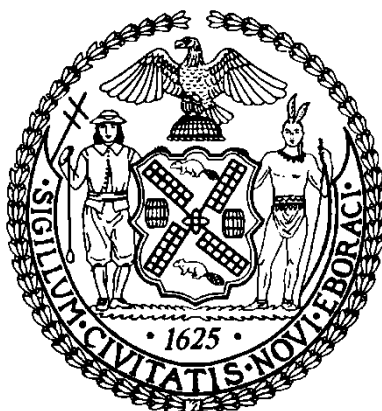


**CITY OF NEW YORK
OFFICE OF THE COMPTROLLER**

**John C. Liu
COMPTROLLER**

BUREAU OF MANAGEMENT AUDIT

**H. Tina Kim
Deputy Comptroller for Audit**



**Audit Report on the Financial Practices of the
Office of the Actuary**

MG10-074A

June 17, 2010

<http://comptroller.nyc.gov>



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

John C. Liu
COMPTROLLER

June 17, 2010

To the Residents of the City of New York:

My office has audited the controls over the purchasing, timekeeping, payroll, and inventory operations of the Office of the Actuary (OA). We audit City entities such as this as a means of increasing accountability and ensuring that City resources are used effectively, efficiently, and in the best interest of the public.

The audit found that although all of the OA purchases reviewed were for proper business purposes, the OA did not adequately verify billings for consulting work, nor did it perform required performance evaluations of its largest vendor. In addition, the audit found that the OA charged payments to the wrong fiscal years, did not pay all invoices on a timely basis, and incorrectly paid overtime to employees whose pay exceeded the amount allowed by the City. The audit also found that the OA's controls over its computer network need to be enhanced. With regard to its payroll and inventory procedures, the OA had adequate controls.

The audit makes 11 recommendations to the OA, including that it should review sufficient evidence supporting payments to its largest vendor, record the agency's expenditures accurately in the fiscal year in which they are incurred, make timely payments to vendors, and conduct annual performance evaluations for all contractors. The audit also recommended that the OA improve controls over its overtime and that it prepare a disaster recovery plan for its computer network.

The results of the audit have been discussed with OA officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

If you have any questions concerning this report, please e-mail my audit bureau at audit@Comptroller.nyc.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "JCL", written over the printed name "John C. Liu".

John C. Liu

Table of Contents

AUDIT REPORT IN BRIEF 1

 Audit Findings and Conclusions..... 1

 Audit Recommendations 2

INTRODUCTION..... 3

 Background..... 3

 Objective 3

 Scope and Methodology 3

 Discussion of Audit Results 6

FINDINGS AND RECOMMENDATIONS 7

 Inadequate Controls over Payments for Goods and Services 7

 Recommendations 10

 Lack of Annual Performance Evaluations..... 10

 Recommendations 11

 Overtime Issues 11

 Recommendations 13

 Computer Network Is Not Adequately Secure 13

 Recommendations 14

 Inventory Procedures Should Be Improved..... 15

 Recommendation..... 15

APPENDIX Detailed Discussion of the Office of the Actuary Response

ADDENDUM Office of the Actuary Response

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

**Audit Report on the
Financial Practices of the
Office of the Actuary**

MG10-074A

AUDIT REPORT IN BRIEF

The objective of this audit was to determine whether the Office of the Actuary (OA) had adequate controls over its purchasing, timekeeping, payroll, and inventory operations.

The OA provides actuarial services and information for the City's five actuarially-funded retirement systems, certain other pension and post-employment benefit funds, various City agencies, employers, labor organizations, and legislative bodies. According to the Fiscal Year 2009 Comptroller's Comprehensive Annual Financial Report, the OA had expenditures of \$3.3 million for Personal Services (PS) and \$1.4 million for Other Than Personal Services (OTPS) for the year.

Audit Findings and Conclusions

We determined that during Fiscal Year 2009, the OA had weaknesses in its controls over purchasing and timekeeping procedures. Regarding purchases, although we found that all purchases in our sample were for proper business purposes, the OA lacked adequate internal controls over its payment process for goods and services. Specifically, the OA did not adequately verify billings for consulting work, nor did it perform the required annual evaluations of its largest vendor. We also found that the OA: incorrectly charged payments to the wrong fiscal years, did not pay some invoices on a timely basis, incorrectly paid employees for overtime hours worked by not obtaining a required overtime cap waiver, and did not ensure that agency sign-in sheets were complete and supported the hours entered into CityTime. In addition, the OA's computer network is not adequately secure and its controls need to be enhanced.

With regard to its payroll and inventory procedures, our review found that the OA had adequate controls. In addition, although we found minor errors, the OA maintained a detailed inventory list of all its electronic and computer items.

Audit Recommendations

To address these issues, we make 11 recommendations, including that the OA should:

- Review the timekeeping report from its largest vendor, Buck Consulting, along with its monthly invoices so that the OA can more readily determine whether invoices are reasonable, accurate, and justified by the supporting documentation.
- Record the agency's expenditures accurately in the fiscal year in which they are incurred.
- Make payments to vendors within 30 days of the receipt of an invoice.
- Conduct annual performance evaluations for all contractors, specifically conducting a current performance evaluation prior to the renewal of its contract with Buck.
- In the absence of an overtime cap waiver, compensate those employees whose pay exceeds the amount allowed by the OT CAP with compensatory time rather than paid overtime.
- Prepare a disaster recovery plan for its computer network, including off-site storage for its database.

Agency Response

In its written response, the OA generally agreed with all 11 recommendations but disagreed with the audit's findings. After carefully considering the OA's arguments, we found them to be without merit. A detailed discussion of the OA response is included as an appendix to this report, and the full text of the OA response follows as an addendum.

INTRODUCTION

Background

The OA provides actuarial services and information for the City's five actuarially-funded retirement systems, certain other pension and post-employment benefit funds, various City agencies, employers, labor organizations, and legislative bodies. These services include preparation of annual actuarial valuations of assets and liabilities, computation of employer contributions and member benefits, determination of suitability of actuarial assumptions and methods, including recommendations for change when appropriate, preparation of accounting and financial planning information in support of regulatory filings, and estimation of financial impacts of benefit changes.

According to the Fiscal Year 2009 Comptroller's Comprehensive Annual Financial Report, the OA had expenditures of \$3.3 million for Personal Services (PS) and \$1.4 million for Other Than Personal Services (OTPS) for the year. As of October 2009, the OA had 34 employees (9 managers and 25 non-managers), down from 39 employees in Fiscal Year 2008.

Objective

The objective of this audit was to determine whether the OA had adequate controls over its purchasing, timekeeping, payroll, and inventory operations.

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 this audit was Fiscal Year 2009. To achieve our audit objective, we interviewed OA officials and staff members and conducted a walkthrough to gain an understanding of the OA's internal controls over purchasing, timekeeping, payroll, and inventory. In addition, we reviewed the Fiscal Year 2009 Comptroller's Comprehensive Annual Financial Report and other relevant information to develop an understanding of OA spending.

To evaluate its controls over purchasing, timekeeping, payroll, and inventory, we used the following sources as audit criteria:

- Comptroller's Directive #1, "Principles of Internal Control,"
- Comptroller's Directive #6, "Overnight Travel,"
- Comptroller's Directive #13, "Payroll Procedures,"

- Comptroller’s Directive #18, “Guidelines for Management, Protection, and Control of Agency Information and Information Processing Systems,”
- Comptroller’s Directive #24, “Agency Purchasing Procedures and Controls,”
- Comptroller’s Directive #30, “Capital Assets,”
- Citywide and Agency Time and Leave Policies, and
- Procurement Policy Board (PPB) rules.

We reviewed the Comptroller’s Directive #1 Financial Integrity Statement for 2008 filed by the OA on July 17, 2009, as well as the OA response for those sections that applied to our audit objectives, including (1) expenditures and payables, (2) inventory, and (3) payroll and personnel.

