

# AUDIT REPORT



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

## **Audit Report on the Financial and Operating Practices of The New York City Independent Budget Office**

*FP09-135A*

**December 11, 2009**



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

WILLIAM C. THOMPSON, JR.  
COMPTROLLER

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

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has audited the compliance of the New York City Independent Budget Office with certain City purchasing procedures.

The New York City Independent Budget Office (IBO) serves as a publicly funded agency responsible for enhancing official and public understanding of the New York City budget. The IBO's principal responsibilities include providing nonpartisan budgetary, economic, and policy analysis for elected officials and the residents of the City. The IBO publishes reports and responds to requests for information and analysis related to the City budget. We audit City agencies such as this as a means of ensuring that they comply with applicable procedures and are accountable for City funds and resources.

The results of our audit, which are presented in this report, have been discussed with the New York City Independent Budget Office officials, and their comments have been considered in the preparation of this report. Their complete written response is attached to this report.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at [audit@Comptroller.nyc.gov](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/fh

**Report: FP09-135A**  
**Filed: December 11, 2009**

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

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**AUDIT REPORT IN BRIEF**

The New York City Independent Budget Office (IBO) serves as a publicly funded agency responsible for enhancing official and public understanding of the New York City budget. The IBO's principal responsibilities include providing nonpartisan budgetary, economic, and policy analysis for elected officials and the residents of the City. The IBO publishes reports and responds to requests for information and analysis related to the City budget.

During Fiscal Year 2008, Other Than Personal Services (OTPS) expenditures amounted to \$474,539. This audit determined whether the IBO is complying with certain City purchasing procedures.

**Audit Findings and Conclusions**

The Independent Budget Office generally adhered to Comptroller's Directive #6, #11, #24; applicable Procurement Policy Board (PPB) rules; and the Department of Investigation *Standards for Inventory Control and Management*:

- The amounts paid to vendors were properly calculated and excluded sales tax,
- State and requirement contracts were used when available,
- All major equipment selected for inventory testing was found,
- Property identification tags with a sequential internal control number were assigned and affixed to items valued at more than \$250, and
- Serial numbers and tag numbers corresponded to inventory records.

However, there were minor instances in which the IBO did not comply with certain purchasing procedures. The IBO:

- Did not maintain 14 original invoices totaling \$1,603.
- Lacked segregation of duties over the imprest fund.
- Incorrectly charged the imprest fund for two staff meetings held outside the office.
- Included imprest fund checks outstanding more than 90 days in the checkbook balance.
- Improperly processed a miscellaneous voucher for the purchase of postage totaling \$5,000.

We make five recommendations, that the IBO ensure:

- All reimbursement request forms include original receipts and supporting documentation.
- Individuals authorizing the purchase should not sign the checks. The employee requesting reimbursement should not sign as the pre-audit examiner. The custodian of the imprest fund account should not be assigned any other duties related to the imprest fund.
- Meals outside the office for City employees are not paid for with City funds under any circumstances.
- Checks outstanding more than 90 days are recredited to the checkbook balance to comply with Directive #3 requirements.
- Miscellaneous vouchers are used when appropriate.

## INTRODUCTION

### **Background**

The New York City Independent Budget Office serves as a publicly funded agency responsible for enhancing official and public understanding of the New York City budget. The IBO's principal responsibilities include providing nonpartisan budgetary, economic, and policy analysis for elected officials and the residents of the City. The IBO publishes reports and responds to requests for information and analysis related to the City budget. The IBO Director is appointed for a four-year term, upon the recommendation of the Independent Budget Office Advisory Board, by a special committee composed of a representative of the Borough Presidents, the Public Advocate, the City Comptroller, and the City Council.

During Fiscal Year 2008, Other Than Personal Services (OTPS) expenditures amounted to \$474,539.

