rental expenses and the \$4,180 expended on net miscellaneous transactions in Fiscal Year 2005 were not included in our audit scope.

DORIS's records were reviewed to determine whether the transactions were supported by appropriate documentation, were properly processed and authorized, and were charged to the correct object codes. The records for all payment vouchers exceeding \$5,000 were reviewed to determine whether the required number of bids was sought and obtained. We also determined whether there was an adequate segregation of duties in DORIS's small procurement practices.

To determine whether DORIS attempted to avoid bidding rules by splitting purchases, all of the 381 payment voucher purchases made by DORIS in Fiscal Year 2005 were reviewed. We sorted the purchase orders by items purchased and determined whether there were any purchases of the same goods or services within a one-month period that aggregated to \$5,000 or more.

To determine whether prior audit recommendations had been implemented, we reviewed the New York City Comptroller's *Audit Report on the Department of Records and Information Services' Small Procurement and Vouchering Practices* (MG00-131A), issued on June 28, 2000.

We did not specifically evaluate the reliability and integrity of the computer-processed purchasing data that we obtained from the Citywide Financial Management System, since the City's external auditors review this system as part of their annual audit of the City's financial statements.

The results of the above tests, while not statistically projected to their respective populations, provided a reasonable basis for assessing DORIS's small procurement practices.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered

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

Discussion of Audit Results

The matters covered in this report were discussed with DORIS officials during and at the conclusion of this audit. A preliminary draft report was sent to DORIS officials on March 27, 2006, and was discussed at an exit conference held on April 18, 2006. On May 15, 2006, we submitted a draft report to DORIS officials with a request for comments. We received a written response from DORIS officials on May 30, 2006. In their response, DORIS officials agreed with the audit's findings and recommendations.

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

FINDINGS AND RECOMMENDATIONS

Our review of DORIS's small procurement and vouchering practices indicated that the agency generally complied with applicable PPB Rules and Comptroller's Directives. As required by those guidelines, DORIS has established an adequate segregation of duties for its small procurement practices. Also, based on our review of purchase documents relating to our sample, DORIS, in general, properly authorized purchases, encumbered agency funds, charged the correct object codes, sought and obtained the required number of bids, documented the receipt of goods and services, and made authorized payments on its small procurements, as required. In addition, based on our sample review, miscellaneous vouchers were properly authorized and used, and the imprest fund was periodically reconciled, as required. However, DORIS occasionally used signature stamps in the approval of purchase documents. In addition, DORIS did not consistently stamp the invoice receipt date on its vendors' invoices or record the dates of delivery of goods and services.

DORIS's Small Procurement Practices Were Generally in Compliance with Applicable City Rules and Regulations

DORIS generally adhered to the requirements outlined in Comptroller's Directives #3, #6, and #24, as well as in PPB rules 3-08 and 4-06. Our review of a randomly selected sample of purchases gave reasonable assurance that DORIS had adequate controls over its use of payment vouchers, miscellaneous vouchers, and imprest fund vouchers.

Payment Vouchers Were Properly Processed and Authorized

Based on our sample review, DORIS personnel properly processed and authorized agency purchases in Fiscal Year 2005.

As stated in Comptroller's Directive #24, purchase documents "represent an agreement with a vendor to purchase goods and services, and are used to record the accounting event associated with the purchase. Purchase Documents consist of Requisitions, Purchase [Orders], FMS Contract Documents, and Payment Vouchers." In addition, purchase documents provide the agency with a permanent record to document the purchase of goods or services and facilitate the review and approval process by agency personnel during the vouchering function.

Section 3-08 of the PPB rules states that for small purchases more than \$5,000 in value, at least five vendors should be contacted through either oral or written solicitations, and responsive bids should be obtained from at least two vendors. For small purchases more than \$25,000, vendors should be contacted through a written solicitation.

To verify that DORIS complied with the applicable PPB rules and Comptroller's Directives, a randomly selected sample of 45 of the 349 payment vouchers issued by DORIS in Fiscal Year 2005 was reviewed. These 45 payment vouchers, totaling \$122,312, involved 62 transactions. Our examination disclosed that DORIS, in general, properly authorized purchases,

encumbered agency funds, charged the correct object codes, sought and obtained the required number of bids, documented the receipt of goods and services, and made authorized payments on its small procurements, as required.

For the 45 payment vouchers in our sample, one purchase order valued at \$1,255 for processing credit card payments was not available, one receiving report for a \$60 purchase of fax machine toner was not available, and one invoice for a \$14 purchase of spring water was not stamped “vouchered” as required to avoid duplicate payments.

No Evidence of Split Purchases

Our review of DORIS’s small procurements in Fiscal Year 2005 did not reveal any evidence of “split” purchases.

Comptroller’s Directive #24 states that “City agencies may not artificially split purchases by the use of Purchase Documents when an FMS contract document is required. Intentionally splitting a purchase to circumvent law, rules, regulations, or Comptroller’s Directives is also prohibited, whether using FMS purchase documents or any other documents.” As noted above, PPB rules state that for small purchases more than \$5,000 in value, at least five vendors should be contacted through oral or written solicitations, and responsive bids should be obtained from at least two vendors. For small purchases more than \$25,000, vendors should be contacted through a written solicitation. To circumvent these requirements, an agency may attempt to split purchases so that individual purchases do not reach these thresholds.

