

AUDIT REPORT



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

Audit Report on the Procurement and Inventory Practices of the Conflicts of Interest Board

ME09-080A

June 26, 2009



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 responsibilities of the Comptroller contained in Chapter 5, §93, of the New York City Charter, my office has audited the compliance of the Conflicts of Interest Board (COIB) with applicable procurement and inventory regulations and procedures.

COIB was established in 1990 to interpret and enforce the Conflicts of Interest Law and the City's Financial Disclosure Law. COIB is responsible for educating City employees regarding ethical standards, issuing advisory opinions and ensuring that City employees comply with the Conflicts of Interest Law. We audit procurement practices to ensure that City funds are spent in full compliance with established guidelines.

The results of our audit, which are presented in this report, have been discussed with COIB officials, and their comments have been considered in preparing 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 black ink, appearing to read "Will C. Thompson, Jr.", written in a cursive style.

William C. Thompson, Jr.
WCT/ec

Report: ME09-080A
Filed: June 26, 2009

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..... 5

FINDINGS AND RECOMMENDATIONS 6
COIB Procurement Practices
Generally Complied with Applicable
Procurement Procedures 6
 General Purchase Payment Vouchers Were Properly Processed..... 6
 No Evidence of Split Purchases 7
 Miscellaneous Vouchers Used for Allowable Purposes 7
 Imprest Fund Handled Adequately 8
 Controls over Inventory of Computers and
 Electronic Equipment Were Adequate..... 8
Incorrect Object Codes 8
 Recommendation 9
Non-compliance with PPB Prompt Payment Rule 9
 Recommendations..... 10

ADDENDUM COIB Response

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

**Audit Report on the Procurement and Inventory
Practices of the Conflicts of Interest Board**

ME09-080A

AUDIT REPORT IN BRIEF

This audit determined whether the Conflicts of Interest Board (COIB) complied with applicable procurement and inventory regulations and procedures. The scope period of this audit was Fiscal Year 2008 (July 1, 2007 through June 30, 2008).

COIB was established in 1990 to interpret and enforce the Conflicts of Interest Law and the City's Financial Disclosure Law. COIB is responsible for educating City employees regarding ethical standards, issuing advisory opinions and ensuring that City employees comply with the Conflicts of Interest Law. In Fiscal Year 2008, COIB expended \$1.9 million, of which \$193,588 was for Other Than Personal Services (OTPS).

Audit Findings and Conclusions

COIB's procurement practices generally complied with applicable procurement guidelines, including PPB rules, Comptroller's Directives, and its own procedures. Specifically, for our sampled payments, we determined that items purchased were necessary for COIB's office operation; purchase documents were appropriately prepared and approved; and vouchers had sufficient documentation to support payment. In addition, imprest fund expenditures did not exceed \$250 and included a specific payee; miscellaneous vouchers were used appropriately; and computations on vouchers were accurate. Furthermore, there was an adequate segregation of responsibilities in the procurement process; there were no instances of split purchasing to avoid purchasing rules; and COIB had adequate controls over its inventory of computers and electronic equipment.

However, there were some minor deficiencies in our sample of purchase payment vouchers. These deficiencies include the use of incorrect object codes and the late payment of some vendor invoices. In addition, two sampled invoices were not stamped "Vouchered" or "Paid", and five sampled payment vouchers were not properly approved.

Audit Recommendations

To address these deficiencies, the audit recommends that the COIB:

- Follow the City Chart of Accounts to ensure that expenditures are charged to correct object codes.
- Require that invoices are date-stamped upon receipt and/or that the dates of the certification of the receipt of goods or services are recorded.
- Ensure that all invoices are paid within 30 days of receipt of the invoice or of the certified receipt of the goods or services provided.
- Ensure that the correct invoice receipt dates are entered in New York City Financial Management System when processing payment vouchers.