### **Objectives**

This audit was conducted to determine whether the IBO is complying with certain purchasing procedures set forth in the New York City Comptroller's Internal Control and Accountability Directives (Comptroller's Directives) #1, "Financial Integrity Statement"; #3, "Procedures for the Administration of Imprest Funds"; #6, "Travel, Meals, Lodging and Miscellaneous Agency Expenses"; #11, "Cash Accountability and Control"; #24, "Agency Purchasing Procedures and Controls"; applicable Procurement Policy Board (PPB) rules; and the Department of Investigation (DOI) *Standards for Inventory Control and Management*.

### **Scope and Methodology**

We conducted this performance audit in accordance with generally accepted government auditing standards except for organizational independence as disclosed 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.

We are issuing a modified GAGAS compliance statement because of the Comptroller's mandated non-audit responsibility in connection with this agency. In accordance with Chapter 11, §259, of the New York City Charter, the Comptroller is one of four elected officials included on a special committee to appoint the Independent Budget Office Director. The Comptroller participates on this special committee through a designated representative. Neither the Comptroller nor his representative was involved in planning or conducting this audit or in writing or reviewing the audit report.

This audit covered the period July 1, 2007, through June 30, 2008.

To obtain an understanding of the purchasing procedures and regulations with which the IBO is required to comply, we reviewed relevant provisions of: Comptroller's Directive #1, "Financial Integrity Statement"; Directive # 3, "Procedures for Administration of Imprest Funds"; Directive #6, "Travel, Meals, Lodging and Miscellaneous Agency Expenses"; Directive #11, "Cash Accountability and Control"; Directive #24, "Agency Purchasing Procedures and Controls"; applicable Procurement Policy Board (PPB) rules; and the Department of Investigation *Standards for Inventory Control and Management*. We interviewed staff at the IBO to obtain an understanding of the purchasing procedures, and to determine how physical assets are safeguarded.

### **Tests of Compliance with Comptroller's Directives #3, #6, #11, #24 and PPB Rules**

During Fiscal Year 2008, the IBO issued a total of 71 PDs (Micro Purchase Documents) totaling \$68,914, 4 CTs (Contracts) totaling \$328,243, 1 PC (Small Purchase Document) totaling \$6,916, and 6 PGs (Requirements Contracts Release Orders) totaling \$9,313. For the preceding, the IBO issued a total of 223 corresponding PVE vouchers totaling \$413,386. The IBO also issued 11 miscellaneous (PVM) vouchers totaling \$9,221 and 15 imprest fund (PVR) vouchers totaling \$7,511.

We examined four vouchers with the highest dollar amounts, totaling \$96,736, from each of the 4 contracts. In addition, we examined 7 randomly selected purchase documents (Micro Purchase Documents (PDs), and their 34 corresponding vouchers from the population of 71 PDs. We also examined the one Small Purchase Document (PC) and the one corresponding voucher. In addition, we examined 6 vouchers, with the highest dollar amounts, totaling \$5,727, from each of the 6 PGs, and the 11 miscellaneous vouchers (PVM) totaling \$9,221.

We judgmentally selected all 8 imprest fund (PVR) vouchers totaling \$5,854 that were each for more than \$500 from the population of 15. For the 8 PVRs selected, we examined 75 canceled checks related to those vouchers for: two authorized signatures and amounts, a specific payee (as opposed to "bearer" or "cash"), an endorsement, and a "void after 90 days" inscription on each check. We also traced the canceled checks to the bank statements and determined whether appropriate bank reconciliations were performed for September 2007 and March 2008. Finally, we determined whether imprest fund expenditures were within the \$250 allowable amount specified in Comptroller's Directive #3.

We examined each purchase document and voucher for the requisite approvals and authorizations, for evidence that the transactions were for proper business purposes, and for adequate documentation. We also determined whether the proper purchase document was used to initiate the purchase of goods or services. Each of the 64 vouchers was examined to ascertain whether it was properly coded, an authorized purchase document was on file, sales and excise taxes, if applicable, were properly excluded from payments, and bids were obtained when required by PPB rules. For the 11 miscellaneous vouchers, we also determined whether the vouchers were issued for only allowable purposes.

The results of the above tests of 64 vouchers, while not projected to all payment vouchers, provided a reasonable basis to assess the IBO's compliance with Comptroller's Directives #3, #6 and #24.

