

# AUDIT REPORT



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

## **Audit Report on the Financial and Operating Practices of the Manhattan Borough President's Office**

*MD07-064A*

**June 26, 2007**



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

WILLIAM C. THOMPSON, JR.  
COMPTROLLER

**To the Citizens of the City of New York**

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has conducted an audit to determine whether the Manhattan Borough President's Office (MBPO) complied with applicable payroll, personnel, and purchasing procedures.

The Manhattan Borough President, like the presidents of the other four boroughs of the City, is the elected executive official of the borough. Audits such as this provide a means of ensuring that City agencies comply with applicable payroll, personnel, and procurement guidelines and that expenses charged to City funds are reasonable, justified, and properly recorded.

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

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

Very truly yours,

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

William C. Thompson, Jr.

WCT/EC

**Report: MD07-064A**  
**Filed: June 26, 2007**

*Table of Contents*

**AUDIT REPORT IN BRIEF ..... 1**

    Audit Findings and Conclusions..... 1

    Audit Recommendations..... 2

    Agency Response..... 2

**INTRODUCTION..... 3**

    Background..... 3

    Objective..... 3

    Scope and Methodology ..... 3

    Discussion of Audit Results..... 6

**FINDINGS AND RECOMMENDATIONS ..... 7**

    Personnel Weaknesses ..... 8

        Converting Excessive Annual Leave Balances to Sick Leave..... 8

        Employees Permitted to Carry Compensatory Time  
        Beyond the 120-Day Limit Without Authorization ..... 8

        Sick Leave Regulations Not Always Enforced..... 9

        Employees Not Paid Within the Salary Ranges of Their Titles..... 9

        Recommendations..... 10

    Use of Incorrect Purchase Documents for the Purchase  
    Of Goods and Services from External Vendors..... 11

        Recommendation ..... 12

    Improper Use of Miscellaneous Vouchers..... 12

        Recommendation ..... 12

    Incorrect Object Codes ..... 12

        Recommendation ..... 13

    City Bidding Procedures Not Followed as Required..... 13

        Recommendation ..... 15

    Improper Recording of Contracts in FMS ..... 15

        Recommendations..... 16

    Improper Approvals of Purchases..... 16

        Recommendation ..... 17

    Inadequate Certification of the Receipt of Goods or Services..... 17

        Recommendation ..... 18

    Lack of Written Policies and Procedures..... 18

        Recommendation ..... 19

    Other Issue ..... 19

        Recommendation ..... 20

**ADDENDUM** Manhattan Borough President’s Office Response

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

**Audit Report on the  
Financial and Operating Practices of the  
Manhattan Borough President's Office**

**MD07-064A**

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**AUDIT REPORT IN BRIEF**

This audit determined whether the Manhattan Borough President's Office (MBPO) is complying with applicable payroll, personnel, and purchasing procedures.

During Fiscal Year 2006, Personal Services (PS) expenditures for the MBPO amounted to \$3,422,091; Other Than Personal Services (OTPS) expenditures amounted to \$896,125. The current Manhattan Borough President took office effective January 1, 2006. His administration processed a total of \$432,389 in OTPS expenditures between January 1, 2006, and July 30, 2006 (using Fiscal Year 2006 funds). The MBPO employed 68 persons from January 1, 2006, through June 30, 2006.

**Audit Findings and Conclusions**

Our examination of the MBPO's PS and OTPS expenditures disclosed no instances in which monies were improperly used. The MBPO generally complied with Comptroller's Directives #3, #6, #13, and #14. Specifically, the MBPO ensured that employees signed the required Form 319 when picking up their paychecks; reconciled and certified the accuracy of its employees' payroll; ensured that all employees were bona fide; accurately paid employees upon separation from City service; ensured that purchases were generally supported and the amounts paid to vendors were accurately calculated; and complied with Comptroller's Directive #3 regarding imprest fund purchases.

However, we found minor areas of deficiency regarding general compliance with City Time and Leave Regulations, Comptroller's Directive #24, and PPB Rules. The minor findings included: lack of monitoring of employees' excess annual leave balances, compensatory time balances not used within 120 days from being earned, and undocumented sick leave use; correct purchasing documents not always used; requisite approvals not always obtained before purchases were made; improper use of miscellaneous vouchers; and bidding not always performed when required.

### **Audit Recommendations**

Based on our findings, we make 13 recommendations, six of which are listed below. MBPO officials should:

- Convert excess annual leave to sick leave by May 1 of each year unless it authorizes the carry-over, in writing, in accordance with City Time and Leave Regulations.
- Ensure that employees use compensatory time within 120 days after it is earned; if it is not used, the MBPO should convert and incorporate compensatory time into the employees' sick leave balances unless it authorizes the carry-over, in writing, in accordance with City Time and Leave Regulations.
- Require employees to provide medical documentation when they exceed the allowable number of undocumented sick leave days.
- Ensure that it complies with Comptroller's Directive #24 and uses the appropriate Purchasing Documents for its purchases.
- Ensure that it uses miscellaneous payment vouchers for only allowable purposes as described in Comptroller's Directive #24.
- Ensure that bids are obtained for purchases over \$5,000, in accordance with PPB Rules and that all required documentation is maintained in the procurement files.

### **Agency Response**

MBPO officials generally agreed with the audit's findings and recommendations.

## **INTRODUCTION**

### **Background**

The Manhattan Borough President, like the presidents of the other four boroughs of the City, is the elected executive official of the borough. It is his responsibility to prepare and review budget proposals; recommend capital projects; hold public hearings on matters of public interest; consult the mayor and City Council on the preparation of the executive and capital budgets; review and recommend applications and proposals for the use, development, or improvement of land within the borough; provide technical assistance to the borough's community boards; monitor and make recommendations regarding the performance of contractual services in the borough; and propose legislation to be introduced in the City Council.

