

AUDIT REPORT



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

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

ME04-077A

June 30, 2004



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

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has reviewed the controls over timekeeping, payroll, purchasing and inventory operations of the Office of the Actuary (OA).

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

Audits such as this provide a means of ensuring that City resources are used effectively, efficiently, and in the best interest of the public.

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

Very truly yours,

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

William C. Thompson, Jr.

WCT/fh

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*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**

ME04-077A

AUDIT REPORT IN BRIEF

This audit determined whether the Office of the Actuary (OA) had adequate controls over its timekeeping, payroll, purchasing, and inventory operations. OA was established in 1990 to provide technical advice and actuarial support to the various New York City retirement systems. OA performs annual valuations of the assets and liabilities of the City's five actuarial retirement systems and other non-actuarial pension funds. In Fiscal Year 2003, OA budgeted \$2,620,169 in personal service expenditures for 41 positions and \$959,012 for other than personal service (OTPS) expenditures. The OTPS expenditures included purchases for supplies and materials, property and equipment, contractual services, miscellaneous equipment rentals, and utilities.

Audit Findings and Conclusions

The Office of the Actuary had inadequate controls in relation to the following timekeeping, payroll, purchasing, and inventory operations. Specifically, OA:

- had no segregation of duties for timekeeping and payroll operations;
- had no segregation of duties for purchasing operations;
- lacked adequate inventory safeguards;
- did not consistently prepare purchase requisitions and receiving reports;
- used some miscellaneous vouchers incorrectly;
- did not handle certain imprest fund purchases properly; and
- did not properly review and approve employee time reports.

OA did have adequate controls in relation to the approval of overtime and leave, the solicitation of bids, and the assignment of purchases to the correct object codes. We did not find any monetary effect for the noted internal control weaknesses. Nevertheless, insufficient controls increase the risks that funds and assets may not be adequately safeguarded.

Audit Recommendations

To address these issues, we make 10 recommendations, among them that OA should:

- Prepare and implement written procedures to ensure that duties within the purchasing and the timekeeping/payroll functions are sufficiently segregated.
- Perform a complete inventory and develop a list of all physical assets.
- Regularly update the inventory list and conduct periodic counts of all physical assets.
- Ensure that a requisition is prepared and maintained for each purchase.
- Ensure that a receiving report is prepared and maintained in each voucher package.
- Ensure that all Employee Time Reports (ETRs) are signed by the preparer, the supervisor, and the Payroll Management System (PMS) data entry operator.

INTRODUCTION

Background

The Office of the Actuary was established on July 1, 1990, by the boards of trustees of the various New York City retirement systems to provide technical advice and actuarial support. OA performs annual valuations of the assets and liabilities of the City's five actuarial retirement systems and other non-actuarial pension funds. It also computes employer contributions and members' benefits, determines suitability of actuarial assumptions, and recommends changes when necessary. OA provides services and information to City agencies, legislative bodies, and active and retired employees.

In Fiscal Year 2003, OA budgeted \$2,620,169 in personal service expenditures for 41 positions and \$959,012 for other than personal service expenditures. The OTPS expenditures included purchases for supplies and materials, property and equipment, contractual services, miscellaneous equipment rentals, and utilities.

In Fiscal Year 2003, rules governing agencies' handling of procurements were found in the City's Procurement Policy Board (PPB) Rules and Comptroller's Directives #1, #3, #6, #24, and #25 relating, respectively, to internal controls, imprest funds, miscellaneous agency expenses, purchasing, and miscellaneous vouchers. (On April 15, 2004, a revised Directive #24 was issued that modified Directive #24 and replaced Directive #25.)

Rules governing agencies' timekeeping and payroll operations are presented in Comptroller's Directive #13, Payroll Procedures. The Payroll Management System operated by the Office of Payroll Administration maintains time and leave records, posts accruals and deductions, stores employee history information, calculates pay, and generates checks or electronic transfers on a weekly or biweekly basis.

Objective

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

Scope and Methodology

The period covered by our audit is July 1, 2002, through June 30, 2003 (Fiscal Year 2003).