### **Tests of Major Equipment Items Purchased during Fiscal Year 2008**

We selected five major equipment items (including a computer, printers, and monitors) purchased during our audit period to determine whether these items were listed on the IBO's inventory records and were present at the office. We also randomly selected five additional items that were present at the office to determine whether they were included on the inventory list.

During the inventory walk-through, we checked whether all 10 items examined were properly tagged as property of the IBO. In addition, we determined whether the tag and serial numbers affixed to each item matched the tag and serial numbers listed on the inventory records.

The results of the above tests of 10 inventory items, while not projected to all major equipment items, provided a reasonable basis to assess the IBO controls over inventory, as specified in the Department of Investigation *Standards for Inventory Control and Management*.

### **Discussion of Audit Results**

The matters covered in this report were discussed with IBO officials during and at the conclusion of this audit. A preliminary draft report was sent to IBO officials and discussed at an exit conference held on October 22, 2009. On October 27, 2009, we submitted a draft report to IBO officials with a request for comments. We received a written response from IBO officials on November 10, 2009. In their response, IBO officials described the steps they have taken or will take to implement the report's recommendations. The full text of the IBO response is included as an addendum to this report.



## **FINDINGS AND RECOMMENDATIONS**

The Independent Budget Office generally adhered to Comptroller's Directive #6, #11, #24; applicable Procurement Policy Board (PPB) rules; and the Department of Investigation *Standards for Inventory Control and Management*:

- The amounts paid to vendors were properly calculated and excluded sales tax,
- State and requirement contracts were used when available,
- All major equipment selected for inventory testing was found,
- Property identification tags with a sequential internal control number were assigned and affixed to items valued at more than \$250, and
- Serial numbers and tag numbers corresponded to inventory records.

However, there were minor instances in which the IBO did not comply with certain purchasing procedures. These instances of noncompliance did not detract from our opinion and are discussed in detail in the following sections of this report.

### **Imprest Fund Weaknesses**

The Independent Budget Office had several weaknesses with its administration of the imprest fund. Files for imprest fund expenses did not always have original invoices, there was a lack of segregation of duties when imprest fund expenditures were authorized, food provided at staff meetings held outside the office were inappropriately charged as an imprest fund expense, and imprest fund checks were outstanding for more than 90 days.

### **Original Invoices Not on File**

The IBO did not always maintain the original invoices in its files. The files for the 8 PVR's reviewed had 73 original invoices and 14 copies of invoices to document the imprest fund expense. The expense related to these 14 invoices totaled \$1,603. Directive #3, §5.4.7, states, "When the original invoices are unavailable, the agency must indicate on the photocopy or duplicate the reason for its use." The IBO did not indicate the reason it maintained only a photocopy of the 14 invoices in lieu of the original invoice.

Directive #3, §5.5, states, "The maintenance of complete and accurate supporting documentation is important in an imprest fund environment."

Directive #6, §18.1 (1), states, "All expenditures must be substantiated by original receipts and supporting documentation. All receipts and documentation must be securely attached to the reimbursement request." By maintaining only copies of original invoices the IBO may inadvertently duplicate payments. (We noted no duplicate payments during our review.)

## **Recommendation**

1. The IBO should ensure that all reimbursement request forms include original receipts and supporting documentation.

***IBO Response:*** “For a relatively small portion of imprest fund purchases, original invoices were not included in files because the vendor had asked for them to be returned with payment. In the future we will either send vendors a copy of the invoice despite their request for an original or we will ensure a notation is included on the copy stating why the original is not there. We appreciate the audit’s noting that in no instance was a duplicate payment made because the original was not in the file.”

## **Lack of Segregation of Duties**

The IBO needs to improve its internal controls over the imprest fund because it has the same employee performing multiple tasks that weaken controls over the purchasing functions. We found nine instances in which the employee authorized the purchase and also signed the imprest fund checks. We also found one instance in which an employee requested reimbursement and also signed as the pre-audit examiner, and another instance in which the imprest fund custodian also authorized a reimbursement request.