During Fiscal Year 2006, Personal Services (PS) expenditures for the MBPO amounted to \$3,422,091; Other Than Personal Services (OTPS) expenditures amounted to \$896,125. The current Manhattan Borough President took office effective January 1, 2006. His administration processed a total of \$432,389 in OTPS expenditures between January 1, 2006 and July 30, 2006 (using Fiscal Year 2006 funds). The MBPO employed 68 persons from January 1, 2006 through June 30, 2006.

### **Objective**

The objective of the audit was to determine whether the MBPO is complying with applicable payroll, personnel and purchasing procedures.

### **Scope and Methodology**

This audit covered the period July 1, 2005, through June 30, 2006 (Fiscal Year 2006).

To obtain an understanding of the payroll, personnel, and purchasing procedures and regulations, with which the MBPO is required to comply, we reviewed relevant provisions of:

- Comptroller's Directive #1, Principles of Internal Control (including the MBPO Financial Integrity Statement filing for Calendar Year 2005)
- Comptroller's Directive #3, Procedures for the Administration of Imprest Funds
- Comptroller's Directive #6, Travel, Meals, Lodging, and Miscellaneous Agency Expenses
- Comptroller's Directive #13, Payroll Procedures
- Comptroller's Directive #14, Leave Balance Payments
- Comptroller's Directive #24, Agency Purchasing Procedures and Controls
- The Procurement Policy Board (PPB) Rules
- City Leave Regulations for Employees Who Are Under the Career and Salary Plan
- City Leave Regulations for Management Employees

We also obtained and reviewed the following information relating to MBPO operations:

- The organization chart
- List of employees with access to the Financial Management System (FMS) and their authorization levels
- List of authorized signatories on purchase requisitions and imprest fund checks
- Accountability Report submitted to the Comptroller's Bureau of Accountancy

We interviewed MBPO staff members to obtain an understanding of the payroll, personnel, and purchasing procedures in place.

To determine whether employees were receiving salaries within the salary ranges of their civil service titles, we compared the salaries of all individuals listed on the City's Payroll Management System (PMS) as of August 31, 2006, to the minimum and maximum salary amounts of their civil service titles included in the City Career and Salary Plan and in the Pay Plan Schedule for Management Employees.

The Paycheck Distribution Control Reports (Form 319) for the three pay periods ending June 2, 16, and 30, 2006, were reviewed to ascertain whether employees signed for their paychecks as required by PMS guidelines. We also reviewed the corresponding payroll reconciliation work sheets and reports to determine whether the MBPO reconciles and certifies the payroll.

To determine whether the newly hired employees were bona fide, we reviewed the employees' personnel records to determine whether there was evidence (i.e., proof of residency forms, W-4 [Employee's Withholding Allowance Certificate], and I-9 citizenship forms) of their employment.

For tests of separation payments, we reviewed the lump-sum payments made to two managerial employees who separated from City service between January 1 and June 30, 2006, and determined whether separation payments made were properly calculated. In addition, we checked whether those employees were appropriately removed from the City payroll.

To determine whether compensatory time was carried beyond the 120-day limit and whether it was transferred to sick leave, we reviewed the Fiscal Year 2006 compensatory time details for all nine employees that had compensatory balances of at least ten hours, as of December 28, 2006 (our date of review). If such compensatory time was not transferred to sick leave, we determined whether the employee's personnel file contained documentation authorizing that the time be carried over. We also determined whether medical documentation, whenever required by City regulations, existed to appropriately support sick leave use. Finally, we determined whether the MBPO followed City regulations with regard to employees who have excess annual leave balances (i.e., more than two years' worth of accruals).

To ensure that the current MBPO administration complied with applicable sections of PPB Rules and Comptroller's Directives #3, #6, and #24 when making purchases, we examined payment vouchers processed between January 1 and June 30, 2006, and those processed during

July 2006 that were charged against Fiscal Year 2006 funds. We judgmentally selected a sample of payments from each vendor having total payments of at least \$5,000 during Fiscal Year 2006. (We excluded routine expenditures consisting of intra-city transfer payments for rent, postage payments and payments relating to service contracts for the rental and maintenance of equipment, such as copiers and postage machines.) We selected 40 payments in total, consisting of 38 payment vouchers (PVEs), having a total value of \$218,377. (This is out of the 182 PVEs, totaling \$426,769, processed by the current administration.)

From the remaining payments processed by the current administration, we conducted limited testing on the payments processed during June and July 2006 so as to assess controls operating at year-end. In addition to the 40 payments (38 PVEs) selected above, we judgmentally selected an additional 12 payments (11 PVEs) totaling \$6,009 from the remaining PVEs processed during June and July 2006. We examined all 49 PVEs (consisting of 52 payments) for the requisite approvals and authorizations, and for evidence that the transactions were for proper business purposes. We also determined whether each voucher had sufficient documentation (e.g., receiving report, invoice) to support payment and whether the payments were timely. We determined whether any duplicate vouchers were processed, and whether each voucher was correctly coded.

In addition, we judgmentally selected and examined all miscellaneous payment vouchers (PVMs) processed by the MBPO during June and July 2006 (from the 17 PVMs processed by the current administration totaling \$3,875) to determine whether the MBPO used them for allowable purposes as identified in Comptroller's Directive #24. In total, we selected nine PVMs, consisting of ten payments, amounting to \$2,403. We examined each voucher for the requisite approvals and authorizations, and for evidence that the transactions were for proper business purposes. We also determined whether each voucher had sufficient documentation (e.g., receiving report, invoice) to support payment and whether the payments were timely. We determined whether any duplicate vouchers were processed and whether each voucher was correctly coded.

To determine whether the MBPO was in compliance with Imprest Fund procedures specified in Comptroller's Directive #3, we examined payment vouchers for all five imprest fund payments (totaling \$430) made in one month (we judgmentally selected June 2006 so as to assess controls operating at year-end.) We examined the related canceled checks for authorized signatures and amounts, a specified payee (as opposed to "bearer" or "cash"), the eligibility of the expenditure, an endorsement, and a "void after 90 days" inscription on each check. We also determined whether the MBPO performed monthly bank reconciliations, and whether imprest fund expenditures exceeded the allowable amounts for a particular month, vendor, or item.