We also reviewed a previous OA audit entitled *Audit Report on the Financial Practices of the Office of the Actuary* (ME04-077A), issued June 30, 2004, and its follow-up audit (FP06-085F), issued April 19, 2006, to determine whether there were any recurring issues.

Purchasing

To evaluate the OA’s general purchasing practices, we used data from the City’s Financial Management System (FMS) and identified all 222 payment vouchers, totaling \$1.3 million, issued by the office during Fiscal Year 2009. These payment vouchers consisted of 24 payments made to Buck Consultant LLC (Buck), totaling \$1.15 million for consulting services; 178 payments to other vendors for goods and services, totaling \$141,444; and 20 payments to 11 OA employees for reimbursement of expenditures, totaling \$16,967.

Our sample consisted of 56 payment vouchers, totaling \$1.37 million. These vouchers included 24 payments to Buck during Fiscal Year 2009, plus two additional invoices for June 2009 that were paid in the following fiscal year; 10 payments to other vendors, and 20 reimbursement payments to 11 OA employees.

To assess purchasing practices, we examined all Fiscal Year 2009 payments made to Buck, the OA’s largest vendor. We analyzed a total of 26 invoices, including two invoices for June 2009 that were paid in the following fiscal year, and determined whether they were approved, paid promptly, and charged to the appropriate fiscal year. In addition, we requested performance evaluations that the OA conducted for Buck and reviewed the information entered in VENDEX.¹

We also judgmentally selected a sample of the 10 largest payments made to OA vendors other than Buck, totaling \$52,803. For each of these 10 payments, we reviewed the payment vouchers, along with the associated purchase documents for the requisite approvals and authorizations, and looked for evidence that the transactions were for business purposes and charged to the appropriate fiscal year. We also determined whether each payment was properly approved, promptly paid, and supported by adequate documentation (i.e., approval to purchase goods or services, certification that goods were received, and invoices stamped to prevent

¹ VENDEX is a computerized citywide system that provides comprehensive contract management information.

duplicate payment). We also determined whether controls were in place to assign the duties of requesting, ordering, and receiving goods or services to different employees.

Finally, to determine whether there were adequate controls over the reimbursement payments made to 11 OA employees, we reviewed all supporting documentation related to each of the 20 expenditures for evidence of receipts and approvals. We also reviewed the payment files to determine whether the expenses were charged to the appropriate fiscal year.

Timekeeping and Payroll

To determine whether the OA complied with pay and leave regulations, we reviewed data from the City's Payroll Management System (PMS) for all 34 OA employees as of September 25, 2009. We reviewed maximum and minimum salary ranges allowed by citywide regulations to determine whether all salaries were within the appropriate range and whether employees carrying excess leave balances had the proper authorizations in their personnel files.

In addition, we ascertained whether the 29 non-managerial employees who received a total of \$200,554 in overtime payments during Fiscal Year 2009 were eligible to receive the payments. We also determined whether overtime was accurately paid during a judgmentally selected pay period (February 1–14, 2009). In doing so, we compared overtime hours for all OA non-managerial employees working during this pay period that were entered in PMS through CityTime (timekeeping records) to the overtime hours recorded in the agency's daily sign-in sheets (attendance records).

To test for adequate controls over the OA payroll process, we observed a payroll distribution on October 1, 2009 to determine whether all employees were bona fide and whether they signed for their paychecks or printed payroll stubs. We also determined whether the payroll package was signed by the agency payroll officer.

Inventory

To determine the adequacy of the OA's controls over physical assets, we interviewed OA officials to gain an understanding of its inventory policies and procedures. We then obtained the agency's inventory list of electronic equipment, which, as of September 1, 2009, contained 277 items.

To determine whether the inventory listing was accurate, we randomly selected 33 items for verification. On January 14, 2010, we determined whether each of the 33 items on the inventory list was present in its designated area, was tagged as property of the OA, and was identified correctly on the inventory listing. In addition, that same day, we judgmentally selected 15 items in 11 assigned locations (by employee name) throughout the office to determine whether the inventory listing was complete. We determined whether each of the 15 items was correctly identified on the inventory listing, in their specified locations, and tagged as property of the OA.

To test the security of the OA's computer network, we requested a copy of the OA disaster recovery plan and the computer generated security tables showing users with access to its network as of September 29, 2009 and again as of March 9, 2010. We then compared the users against a list of current OA employees.

Discussion of Audit Results

The matters covered in this report were discussed with OA officials during and at the conclusion of this audit. A preliminary draft report was sent to OA officials on March 23, 2010, and was discussed at an exit conference on April 8, 2010. On April 20, 2010, we submitted this draft report to OA officials with a request for comments. Their comments will be included in the final version of this report.

In their response, OA officials generally agreed to comply with all 11 recommendations cited in the report. However, their response included objections to our findings and stated that “the OA has a review mechanism in place to provide a check on the work performed for each function that was audited.” Their comments concerning our findings are not correct and appear to be an attempt to divert attention from the findings and recommendations. After carefully reviewing the arguments in the response, we found them to be without merit.

A detailed discussion of the OA response is included as an appendix to this report, and the full text of the OA response follows as an addendum.

FINDINGS AND RECOMMENDATIONS

Our review of the OA's operations disclosed weaknesses in its controls over purchasing and timekeeping procedures. Regarding purchases, although we found that all purchases in our sample were for proper business purposes, the OA lacked adequate internal controls over its payment process for goods and services. Specifically, the OA did not adequately verify billings totaling \$1.1 million for consulting work performed by its largest vendor, nor did it perform the required annual evaluations. In addition, the OA incorrectly charged 10 payments, totaling \$310,893, to the wrong fiscal years and did not pay 19 invoices totaling \$777,452 on a timely basis. Also, the OA incorrectly paid nine employees a total of \$100,551 for overtime hours worked by not obtaining a required overtime cap waiver. Furthermore, the OA did not ensure that agency sign-in sheets were complete and supported the hours entered into CityTime.

In addition, the OA's computer network is not adequately secure and its controls need to be enhanced. The OA failed to (1) deactivate user accounts for nine former employees and two consultants, (2) have a disaster recovery plan, and (3) maintain a back-up of its data stored in off-site premises. As a result, the OA is vulnerable to disruption and theft of sensitive data.

With regard to its payroll and inventory procedures, our review found that the OA had adequate controls. Specifically, we determined that all employees receiving pay were bona fide and those receiving paychecks signed for them. Furthermore, employee salaries were within salary ranges of their civil service titles, and there were authorizations in the personnel files for all employees who carried excess annual leave balances. The OA maintained a detailed inventory list of all its electronic and computer items, although we found minor errors.

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

Inadequate Controls over Payments for Goods and Services

The OA lacked adequate controls over its payment process. For example, the OA did not require its largest paid vendor to submit supporting timekeeping reports with its invoices, thereby increasing the agency's vulnerability to irregularities. In addition, the OA did not charge expenditures to the correct fiscal years and did not pay for purchases promptly. Effective internal controls in the purchasing process are accomplished by the use of appropriate review of supporting documents, charging expenses to the correct fiscal year, and by timely payments for goods and services.

Inadequate Invoice Review Process

In Fiscal Year 2009, the OA paid more than \$1.1 million (88 percent of its total OTPS expenditures for the year) to one vendor, Buck, for its two contracts: one for consulting and the other for software.² The OA paid more than \$1.1 million on an "as-needed" basis for the services of 25 consultants employed by Buck to work on various special OA projects. However, the OA did not require its largest vendor, Buck, to submit detailed supporting timekeeping

² These contracts are both registered with the New York City Comptroller and allow for maximum payments in Fiscal Year 2009 totaling \$1.5 million: consulting (\$1.2 million) and software (\$308,000).

documentation along with its invoices as evidence of work performed on specific projects. As a result, the OA cannot verify that the \$1.1 million billed by Buck is accurate. According to §6.0 of Comptroller's Directive #24, "Agency Purchasing Procedures and Controls," agencies must "verify that the expenditure is necessary and reasonable, that the payment request and its supporting documentation are accurate, and that the goods or services were received." Without a thorough review of invoices and all supporting documents, the OA cannot verify prior to making payment that all payments are reasonable or allowable.