To determine whether there were any split purchases, DORIS’s small purchases in Fiscal Year 2005 were sorted by item ordered and by date. We did not find any multiple purchases of the same good or service during a one-month period that in the aggregate exceeded \$5,000.

Miscellaneous Vouchers Were Properly Processed and Authorized

Based on our sample review, DORIS properly authorized and used miscellaneous vouchers in Fiscal Year 2005.

Comptroller’s Directive #24 states that “Miscellaneous Payments Vouchers may be used only when estimated or actual future liability is not determinable, or a contract or a Purchase Document is not required or applicable.” Furthermore, Comptroller’s Directive #6, states that “Personal Expense Reimbursement Requests must describe the specific reason for each use.”

To determine whether DORIS exercised proper control and authority over its miscellaneous vouchers, a randomly selected sample of three of the 20 miscellaneous vouchers issued by DORIS in Fiscal Year 2005 was reviewed. These three payment vouchers involved five transactions. We found that the miscellaneous vouchers (1) were used only for allowable purposes as per the directives, (2) were properly prepared and approved, and (3) were charged to the correct object codes. However, one invoice was paid more than 30 days after the date of the invoice (58 days late).

Imprest Fund Vouchers Were Properly Processed and Authorized

Based on our sample review, DORIS properly handled its imprest fund vouchers in Fiscal Year 2005.

Comptroller's Directive #3 states that agencies may "use imprest funds for a variety of minor expenditures. Appropriate imprest fund expenditures, each of which must not exceed \$250, include the purchase of supplies, materials and small equipment. The payment of employee expenses such as local transportation, out-of-town travel costs and other allowable costs are permitted."

We randomly selected and reviewed two of the 12 imprest fund payment vouchers issued by DORIS in Fiscal Year 2005. These two payment vouchers involved 10 transactions. Relevant supporting documentation and receipts were examined. We concluded that the expenditures were authorized, permissible, and within allowed amounts. Checks drawn on the account had safeguards printed on them, such as "void in excess of 250 dollars" and "not valid after ninety (90) days," and were made payable to specific payees. In addition, the imprest fund account was reconciled on a monthly basis.

Weaknesses in DORIS's Procurement Practices

DORIS occasionally used signature stamps in the approval of purchase documents. The New York City Comptroller's Office *Audit Report on the Department of Records and Information Services' Small Procurement and Vouchering Practices*, issued on June 28, 2000, stated that DORIS used signature stamps to approve various purchase documents. That audit concluded that the use of signature stamps potentially weakens internal controls in that the inappropriate use of the stamp by unauthorized personnel could compromise segregation of duties or the payment approval process. This current audit observed that there is still some use of signature stamps by procurement personnel. For example, the signatures that certified the receipts of ordered items were stamped signatures for 15 of the 50 purchases in the audit's sample.

In addition, although DORIS generally complied with the PPB Prompt Payment rule, it often did not stamp the invoice receipt date on its vendors' invoices or record delivery dates to track compliance with the PPB Prompt Payment rule. The PPB Prompt Payment rule requires that invoices be paid within 30 days of the receipt of the invoice or within (at most) 37 days of the delivery of the good or service purchased.¹ Without an invoice receipt date or a delivery date for a purchased item, DORIS staff is unable to track compliance with this requirement. DORIS employees sign invoices certifying the receipt of ordered items and noting the certification date, but they do not consistently stamp the invoice receipt date or record the date the item was delivered.

¹ The agency has seven days from the date of delivery to certify the receipt of a good or service. Once the agency certifies receipt, it has 30 days to pay for the item.

Recommendations

1. DORIS should discontinue the use of signature stamps on purchase documents.

DORIS Response: “We have destroyed all signature stamps to avoid any possibility of misuse in future.”

2. DORIS should stamp the invoice receipt date on its vendors’ invoices and record delivery dates to track compliance with the PPB Prompt Payment rule.

DORIS Response: “We have put in place new procedures that will ensure that all invoices are date stamped when received and that all delivery receipts are properly recorded.”



**CITY OF NEW YORK
DEPARTMENT OF RECORDS & INFORMATION SERVICES
OFFICE OF THE COMMISSIONER**

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BRIAN G. ANDERSSON, *Commissioner*

May 26, 2006

John Graham
Deputy Comptroller
Audits, Accountancy & Contracts
Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

Re: DRAFT REPORT
Audit Report on the Small
Procurement and Vouchering
Practices of the Department of
Records and Information Services
ME-06-058A

Dear Mr. Graham:

I am in receipt of the draft report concerning our agency's small procurement and vouchering procedures. The report has two recommendations:

- Recommendation 1 – "Signature" stamps.
Please be advised that we have destroyed all signature stamps to avoid any possibility of misuse in future.
- Recommendation 2 – Date stamp on invoices and delivery dates.
We have put in place new procedures that will ensure that all invoices are date stamped when received and that delivery receipts are properly recorded.

I believe these actions will ensure that our agency is in full compliance with all PPB and other relevant rules and procedures.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian G. Andersson".

Brian G. Andersson,
Commissioner