To determine whether the MBPO maintained an up-to-date inventory list, we traced all office and computer equipment purchases with a unit cost of at least \$100 identified during our review of the sampled payments to the MBPO inventory list. In addition, we performed a walk-through of the MBPO on February 16, 2007, to determine whether those items existed.

The results of the above tests, while not projected to all personnel issues, payment vouchers, and imprest fund expenditures processed during the audit period, provided a



reasonable basis to assess MBPO compliance with the applicable City Time and Leave Regulations, Comptroller's Directives, and PPB Rules.

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 MBPO officials during and at the conclusion of this audit. A preliminary draft report was sent to MBPO officials and discussed at an exit conference held on March 30, 2007. On May 11, 2007, we submitted a draft report to MBPO officials with a request for comments. We received a written response from MBPO officials on June 1, 2007. In their response, MBPO officials generally agreed with the audit's findings and recommendations.

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

## **FINDINGS AND RECOMMENDATIONS**

Our examination of the MBPO's PS and OTPS expenditures disclosed no instances in which monies were improperly used. The MBPO generally complied with Directives #3, #6, #13, and #14; however, we found minor areas of deficiencies regarding the general compliance with City Time and Leave Regulations, Directive #24, and PPB Rules. Regarding the areas of adherence, we found that the MBPO:

- ensured that employees signed the required Form 319 when picking up their paychecks;
- reconciled and certified the accuracy of its employees' payroll;
- ensured that all employees were bona fide;
- accurately paid employees upon separation from City service;
- ensured that purchases were generally supported and the amounts paid to vendors were accurately calculated; and
- complied with Comptroller's Directive #3 regarding imprest fund purchases in regard to the following areas: purchases did not exceed \$250; invoices to support payments were maintained; checks had the required authorized signatures and designated specified payees; each check bore the inscription "void after 90 days"; and the account was accurately reconciled.

The minor findings of noncompliance included the following areas: lack of monitoring of employees' excess annual leave balances, compensatory time balances not used within 120 days from being earned, and undocumented sick leave use; correct purchasing documents not always used; requisite approvals not always obtained before purchases were made; improper use of miscellaneous vouchers; and bidding not always performed when required.

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

## **Personnel Weaknesses**

### **Converting Excessive Annual Leave Balances to Sick Leave**

Four out of 60 employees had annual leave balances to their credit that exceeded the maximum amounts allowed under the City Time and Leave Regulations. As of April 30, 2006, the leave balances of four non-managerial employees collectively exceeded the allowable amounts by a total of 688 hours, or 98 days. Section 2.4 of the City Time and Leave Regulations states that “an employee’s [annual] leave balance must be reduced by May 1 in any given year to the amount accruable in the preceding two years.” The regulations also provide for the transfer of an employee’s excess annual leave balance to the employee’s sick leave balance. City Time and Leave Regulations also state that “in the event . . . that any agency head authorizes in writing an employee to forgo vacation . . . that portion . . . shall be carried over as annual leave, even though . . . [it] exceeds the [maximum] limit.” However, no such authorizations were on file for the four non-managerial employees with excess annual leave balances. Failing to convert excess annual leave balances as required creates a potential liability to the City upon an employee’s separation from City service. Employees who leave City service are generally paid for the full value of any unused annual leave, but are paid for only a portion (e.g. one half or one third depending on an employee’s managerial status) of the value of the unused sick leave. In addition, employees with less than ten years of City service receive no compensation for any unused sick leave.

After the exit conference, the MBPO supplied us with documentation to show that three of the four cited employees were informed of their remaining excess annual leave balances and were required to submit a plan to use the excess time. Upon additional review of the leave details for the one remaining employee, we determined that the excess annual leave was used.

### **Employees Permitted to Carry Compensatory Time Beyond the 120-Day Limit Without Authorization**

The MBPO failed to convert unused compensatory time to sick leave after 120 days, as required for employees covered by the City Time and Leave Regulations. During Fiscal Year 2006, six out of 17 employees had compensatory time that was not used within 120 days, ranging from approximately 21 hours to 330 hours. According to City Time and Leave Regulations, employees must use compensatory time within four months of its being earned. Any such time not used should be added to the employees’ sick leave balances, unless the agency authorizes employees in writing to carry it over. However, no such authorizations were on file for the six employees. Failing to convert any unused compensatory time as required creates a potential liability to the City upon an employee’s separation from City service, as noted in the prior section regarding excess annual leave balances.

After the exit conference, the MBPO supplied us with copies of the manual leave adjustment forms for five of the six cited employees. Upon additional review of the leave details

for the one remaining employee, we determined that the employee used the compensatory time and no longer required any of the cited compensatory time to be converted to sick leave.

### **Sick Leave Regulations Not Always Enforced**

According to the Citywide Human Resources Management System (CHRMS),<sup>1</sup> there were four out of the 35 non-managerial employees (still employed by the MBPO at the end of Fiscal Year 2006) who exceeded the allowable number of undocumented sick-leave instances within the July-December 2005 “sick leave period.” Although the MBPO correctly notified those four individuals of their sick leave restriction, one employee was allowed to use one instance of undocumented sick leave during the next sick leave period. In addition, another employee was placed in sanction status during the January-June 2006 sick leave period, but the MBPO failed to identify this individual. As a result, the employee was never notified or placed on sick leave restriction, and this allowed the employee to use three instances of undocumented sick leave during the next sick leave period.

This is a violation of the requirements of §3.2 of the City Time and Leave Regulations which require that an employee who exceeds the allowable number of undocumented sick leave instances during a sick-leave period—either January to June or July to December—be “sanctioned” (placed on sick leave restriction), meaning that a person is not able to use sick leave without medical documentation.

Had these two employees been placed on sick leave restriction, they would have been required to provide medical documentation for each subsequent sick leave occurrence. This requirement would remain in effect until the employee worked a complete sick leave period without being on sick leave more than two times. This requirement prevents an employee from abusing his or her sick leave time.