We interviewed OA officials and staff members to obtain an understanding of their timekeeping, payroll, purchasing and inventory procedures. We also reviewed OA time and leave policies and procedures manual for the non-managerial staff.

To determine whether OA complied with Comptroller's Directives #1, #3, #6, #24, and #25, and PPB Rules § 3-08, Small Purchases, we obtained a printout of OA's OTPS payments from the City's Financial Management System (FMS) for Fiscal Year 2003. In Fiscal Year 2003, OA made

233 purchases (including 193 purchase orders, 24 miscellaneous vouchers, and 16 imprest fund vouchers) totaling \$649,432.34. We randomly selected a sample of 20 out of the 133 purchase orders that involved purchases exceeding \$250. We also randomly selected five of the 24 miscellaneous vouchers and five of the 16 imprest fund vouchers.

Table I, below, lists individual categories of purchases and the corresponding sample we selected and examined.

Table I
Fiscal Year 2003 Purchases

Purchase Category	Population		Sample	
	Number of Purchases	Dollar Amount	Number of Purchases	Dollar Amount
Purchase Orders*	133	\$619,093.24	20	\$88,109.02
Miscellaneous Vouchers	24	\$19,475.24	5	\$3,295.14
Imprest Fund Vouchers	16	\$3,618.34	5	\$700.79
Total	173	\$642,186.82	30	\$92,104.95

*Excludes 60 purchase orders, totaling \$7,245.52, that involved purchases costing less than \$250 each.

For each purchase in our sample, we reviewed supporting documentation to determine whether:

- bids were solicited when required;
- purchase orders contained proper specifications;
- miscellaneous vouchers were used correctly;
- correct object codes were used;
- purchase documents were appropriately prepared and approved;
- authorized signatures appeared on all required documents; and
- proper payment was made for goods and services after they were received.

In addition, we determined whether purchase requisition, purchase order, payment voucher preparation, and payment voucher approval duties were properly segregated.

We also assessed how OA safeguarded and accounted for its physical assets. We requested from OA a listing of its current inventory. OA officials were unable to provide us with this list. Thus, to determine whether OA, in accordance with the Department of Investigation *Standards for Inventory Control and Management*, properly accounted for and reasonably safeguarded its physical assets, we reviewed the purchasing files for Fiscal Years 1999 through 2002; identified 63 purchases involving the acquisition of equipment and furniture; selected a sample of 21 of these purchases; and endeavored to locate these items.

To determine whether OA's controls over its timekeeping and payroll functions complied with Comptroller's Directive #13, we reviewed time sheets for 11 of the 37 employees for April 1 through June 30, 2003, which provided the most recent documentation within the scope period. The 11 randomly sampled employees had a total annual salary of \$761,349. We determined the accuracy of the work hours and leave balances credited to these employees. We verified whether the leave balances were properly recorded in PMS. We also determined whether time sheets and leave forms were appropriately approved, and whether paychecks were signed for as required. In addition, to determine whether OA employees were receiving salaries that were within the salary ranges of their civil service titles, we compared the salaries for these 11 employees to the minimum and maximum salary amounts for these titles as specified in the City Career and Salary Plan.

The results of the above tests, while not statistically projected, provide a reasonable assessment of OA's controls over its timekeeping, payroll, purchasing, and inventory operations.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the Comptroller, as set forth in Chapter 5, § 93, of the New York City Charter.

Discussion of Audit Results

The matters 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 April 14, 2004, and was discussed at an exit conference held on April 30, 2004. On May 13, 2004, we submitted a draft report to OA officials with a request for comments. We received a written response from OA officials on June 4, 2004. OA officials generally disagreed with our overall finding that OA had inadequate controls over certain aspects of its timekeeping, payroll, purchasing and inventory operations. Nevertheless, OA agreed to comply with all of the audit recommendations.

In its response, OA stated:

“Although the OA generally agrees that improvements could be made in providing documentation for some current practices and in redistributing responsibilities for certain sequential administrative processes, the OA disagrees that there is inadequate supervisory review and management control. . . .