Each month, Buck submits two invoices for aggregate services rendered by its consultants, one invoice per contract. Each invoice provides a general overall description of the work performed by the vendor and specifies only the names of the consultants who billed hours for that month, along with each consultant's total number of hours worked, their hourly rates, and the extension of their total monthly charges. The OA did verify the hourly rates, that the bills were arithmetically correct, and that the work had been delivered. However, the monthly invoices do not provide any details as to which consultants worked on specific projects, nor do they indicate the hours worked per day by each consultant. Instead, OA officials relied on Buck for the accuracy of its invoices and did not require additional supporting timekeeping records for the charges.

For Fiscal Year 2009, the consultants submitted charges for a total of 4,583 hours worked, ranging from nearly one hour to 1,064 hours per consultant, with fees ranging from \$124 per hour to \$440 per hour (depending on the title of the consultant). Despite the amount of hours claimed by the vendor, no one at the OA verified that these hours were accurate or that they pertained to work required by the OA, not even in the case of the consultant who claimed 1,064 billable hours for the year. The OA paid Buck \$274,701 for work rendered by this consultant without having any supporting documentation to justify the hours worked and without verifying that those hours were actually allocated to work that was approved and required by the OA. In such circumstances, it is possible for consultants to bill for hours not actually worked, for billings to contain significant errors and for double billing or overpayment to take place and remain undetected.

After we informed the OA about this matter on January 15, 2010, OA officials requested that along with its invoices, Buck submit a detailed timekeeping report indicating per contract the number of hours charged by each consultant as well as the specific days worked on the project. As of March 2010, the OA received its first timekeeping report from Buck pertaining to the February transactions.

Expenditures Charged to the Incorrect Fiscal Year

The OA does not always charge expenses to the fiscal year in which they are incurred. As stated in §7.5 of Comptroller's Directive #24, "Agencies must ensure that the recording of expenditures in FMS is handled correctly, and that the expenditures are charged to the appropriate fiscal year." The directive goes on to state in §7.6, "For an agency to charge an expenditure to the current fiscal year, goods or services must be received and/or delivered by June 30." The same holds true for goods or services received after June 30, which should be charged to the following fiscal year.

The OA incorrectly charged 10 (18 percent) of our sample of 56 payments, totaling \$310,893, to the incorrect fiscal year. There were four such instances, totaling \$4,309, in which OA employees were reimbursed for classes and travel expenses that were incurred as far back as 2006 and the expenditures incorrectly charged to the current Fiscal Year 2009 budget.

The OA also incorrectly charged three payments to Fiscal Years 2009 for services that were received in Fiscal Year 2008. Two of the expenditures, totaling \$139,474, were for consulting services from Buck, and the third expenditure, totaling \$4,677, was incurred for the maintenance of the printer. Since these services were received prior to June 30, 2008, they should have been charged to Fiscal Year 2008.

At the end of Fiscal Year 2009, the OA incorrectly charged three payments to Fiscal Year 2010 for goods and services that were received in Fiscal Year 2009. Two of the expenditures, totaling \$161,704, were for consulting services from Buck, and the third expenditure, totaling \$729, was for office supplies. Since these services and goods were received by June 30, 2009, they should have been charged to Fiscal Year 2009.

Moving expenses from one fiscal year budget to another has an impact not only on the OA budget but also on the City's financial statements. According to §7.5 of Comptroller's Directive #24, "The proper recording of each agency's expenditures is critical to the accurate reporting of the City's financial results of operations." As a result, agencies must ensure that the recording of expenditures in FMS is correct and that the expenditures are charged to the appropriate fiscal year. If expenditures are not recorded in the year they are incurred, the City's financial statements become inaccurate and an agency's spending cannot be adequately controlled.

Purchases Not Paid Promptly

The OA did not pay its invoices promptly, as required by §4-06 of the PPB rules, which states: "The period available to an agency to make a timely payment of an invoice without incurring an interest penalty shall begin on the IRA [Invoice Received Acceptance] date . . . 30 days."

The OA did not pay 19 (53 percent) of the 36 invoices in our sample, totaling \$777,452, within the time frames specified by the PPB rules. The 19 invoices, consisting of 14 payments made to Buck and 5 payments made to other vendors, were paid from 1 to 39 days late. Although the OA does not appear to have incurred any late charges on its invoices, there was evidence in one case file that the vendor sent a past due notice to the OA attempting to collect on an invoice totaling \$3,009 that was 39 days past the 30-day limit before the payment was approved and processed.

If the OA does not pay its vendors within 30 days, the agency does not help the City in the prompt payment of firms and organizations doing business with the City and increases the risk of the City having to pay interest penalties.

Recommendations

The OA should:

1. Review the timekeeping report from its largest vendor, Buck Consulting, along with its monthly invoices so that the OA can more readily determine whether invoices are reasonable, accurate, and justified by the supporting documentation.

OA Response: “The OA has requested and received a more detailed timekeeping report from Buck for the February 2010 billing. . . .

“ The OA will continue to receive these more detailed timekeeping reports from Buck and use them as part of its invoice review process. The OA will comply with this recommendation.”

2. Record the agency’s expenditures accurately in the fiscal year in which they are incurred.

OA Response: “The OA has made personnel and process changes that will ensure that all expenditures are charged to the fiscal year in which they were incurred. The OA will comply with this recommendation.”

3. Make payments to vendors within 30 days of the receipt of an invoice.

OA Response: “The OA has made personnel and process changes to ensure that all payments will be made timely. The OA will comply with this recommendation.”

Lack of Annual Performance Evaluations

The OA has not conducted annual performance evaluations of Buck, its largest contractor. In addition, the only two OA VENDEX evaluations of Buck’s performance of its two contracts were entered five years ago, in June 2004.

Agencies are required to evaluate contractor performance annually. According to §4-01 (b) of the PPB rules, “The agency shall monitor the vendor’s performance against such standards and indicators on an ongoing basis and sufficiently far in advance of the end of the contract term to determine whether an existing contract should be extended, renewed, terminated, or allowed to lapse. A performance evaluation shall be done no less than once annually.” In addition, according to a VENDEX official, agencies are required to fill out evaluations for vendors within one year of signing a contract with the vendor.

Since 2004, OA officials have renewed both of their contracts with Buck for a three-year period (2004–2007) and have extended each of the contracts for one-year terms during 2008 and 2009. Although OA officials provided us with handwritten performance evaluations that they claim to have mailed to VENDEX in 2007 and 2008, VENDEX officials stated that they had no record of ever receiving these evaluations. In addition, since April 2009, agencies are required to submit vendor evaluations online. For its most recent vendor contracts, the OA should have

submitted its vendor evaluations online by July 1, 2009. However, according to a VENDEX official, as of February 23, 2010, the evaluations had not yet been submitted.

A vendor's performance is critical to an agency's determination to award, renew, extend, or terminate a contract. Any ongoing program should be evaluated for its effectiveness prior to the renewal of a contract. This evaluation reassures all parties involved that the program is beneficial to the clients as well as to the City and that it is functioning as intended.

In the absence of information provided by annual performance evaluations and documentation of OA oversight of work performed (as discussed earlier), it is not possible to determine the basis upon which the OA concluded that the vendor's performance was adequate enough to extend the contract.

Recommendations

The OA should:

4. Conduct annual performance evaluations for all contractors, specifically conducting a current performance evaluation prior to the renewal of its contract with Buck.

OA Response: "The OA will comply with this recommendation."

5. Submit required vendor evaluations to VENDEX in a timely manner.

OA Response: "The OA will comply with this recommendation."

Overtime Issues

The OA lacks proper controls in processing its employee's overtime. The OA failed to obtain the required overtime cap waiver and as a result, more than half of the OA's Fiscal Year 2009 overtime payments, totaling \$100,551, were incorrectly paid to nine employees whose pay exceeded the amount allowed by the City. In addition, we estimate that the agency could have paid out more than \$29,000 in unnecessary overtime costs because of its work schedule policy. Finally, the OA's timekeeping and attendance records had unresolved discrepancies.