After the exit conference, the MBPO supplied us with a letter that was given to the one employee that was never notified or placed on sick leave restriction, informing her that she has been placed on undocumented sick leave restriction from January 1, 2007, to June 30, 2007.

### **Employees Not Paid Within the Salary Ranges of Their Titles**

The annual salaries of 4 of the 61 employees of the MBPO as of August 31, 2006, did not fall within the pay rates for their Career and Salary Plan titles. The salaries for two employees were below the minimum pay rates for their titles, while the salaries for another two employees were above the maximum pay rates for their titles. Tables I and II, following, list the employees whose salaries were below the minimum and above the maximum pay rates for their titles.

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<sup>1</sup> CHRMS provides payroll and timekeeping information and can be used to generate reports identifying employees who are approaching or exceed the number of undocumented sick leave instances within a sick leave period.

**Table I**  
Employees Paid Below the Minimum Salary of Their Titles

Employee	Title	Salary (as of Aug. 31, 2006)	Minimum Job Title Salary	Difference
1	Administrative Manager—Level 2	\$45,000	\$46,079	\$1,079
2	Community Coordinator	\$41,773	\$43,894	\$2,121

**Table II**  
Employees Paid Above the Maximum Salary of Their Titles

Employee	Title	Salary (as of Aug. 31, 2006)	Maximum Job Title Salary	Difference
1	Community Assistant	\$30,788	\$29,765	\$1,023
2	Graphic Artist	\$72,625	\$50,901	\$21,724

The City Career and Salary Plan contains minimum and maximum pay rates for each job title. According to the Career and Salary Plan, “The purpose of this resolution is to provide fair and comparable pay for comparable work.” Therefore, the minimum and maximum pay rates are an integral part of the plan.

After the exit conference, MBPO officials supplied us with documentation to show that they have increased the salaries of the two employees being paid below the minimum salaries for their titles and changed the title of the Community Assistant to a title with a salary range that properly encompasses the employee’s current pay level. With regard to the Graphic Artist, the salary range for that title was adjusted subsequent to our review date, and the range now correctly encompasses the pay-level for that employee.

**Recommendations**

The MBPO should:

1. Convert excess annual leave to sick leave by May 1 of each year unless it authorizes the carry-over, in writing, in accordance with City Time and Leave Regulations.

**MBPO Response:** “The MBPO will ensure compliance with the Comptroller’s recommendation and has corrected the leave balances of the staff identified in the report as well as conducted additional reviews of all other staff, managerial and non-managerial, beyond what was surveyed in the report. The MBPO has also instituted additional monitoring and documentation procedures to ensure compliance with the recommendation.”

2. Ensure that employees use compensatory time within 120 days after it is earned; if it is not used, the MBPO should convert and incorporate compensatory time into the

employees' sick leave balances unless it authorizes the carry-over, in writing, in accordance with City Time and Leave Regulations.

**MBPO Response:** "The MBPO will ensure compliance with the Comptroller's recommendation. The MBPO has ensured that all compensatory time for the employees identified in the report has been converted to sick leave. In addition, the MBPO re-examined the compensatory time balances of all employees to ensure complete compliance with City Time and Leave Regulations. The MBPO has also instituted additional monitoring and documentation procedures to ensure compliance with the recommendation."

3. Require employees to provide medical documentation when they exceed the allowable number of undocumented sick leave days.

**MBPO Response:** "The MBPO has adopted the Comptroller's recommendation and regularly reviews undocumented sick leave, notifies employees of undocumented sick leave restriction and requires employees to provide medical documentation for sick leave when they exceed the allowable number of undocumented sick leave days. The MBPO has also instituted additional monitoring and documentation procedures to ensure compliance with the recommendation."

### **Use of Incorrect Purchase Documents for the Purchase Of Goods and Services from External Vendors**

The MBPO did not use the correct Purchase Documents to record its purchases of goods and services. City agencies use Purchase Documents to reserve or encumber funds from their budget for the purchase of goods or services from external vendors. Payment Vouchers written against a Purchasing Document liquidate the encumbrance and record the expenditure. On April 15, 2004, the Comptroller's Office reissued its Directive #24, "Agency Purchasing Procedures and Controls," which introduced new Purchasing Documents that should be used to "replace the generic agency encumbrance, the Purchase Order (PO)." The updated directive states that, instead of POs, agencies should use a Micro Purchase Document (PD) for micro-purchases, which are purchases for \$5,000 or less. Agencies should use a Small Purchase Document (PC) for contracts that are for \$10,000 or less using other than capital funds. According to the directive, POs should be used only for "a general agency encumbrance for special, non-procurement expenditures for which a contract or Purchase Document is not required."

Based on our testing of Purchase Documents issued by the MBPO during Fiscal Year 2006, we determined that the agency is not adhering to Comptroller's Directive #24. Specifically, the MBPO issued POs for all purchases, instead of using the new PD and PC purchase documents when required. By not using the correct Purchasing Documents to encumber funds for the purchase of goods and services, MBPO is not properly representing its payment activities on the City's Financial Management System (FMS).

After the exit conference, the MBPO supplied us with documentation to show that existing purchase orders have been closed out in order to establish the correct purchasing documents for these purchases.

### **Recommendation**

4. The MBPO should ensure that it complies with Comptroller's Directive #24 and uses the appropriate Purchasing Documents for its purchases.

**MBPO Response:** "The MBPO will comply with Comptroller's Directive #24 for all purchase documentation of goods and services from external vendors."

### **Improper Use of Miscellaneous Vouchers**

The MBPO used miscellaneous vouchers improperly. Comptroller's Directive #24, §6.3, states: "Miscellaneous Vouchers may be used only when estimated or actual future liability is not determinable, or a contract or a Purchase Document is not required or applicable." Some of the inappropriate uses of miscellaneous vouchers include monthly rent payable on a lease or a license agreement, payments to postal and phone service providers, reimbursements to Imprest Funds, and purchases of supplies, equipment, materials, and services for which an FMS Contract Document or Purchase Document is required.