“Although the OA disagrees with some of the observations made herein, I would like to thank your staff for their professionalism during the audit and their production of a fair and reasoned report.”

The full text of OA's comments is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

The Office of the Actuary had inadequate controls in relation to the following timekeeping, payroll, purchasing, and inventory operations. Specifically, OA:

- had no segregation of duties for timekeeping and payroll operations;
- had no segregation of duties for purchasing operations;
- lacked adequate inventory safeguards;
- did not consistently prepare purchase requisitions and receiving reports;
- used some miscellaneous vouchers incorrectly;
- did not handle certain imprest fund purchases properly; and
- did not properly review and approve employee time reports.

However, the OA had adequate controls in relation to the approval of overtime and leave, the solicitation of bids, and the assignment of purchases to the correct object codes.

We did not find any monetary effect for the noted internal control weaknesses. Nevertheless, insufficient controls increase the risks that funds and assets may not be adequately safeguarded.

The internal control weaknesses are discussed in detail in the following sections of the report.

Inadequate Segregation of Duties

OA officials did not segregate the responsibilities for the authorizing, processing, and recording of transactions. Instead, the Procurement Officer performed most of the purchasing functions, and the Payroll Officer performed all of the timekeeping and payroll functions. This lack of appropriate segregation of duties can allow errors or irregularities to occur without being detected.

Comptroller's Directive #24 stated, "To prevent errors and to safeguard assets, individuals performing the purchasing, receiving and vouchering functions should be independent of each other." However, at OA the Procurement Officer, under the supervision of the Director of Administration, is responsible for most of the procurement functions. These include the following:

- preparing the purchase order;
- handling the bid process, if necessary;
- entering the purchase order in FMS;
- receiving the items that are ordered, as well as checking the packing slip against a copy of the purchase order;
- receiving the invoice from the vendor;
- preparing the voucher package for payment;
- entering in FMS the information for the payment voucher; and

- preparing, certifying, and vouchering imprest fund purchases.

The only procurement function that is not handled by the Procurement Officer is the approval of purchase orders and payment vouchers in FMS. The Procurement Officer is also responsible for maintaining the inventory of items purchased.

Comptroller's Directive #13 states, "In very small agencies, with few employees, the payroll responsibility may be assigned to an employee who has other unrelated responsibilities. The payroll office or unit, however, must never be under the supervision of the personnel or timekeeping office." However, OA's Payroll Officer, under the supervision of the Director of Administration, is responsible for all timekeeping and payroll functions. These functions include:

- collecting and reviewing employee time and attendance documentation;
- preparing the Employee Time Reports;
- entering authorized transactions in PMS;
- performing payroll reconciliations; and
- distributing paychecks and direct deposit earning statements.

This lack of segregation of duties increases the possibility of mistakes and irregularities. Comptroller's Directive #1, Internal Controls Overview, states that "to minimize the possibility of inefficiency, errors, and fraud, responsibility for a sequence of related operations should be divided among two or more persons." Furthermore, the directive states that "in essence, key duties and responsibilities in authorizing, processing, recording and reviewing transactions and safeguarding assets should be separated among individuals."

The responsibilities for a sequence of related transactions, such as processing, recording, and reviewing transactions, should be divided among different employees, even in a small agency such as OA. For example, the Payroll Officer can be trained to perform some of the procurement functions, such as certifying the receipt of purchased goods or preparing the payment voucher in FMS. Conversely, the Procurement Officer could perform such a timekeeping/payroll function as handling the payroll distribution. OA should implement some compensating controls to bring about a more adequate segregation of duties.

OA Response: "The OA is a small agency of 40 employees that has only three (3) individuals dedicated to the agency's timekeeping, payroll, purchasing and inventory operations. Given the agency's small size, the OA is not able to strictly adhere to the Comptroller's Directive on the segregation of duties."

Auditors' Comments: We believe that even a small agency such as OA can achieve a better segregation of duties. We present examples above of how this could be achieved. As stated in the draft report, although we did not find any monetary effect for the noted internal control weaknesses, the lack of segregation of duties increases the possibility of errors and irregularities not being detected.