Directive #3, §4.1 and §4.3, state, “Individuals who authorize the purchase of goods or services should not approve payments or sign checks. The custodian is responsible for maintaining the imprest fund checking and petty cash account including making deposits. The custodian should not be assigned any other duties within the imprest fund function.”

Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of the assets is designed to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud.

## **Recommendation**

2. The IBO should ensure that individuals authorizing the purchase should not sign the checks. The employee requesting reimbursement should not sign as the pre-audit examiner. The custodian of the imprest fund account should not be assigned any other duties related to the imprest fund.

***IBO Response:*** “We recognize the importance of segregating responsibilities for approving and implementing transactions and always seek to ensure that such separation of responsibilities is achieved to the greatest extent possible. For a small agency like IBO, segregating responsibilities for the six different staff signatures required for purchases can sometimes prove to be difficult, especially if the signatories are to have the proper level of authority within the agency. We believe that it is essential for the integrity of the process that a staff member’s purchase request be authorized by their direct supervisor. Perhaps the most important control in the process is the two separate

signatures required on the payment check—and the requestor of the purchase is never one of the check signatories. We understand that the segregation of duties is to prevent errors or fraud (and are pleased to note that no such instances were found in the audit). We appreciate the importance of those goals and, despite the hurdles for a small agency like IBO with only a limited number of supervisory staff, will seek to ensure the segregation of responsibilities to the greatest extent possible.”

**Auditor Comment:** We acknowledge that IBO is a small agency. However, Directive #3, § 4.0, states, “Agencies that have few employees must, however, attempt to assign responsibilities to achieve proper segregation. If it is not possible, management oversight must exist for the incompatible activities in order to achieve the required control objectives.”

### **Imprest Fund Incorrectly Charged for Staff Meetings Held Outside the Office**

We found two instances in which IBO officials and staff had breakfast and lunch meetings outside the office. The officials held meetings with managerial and budget staff personnel at restaurants. Although the IBO did not reimburse the employees the full cost of the meals (reimbursement was \$8 per person) this practice is prohibited.

Directive #6, §8.1 (3), states, “Meals solely among City employees taken outside the office must not be paid from City funds under any circumstances.”

#### **Recommendation**

3. The IBO should ensure that meals outside the office for City employees are not paid for with City funds under any circumstances.

**IBO Response:** “We acknowledge having incorrectly interpreted Directive #6 and charged a total of \$80 to the imprest fund for the two meetings. We will not again authorize payments for such purposes.”

### **Imprest Fund Checks Outstanding More Than 90 Days**

We performed two monthly bank reconciliations (September 2007 and March 2008) and found that the IBO listed some checks outstanding for more than 90 days. These outstanding checks should have been voided and recredited to the checkbook balance.

Specifically, seven checks totaling \$429 in September 2007 and eight checks totaling \$477 in March 2008 were outstanding for more than 90 days and included in the checkbook balance. These outstanding checks were not recredited to the checkbook balance. As a result, the IBO understated its imprest fund checkbook balance.

We were informed by IBO officials that some of these outstanding checks were voided more than 90 days after issuance, recredited to the checkbook balance, and then subsequently reissued. We verified that the IBO recredited five of the eight questioned checks to the imprest

fund checkbook balance and reissued checks on June 26, 2009. IBO officials stated that the remaining outstanding checks are still being investigated.

Directive #3, §5.1.12, states, “Checkbook balances must be kept up to date. Adjustments consistent with the monthly bank reconciliations must be entered into the checkbook.”

### **Recommendation**

4. The IBO should ensure that checks outstanding more than 90 days are recredited to the checkbook balance to comply with Directive #3 requirements.

***IBO Response:*** “We appreciate the audit’s acknowledgement that IBO had been addressing this issue prior to receiving the audit findings. We know that more time had elapsed than permissible under Directive #3 and will continue to seek to address outstanding checks in a timely manner.”