From our review of the ten miscellaneous voucher payments processed by the MBPO during June and July 2006, eight, valued at \$1,763, were improperly processed with miscellaneous vouchers, for which purchase documents would have been more appropriate. Those payments included advertisements in various publications, photography, delivery charges, and a monthly fee for Lexis-Nexis online investigative access.

The improper use of miscellaneous vouchers contributes to the distortion of City books of account by understating the City's outstanding obligations.

### **Recommendation**

5. The MBPO should ensure that it uses miscellaneous payment vouchers for only allowable purposes as described in Comptroller's Directive #24.

**MBPO Response:** "The MBPO will ensure appropriate use of miscellaneous payment vouchers (PVMs) in accordance with Comptroller's Directive #24."

### **Incorrect Object Codes**

The MBPO used incorrect object codes for 18 of the 67 payments<sup>2</sup> reviewed. For example, it paid a consultant \$5,000 to develop the MBPO website and charged this to object

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<sup>2</sup> The 67 payments consist of 52 PVE, 10 PVM, and 5 Imprest Fund checks (associated with 3 PVR).

code 403, Office Services, rather than object code 684, Professional Services–Computer Services-Contractual.

Comptroller’s Directive #24, §6.0, states, “Payment Voucher approvers must ensure that . . . the appropriate accounting and budget codes are being charged. This includes charging the correct unit of appropriation and correct object code within that unit of appropriation.”

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

### **Recommendation**

6. The MBPO should ensure that correct object codes are used when recording expenditures.

**MBPO Response:** “The MBPO [will] comply with the Comptroller’s recommendation. The MBPO will thoroughly review the City’s Chart of Accounts with appropriate employees to ensure accurate coding of all purchases in compliance with Comptroller’s Directive #24...”

### **City Bidding Procedures Not Followed as Required**

Our examination of the purchases related to our sampled payment vouchers revealed four instances in which bids should have been obtained. Of these, we found no evidence that the MBPO followed City bidding procedures for three of them, totaling \$73,456. Table III below, lists the three purchases.

The PPB rules require that various solicitation procedures be conducted for purchases that exceed \$5,000. Section 3-08(c)(2)(i) states that for small purchases totaling between \$5,000 and \$25,000, either oral or written bid solicitations will suffice, while for purchases between \$25,000 and \$100,000, only written solicitations will be satisfactory. Agencies are required to solicit a minimum of five vendors and obtain at least two responses.



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

<b>Vendor</b>	<b>Description of Purchase</b>	<b>Purchase Order / Contract No.</b>	<b>Purchase Order / Contract Amount</b>
A	Consulting Engineer Services for Topographical Bureau	PO01000000039164	\$45,000
B	Public Relation Services	PO01000000039645	\$12,000
C	Printing Services	PO01000000039790	\$16,456
<b>Total</b>			<b>\$73,456</b>

An MBPO official stated that the purchases with Vendors A and B were made prior to 2006 under the previous administration. In addition, he told us that the Purchaser, who was also employed by the previous administration, informed him that bidding was not performed for these vendors because they were considered sole-source vendors.

According to §3-05 of the PPB Rules, “sole source procurement shall be used only when there is only one source for the required good, service, or construction.” It further states that if it is determined that a sole source-procurement exists, the agency must document its process in making such a determination. Furthermore, when the sole-source procurement is above \$10,000 for goods and services, the agency must also document its efforts to ensure that offers were solicited from other sources. As part of its efforts, an agency must publish a notice of intent to enter into sole-source negotiations in the City Record, including the title, a brief description of the goods or services procured and how qualified vendors may obtain an application or express their interest in providing such goods or services. However, the MBPO could not provide us with any documentation supporting the determination that the purchases with Vendors A and B were in fact sole-source procurements or that a public notice was published in the City Record, as required. Although these purchases were made by officials from the prior administration, the MBPO should ensure that if these services are continued under this administration, proper bidding procedures are followed.

To ensure that its procurement process is conducted in a fair and competitive manner and that the needed goods and services are obtained at the best available price, the MBPO must comply with PPB Rules and solicit bids. In its decision-making, the MBPO may consider other factors in addition to price when making its selection, but those factors should be noted in its bid documentation.

Subsequent to the exit conference, the MBPO supplied us with documentation to show that it solicited and obtained five bids for the printing of newsletters by Vendor C. We requested documentation to show how the determination was made to select Vendor C and were provided with an undated memorandum, from the Director of External Affairs to the Chief of Staff, recommending that this vendor be selected based on the lowest cost per newsletter. The General Counsel informed us that the Chief of Staff is authorized to make the final determination. However, we were not provided with any documentation to indicate her approval in selecting Vendor C. Furthermore, all of this information should have been readily available and included as part of the procurement file for this purchase, as required by the PPB Rules.

We also noted that there was a difference between the invoice amount of \$16,456 and the quote of \$10,875 provided by Vendor C. According to the General Counsel, this difference is due to “the cost of mailhouse tasks including bundling, sorting and other non-printing services. It was originally anticipated that... a separate vendor for these services for a cost less than \$5000 [would be used]. In the end, it was decided to use [Vendor C] for these services (which are entirely different from printing services) for efficiency and cost purposes.” In addition, the MBPO purchased 10,000 newsletters above the solicited amount which also contributed to the difference between the quote and the invoice amount. Had the MBPO included the mailing services and additional newsletters as part of its bid solicitation, it might have received different price quotes from the other vendors solicited.

### **Recommendation**

7. The MBPO should ensure that bids are obtained for purchases over \$5,000 in accordance with PPB Rules and that all required documentation is maintained in the procurement files.

**MBPO Response:** “The MBPO complies with Procurement Policy Board (PPB) Rules in its procurements. . . The MBPO continued services provided by Vendor A and ensured proper procedures and bidding were followed in the procurement of those services. The current administration did not continue services provided by Vendor B.

“The MBPO will ensure compliance with PPB Rules and the Comptroller’s recommendation.”