Recommendation

1. OA should prepare and implement written procedures to ensure that duties within the purchasing and the timekeeping/payroll functions are sufficiently segregated.

OA Response: “The OA will review its current practices and issue written procedures that will improve the segregation of its purchasing and timekeeping/payroll functions.”

OA Did Not Perform Annual Physical Inventory Counts

OA does not maintain an inventory list of its physical assets. At the start of our audit, we requested a listing of the OA’s current inventory. However, OA officials were unable to provide this list. Moreover, in July 2003, OA moved its offices from 220 Church Street to its current location at 75 Park Place without properly accounting for the equipment that was being moved or salvaged.

Internal control standards require that accurate and complete inventory records be maintained for all assets. The Department of Investigation *Standards for Inventory Control and Management* contains inventory guidelines for all City agencies. These guidelines require that City agencies establish a perpetual inventory system “to maintain an up-to-date count of all items in the inventory.” The guidelines further state that agencies should conduct a count of all inventory items at least once a year to ensure the accuracy of the perpetual inventory records. Failure to maintain inventory records increases the possibility that equipment may be lost or stolen. During a massive movement of equipment, such as the relocation of OA’s office, the risk is magnified. It is therefore especially important that current and accurate records be maintained.

In order to perform an inventory count of some of the items that OA had purchased, we reviewed the purchasing files for Fiscal Years 1999 through 2002; identified 63 purchases involving the acquisition of equipment and furniture, which had a total value of \$111,407; and randomly selected a sample of 21 purchases of such items, which had a total value of \$50,070. We were unable to locate the items acquired through 12 of the 21 purchases. The equipment and furniture acquired through these 12 purchases had a total value of \$20,051. OA officials told us that the items acquired through eight of the 12 purchases were donated to two City agencies: the Department of Information Technology and Telecommunications and the Board of Elections. However, OA officials did not maintain records of what was donated to those agencies. As a result, OA was unable to properly account for those items that were missing. OA subsequently requested documents from the two agencies, which confirmed their receipt of items acquired through eight of the 12 purchases.

After our exit conference with OA, the agency provided us with a variety of evidence on the remaining four purchases. For one purchase, OA located and showed us the two uninterrupted power supplies it acquired. For two purchases (of lateral cabinet files and of a rack for computer equipment), OA provided us with copies of the Transfer Manifests that donated these items to other agencies and that were signed by OA and the receiving agencies. For one purchase (of a laser printer), OA provided documentation indicating that the printer was defective and has been replaced through the warranty.

OA Response: “The OA agrees that it failed to perform regular annual physical inventory counts of its supplies, materials and equipment.

“However, the auditors’ indication that, from a random sample of items purchased between Fiscal Years 1999 and 2002, certain items could not be accounted for is misleading. . . .

“The OA did maintain a record of all of the equipment that was donated to the Department of Information Technology and Telecommunications and to the Board of Elections. The record was in two formats – in a spreadsheet and in a memorandum to 75 Park Place Building Security listing the serial numbers of the items being removed from the premises. The OA showed these records of donated equipment to the auditors during the audit and at the exit conference.

“Regarding the allusion that the OA had to request the supporting documents from the two agencies, this is also not correct. The OA requested documents from these two agencies in order to verify for the OA that the items the OA had on record as donated were, in fact, received by those agencies. The documents submitted by these agencies confirmed the information already on file with the OA.

“In addition, the OA was not provided with a list of the other four items that were allegedly missing prior to the exit conference. At the exit conference, the OA requested the list of the items that the auditors could not locate. Once the list was received, the items were duly located in the OA.”