The OA does not ensure that it properly pays its employees overtime for excess hours worked. Comptroller's Directive #1, "Principals of Internal Control," states that "effective management of an organization's workforce is essential to achieving desired results and an important part of internal control."

During Fiscal Year 2009, the OA paid 29 of its employees for overtime, totaling \$200,554. More than half of these payments, totaling \$100,551, were incorrectly paid to nine employees whose pay exceeded the amount allowed by the Citywide Overtime Cap (OT CAP). According to the citywide rules, "When an employee's annual gross salary rate . . . is higher than the applicable cap . . . such employee shall no longer be eligible to receive payment for such overtime . . . except pursuant to an overtime cap waiver issued by the Office of Labor Relations, and shall instead receive compensatory time at a rate of straight time (1X) for all authorized overtime." As of March 3, 2009, the OT CAP became \$74,079. Thus, eligible employees are those whose gross

salary rate, which includes regular gross pay *plus* longevity payments, service increments, and other such applicable additions-to-gross *plus* overtime pay, is less than the OT CAP. The OA failed to adhere to the citywide rules, and rather than providing compensation for overtime in the form of compensatory time, paid nine employees a total of \$100,551 in excess of the amount allowed, ranging from \$687 in excess for one employee to \$30,026 for another employee. An OA official confirmed that the agency does not have an OT CAP waiver.

Moreover, during Fiscal Year 2009, seven (78 percent) of these nine employees who exceeded the OT CAP worked on the 8:30a.m.–4:15p.m. schedule with a 45-minute lunch.³ When overtime is worked, this schedule allows these employees to be paid an additional 15 minutes of overtime more than their colleagues who work a schedule with a one-hour lunch. During our review of one two-week pay period in February 2009, 215 hours of overtime was paid to OA staff, totaling \$8,564. Of this amount, \$1,248 (14.6%) was paid to employees who had the 45-minute lunch schedule so these employees received compensation for the extra 15 minutes.

OA officials stated that the employees themselves are allowed to choose which work schedule they prefer and that employees are not assigned to a work schedule based upon the needs of the business. In fact, OA officials confirmed that work-related issues did not dictate which employees would work on the 45-minute lunch schedule. By continuing with the current practice of allowing some of its employees to earn additional compensation by shortening their lunch breaks without regard to the work-related needs of the office, the OA may be unnecessarily increasing its overtime expense.

Of the 29 OA employees who received overtime payments during Fiscal Year 2009, 15 (52%) worked on the 8:30 a.m.–4:15 p.m. schedule yet accounted for more than 70 percent of the overtime paid. As stated above, during our review period, 14.6 percent of the overtime paid was related to compensation for taking shorter lunch breaks. If this percentage was typical for the agency in Fiscal Year 2009, we estimate that as much as \$29,280 (14.6 percent of the \$200,554 paid out in overtime during the year) could have been saved if the OA had changed its work schedule policy and put all of its employees on a schedule with a one-hour lunch.

Also, of the 215 hours of overtime paid to OA staff during our review period, we were able to verify only 195 of them. The remaining 20 hours, while indicated in CityTime, had discrepancies with agency sign-in sheets for 14 employees. All non-managerial employees are required to enter their arrival and departure times daily on the agency sign-in sheets, which are used as attendance records by the OA, as well as in CityTime. At the end of the week, employees have to submit weekly timesheets generated by CityTime, and their supervisors are responsible for checking the accuracy of these timesheets.

The discrepancy of 20 hours between CityTime and the sign-in sheets was mainly due to employees not recording their departure times on the sign-in sheets, combined with the lack of supervisory review of these sheets in one division. Nearly 12 hours of the discrepancy was paid in premium overtime, thereby further increasing the need for close supervisory review of the sign-in sheets. OA officials stated that they were aware that the correct time was not always entered into CityTime by its employees. They acknowledged that in the absence of a time clock, the sign-in

³ OA also has a 9:00 a.m.–5:00 p.m. work schedule with a one-hour lunch.

sheets have been used to support the hours entered into CityTime. However, the sign-in sheets need to be reviewed by supervisors to resolve discrepancies between CityTime and the sign-in sheets.

The OA needs to review its overtime policies and carefully monitor those employees who earn overtime on a regular basis.

Recommendations

The OA should:

6. In the absence of an overtime cap waiver, compensate employees whose pay exceeds the amount allowed by the OT CAP with compensatory time rather than paid overtime.

OA Response: “The OA will discuss the issue of an overtime cap waiver with appropriate officials and will comply with the applicable rules.”

7. Review overtime policies to maximize efficiency and minimize costs.

OA Response: “The OA has and will continue to review the work processes of the office in order to maximize productivity and efficiency.”

8. Require its supervisors to review timesheets for errors, omissions, and discrepancies.

OA Response: “The OA already complies with this audit recommendation. However, the OA will consider using additional oversight methods as part of its current timesheet review process.”

Auditor Comment: Although the OA contends that it already complies with recommendation, we found that it was not consistently done during the period reviewed. Nevertheless, we are pleased that the OA will consider additional oversight methods as part of its review process.

Computer Network Is Not Adequately Secure

The OA computer network is not adequately secure; controls therefore need to be enhanced. The OA failed to deactivate all user accounts on its computer system for former employees, have a contingency plan in the event of a computer disaster, and keep a back-up of its data stored in off-site premises. These shortcomings compromise the OA’s internal control environment. Comptroller’s Directive #18, “Guidelines for Management, Protection, and Control of Agency Information and Information Processing Systems,” states, “The protection and control of data and information processing resources is an important element of the agency’s overall internal control environment.” The lack of a secure computer system, a data recovery plan, and off-site storage jeopardizes the confidential and essential data stored in the OA’s computer system, thereby leaving the OA exposed and vulnerable to disruption and theft of sensitive data.

According to §8.1.2 of Comptroller’s Directive #18, “Access authorization must be carefully designed to insure that employees have access only to files or programs that are

necessary for their job function. . . [and] that users are forced to change passwords periodically.” The directive also requires “deactivation of inactive user accounts and accounts for employees whose services have terminated.”

In our review of network access of September 29, 2009, we found that 11 user accounts belonged to people who were not current employees of the OA but still had access to the OA network. Nine of these accounts were assigned to former employees who left the agency between June 2004 and May 2009. The remaining two accounts were assigned to outside consultants. On March 9, 2010, we advised the OA of our findings and later that day we confirmed that all of these user accounts had been deactivated.

An OA official confirmed that data on the computer network contains sensitive and confidential information, such as social security and pension numbers. Until recently, no off-site access to the OA computer network was allowed, thereby offering some degree of protection since the only way for former employees to access the information was from the OA office. However, recently, off-site access was approved for selected managers. Consequently, the deactivation of accounts for former employees is even more crucial, since it is now possible to access data from locations other than the office. This threat can be limited by deactivating system accounts in a timely manner.

We also found that the OA does not have a disaster recovery plan for its computer network. A disaster recovery plan is a comprehensive statement of consistent actions to be taken before, during, and after a disaster. The primary objective of disaster recovery planning is to protect the agency in the event that all or part of its operations or computer services is rendered unusable. In addition to lacking a disaster recovery plan, the OA stores its backup tapes on its premises rather than using off-site storage. Without having off-site storage of its database, the OA further increases its risks of losing data critical to its operations.

According to §9.2 of Comptroller’s Directive #18, every agency is required to have a disaster recovery plan for its critical systems that “insures that backup and recovery procedures are in place . . . Backups should not be stored in the same location as the operational data to guard against the possibility of original and backup copies being destroyed by the same event or incident.” The OA relies heavily on its automated system, without which the agency could not function. Disaster recovery plans, as well as off-site storage of back-up data, will provide a sense of security and will minimize delays in day-to-day operations of the agency.

Recommendations

The OA should:

9. Promptly deactivate accounts for those who no longer work with the agency.

OA Response: “The OA has implemented this recommendation.”

