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OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

MARJORIE LANDA
DEPUTY COMPTROLLER FOR
AUDIT

BUREAU OF AUDIT

November 23, 2021

By Electronic Delivery

Ms. Ronnie Lowenstein
Director
Independent Budget Office
110 William Street, 14th Floor
New York, New York 10038

Re: Letter Report on the Purchasing Practices of the Independent Budget Office (Audit Number FP21-085AL)

Dear Ms. Lowenstein:

This Letter Report concerns the New York City (City) Comptroller's audit of the purchasing practices of the Independent Budget Office (IBO). The objective of the audit was to determine whether IBO maintained adequate financial controls over its purchasing practices that involve Other Than Personal Services (OTPS) expenditures as required by the City Comptroller's Directives, IBO's policies and procedures, and applicable Procurement Policy Board (PPB) Rules.¹

Background

IBO is a publicly funded City agency dedicated to enhancing the understanding of New York City's budget by providing nonpartisan budgetary, economic, and policy analysis in the form of reports and fiscal briefs for elected officials and the residents of the City. Its primary responsibility is to provide nonpartisan information about the City budget and tax revenues, including information on topics ranging from individual agencies' spending to program costs, historical trends, tax burdens, debt and capital finances.

IBO also testifies at public hearings and makes presentations to City Council committees, individual members of the City Council, Borough Presidents and other elected officials and their staffs, as well as to community boards, civic groups, and other organizations. In addition, IBO responds to requests for information and analysis related to the City budget.

In the Comptroller's Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2020, IBO reported OTPS expenditures totaling \$776,086.

¹ "Other Than Personal Service (OTPS): Expenses other than salaries and fringe benefits, such as supplies, equipment, utilities and contractual services." *The City of New York Adopted Budget, Fiscal Year 2020, Expense Revenue, Contract, Glossary of Terms*, at vi, <https://www1.nyc.gov/assets/omb/downloads/pdf/erc6-19.pdf>, accessed October 14, 2021.

Audit Findings

Our audit found that IBO generally, with limited exceptions, maintained adequate financial controls over its purchasing practices involving OTPS expenditures. Specifically, IBO maintained and implemented proper policies and procedures in its procurement practices, including proper approval and documentation of purchases. However, our audit found two areas in which IBO's practices did not comply with applicable Comptroller's directives – inadequate segregation of duties involving certain procurement card transactions, and unallowable expenditures of City funds for meals at monthly staff meetings.

These findings are detailed below.

Inadequate Segregation of Duties for Procurement Card Approvals

Our audit found that IBO's Chief of Staff is responsible for the approval of all procurement card purchases and is also a procurement card user. However, according to Comptroller's Directive #1, *Principles of Internal Control*, Section 5.7, "Key duties and responsibilities need to be divided or segregated among different staff members to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets." Although the Chief of Staff made and approved only two purchases, totaling \$1,740, during our scope period, a procurement card user should not be approving his own transactions. Accordingly, purchases the Chief of Staff makes should be approved by a different authorized individual.

Unallowable Meal Expenses

Our audit also found five meal expenses, totaling \$431, charged to IBO's procurement card that are not allowable under Controller's Directive #6, *Travel, Meals, Lodging, and Miscellaneous Agency Expenses*. Specifically, we found that IBO provided refreshments to its staff in its monthly staff meetings, which take place in IBO's office with only agency staff in attendance, and which usually last about an hour. However, according to Comptroller's Directive #6, Section 8.1, "Meals solely among City employees, either inside or outside of City offices, must not be paid from City funds under any circumstances, except in accordance with Section 8.1.2 (4), (5) and (9), below." The following are the only circumstances Directive # 6 describes in which City funds may be used to pay for meals and refreshments:

- Section 8.1.2 (4) "When an Agency Head, the Deputy Mayor or a senior executive holds non-routine meetings with key managerial employees during non-business hours and/or in a 'retreat' style meeting of three hours or more, Light Refreshments or a Modest Meal may be provided, as appropriate."
- Section 8.1.2 (5) "When employees are explicitly required to remain in the office to continue an ongoing meeting or to complete urgent work, causing them to forgo their usual lunch hour, a Modest Meal may be provided."
- Section 8.1.2 (9) "Light Refreshments or Modest Meals may be provided at [specified] events . . . if the event includes non-City employees."

IBO's monthly staff meetings do not fit within any of the circumstances Comptroller's Directive #6 describes that would allow for refreshments paid from City funds.

Recommendations

We recommend that the IBO take the following actions to address the above-mentioned issues:

1. Designate another IBO official (e.g., the Director) to authorize and approve the Chief of Staff's procurement card transactions.

IBO's Response: "I do agree with your recommendations and we will make changes to our practices accordingly. As was discussed in our exit conference on November 3, 2021, the current Chief of Staff does not have use of a procurement card. She will continue to approve procurement card purchases, but will not be making purchases."

2. Follow Comptroller's Directive #6 regarding the use of City funds for meals and refreshments.

IBO's Response: "In response to your second recommendation regarding expenditures of City funds for meals, we will discontinue our use of City funds for our monthly staff meetings."