Auditors’ Comments: As mentioned above, during the inventory count, we were unable to locate items acquired through 12 of the 21 sampled purchases. At the time of our December 11, 2003 inventory count, we informed OA’s Director of Administration that we had been unable to locate these items. We considered the OA’s spreadsheet and memorandum to Building Security on the missing items to be inadequate supporting documentation for the disposition of these items because they were simply internally generated documents. While OA informed us that it had donated these items to City agencies, OA did not have any documentation from these agencies certifying that the items had been received. In response to our concerns, OA obtained documentation in January 2004 from two City agencies certifying that they had possession of the items relating to eight of the 12 purchases.

OA’s implication that it was not informed until after the April 30, 2004 exit conference about the missing items relating to the remaining four purchases is simply incorrect. We had requested supporting documentation on the location of the missing items relating to all 12 purchases at the time of our December 11, 2003 inventory count. As noted above, after the exit conference, the OA located the missing items relating to one purchase and provided documentation on the disposition of the missing items relating to the other three purchases. OA should have had supporting documentation on the disposition of all of these items readily available at the time of our inventory count.

Recommendations

OA should:

2. Perform a complete inventory and develop a list of all physical assets.

OA Response: “The OA has complied with this recommendation.”

3. Regularly update the inventory list and conduct periodic counts of all physical assets.

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

Lack of Purchase Requisitions

OA generally does not prepare purchase requisitions. It had no purchase requisitions in the purchasing files for 17 (89%) of 19 purchase orders in our sample. (The 20th transaction in our sample was for rent and did not require a purchase requisition.) Comptroller's Directive #24, § 4.0, stated:

“It is recommended that the purchasing cycle start with the preparation of an internal requisition for all purchases, regardless of the amount.”¹

The purchasing files for two of 19 sampled purchase orders contained informal purchase requisitions (an e-mail message and a memo). However, for the other 17 purchases, there was nothing in the files to indicate who requested the items or what was being requested. Purchase requisitions provide a permanent reference source to facilitate the review of purchases and the approval of payments, and provide some of the specifications that are needed in developing the purchase orders.

Recommendation

4. OA should ensure that a requisition is prepared and maintained for each purchase.

OA Response: “To comply with the audit’s recommendation, the OA has implemented a process in which formal written purchase requisitions are prepared for every purchase.”

OA Did Not Consistently Prepare Receiving Reports

OA did not consistently prepare and maintain receiving reports in its payment voucher packages.

Comptroller’s Directive #24 requires that the voucher package include an invoice and a receiving report supporting the purchase. Of the 20 voucher packages we reviewed, all

¹ The new Directive #24 issued on April 15, 2004, states: “It is recommended that agencies use Requisitions to pre-encumber funds for purchases from external vendors. . . . Requisitions are required when a purchase is expected to exceed the micro-purchase limits, currently set at \$5,000.”

contained the necessary invoices, but eight lacked receiving reports. The agency is required to reconcile the purchase order, invoice, and receiving report in the process of preparing and approving the payment voucher. Comptroller's Directive #24 states that agencies are required to ensure that goods and services have been received prior to payment. Failure to prepare reports of received goods and services weakens an agency's internal controls over its payments for goods and services.

OA Response: "The OA includes in its payment voucher packages an endorsement that denotes that the items ordered were received and accepted. It has been the OA's practice to 'check-off' the items received on either the packing slip or on the invoice and then mark each invoice with a stamp . . .

" . . . the stamp provides room for the reviewer to mark the dates the articles or services were received and accepted and a signature that certifies the delivery of the goods or services ordered."

Auditors' Comments: For the eight purchases that lacked receiving reports, only two of the invoices contained the indicated stamp. In addition, these stamped invoices cannot be considered to be receiving reports because the invoices were received after OA received the purchased items.

Recommendation

5. OA should ensure that a receiving report is prepared and maintained in each voucher package.

OA Response: "The OA will implement a process in which a separate formal written receiving report is prepared prior to payment for every order delivered."

Incorrect Use of Miscellaneous Vouchers

For some purchases, OA incorrectly used miscellaneous vouchers rather than purchase orders during Fiscal Year 2003. It incorrectly used miscellaneous vouchers rather than purchase orders for purchases relating to three miscellaneous vouchers (with a total value of \$1,890) of the five miscellaneous vouchers we reviewed. These vouchers were used to pay for annual membership dues in three professional organizations.