10. Prepare a disaster recovery plan for its computer network, including off-site storage for its database.

OA Response: “The OA will comply with this recommendation.”

Inventory Procedures Should Be Improved

The OA has a detailed inventory list of all its electronic and computer items; however, while we found all 48 sampled items, the listing had some errors. We found two items present in the office but missing from the inventory listing (an HP Printer and an Epson Projector), and we also found two errors on the inventory listing (one computer was listed with an incorrect ID tag number, and one computer monitor was listed with an incorrect serial number). In addition, the OA does not have proper segregation of duties, thereby increasing the possibility for errors to occur or to remain unnoticed.

The OA's Network Administrator is the individual responsible for moving equipment from place to place, taking equipment out of service, updating the inventory listing, and conducting the annual inventory count. According to Comptroller's Directive #24, "Agency Purchasing Procedures and Controls," "City agencies should assign different people to responsibilities of . . . recording transactions and maintaining custody of assets to reduce the opportunities of allowing any person to be in a position to both perpetrate and conceal errors or irregularities." It recommends that "when management encounters errors they should correct the procedures in order to prevent similar problems in the future." It concedes that "segregation of duties may be particularly challenging for small City agencies." Nevertheless, even in small agencies, there must be compensating controls in place for the lack of segregation of duties.

The errors found in the OA's inventory listing could have been minimized by following the Comptroller's Directive. After our inventory tests, we advised the OA of our findings, and all the errors in its inventory listing were corrected.

Recommendation

11. The OA should implement other compensating controls if segregation of duties is not feasible, such as assigning a person for the annual inventory count other than the person updating the inventory list.

OA Response: "The OA will look into this and other alternatives to improve the maintenance and accuracy of the asset inventory."

Detailed Discussion of the OA Response

During the course of the audit, we had numerous meetings with OA officials to discuss the issues addressed in this report. Our analyses of the OA's controls over its purchasing, timekeeping, payroll, and inventory operations were based on information and documentation provided to us by the OA itself. Nevertheless, in its response, the OA strongly objected to our findings, despite the fact that it agreed to implement all 11 recommendations made in the audit report.

We disagree with OA officials' arguments and therefore have added this Appendix to record the main issues raised in the OA response and our comments. (For the full text of OA's response, see the Addendum of this report.)

Re: Overall Statement

OA Response:

This draft Audit Report includes multiple comments that are erroneous and/or misleading and/or reflect a lack of understanding of the areas examined. In addition, the draft Audit Report, in tone and in substance, gives a false impression of several aspects of the OA's operational controls and procedures. Overall, based on the considerable number of hours expended by my staff and yours on this audit, it seems that little value was created for the efforts expended.

Auditor Comment:

Comments concerning our findings are not correct and appear to be an attempt to divert attention from the fact that our review of the OA's operations disclosed weaknesses in its controls over purchasing and timekeeping procedures. While management states that it is committed to a strong system of internal controls, their response, which belittles the importance of implementing basic internal control principles, does not support this commitment. It is encouraging that OA management has accepted all 11 recommendations of this audit. However, OA should consider that management's defensive attitude towards constructive suggestions for internal control improvements undermines the control consciousness of the organization and sets a poor tone for its people. Internal controls generally function well if management conveys the view that those controls are important to employees in achieving the mission of the agency. Unsupported attacks on those whose primary role is to encourage improvements do nothing but telegraph to agency employees the dismissive attitude of management towards internal control improvements.

It is also apparent that the OA does not understand the significance of the audit's findings. Although we found that all purchases in our sample were for proper business purposes, the OA lacked adequate internal controls over its payment process for goods and services, specifically related to its inability to verify billings totaling \$1.1 million for consulting work performed by its largest vendor. The OA also lacked adequate controls over its payroll functions resulting in it making overtime payments to employees that exceeded the City's overtime cap by \$100,551. Apparently, the OA does not think these issues are important, calling them of "little

value.” We disagree. These and other weaknesses cited in the report, if left uncorrected, leave the agency more vulnerable to misappropriation and mismanagement of City funds.

Our audits—including this one—are conducted in accordance with generally accepted government auditing standards (GAGAS). GAGAS §8.29 states, “Effective recommendations encourage improvements in the conduct of government programs and operations.” Despite their objections, by agreeing to implement all 11 of our recommendations, OA officials confirm the benefit of this audit and their desire to improve their overall operations. Consequently, we believe that the OA should reconsider its position regarding the audit’s overall findings.

Re Inadequate Invoice Review Process

OA Response:

The OA is especially cognizant of the large amount of funds it expends on its contracts with Buck Consultants, LLC. (“Buck”) and, thus, closely monitors the utilization of and payment for consulting services. Accordingly, the OA thoroughly examines the invoices and supporting documents submitted by Buck to determine if payments are reasonable and allowable.

The Chief Actuary is the individual who assigns the projects to Buck and, thus, is familiar with the projects listed. . . . The Chief Actuary has nearly 40 years of experience in the pension actuarial field, twenty of which has been with the City, and is intimately knowledgeable about the resources required for the completion of the projects. As needed the Chief Actuary also meets with the appropriate Division Head to discuss the consultants’ work delivered to OA staff. It is based on this information that the invoices are judged for reasonableness and completeness and payment is approved.

While it is true that the OA did not request specific reports that match each consultant hour with a particular project, it is misleading to suggest that the hours are accepted without examination. The lack of a timekeeping report does not mean that there is a lack of oversight.

Auditor Comment:

The OA’s claim that it closely monitors the utilization of and payment for consulting services is not accurate. Although OA officials may have had a general idea of the amount of time or resources needed to complete a project, without detailed timekeeping data from Buck, the OA had no evidence to support the actual number of hours charged by each consultant, per project. Since these consultants are involved in many different projects, without detailed record-keeping, the OA would have no supporting documentation to detect errors in billings.

Nowhere in our report did we question the need for the consultants or dispute the experience of the Chief Actuary. Notwithstanding the expertise of the Chief Actuary, invoices should not be “judged” for reasonableness based on the level of experience of the individual in

charge. In fact, to do so, suggests a lack of impartiality and objectivity that is contrary to all standard and proper business practices. Instead, invoices should be reviewed against established parameters, such as the number of hours it took a consultant to complete a specific project. Since the invoices that the OA had received from Buck were based upon the total hours charged and not on the project or product delivered, the OA lacked sufficient information to determine objectively whether the numbers of hours charged by each consultant were valid.

Even though OA officials say it is misleading “to suggest that the hours are accepted without examination,” their own actions belie that assertion. As far back as January 15, 2010, as soon as we brought this issue to the attention of OA officials, they requested that Buck submit along with its invoices a detailed timekeeping report indicating per contract the number of hours charged by each consultant as well as the specific days worked on OA projects. The OA therefore clearly recognized the need for a more detailed method of oversight.

Re Lack of Annual Performance Evaluations

OA Response:

This . . . is misleading. The OA rigorously examines the work product of Buck during and at the conclusion of every project assigned. The OA also evaluates Buck’s performance annually and at the end of each contract period.

Nevertheless, the OA agrees that it has not adequately documented this annual performance review process nor has it consistently submitted formal evaluations to VENDEX as required. The OA is working on the VENDEX performance evaluation for the contract period ending June 30, 2009.

Auditor Comment:

Our statements regarding the lack of annual performance evaluations are not misleading and are in fact, based upon information received from the Director of Administration. In January 2010, OA’s Director of Administration told us that the OA does not perform any annual evaluations of Buck, other than those that are sent to VENDEX upon the renewal of a contract. Since that time, the OA has provided no additional documentation as evidence that it did evaluate Buck’s performance annually. In addition, while we received copies of VENDEX evaluations for June 2007 and June 2008, VENDEX officials had no record of ever receiving either one of these evaluations. Moreover, as admitted by the OA in its response, as of May 2010, OA officials are still working on the VENDEX evaluation for the contract period ending June 30, 2009—an evaluation that should have been completed by July 2009.