Audit Scope and Methodology

The scope of this audit was July 1, 2019 to June 30, 2020.

We conducted this performance audit in accordance with generally accepted government auditing standards with the exception for the organizational independence as noted in the subsequent paragraph. 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.

In accordance with Chapter 11 §259 (d) of the City Charter, the IBO Advisory Committee consists of 10 members appointed jointly by the City Comptroller and the Public Advocate for five-year staggered terms. The Advisory Board's primary role is to screen and recommend candidates for the IBO director and candidates to fill Advisory Board vacancies. The Comptroller's appointees were not involved in planning or conducting this audit or in writing or reviewing the audit report.

To achieve our audit objectives, we reviewed the New York City Comptroller's Directives #1, *Principles of Internal Control*, and #6, *Travel, Meals, Lodging, and Miscellaneous Agency Expenses*, IBO's policies and procedures, and applicable PPB Rules.

To gain an understanding of IBO's operations and internal controls over its purchasing practices of OTPS expenditures, we conducted walkthrough meetings with IBO officials to review its policies and procedures for purchasing practices involving OTPS expenditures. We also met with IBO's Director of Administration and its Purchasing Officer to obtain a general understanding of

IBO's accounting system and its purchasing/payment process. We documented our understanding of IBO's operations and internal control processes through written memoranda.

To determine whether the payment data maintained by IBO is accurate, we first requested a list of all purchases made by IBO during Fiscal Year 2020. We then performed data reliability testing on the data by randomly selecting 50 transactions and tracing from the data to the source documents such as invoices and email approvals. To determine whether the payment data is complete, we compared the list of purchases to the data we extracted from the City's Financial Management System.

To determine whether IBO purchases paid with procurement cards were made in accordance with the Comptroller's Directives, we randomly selected 50 purchases and traced them to the source documents such as invoices and approvals.

To determine whether IBO purchases paid with its imprest fund were made in accordance with the Comptroller's Directives, we judgmentally selected February, the month with the highest imprest funds expenses (\$488) and traced those expenses to the source documents such as invoices and email approvals.

To determine whether the payments were made in accordance with the Comptroller's Directives and IBO's policies and procedures, we reviewed the supporting documents for the 50 selected sampled transactions.

While the results of our tests are not projectable, they do provide sufficient and appropriate evidence to support our findings and conclusions as to whether IBO maintained adequate financial controls over its purchasing practices involving OTPS expenditures.

The matters covered in this letter report were discussed with IBO officials during and at the conclusion of this audit. A preliminary letter report was sent to IBO and was discussed at an exit conference on November 3, 2021. On November 4, 2021, we submitted a draft letter report to IBO with a request for written comments. We received a written response from IBO on November 18, 2021.

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

Sincerely,



Marjorie Landa

- c: Indera Segobind, Director of Administration, Independent Budget Office
- Daniel Steinberg, Acting Director, Mayor's Office of Operations
- Brady Hamed, Chief of Staff, Mayor's Office of Operations
- Florim Ardolli, Associate Director for Audits, Mayor's Office of Operations



Ronnie Lowenstein
DIRECTOR

THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE
110 WILLIAM STREET, 14th Floor
NEW YORK, NEW YORK 10038
(212) 442-0225 Fax (212) 442-0350
Email: ronniel@ibo.nyc.ny.us

November 17, 2021

Marjorie Landa
Deputy Comptroller for Audit Office of the Comptroller
1 Centre Street
New York, NY 10007

Dear Deputy Comptroller Landa:

I have reviewed the Draft Letter Report on IBO's purchasing practices (FP21- 085AL) and am pleased that you found our agency generally maintained adequate financial controls over our purchasing practices, with two narrow exceptions.

As a budget agency, IBO is keenly aware of the valuable role played by the Comptroller's audit staff in ensuring that taxpayer dollars are used appropriately and effectively. An essential part of the effective use of resources is crafting management approaches that work well for an organization. Many city procedures are developed for agencies that have staffs many times the size of IBO and have multiple locations across the five boroughs. Grafting these procedures onto a small agency like IBO can be a cumbersome process. Based on the audit findings, I believe that we have generally implemented a process that works well for an agency of our size.

In the two areas in which you found that IBO's practices did not comply with applicable Comptroller's directives- specifically, segregation of duties involving procurement card purchases and expenditures of City funds for meals—I do agree with your recommendations and we will make changes to our practices accordingly. As was discussed in our exit conference on November 3, 2021, the current Chief of Staff does not have use of a procurement card. She will continue to approve procurement card purchases, but will not be making purchases. In response to your second recommendation regarding expenditures of City funds for meals, we will discontinue our use of City funds for our monthly staff meetings.

Thank you for the opportunity to respond to the preliminary draft letter report. I would also like to note and commend the professionalism of your staff throughout the audit process.

Sincerely,

A handwritten signature in blue ink that reads "Ronnie Lowenstein".

Ronnie Lowenstein

cc: Indera Segobind, Director of Administration,
IBO Daniel Steinberg, Acting Director, Mayor's Office of Operations
Brady Hamed, Chief of Staff, Mayor's Office of Operations
Florim Ardolli, Associate Director for Audits, Mayor's Office of Operations