Agency Response

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

INTRODUCTION

Background

The Conflicts of Interest Board was established in 1990 under Chapter 68 of the City Charter, replacing the Board of Ethics. It is charged with interpreting and enforcing the Conflicts of Interest Law and the City's Financial Disclosure Law, set forth in section 12-110 of the City's Administrative Code. As part of its operation, COIB is responsible for educating City employees regarding ethical standards, issuing advisory opinions and ensuring that City employees comply with the Conflicts of Interest Law.

COIB is an independent body whose five members are appointed by the Mayor, with the advice and consent of the City Council. The five board members serve staggered six-year terms. In Fiscal Year 2008, COIB expended \$1.9 million, of which \$193,588 was for Other Than Personal Services. COIB expended \$151,280 for 202 payment vouchers that are the subject of this audit. These included two miscellaneous payment vouchers, totaling \$3,149; 19 payment vouchers to reimburse the imprest funds, totaling \$4,281; and 181 payment vouchers, totaling \$143,850. In addition, in Fiscal Year 2008, COIB had other operating expenditures that were interagency transfers: \$22,410 for telephone services; \$14,911 for heat, light and power; \$1,788 for general supplies; and \$3,199 for general contract services.

Objective

The audit's objective was to determine whether COIB complied with applicable procurement and inventory regulations and procedures.

Scope and Methodology

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

The scope of the audit was Fiscal Year 2008 (July 1, 2007 through June 30, 2008).

To gain an understanding of COIB procurement practices, we interviewed agency officials: the Director of Administration, the Deputy Director of Administration, the Agency Chief Contracting Officer (ACCO), and the Purchasing Officer. We also interviewed the Information Technology (IT) Director to obtain information about COIB's computer inventory. In addition, we conducted walkthroughs of COIB's procurement process.

Furthermore, to gain an understanding of the policies, procedures, and regulations governing COIB procurement practices, we reviewed its purchasing procedures, relevant Procurement Policy Board (PPB) rules, and Comptroller's Directives #1 (Agency Evaluation of Internal Controls), #3 (Procedures for the Administration of Imprest Funds), #6 (Travel, Meals, Lodging and Miscellaneous Agency Expenses), and #24 (Agency Purchasing Procedures and Controls). In addition, COIB's Fiscal Year 2008 budget and other relevant documentation were reviewed to gain an understanding of the agency and its procurement practices.

A prior audit performed by the Comptroller's Office, *Audit Report on the Payroll, Timekeeping, and Purchasing Practices of the Conflicts of Interest Board* (MG04-129A), issued June 15, 2004, was also reviewed to determine whether there were any recurring issues.

To determine whether COIB complied with applicable PPB rules, Comptroller's Directives, and its own procedures, we obtained a New York City Financial Management System (FMS) list of COIB's OTPS payment vouchers, which totaled \$151,280 during Fiscal Year 2008. From this listing, we identified 202 payment vouchers, which included two miscellaneous payment vouchers (PVMs), 19 imprest fund reimbursement payment vouchers (PVRs), and 181 general purchase payment vouchers (PVEs).

To examine and evaluate COIB procurement processes, we selected 27 of the 202 payment vouchers: two PVMs, three PVRs and 22 PVEs, with a total value of \$56,857, as follows:

- The two PVMs (totaling \$3,149),
- The three largest PVRs (totaling \$1,457), and
- 22 of the 181 PVEs (totaling \$52,251).

The 22 PVEs in our sample were selected as follows:

- The three largest payment vouchers (totaling \$31,265) associated with the three regular contracts with the largest total payments during this period (there were 24 PVEs associated with a total of six contracts),
- The two payment vouchers with the largest dollar amounts (totaling \$6,480) associated with the two requirement contracts with the largest total payments during this period (there were 37 PVEs associated with eight requirement contracts), and
- The 17 payment vouchers (totaling \$14,506) associated with 17 randomly selected micro-purchase documents (there were 120 PVEs associated with a total of 66 micro-purchase documents).