Re Overtime Issues

OA Response:

The OA objects to the determination that the OA lacks proper controls in processing overtime. The OA’s time and leave policy specifically requires that all

overtime must be based on the work needs of the office and that overtime is neither a right nor is it considered a part of an employee's regular pay.

The significant expenditures for overtime are primarily due to the growth in workload as the requests for OA assistance by its clients has grown dramatically over the years.

Auditor Comment:

We are puzzled that OA officials contend that they have proper controls for processing overtime. As stated in the report, the OA failed to obtain the required overtime cap waiver and paid \$100,551 to nine employees resulting in their pay exceeding the amount allowed by the City. In addition, because of its current policy, there is a possibility that the agency may have paid out an estimate of more than \$29,000 in unnecessary overtime costs. We also found unresolved discrepancies in the OA's timekeeping and attendance records. It is therefore hard to fathom why the OA still believes that it has proper controls for processing overtime.

We are not questioning the fact that due to growth in the workload, there may be a greater need for employees to work extra hours. We are, however, recommending that precisely because of the admitted change in circumstances, OA officials must reexamine controls that may previously have worked in a different environment and now accommodate a new and growing need.

OA Response:

It should be noted that the OA is a non-Mayoral agency that follows most Mayoral personnel procedures. The OA will contact the Office of Labor Relations and other City officials to determine whether it is covered by the paid overtime cap requirement. If so, the OA will proceed to request the paid overtime cap waiver.

Auditor Comment:

The overtime cap applies to all employees who are subject to the overtime provisions of the Citywide Agreement and not just to employees of Mayoral agencies. In fact, when we discussed the need for an overtime cap waiver with OA officials, the Director of Administration told us that she was aware of this requirement and over the years had intended to obtain a waiver and that the lack of one was an oversight on her part. While the OA may eventually end up obtaining a waiver, Citywide rules like those pertaining to overtime caps are intended to be used as a method to control City costs and should not be ignored.

OA Response:

The assertion that the OA "could have paid out more than \$29,000 in unnecessary overtime costs because of its work schedule policy" is patently false and inappropriately demeans the managerial control process and the integrity of the OA.

The 8:30am to 4:15pm work schedule with a 45-minute lunch was provided to permit employees to depart 15 minutes early by taking a shorter lunch break. This

work schedule has been in place for decades and is not a reason for employees to earn an additional 15 minutes of overtime over their colleagues who have a traditional 9:00am to 5:00pm schedule and a one-hour lunch.

Auditor Comment:

Despite the OA's intense denial, we reaffirm our earlier assertion that the amount of overtime paid to the employees is in fact related to their work schedule. It is self-evident that when asked to work overtime, the 15 employees who are on the 45-minute lunch schedule will in fact be paid for 15 minutes more than their colleagues who work a schedule with a one-hour lunch. Once again, we are not disputing the need for that overtime or questioning the integrity of the OA, but rather examining a work schedule policy that enables one particular group to earn extra money when there is a need for working overtime hours. OA's resistance to acknowledging such a basic disparity and the extent that it is willing to camouflage facts is quite disturbing.

During the course of the audit, OA officials admitted that the practice of the 45-minute lunch break is a legacy that dates back to the 1980's, when the OA was part of the New York City Employee Retirement System and employees themselves choose which work schedule they prefer, irrespective of the needs of the agency. In addition, in its response, OA officials claim that this policy was instituted for the purpose of allowing employees to depart 15 minutes earlier. While that may have been the case in the 1980's, the OA readily admits that it currently has an increase in workload that necessitates overtime by its employees. As a result, a policy that may have been instituted with good intentions more than 20 years ago may not apply today and may in fact be too costly to the City to continue.

It is not reasonable for the OA to continue clinging to outdated policies that are burdensome in today's environment. Regardless of the reason overtime is required, by maintaining its current policy, the OA will continue to incur extra expenses unnecessarily.

Re Discrepancies between Time and Attendance Records

OA Response:

The sign-in sheet is a legacy recording system which was used when the agency had a manual time clock with timecards. The sign-in sheet was used as a backup when there was a problem with the time clock or if there was a question about a timecard punch.

The sign-in sheets are used as a daily attendance record. In some instances they have been utilized as a back-up in the event there was a question about a CityTime entry.

The OA does not believe the sign-in sheets are integral to checking the accuracy of the entries made by employees in CityTime. However, to the extent that the formal use of sign-in sheets or other processes can enhance the monitoring and management of employees' recording of time, they will be considered.

Auditor Comment:

OA officials acknowledge that the sign-in sheet has been used in the past and continues to be used today as back-up should questions or discrepancies with the official timekeeping method arise. In fact, two of the three divisions' sign-in sheets are signed by reviewers, thereby validating its effectiveness and legitimacy. For the OA to argue that the sign-in sheets are not an integral process in checking the accuracy of entries is inconsistent with their current practice of using the sign-in sheet as a form of back-up to resolve inconsistencies. Nevertheless, we are pleased that despite the OA's reluctance, it has agreed to enhance its monitoring and management of the recording of employees' time worked.

Computer Network Is Not Adequately Secure

OA Response:

The auditors correctly indicated that eleven inactive user accounts had not been deactivated. However, this should not suggest that these users could have had access to the OA's system, thereby endangering the security of the network. All of the accounts of former users had been locked and their passwords changed upon the users' departure.

Auditor Comment:

The first time that OA officials made mention of the fact that employees had limited access to its network was at the April 8, 2010 exit conference. Up to that point, OA officials never raised these issues, not even during the March 9, 2010 meeting to discuss audit findings. Therefore, we did not test the controls cited by the OA that serve in place of not deactivating the 11 inactive user accounts mentioned, so we cannot comment on the effectiveness of those controls. However, since we confirmed that all inactive users noted in our September 29, 2009 test were deactivated, we believe that the network is now more secure. Nevertheless, we are still concerned that it took the OA nearly six years to deactivate some accounts, since they belonged to former employees who left the agency as far back as June 2004.

Overall, after carefully reviewing the OA's arguments, we found them to be without merit. Accordingly, we stand by our audit report.

OFFICE OF THE ACTUARY

75 Park Place • 9th Floor
NEW YORK, NY 10007
(212) 442-5775 • FAX: (212) 442-5777

ROBERT C. NORTH, JR.
CHIEF ACTUARY



May 4, 2010

Ms. H. Tina Kim
Deputy Comptroller for Audits
NYC Office of the Comptroller
1 Centre Street, 11th Floor
New York, NY 10007

Re: Response to Draft Audit Report on the
Financial Practices of the Office of the Actuary
Audit Number: MG10-074A

Dear Ms. Kim:

I appreciate the opportunity to respond to the NYC Office of the Comptroller audit of the Office of the Actuary's ("OA") controls over its purchasing, timekeeping, payroll and inventory operations.

The OA is, and always has been, strongly committed to ensuring that all administrative transactions, including those examined in your audit, are subject to the proper supervisory levels of review, oversight and approvals to avoid errors or irregularities. As such the OA welcomed the audit, viewing it as a management tool to facilitate the assessment of its administrative processes.

Regrettably, this draft Audit Report includes multiple comments that are erroneous and/or misleading and/or reflect a lack of understanding of the areas examined. In addition, the draft Audit Report, in tone and in substance, gives a false impression of several aspects of the OA's operational controls and procedures. Overall, based on the considerable number of hours expended by my staff and yours on this audit, it seems that little value was created for the efforts expended.

Ms. Tina Kim
May 4, 2010
Page 2

Although the OA generally agrees that improvements could be made in several areas, the OA takes strong exception with the draft Audit Report's assertions and implications that there are inadequate controls in certain areas, such as vendor payment processes, employee overtime payments and computer network security.

The OA has a review mechanism in place to provide a check on the work performed for each function that was audited. At no time are payrolls issued, overtime and leave approved, purchases made or payments remitted without a second, separate layer of management review and approval. In addition, the agency's computer network has several levels of security in place that helps prevent unauthorized access.

It should be noted that the auditors did not find any monetary effect or losses associated with the reported internal control weaknesses.