Comptroller's Directive #25, Guidelines for the Use and Submission of Miscellaneous Vouchers, § 2.3, stated:

"Miscellaneous vouchers may be used only when the estimated or actual future liability is not determinable and an Advice of Award, Purchase Order or Agency Encumbrance is not required or applicable."

However, the costs of the annual membership dues were determinable. The incorrect use of miscellaneous vouchers contributes to the distortion of the City's book of accounts by

understating the City's outstanding obligation. In this connection, it is important for OA to ensure compliance with this requirement, which was designed to limit agencies' use of miscellaneous vouchers.

Recommendation

6. OA should ensure that miscellaneous vouchers are used correctly.

OA Response: "The OA only uses miscellaneous vouchers when appropriate. However, it will consider securing professional memberships as a planned annual expenditure, thereby using the purchase order as a vehicle for payment."

Imprest Fund Issue

Imprest fund purchases are agency-controlled checking accounts, which can be used for small purchases of less than \$250, as well as for petty cash transactions. OA did not handle certain imprest fund purchases properly.

We reviewed 26 purchases that related to five imprest fund vouchers. For eight of the 26 purchases, the OA did not prepare or maintain a purchase requisition as required by Comptroller's Directive #3, § 5.3, which states that "agencies are encouraged to prepare internal (non-FISA) requisitions for imprest fund purchases."

Recommendation

OA should:

7. Prepare and maintain a purchase requisition, or similar document, for each imprest fund purchase as recommended by Directive #3.

OA Response: "To comply with the audit's recommendation, the OA has implemented a process in which formal written purchase requisitions are prepared for every Imprest Fund purchase."

Payroll and Timekeeping Weaknesses

OA often did not properly review Employee Time Reports. Of the 154 ETRs prepared for work performed between March 30, 2003 and July 5, 2003 by the 11 employees in our sample, 142 were not signed by the preparer and all 154 were not signed by the supervisor. This is inconsistent with Directive #13, which states:

"Completing the ETR requires a review of the accuracy of the daily attendance reports, the transfer of the information from the daily attendance reports to the ETR, and signing as preparer. . . . [If] the timekeeper also prepares and submits the ETRs, the ETRs must be verified and approved by the Work Unit's supervisor. "

In addition, 142 of the 154 ETRs were not signed by the person who entered the data into the Payroll Management System. The ETR is a key payroll document that requests the signatures of the preparer, the supervisor, and the data entry person. To ensure the generation of accurate paychecks and the appropriate recording of leave usage, it is essential that ETRs be properly prepared, reviewed, and approved.

According to Directive #13, employees must acknowledge the receipt of their paychecks by signing the Paycheck Distribution Control Report (PDCR). In our sample of 11 employees for the period of March 30, 2003 through July 5, 2003, employees generally signed the PDCR. However, on a PDCR dated July 3, 2003, there was no signature acknowledging the receipt of a paycheck by one employee.

Recommendations

OA should:

8. Ensure that all ETRs are signed by the preparer, the supervisor, and the PMS data entry operator.

OA Response: “The OA will ensure that the timekeeper/payroll officer signs the ETRs. The OA will look into alternatives available in obtaining supervisory signatures.”

9. Ensure that employees always acknowledge the receipt of their paychecks by signing the PDCR.

OA Response: “The OA requires that all employees sign the PDCR. The OA will ensure that this requirement is followed each pay period.”



OFFICE OF THE ACTUARY

ADDENDUM

Page 1 of 11

75 PARK PLACE • 9TH FLOOR
NEW YORK, NY 10007
(212) 442-5775 • FAX: (212) 442-5777

ROBERT C. NORTH, JR.
CHIEF ACTUARY

June 4, 2004

Mr. Gregg Brooks
Deputy Comptroller
Policy, Audits, Accountancy and Contracts
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: ME04-077A

Dear Mr. Brooks:

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 timekeeping, payroll, purchasing 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, the draft audit reported the OA as having inadequate controls over its timekeeping, payroll, purchasing and inventory operations. The draft also asserted that "OA officials did not segregate the responsibilities for the authorizing, processing and recording of transactions."