We requested all relevant documentation for our sampled purchases. We reviewed each requisition, purchase order, invoice, and payment voucher, as well as other documentation in the voucher package, to determine whether the purchases were appropriate and whether the goods or services were actually received. We also determined whether appropriate bids were obtained; whether the purchases were charged to the correct budget codes, object codes, and time periods; and whether they were properly authorized. To determine whether the voucher amounts were calculated correctly, we traced and recalculated the amounts on the supporting purchasing documents and vendor invoices to the voucher totals. In addition, we determined whether there was an adequate segregation of duties in COIB procurement practices. Specifically, we

determined whether different employees prepared and approved the purchase orders and payment vouchers.

To determine whether COIB split purchases by using multiple purchasing documents to circumvent thresholds for purchase amounts in PPB rules and Comptroller's Directive #24, the total population of payment vouchers was sorted by vendor. We reviewed the list to determine whether COIB made multiple purchases from any one vendor that had a total that exceeded \$5,000 during Fiscal Year 2008. We then determined whether COIB inappropriately split purchases to circumvent the bidding requirement rules for purchases over \$5,000.

To assess the adequacy of COIB controls over its inventory, we focused on computers and electronic equipment. We reviewed COIB's 2007 Financial Integrity Statement Response (per Comptroller's Directive #1), specifically the inventory section, Part F. In addition, we obtained inventory lists to identify the computers and electronic equipment maintained by COIB. A total of 257 items were identified on inventory lists we received on January 8, 2009. We selected a random sample of 30 items and a judgmental sample of 17 items (including 12 items that had been purchased in Fiscal Year 2008) to perform a physical inventory on January 22, 2009. We also sampled nine computers and electronic items observed during our walkthrough of COIB offices to determine whether these were included on COIB's inventory lists.

We did not evaluate the reliability and integrity of the COIB computer-processed purchasing data that we obtained from FMS, since the City's external auditors review this Citywide 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 the compliance of COIB's procurement and inventory practices with the noted criteria.

Discussion of Audit Results

The matters covered in this report were discussed with COIB officials during and at the conclusion of this audit. A preliminary draft report was sent to COIB officials on March 16, 2009, and was discussed at an exit conference held on March 27, 2009. On June 2, 2009, we submitted a draft report to COIB officials with a request for comments. We received a written response from COIB officials dated June 17, 2009. In its response, COIB generally agreed with the audit's findings and recommendations.

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

FINDINGS AND RECOMMENDATIONS

Our audit determined that COIB's procurement practices generally complied with applicable procurement guidelines, including PPB rules, Comptroller's Directives, and its own procedures. Specifically, for our sampled payments, we determined that items purchased were necessary for COIB's office operation; purchase documents were appropriately prepared and approved; and vouchers had sufficient documentation to support payment.

In addition, imprest fund expenditures did not exceed \$250 and included a specific payee; miscellaneous vouchers were used appropriately; and computations on vouchers were accurate. Furthermore, there was an adequate segregation of responsibilities in the procurement process; there were no instances of split purchasing to avoid purchasing rules; and COIB had adequate controls over its inventory of computers and electronic equipment.

However, COIB needs to address some minor deficiencies in order to improve its internal controls and fully comply with PPB rules, Comptroller's Directives, and its own procedures. These deficiencies include the use of incorrect object codes and the late payment of vendor some invoices. In addition, two sampled paid invoices were not stamped "Vouchered" or "Paid", and five sampled payment vouchers were not properly approved.

COIB Procurement Practices **Generally Complied with Applicable** **Procurement Procedures**

COIB generally adhered to the requirements outlined in PPB rules, Comptroller's Directives #1, #3, #6, and #24, as well as its own procedures. Our review of a sample of purchases gave reasonable assurance that COIB had adequate controls over its use of general purchase payment vouchers, miscellaneous vouchers, and imprest fund reimbursement vouchers.

General Purchase Payment Vouchers Were Properly Processed

Based on our sample review, COIB personnel properly processed and authorized general purchase payment vouchers in Fiscal Year 2008.