Following is the OA's response to the findings and recommendations in the draft Audit Report.

Audit Finding: Inadequate Invoice Review Process

The auditors reported that the OA did not require its largest vendor, Buck Consultants, LLC, to submit detailed supporting timekeeping documentation along with its invoices as evidence of work performed on specific projects. The auditors stated that, "As a result, OA cannot verify that the \$1.1 million billed by Buck is accurate. According to §6.0 of Comptroller's Directive #24, 'Agency Purchasing Controls,' agencies must 'verify that the expenditure is necessary and reasonable, and that the goods or services were received.' Without a thorough review of invoices and all supporting documents, OA cannot verify prior to making payment that all payments are reasonable or allowable."

The auditors also reported that "Despite the amount of hours claimed by the vendor, no one at OA verified that these hours were accurate or that they pertained to work required by OA, not even in the case of the consultant who claimed 1,064 billable hours for the year."

Ms. Tina Kim
May 4, 2010
Page 3

OA Comment:

The OA includes in its payment voucher files documentation to support the justification of the payment of invoices for goods and services ordered and received. The OA is especially cognizant of the large amount of funds it expends on its contracts with Buck Consultants, LLC. ("Buck") and, thus, closely monitors the utilization of and payment for consulting services. Accordingly, the OA thoroughly examines the invoices and supporting documents submitted by Buck to determine if payments are reasonable and allowable. It is completely inaccurate to suggest that the OA disregards the tenets of §6.0 of Comptroller's Directive #24.

Each monthly invoice submitted by Buck contains a detailed listing of the projects worked on by Buck during the invoice period, the names and titles of each consultant who worked on those projects during the month, the number of hours worked and the hourly rates for each consultant. The invoice is first reviewed by the OA Procurement Officer and then by the Director of Administration to verify that the hourly rates for each level of consultant listed match the contractual rates and that the invoice computes to the correct totals. Once completed the invoice, along with proof of review, is submitted to the Chief Actuary for final inspection and approval to pay.

The Chief Actuary is the individual who assigns the projects to Buck and, thus, is familiar with the projects listed. Projects are assigned to Buck because the personnel and/or level of expertise are not available in the OA. The Chief Actuary has nearly 40 years of experience in the pension actuarial field, twenty of which has been with the City, and is intimately knowledgeable about the resources required for the completion of projects. As needed, the Chief Actuary also meets with the appropriate Division Head to discuss the consultants' work delivered to OA staff. It is based on this information that the invoices are judged for reasonableness and completeness and payment is approved.

Ms. Tina Kim
May 4, 2010
Page 4

The OA has regular contact with the consultants who, generally, work as a team on various projects. There is communication with individual consultants as projects progress. The consultant highlighted by the auditors who worked 1,064 hours has worked on OA projects for Buck for several years and is known to OA staff. This consultant works virtually full-time on OA projects. She is assigned the greatest number of hours because she is usually the consultant with the lowest billing rate who possesses the knowledge of the OA requests and the actuarial expertise necessary to handle the projects.

While it is true that the OA did not request specific reports that match each consultant hour with a particular project, it is misleading to suggest that the hours are accepted without examination. The lack of a timekeeping report does not mean that there is a lack of oversight.

Nevertheless, the OA will add the timekeeping reports to the supply of documentation and information it already uses to justify its payment of invoices.

1. Audit Recommendation: OA should review the timekeeping report from its largest vendor, Buck Consulting, along with its monthly invoices so that OA can more readily determine whether the invoices are reasonable, accurate, and justified by the supporting documentation.

OA Response: The OA is already confident that the invoices it receives from Buck are reasonable, accurate and reflect proper charges for authorized projects.

Nevertheless, the OA has requested and received a more detailed timekeeping report from Buck for the February 2010 billing. The OA has reviewed that report and has verified that the hours worked by each consultant matched or exceeded the hours reported on the invoice. It should be noted that if Buck assigns a consultant to a project that requires training on the issues unique to the OA, Buck will routinely write-off some of the hours worked.

The OA will continue to receive these more detailed timekeeping reports from Buck and use them as part of its invoice review process. The OA will comply with this recommendation.

Ms. Tina Kim
May 4, 2010
Page 5

Audit Finding: Expenditures Charged to the Incorrect Fiscal Year

The auditors reported that the OA does not always charge expenses to the fiscal year in which they were incurred. The auditors also found that it did not always pay its invoices promptly.

OA Comment:

Every attempt is made to ensure that payments for goods and services received by June 30th of a fiscal year are charged to that fiscal year. There were a few payments that were paid after the close of the fiscal year that the OA did not confirm were charged back to ensure proper accounting. The OA acknowledges the importance of this practice and will make sure that all payments made will be charged to the correct fiscal year.

2. Audit Recommendation: OA should record the agency's expenditures accurately in the fiscal year in which they are incurred.

OA Response: The OA has made personnel and process changes that will ensure that all expenditures are charged to the fiscal year in which they were incurred. The OA will comply with this recommendation.

Audit Finding: Purchases not Paid Promptly

The auditors found that the OA did not pay its invoices promptly.

OA Comment:

The OA pays most of its invoices timely. There were a number of invoices that were not paid promptly, with some of these late payments due to problems or errors with the billing. These issues were not always documented in the file and, thus, did not adequately justify the delays in payment. Every attempt will be made to ensure that payments are made promptly and that late payments due to the resolution of billing problems are properly documented.

Ms. Tina Kim
May 4, 2010
Page 6

In addition, as a result of a personnel change after the audited period, the OA is more confident that invoices will be processed more promptly.

3. Audit Recommendation: OA should make payments to vendors within 30 days of the receipt of an invoice.

OA Response: The OA has made personnel and process changes to ensure that all payments will be made timely. The OA will comply with this recommendation.

Audit Finding: Lack of Annual Performance Evaluations

The auditors report stated that the "OA has not conducted annual performance evaluations of Buck, its largest contractor. In addition, the only two OA VENDEX evaluations of Buck's performance of its two contracts were entered five years ago, in June 2004."

OA Comment:

This statement is misleading. The OA rigorously examines the work product of Buck during and at the conclusion of every project assigned. The OA also evaluates Buck's performance annually and at the end of each contract period. To date, Buck has consistently performed at an above satisfactory level.

Nevertheless, the OA agrees that it has not adequately documented this annual performance review process nor has it consistently submitted formal evaluations to VENDEX as required. The OA is working on the VENDEX performance evaluation for the contract period ending June 30, 2009 and expects to soon submit the documents electronically. The OA will ensure that a formal VENDEX performance evaluation is submitted timely for each contract year.

4. Audit Recommendation: The OA should conduct annual performance evaluations for all contractors, especially conducting a current performance evaluation prior to renewal of its contract with Buck.

OA Response: The OA will comply with this recommendation.

Ms. Tina Kim
May 4, 2010
Page 7

5. Audit Recommendation: The OA should submit required vendor evaluations to VENDEX in a timely manner.

OA Response: The OA will comply with this recommendation.

Audit Finding: Paid Overtime Exceeds Cap

The auditors reported that the OA lacks proper controls in processing its employees' overtime. One of the issues reported was that the OA failed to obtain the required overtime cap waiver for employees whose pay exceeded the amount allowed by the City.

OA Comment:

The OA objects to the determination that it lacks proper controls in processing overtime. The OA's time and leave policy specifically requires that all overtime must be based on the work needs of the office and that overtime is neither a right nor is it considered a part of an employee's regular pay.

All overtime must be authorized by a supervisor and it is the same supervisor who approves/disapproves the overtime request submitted by the employee in CityTime. In addition, it is a long-standing policy in the OA that all overtime be compensated in pay. The OA does not provide remuneration for overtime work in the form of compensatory time off.

The significant expenditures for overtime are primarily due to the growth in workload as the requests for OA assistance by its clients has grown dramatically over the years. The policy to compensate overtime worked in pay rather than in compensatory time off is due to need for personnel to be present in the office to work. The number of hours required to work by many employees is also the reason why the OA must provide letters in employee folders each year to allow for the carryover of excess annual leave - the workload is so great that some employees cannot take as much time off as they are entitled.