### **Improper Recording of Contracts in FMS**

The MBPO improperly recorded three contractual purchases exceeding \$10,000 in FMS. The contracts with Vendors A and B, as shown in Table III above, were recorded using a PO document, rather than with an FMS Contract Document, and a third contract valued at \$35,000 for the purchase of an office-wide database was artificially split into two FMS Contract Documents with recorded values of \$10,000 and \$25,000. According to Comptroller’s Directive #24, an FMS Contract Document must be used for purchases greater than \$10,000 for goods and services. Furthermore, contracts exceeding \$25,000 must be submitted to the Comptroller’s Office—Office of Contract Administration (OCA) for review before it can be registered and recorded into FMS.

By failing to use an FMS Contract Document when required for Vendor A and by artificially splitting the contract for the office-wide database into two FMS Contract Documents, it appears that the MBPO avoided the controls built into FMS requiring that all contracts exceeding \$25,000 be registered with OCA.

## **Recommendations**

The MBPO should:

8. Use FMS Contract Documents to record all purchases of goods and services exceeding \$10,000, as required by Comptroller's Directive #24.

**MBPO Response:** "The MBPO will ensure proper recording of all purchases of goods and services exceeding \$10,000 in accordance with Comptroller's Directive #24."

9. Submit contracts exceeding \$25,000 to the Comptroller's Office for registration.

**MBPO Response:** "The MBPO will . . . register all contracts exceeding \$25,000 with the Comptroller's Office."

## **Improper Approvals of Purchases**

Requisite approvals for purchases were not always obtained by the MBPO. According to the Director of Operations, before a purchase is made, a completed requisition form authorized by the appropriate unit director (if the purchase request did not originate from within the Operations Unit), Chief of Staff and Director of Operations is required. However, our review of the sampled payments revealed that requisition forms for 31 of the 50 purchases requiring requisition forms were either missing, did not have the required signatures, or were dated after the invoice date, as follows:

- Twelve were missing requisition forms (including three contractual services) totaling \$44,165<sup>3</sup>;
- Nine were missing one or more of the required approvals totaling \$40,098; and
- Ten were dated after the invoice date totaling \$56,369.

Those purchases include refreshments for meetings totaling \$1,015, printing services totaling \$5,670, various office supplies and equipment totaling \$9,498, and the purchase of a new motor vehicle costing \$32,898.

According to Comptroller's Directive #24, agencies should "retain documentation that is used for purchasing decision-making." Without properly authorized requisition forms and purchasing documents, we cannot ascertain whether those purchases were approved in advance by MBPO management. Completing requisition forms and obtaining the required approvals provides a level of assurance that only management-authorized purchases will take place and that all applicable regulations, including Comptroller's Directives and PPB Rules, are followed.

Furthermore, having properly approved requisitions and purchasing documents before purchases are made enables the MBPO to record the estimated liability to ensure that the City's

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<sup>3</sup> The \$44,165 includes \$27,975 of our sampled payments relating to the three contractual services.

financial records reflect planned expenditures. This will also provide the MBPO with a level of cash control and accountability ensuring management that the necessary funds are available and are being used in the most effective way and in the office's best interest. The lack of approvals and failure to complete requisitions and purchasing documents prior to making purchases may lead to the inefficient use of MBPO funds, as the MBPO may pay for goods or services not needed.

At the exit conference, MBPO officials informed us that purchases are not made without authorization by the Chief of Staff and the Director of Operations. They further stated there is "No written regulation, directive or policy [requiring] requisition forms or documentation of purchasing decision-making to be signed on any particular date relative to the purchase." However, without dated requisition forms we have no assurance that proper approvals were obtained prior to making the purchases.

### **Recommendation**

10. The MBPO should ensure that requisite approvals are obtained for all purchases to ensure that funds are available and that the estimated liabilities are recorded in FMS.

**MBPO Response:** "The MBPO will ensure all purchases are properly approved and that such approvals are documented in accordance with the recommendations of the Comptroller. The MBPO has revised its procedures for completing requisition forms and making purchases in accordance with the Comptroller's recommendations."

### **Inadequate Certification of the Receipt of Goods or Services**

The MBPO does not prepare receiving documentation or obtain an independent certification for the receipt of goods or services. According to §3-08 of the PPB Rules, "the procurement file for a small purchase shall include, at a minimum: invoice and receiving documentation." Some type of receiving documentation should be used to document the receipt of goods purchased or acceptance of services rendered. In addition, as stated in the City Charter, the physical inspection of goods received is required to ensure that items purchased have been received and that they meet purchase-order or contract specifications prior to payment. Without receiving documentation, we have no assurance that the goods or services paid for were actually received.

In addition, in most instances, the only evidence that the purchased goods or services were received is a certification stamp placed on the invoices by the MBPO Purchaser. During the course of the audit and at the exit conference, we were informed that prior to processing any payment voucher, the Purchaser verbally verifies the receipt of the goods or services with the person who ultimately receives them. However, we do not have any evidence to support this. Furthermore, without an independent certification, we cannot verify that the goods and services were actually received. According to Comptroller's Directive #1, in order to have proper segregation of duties, the functions of ordering, receiving, invoice processing, and voucher preparation should be performed by different individuals.

At the exit conference, MBPO officials stated that packing slips or other documentation listing goods or services received are stamped, signed and placed in the purchase file. However, as stated previously, in most instances, the only documentation supporting receipt of goods and services was invoices signed by the Purchaser. To maintain adequate controls, the MBPO should ensure that receiving documentation is prepared for all goods and services upon receipt and are certified by an independent individual having no other purchasing or payment related functions.

### **Recommendation**

11. The MBPO should ensure that receiving documentation is prepared by an independent person that has no other purchasing or payment related function upon receipt of the goods and services.

**MBPO Response:** “The MBPO will follow the Comptroller’s recommendation to create additional certified documentation of receipt of goods and services. The MBPO has also identified an independent employee having no other purchasing or payment related function to prepare such receiving reports.”

### **Lack of Written Policies and Procedures**

We requested copies of the MBPO’s written policies and procedures concerning requisitions, purchases and payments. We were informed that there are no written procedures; therefore, we had to ascertain the procedures for the related purchasing and vouchering functions through numerous interviews with the staff who handle these functions.