As stated in Comptroller's Directive #24, purchase documents "represent an agreement with a vendor to purchase goods or services, and are used to record the accounting event associated with the purchase. Purchasing Documents consist of Requisitions, Purchase Documents, 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 COIB complied with the applicable PPB rules and Comptroller's Directives, a sample of 22 of the 181 general purchase payment vouchers issued by COIB in Fiscal Year 2008 was reviewed. These 22 general purchase payment vouchers had a total value of \$52,251. Our examination disclosed that COIB, in general, sought and obtained the required number of bids, documented the receipt of goods and services, and made authorized payments on its procurements, as required.

No Evidence of Split Purchases

Our review of COIB's procurements in Fiscal Year 2008 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, COIB purchases in Fiscal Year 2008 were sorted by vendor and item ordered. We did not find any instances of split purchasing of goods or services that in the aggregate exceeded \$5,000.

Miscellaneous Vouchers Used for Allowable Purposes

Based on our review, COIB used miscellaneous vouchers for allowable purposes in Fiscal Year 2008.

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 COIB exercised proper control and authority over its miscellaneous vouchers, the two miscellaneous vouchers (valued at \$3,149) issued by COIB in Fiscal Year 2008 were reviewed. We found that the miscellaneous vouchers were used only for allowable purposes, were properly prepared, and were charged to the correct object codes.

However, these miscellaneous vouchers did not have the approval of the Director of Administration and the Executive Director, as required by COIB procedures. In addition, the

invoices were not stamped “vouchered” or “paid” to indicate that they have been processed for payment and to avoid duplicate payments, as required by Comptroller’s Directives #1 and #3.

Imprest Fund Handled Adequately

Based on our sample review, COIB adequately handled its imprest fund in Fiscal Year 2008.

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 selected and reviewed 3 imprest fund reimbursement payment vouchers totaling \$1,457 out of the 19 issued by COIB in Fiscal Year 2008. We concluded that the expenditures were permissible and within allowed amounts. Checks drawn on the account had safeguards printed on them, such as “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. However, these three reimbursement payment vouchers were not approved by the Director of Administration as required by COIB procedures.

Controls over Inventory of Computers and Electronic Equipment Were Adequate

Our physical inventory of computers and electronic equipment determined that COIB has adequate controls over its inventory records.

Comptroller’s Directive #1 states that some non-capital assets are particularly susceptible to theft and misuse and, as such, all these inventory items require strong controls to ensure accurate recordkeeping and good security. Directive #1 requires that detailed records be maintained for all assets. COIB indicated in its 2007 Comptroller’s Directive #1 Financial Integrity Statement filing that these records are maintained.

We received listings of computer and electronic equipment inventory on January 8, 2009, from COIB officials. We selected a random sample of 30 items and a judgmental sample of 17 items out of the 257 items on the lists to perform a physical inventory. On January 22, 2009, we conducted a physical inventory and found all 47 items. We also conducted a walkthrough of COIB offices to determine whether nine computers and electronic items were included on COIB inventory lists. We found the nine items were included on COIB inventory lists.

Incorrect Object Codes

COIB sometimes charges its OTPS expenditures to incorrect object codes. We found eight instances in which it did not charge its purchases to the object codes indicated by the City

Chart of Accounts. Eight of the 27 sampled payment vouchers, with a total value of \$19,593, were charged to incorrect object codes. For example, COIB paid \$15,265 for computers, but charged the expense to the general supplies and materials code (1000) rather than to the data-processing equipment code (3320). In another instance, COIB charged an office chair costing \$298 to the office equipment code (3150) rather than to the office furniture code (3140). Additionally, COIB used the local travel expenditures – general code (4510) to charge all expenditures (such as printing supplies) made through the imprest fund.

For four of these purchases, COIB officials stated that they needed to use the funds still available in a certain object code near the end of the fiscal year, and there was not enough time to transfer these funds to the correct object codes. However, COIB should have submitted a budget modification to properly account for these purchases.

Comptroller’s Directive #24, §6.0, states that “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 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.