Although the OA generally agrees that improvements could be made in providing documentation for some current practices and in redistributing responsibilities for certain sequential administrative processes, the OA disagrees that there is inadequate supervisory review and management control.

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 and payments remitted without a second, separate layer of review and approval. In addition, several Employee Time Reports are randomly selected each week by the Director of Administration for review against the source timesheets. These review and approval processes may not have been clearly documented, and thus not apparent to the auditors, but they are in place.

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

The following is the OA's response to the audit's findings and recommendations.

Audit Finding: Inadequate Segregation of Duties

The auditors reported that the "OA Procurement Officer...is responsible for most of the procurement functions. These include preparing the purchase order, handling the bid process, entering the purchase order in FMS, receiving the items that are ordered, as well as checking the packing slip against a copy of the purchase order, receiving the invoice from the vendor, preparing the voucher package for payment, entering in FMS the information for the payment voucher and preparing, certifying and vouchering Imprest fund purchases. The only procurement function that is not handled by the Procurement Officer is the approval of purchase orders and payment vouchers in FMS."

In addition, the auditors reported that the "OA's Payroll Officer, under the supervision of the Director of Administration, is responsible for all timekeeping and payroll functions. These functions include collecting and reviewing employee time and attendance documentation, preparing Employee Time Reports ("ETR"), entering authorized transactions in PMS, calculating pay due, performing payroll reconciliation and distributing paychecks and direct deposit earning statements."

The auditors also referenced the Comptroller's Directive that states that "the payroll office or unit...must never be under the supervision of the personnel or timekeeping office."

OA Comment: The OA is a small agency of 40 employees that has only three (3) individuals dedicated to the agency's timekeeping, payroll, purchasing and inventory operations. Given the agency's small size, the OA is not able to strictly adhere to the Comptroller's Directive on the segregation of duties. It bears repeating that the OA believes that it has sufficient oversight -- in practice-- over its administrative operations to mitigate the opportunity for errors or irregularities.

The duties performed by the OA's procurement officer and timekeeper/payroll officer are largely clerical. They have little latitude for independent judgment. Their work output is reviewed at one or more stages in the administrative process by the Director of Administration or other agency manager.

In the purchasing area, the vendor bid document or requirement contract is reviewed by the Director of Administration to ensure conformity with City procurement policies and OA needs to verify that the items or services requested are the items or services to be procured. The purchase order is checked by the Director of Administration prior to submission to the vendor and prior to its entry into FMS. The Director of Administration (or the Chief Actuary) signs off on the purchase order document and approves the document that is entered into FMS.

The invoice is received and "stamped-in" by one of the agency secretaries. The voucher payment document in FMS requires two separate approvals by authorized agency personnel other than the procurement officer. The sign-offs and approvals on FMS purchase order and voucher payment documents do not occur without the attached supporting paperwork (i.e., verbal or written authorization to purchase, packing slips, delivery certification, invoices, etc.).

The preparation, certification and vouchering of Imprest Fund purchases undergoes similar scrutiny and review by the Director of Administration and other agency managers and supervisors.

However, it is recognized that it would be prudent to have person(s) other than the procurement officer to receive the items that are ordered and check the packing slip against a copy of the purchase order. This has been implemented.

In the timekeeping/payroll area, employee timesheets, overtime and leave request documents and sign-in/sign-out sheets are reviewed and approved by agency personnel other than the timekeeper/payroll officer. The Division supervisors are responsible for approving these documents prior to submission to the timekeeper/payroll officer for entry into PMS. Once submitted, the timekeeper/payroll officer reviews the documents for accuracy and completeness, thereby serving as a check on the Division supervisors' approval of employees' time and attendance.

The preparation and data entry of the ETRs is a clerical exercise. Because one individual performs these activities the Director of Administration randomly selects several ETRs each week for review against the source timesheets. This is done to provide a check on the timekeeper. Unfortunately, time constraints prevent the Director from examining each ETR.