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

Written procedures provide an organization with assurance that every employee involved in a process within the organization understands the tasks that are to be accomplished and the acceptable methods to be used when performing those tasks. They also provide an effective mechanism for training and evaluating the performance of staff members of their duties. At the exit conference, MBPO officials stated that a copy of the Comptroller’s Directives and the FMS Accounting Policies and Procedures Manual were distributed to the employees responsible for purchasing and processing payments. Although the Comptroller’s Directives cover a broad array of management issues, internal controls, and procedures important to the efficient and effective operation of City agencies, they do not provide agency specific procedures relating to the procurement process, such as the required purchasing request forms and requisite approvals needed. For example, the MBPO does not have any written policies or procedures specifying what documentation is required to initiate a purchase, which officials may approve and sign off on purchases, and what receiving documentation must be maintained. By failing to maintain

written policies and procedures for the procurement process MBPO management cannot be certain that policies and procedures are being properly communicated.

### **Recommendation**

12. The MBPO should develop a comprehensive policies and procedures manual that addresses all internal processes and functions regarding procurement, and distribute the manual to the appropriate employees.

**MBPO Response:** “The MBPO will adhere to the Comptroller’s recommendation to issue an internally produced comprehensive policies and procedures manual that addresses these functions to supplement the existing written policies and procedures used by the MBPO. This manual shall include detailed procedures of implementation for all matters addressed by the Comptroller’s audit report.”

### **Other Issue**

#### **Employment Eligibility Verification Forms Missing or Incomplete**

The MBPO failed to ensure that an Employment Eligibility Verification (I-9) form was completed for each employee upon hiring. According to the United States Citizenship and Immigration Services, all U.S. employers must complete and retain an I-9 form for each individual they hire to document their eligibility to work in the U.S. We reviewed the personnel files of the 38 employees hired between January 1 and June 30, 2006, and found missing or incomplete I-9 forms for 20 employees. In the files of those employees, six were missing forms, ten had incomplete forms, and four had forms that were improperly certified.

The I-9 form requires that the employer complete Section 2, “Employer Review and Verification,” by examining evidence of identity and employment eligibility and recording document type, issuing authority, document number and expiration date, if any. In addition, employers must sign and date the certification. The ten incomplete I-9 forms lacked any of the information listed in Section 2 and lacked the employer’s certification. Four additional I-9 forms were improperly certified due to insufficient documentation being listed on three forms, and one form was self-certified. Although we found copies of documents to support identity and employment eligibility in the files of 7 of the 20 employees, this information should have been recorded in Section 2 of the I-9 forms, and the forms should have been properly certified.

Without completed I-9 forms, the MBPO has no evidence to indicate that the necessary documents were reviewed or that the individual was eligible for employment when new employees were hired.

After the exit conference, the MBPO provided us with copies of completed I-9 forms for 14 of the 20 cited employees. The remaining 6 employees are no longer employed by the MBPO.

**Recommendation**

13. The MBPO should ensure that I-9 forms are completed, correctly certified, and appropriately filed for all new employees.

**MBPO Response:** “The MBPO has ensured that all identified employees have correctly certified and completed I-9 forms on file. . . .The MBPO has also ensured that all new employees will have such certified and completed forms and will comply with the Comptroller’s recommendation.”



THE CITY OF NEW YORK  
**OFFICE OF THE PRESIDENT**  
BOROUGH OF MANHATTAN

**SCOTT M. STRINGER**  
BOROUGH PRESIDENT

June 1, 2007

John Graham  
Deputy Comptroller  
Office of the Comptroller of the City of New York  
1 Centre St.  
New York, NY 10007

RE: Response to Draft Audit Report on the Financial and  
Operating Practices of the Manhattan Borough President's Office  
MD07-064A

Dear Mr. Graham:

Enclosed please find the response of the Manhattan Borough President's Office to the draft audit report of the Comptroller. Please feel free to contact me at (212) 669-8157 should you have any questions or require additional information.

Sincerely,

Jimmy Yan  
General Counsel

Enclosure

cc: Scott M. Stringer, Manhattan Borough President  
Alaina Colon, Chief of Staff



## MBPO Response to Comptroller's Audit Report

### Personnel

#### Converting Excess Annual Leave Balances to Sick Leave

*Recommendation:*

The MBPO should convert excess annual leave to sick leave by May 1 of each year unless it authorizes the carry-over in writing in accordance with City Time and Leave Regulations.

*Response:*

The MBPO policy and practice has been to regularly monitor annual leave balances of all MBPO employees and Manhattan Community Board employees for the purpose of appropriately converting excess balances to sick leave. The MBPO will ensure compliance with the Comptroller's recommendation and has corrected the leave balances of the staff identified in the report as well as conducted additional reviews of all other staff, managerial and non-managerial, beyond what was surveyed in the report. The MBPO has also instituted additional monitoring and documentation procedures to ensure compliance with the recommendation.

#### Compensatory Time Beyond the 120-Day Limit

*Recommendation:*

Ensure that employees use compensatory time within 120 days after it is earned; if it is not used, the MBPO should convert and incorporate compensatory time into the employees' sick leave balances unless it authorizes the carry-over in writing in accordance with City Time and Leave Regulations.

*Response:*

The MBPO will ensure compliance with the Comptroller's recommendation. The MBPO has ensured that all compensatory time for the employees identified in the report has been converted to sick leave. In addition, the MBPO re-examined the compensatory time balances of all employees to ensure complete compliance with City Time and Leave Regulations. The MBPO has also instituted additional monitoring and documentation procedures to ensure compliance with the recommendation.

#### Sick Leave Regulations Enforcement

*Recommendation:*

Require employees to provide medical documentation when they exceed the allowable number of undocumented sick leave days.

*Response:*

The MBPO has adopted the Comptroller's recommendation and regularly reviews undocumented sick leave, notifies employees of undocumented sick leave restriction and requires employees to provide medical documentation for sick leave when they exceed the allowable number of

undocumented sick leave days. The MBPO has also instituted additional monitoring and documentation procedures to ensure compliance with the recommendation.