### **Unallowable Use of Miscellaneous Voucher**

One purchase for \$5,000 paid to Pitney Bowes for postage was improperly processed as a miscellaneous voucher. Directive #24 states that making payments to postal providers is an unallowable use of miscellaneous vouchers.

Directive #24, §6.3, states, “Miscellaneous Payment Vouchers (PVMs) 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.” The proper payment type for this expenditure is the payment voucher (PVE).

### **Recommendation**

5. The IBO should ensure that miscellaneous vouchers are used when appropriate.

***IBO Response:*** “We thank the audit staff for making us aware that a different voucher should be used for postage, which was not brought to our attention in previous audits. We will now use the payment voucher PVE as required.”



Ronnie Lowenstein  
DIRECTOR

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November 10, 2009

Mr. John Graham  
Deputy Comptroller for Audits, Accountancy, and Contracts  
1 Centre Street  
New York, NY 10007

Dear Deputy Comptroller Graham:

I have reviewed the Draft Audit of the Financial and Operating Practices of the New York City Independent Budget Office (FP09-135A) and am pleased that your audit team found our financial and inventory practices "generally adhered to Comptroller's Directive #6, #11, #24; applicable Procurement Policy Board (PPB) rules; and the Department of Investigation *Standards for Inventory Management....*" As for the audit's findings of "minor instances in which the IBO did not comply with certain purchasing procedures," we will make the necessary changes as practicable. IBO's response to the audit findings is attached.

I appreciate the role that audits by the Comptroller's office play in ensuring the highest standards of fiscal integrity. I would also like to commend the professionalism of your staff throughout the audit process.

Sincerely,

A handwritten signature in black ink, appearing to read "Ronnie Lowenstein".

Ronnie Lowenstein

IBO RESPONSE  
TO THE DRAFT AUDIT REPORT ON  
THE FINANCIAL AND OPERATING PRACTICES OF  
THE NEW YORK CITY INDEPENDENT BUDGET OFFICE  
AUDIT # FP09135A

- 1) Did not maintain 14 original invoices totaling \$1,603.

Response: In all cases a copy of the original invoice was included in the file for the associated purchase. For a relatively small portion of imprest fund purchases, original invoices were not included in files because the vendor had asked for them to be returned with payment. In the future we will either send vendors a copy of the invoice despite their request for an original or we will ensure a notation is included on the copy stating why the original is not there. We appreciate the audit's noting that in no instance was a duplicate payment made because the original was not in the file.

- 2) Lacked segregation of duties over the imprest fund.

Response: We recognize the importance of segregating responsibilities for approving and implementing transactions and always seek to ensure that such separation of responsibilities is achieved to the greatest extent possible. For a small agency like IBO, segregating responsibilities for the six different staff signatures required for purchases can sometimes prove to be difficult, especially if the signatories are to have the proper level of authority within the agency. We believe that it is essential for the integrity of the process that a staff member's purchase request be authorized by their direct supervisor. Perhaps the most important control in the process is the two separate signatures required on the payment check--and the requestor of the purchase is never one of the check signatories. We understand that the segregation of duties is to prevent errors or fraud (and are pleased to note that no such instances were found in the audit). We appreciate the importance of those goals and, despite the hurdles for a small agency like IBO with only a limited number of supervisory staff, will seek to ensure the segregation of responsibilities to the greatest extent possible.

- 3) Incorrectly charged the imprest fund for two staff meetings held outside the office.

Response: We acknowledge having incorrectly interpreted Directive #6 and charged a total of \$80 to the imprest fund for the two meetings. We will not again authorize payments for such purposes.

- 4) Included imprest fund checks outstanding more than 90 days in the checkbook balance.

Response: We appreciate the audit's acknowledgement that IBO had been addressing this issue prior to receiving the audit findings. We know that more time had elapsed than permissible under Directive #3 and will continue to seek to address outstanding checks in a timely manner.

5) Improperly processed a miscellaneous voucher for the purpose of postage totaling \$5,000.

Response: We thank the audit staff for making us aware that a different voucher should be used for postage, which was not brought to our attention in previous audits. We will now use the payment voucher PVE as required.