Ms. Tina Kim
May 4, 2010
Page 8

It should also be noted that the OA is a non-Mayoral agency that follows most Mayoral personnel procedures. The OA will contact the Office of Labor Relations and other City officials to determine whether it is covered by the paid overtime cap requirement. If so, the OA will proceed to request the paid overtime cap waiver.

6. Audit Recommendation: The OA should, in the absence of an overtime cap waiver, compensate employees who pay exceeds the amount allowed by the OT CAP with compensatory time rather than paid overtime.

OA Response: The OA will discuss the issue of an overtime cap waiver with appropriate officials and will comply with the applicable rules.

Audit Finding: The Shortened Lunch Work Schedule Contributes to Additional Overtime Paid

The auditors reported that most of the employees who exceeded the overtime cap worked the 8:30am to 4:15pm schedule with a 45-minute lunch. The auditors added that "When overtime is worked, this schedule allows these employees to be paid an additional 15 minutes of overtime more than their colleagues who work a schedule with a one-hour lunch." They added that "the agency could have paid out more than \$29,000 in unnecessary overtime costs because of its work schedule policy."

OA Comment:

The contention that the amount of overtime paid to employees is related to their work schedule is incongruous. The assertion that the OA "could have paid out more than \$29,000 in unnecessary overtime costs because of its work schedule policy" is patently false and inappropriately demeans the managerial control processes and the integrity of the OA.

Ms. Tina Kim
May 4, 2010
Page 9

The amount of overtime authorized for any individual employee is based strictly on the needs of the OA and the skills of the employee. The auditors' statements demonstrate a complete lack of understanding of the workings of the OA overtime policy. Despite several attempts to explain, the auditors still seem to believe that there is some causal relationship between the shortened lunch period and the payment of an additional 15 minutes of overtime.

The 8:30am to 4:15pm work schedule with a 45-minute lunch was provided to permit employees to depart 15 minutes early by taking a shorter lunch break. This work schedule has been in place for decades and is not a reason for employees to earn an additional 15 minutes of overtime over their colleagues who have a traditional 9:00am to 5:00pm schedule and a one-hour lunch.

As noted earlier, overtime is authorized based on the workload needs of the office. Most of the increase in workload is due to the considerable increase in individual retirement cases requiring actuarial review for certification. Accordingly, most of the overtime authorized in the OA is in the Certification Services Division. Most of the agency's employees who are on the 8:30am to 4:15pm schedule work in the Certification Services Division.

Employees in the Certification Services Division are given retirement cases for certification that must be turned around within a specific time period. Many are authorized to work overtime in order to process this caseload timely. The amount of overtime authorized is based on the workload and complexity of cases given to the employee.

7. Audit Recommendation: The OA should review overtime policies to maximize efficiency and minimize costs.

OA Response: The OA's overtime policy is based on the work-related needs of the office. The OA has and will continue to review the work processes of the office in order to maximize productivity and efficiency.

Ms. Tina Kim
May 4, 2010
Page 10

Audit Finding: Discrepancies between CityTime and Sign-In Sheets

The auditors reported that there were a few discrepancies between the time submitted in CityTime and the time recorded on the sign-in sheets.

OA Comment:

The sign-in sheet is a legacy recording system which was used when the agency had a manual time clock with timecards. The sign-in sheet was used as a backup when there was a problem with the time clock or if there was a question about a timecard punch. The primary purpose of the sign-in sheet was for attendance. A supervisor could review the sign-in sheet for the day to see if an employee had arrived or had left for the day.

With the implementation of CityTime, the responsibility for timekeeping was delegated to managers and supervisors. As such, the managers and supervisors review timesheets for errors, omissions and discrepancies. The sign-in sheets are used as a daily attendance record. In some instances they have been utilized as a back-up in the event there was a question about a CityTime entry. For example, when a question arose about a CityTime entry, the sign-in sheet would be checked and then both the CityTime entry and sign-in sheet entry would be verified against the agency's premises security system files (i.e., to observe when an employee arrived or departed).

During the period of this audit, the sign-in sheet was not checked for completeness or compared against the CityTime entries.

The OA does not believe the sign-in sheets are integral to checking the accuracy of the entries made by employees in CityTime. However, to the extent that the formal use of sign-in sheets or other processes can enhance the monitoring and management of employees' recording of time, they will be considered.

8. Audit Recommendation: The OA should require its supervisors to review timesheets for errors, omissions and discrepancies.

Ms. Tina Kim
May 4, 2010
Page 11

OA Response: The OA already complies with this audit recommendation. However, the OA will consider using additional oversight methods as part of its current timesheet review process.

Audit Finding: Computer Network is Not Adequately Secure

The auditors reported that the "OA computer network is not adequately secure; controls therefore need to be enhanced. OA failed to deactivate all user accounts on its computer system for former employees, have a contingency plan in the event of a computer disaster, and keep a back-up of its data stored in off-site premises."

OA Comment:

The OA agrees that measures need to be taken to finalize and implement a disaster recovery plan. Efforts will be undertaken to effect such a plan. However, to imply that the computer network is not adequately secure is hyperbole.

The auditors correctly indicated that eleven inactive user accounts had not been deactivated. However, this should not suggest that these users could have had access to the OA's system, thereby endangering the security of the network. All of the accounts of the former users had been locked and their passwords changed upon the users' departure. Once the users' accounts were locked, the accounts could be unlocked only by a network administrator. Should a former user bypass the OA's premises security and gain access to a workstation, their login credentials would not be accepted because of the lockout of their account.

Regarding the issue of remote access, it must be emphasized that only a very few select employees have remote access. This remote access is protected by a network Group Policy as well as by two firewalls (including an extra one between CityNet and the OA, specifically deployed for extra security). The OA's Network Administrator and the Director of Administration maintain a current list of employees who are authorized to have remote access. Should one of the employees with remote access separate from the agency, his/her account would be immediately disabled.

Ms. Tina Kim
May 4, 2010
Page 12

Nonetheless, the security of the network is of the utmost importance to the OA. As a result, a procedure has been implemented to more expeditiously disable (as well as lockout) the account of any user who has separated from the agency.

9. Audit Recommendation: The OA should promptly deactivate accounts for those who no longer work with the agency.

OA Response: The OA has implemented this recommendation.

10. Audit Recommendation: The OA should prepare a disaster recovery plan for its computer network, including off-site storage for its database.

OA Response: The OA will comply with this recommendation.

Audit Finding: Inventory Procedures Should be Improved

The auditors reported finding errors in its inventory list of electronic and computer items. The auditors also found that there was not a proper segregation of duties in the maintenance of its inventory.

OA Comment:

It should be noted that the auditors stated to OA officials at the findings meeting that the inventory list was satisfactorily maintained and that the errors were minor. However, it is accepted that the errors could be further minimized by instituting a separate level of review to ensure changes are properly recorded in the inventory list.

11. Audit Recommendation: OA should implement other compensating controls if segregation of duties is not feasible, such as assigning a person for the annual inventory count other than the person updating the inventory list.

OA Response: The OA will look into this and other alternatives to improve the maintenance and accuracy of the asset inventory.

Ms. Tina Kim
May 4, 2010
Page 13

Conclusion

As noted in the beginning of this letter, the OA believes that the audit represents an excellent opportunity to gain new perspectives on its current practices and to improve the administrative operations of the agency.

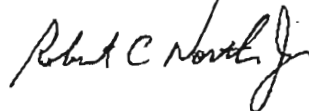
With respect to certain issues, the OA will utilize the information provided in this draft Audit Report to improve its operations.

However, the OA also believes that some of the findings of the draft Audit Report are incorrect and/or misleading.

Overall, the OA does not believe the benefits of this audit were worth the considerable number of man-hours devoted by your staff or mine.

If you have any questions, please contact Ms. Susan M. Flaschenberg, Director of Administration, at 212-442-5795.

Yours truly,



Robert C. North, Jr.
Chief Actuary