### **Use of Purchase Documents for the Purchase of Goods and Services from External Vendors**

#### *Recommendation:*

The MBPO should ensure that it complies with Comptroller's Directive #24 and uses the appropriate Purchasing Documents for its purchases.

#### *Response:*

Based on the recommendation of the Comptroller's Office, the MBPO has accordingly corrected all purchase documentation to ensure compliance with Comptroller's Directive #24. Specifically, the MBPO has converted all PO documents to PD documents pursuant to the approval of the Comptroller's Office, and has thereby applied the correct purchase documentation to all purchases from the period of this audit.

The MBPO will comply with Comptroller's Directive #24 for all purchase documentation of goods and services from external vendors.

### **Use of Miscellaneous Vouchers**

#### *Recommendation:*

The MBPO should ensure that it uses miscellaneous payment vouchers for only allowable purposes as described in Comptroller's Directive #24.

#### *Response:*

The MBPO will ensure appropriate use of miscellaneous payment vouchers (PVMs) in accordance with Comptroller's Directive #24. However, the MBPO requests further written clarification from the Comptroller on the permissible uses of PVMs. Specifically, further definition and/or examples of purchases of supplies, equipment, materials and services for which an FMS Contract Document and/or Purchase Document is required and applicable would be helpful for verifying and providing more clear standards of appropriate uses of PVMs.

### **Object Codes**

#### *Recommendation:*

The MBPO should ensure that correct object codes are used when recording expenditures.

#### *Response:*

The MBPO comply with the Comptroller's recommendation. The MBPO will thoroughly review the City's Chart of Accounts with appropriate employees to ensure accurate coding of all purchases in compliance with Comptroller's Directive #24 and conduct monthly reviews of all purchase object codes by a second employee with knowledge of the codes. Furthermore, consultation will be sought with the Comptroller's Office on the proper use of specific object codes as needed when questions of interpretation arise.

### **City Bidding Procedures**

*Recommendation:*

The MBPO should ensure that bids are obtained for purchases over \$5,000 in accordance with PPB Rules and that all required documentation is maintained in the procurement files.

*Response:*

The MBPO clarifies that two of the three purchases noted in the audit were purchases made prior to 2006 under the previous Borough President's administration. Any explanations regarding bidding and decision-making for those purchases were provided by officials from the prior MBPO administration and not by the current administration.

The MBPO complies with Procurement Policy Board (PPB) Rules in its procurements and instructs employees responsible for overseeing procurements and solicitations on PPB rules regarding purchases over \$5,000.00. The MBPO continued services provided by Vendor A and ensured proper procedures and bidding were followed in the procurement of those services. The current administration did not continue services provided by Vendor B.

The MBPO will ensure compliance with PPB Rules and the Comptroller's recommendation.

### **Recording of Contracts in FMS**

*Recommendations:*

1. Use FMS Contract Documents to record all purchases of goods and services exceeding \$10,000, as required by Comptroller's Directive #24.
2. Submit contracts exceeding \$25,000 to the Comptroller's Office for registration.

*Response:*

The MBPO will ensure proper recording of all purchases of goods and services exceeding \$10,000 in accordance with Comptroller's Directive #24. The MBPO will also register all contracts exceeding \$25,000 with the Comptroller's Office.

### **Approvals of Purchases**

*Recommendation:*

The MBPO should ensure that requisite approvals are obtained for all purchases to ensure that funds are available and that the estimated liabilities are recorded in FMS.

*Response:*

The policy and practice of the MBPO is to obtain complete authorization of all procurements prior to the placement of any purchase. All decisions to purchase goods or services are authorized by the Chief of Staff and the Director of Operations prior to the purchase.

The MBPO will ensure all purchases are properly approved and that such approvals are documented in accordance with the recommendations of the Comptroller. The MBPO has

revised its procedures for completing requisition forms and making purchases in accordance with the Comptroller's recommendations.

### **Certification of the Receipt of Goods or Services**

*Recommendation:*

The MBPO should ensure that receiving documentation is prepared by an independent person that has no other purchasing or payment related function upon receipt of the goods and services.

*Response:*

The MBPO complies with § 3-08 of the PPB Rules requiring the retention of "receiving documentation." To comply with this provision, the MBPO: (1) physically inspects all goods and services received; (2) maintains a regularly updated inventory record of all received goods and services in a spreadsheet file; and (3) stamps and signs each packing slip or other document listing received goods or services that accompanies the receipt of the goods or services and places this stamped and signed document in the purchase file.

The MBPO will follow the Comptroller's recommendation to create additional certified documentation of receipt of goods and services. The MBPO has also identified an independent employee having no other purchasing or payment related function to prepare such receiving reports.

### **Written Policies and Procedures**

*Recommendation:*

The MBPO should develop a comprehensive policies and procedures manual that addresses all internal processes and functions regarding procurement, and distribute the manual to the appropriate employees.

*Response:*

At the beginning of 2006, the MBPO ensured that all appropriate employees responsible for purchasing procedures and processing received a copy of the Comptroller's Internal Control and Accountability Directives Manual and the FMS Accounting Policies and Procedures Manual. In addition, the MBPO has provided written guidance to appropriate employees on PPB Rules for small purchases. The MBPO has also issued documentation and approval procedures for purchasing.

The MBPO will adhere to the Comptroller's recommendation to issue an internally produced comprehensive policies and procedures manual that addresses these functions to supplement the existing written policies and procedures used by the MBPO. This manual shall include detailed procedures of implementation for all matters addressed by the Comptroller's audit report.

### **Employment Eligibility Verification Forms**

*Recommendation:*

The MBPO should ensure that I-9 forms are completed, correctly certified, and appropriately filed for all new employees.

*Response:*

The MBPO has ensured that all identified employees have correctly certified and completed I-9 forms on file. In addition, the MBPO conducted a complete review of all employee files beyond the scope of the audit to ensure that all employees have correctly certified and completed I-9 forms. The MBPO has also ensured that all new employees will have such certified and completed forms and will comply with the Comptroller's recommendation.