Recommendation

1. COIB should follow the City Chart of Accounts to ensure that expenditures are charged to correct object codes.

COIB Response: The agency did not address this recommendation in its response.

Non-compliance with PPB Prompt Payment Rule

According to §4-06 of the PPB rules, agencies are required to pay invoices within 30 days of receiving goods and/or services. For 6 (15%) of the 41 invoices associated with the 22 sampled PVEs we reviewed, COIB paid the invoices more than 30 days after their receipt. The delay in payment ranged from 4 to 33 days.

Furthermore, the rules require that invoices be date-stamped when they are received to facilitate the tracking of the timeliness of payments. However, COIB does not always stamp the receipt date on the invoice. For example, 9 (22%) of the 41 invoices in our sample, with a total value of \$5,810, were not stamped with the date upon receipt. Additionally, although COIB certifies the receipt of goods or services by stamping and signing off on the invoice when goods or services are received, this certification is not dated. We found that the 41 invoices in our sample had the stamped certification; however, one of the 41 invoices, with a value of \$92, did not have the signature certifying that the data processing supplies had been received, and none of the certification stamps or signatures were dated. Therefore, since COIB neither dates its certification of the receipt of goods or services nor date-stamps the invoice upon receipt, it is difficult to track payment-due dates and avoid delays in payments.

As stated in §4-06 of the PPB rules, for purposes of determining a payment-due date, an invoice-received or acceptance date is the later of “the date a proper invoice is actually received ... or the seventh day after either the date on which the goods are actually delivered or the services are actually performed.” Since invoices are not always date-stamped upon receipt, COIB should record the dates of the certification of the receipt of goods or services. This will facilitate the tracking of the payment-due dates of invoices and avoid delays in payment.

When City agencies do not pay invoices within 30 days of receiving them, the City may pay interest to the vendors for the delay in payment. However, COIB did not pay interest for any of the six late payments, because it entered incorrect vendor invoice receipt dates in FMS. For example, COIB received an invoice for \$1,327 from one vendor on August 15, 2007. However, when processing the payment voucher, COIB indicated in FMS that the invoice was received on September 17, 2007. Since the invoice was paid on October 2, 2007, FMS did not pay interest to the vendor for the delay.

Recommendations

COIB should:

2. Require that invoices are date-stamped upon receipt and/or that the dates of the certification of the receipt of goods or services are recorded.

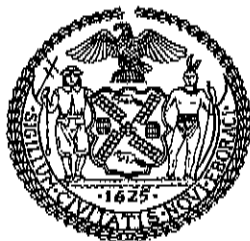
COIB Response: “...we will endeavor to date-stamp all invoices upon receipt and record the dates of the certification of the receipt of goods/services.”

3. Ensure that all invoices are paid within 30 days of receipt of the invoice or of the certified receipt of the goods or services provided.

COIB Response: “We will also pay all invoices within 30 days of receipt of the invoice or of the certified receipt of the goods/services purchased.”

4. Ensure that the correct invoice receipt dates are entered in FMS when processing payment vouchers.

COIB Response: “...we will enter the correct invoice receipt dates in FMS when we are processing payment vouchers.”



CITY OF NEW YORK
CONFLICTS OF INTEREST BOARD

2 Lafayette Street, Suite 1010
New York, New York 10007
(212) 442-1427
Fax: (212) 442-1455 TDD: (212) 442-1443

June 17, 2009

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

RE: Audit Report on the Procurement and Inventory Practices
of the Conflicts of Interest Board

Dear Deputy Comptroller Graham:

The COIB will continue to uphold all applicable Comptroller's Directives as well as all applicable PPB rules with regard to future procurement.

Specifically, we will endeavor to date-stamp all invoices upon receipt and record the dates of the certification of the receipt of goods/services.

We will also pay all invoices within 30 days of receipt of the invoice or of the certified receipt of the goods/services purchased.

In addition, we will enter the correct invoice receipt dates in FMS when we are processing payment vouchers.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mark P.", followed by a horizontal line.

Mark Davies
Executive Director