It is recognized that each ETR should be reviewed to ensure that all entries are accurate. The review of each ETR will be delegated to another employee in the agency with random review to be continued by the Director of Administration.

In the payroll area, it must be noted that the payroll reconciliation is examined and signed-off by the Director of Administration or the Chief Actuary. Salary, differential, and other pay changes on the payroll are reviewed and a spot check of overtime payments is performed by the Director of Administration. It is the OA's policy and practice that every employee sign for his/her paycheck or direct deposit pay stub.

The statement that the timekeeper/payroll officer calculates the pay due to employees is misleading. The timekeeper/payroll officer does not calculate the pay due. The timekeeper/payroll officer enters into PMS the approved earned overtime time (as hours and minutes) and approved new salaries and other pay adjustments (as specific dollar amounts). All overtime time is pre-approved by the supervisor and salary and other pay changes are reviewed and approved for entry into PMS by the Director of Administration. All overtime time and pay changes are calculated for the payroll by PMS.

Finally, it must be emphasized that the payroll unit is not under the supervision of the personnel or timekeeping office. The OA Administration Division is too small to have separate payroll, timekeeping and personnel offices. The Director of Administration is the supervisor of the payroll, personnel and timekeeping functions for the OA. In the OA, the payroll function is not organizationally or operationally subordinate to the personnel or timekeeping function.

Audit Recommendation: OA should prepare and implement written procedures to ensure that duties within the purchasing and timekeeping/payroll functions are sufficiently segregated.

OA Response: The OA will review its current practices and issue written procedures that will improve the segregation of its purchasing and timekeeping/payroll functions.

Audit Finding: OA Did Not Perform Annual Physical Inventory Counts

The auditors reported that the OA does not maintain an inventory list of its physical assets.

OA Comment: The OA agrees that it failed to perform regular annual physical inventory counts of its supplies, materials and equipment.

This issue was remedied during February and March 2004 when a full count was taken of the OA's supplies inventory and its complement of computers, monitors, printers and fax, copier, microwave and coffee machines and water coolers.

However, the auditors' indication that, from a random sample of items purchased between Fiscal Years 1999 and 2002, certain items could not be accounted for is misleading. On page 8 of the draft audit the auditors stated, in part, that:

"...We were unable to locate the items acquired through 12 of the 21 purchases [that were randomly selected]...OA officials told us that the items acquired through eight of the 12 purchases were donated to two City agencies: the Department of Information Technology and Telecommunications and the Board of Elections. However, OA officials did not maintain records of what was donated to those agencies.....OA subsequently requested documents from the two agencies, which confirmed their receipt of items acquired through eight of the 12 purchases. After our exit conference with OA, the agency provided us with a variety of evidence relative to the remaining four purchases...."

Some of the statements made above are not correct. The OA did maintain a record of all of the equipment that was donated to the Department of Information Technology and Telecommunications and to the Board of Elections. The record was in two formats - in a spreadsheet and in a memorandum to 75 Park Place Building Security listing the serial numbers of the items being removed from the premises. The OA showed these records of donated equipment to the auditors during the audit and at the exit conference.

Regarding the allusion that the OA had to request the supporting documents from the two agencies, this is also not correct. The OA requested documents from these two agencies in order to verify for the OA that the items the OA had on record as donated were, in fact, received by those agencies. The documents submitted by these agencies confirmed the information already on file with the OA.

In addition, the OA was not provided with a list of the other four items that were allegedly missing prior to the exit conference. At the exit conference, the OA requested the list of the items that the auditors could not locate. Once the list was received, the items were duly located in the OA.

Audit Recommendation: OA should perform a complete inventory and develop a list of all physical assets.

OA Response: The OA has complied with this recommendation.

Audit Recommendation: OA should regularly update the inventory list and conduct periodic counts of all physical assets.

OA Response: The OA will comply with this recommendation.

Audit Finding: Lack of Purchase Requisitions

The auditors reported that the OA generally does not prepare purchase requisitions.

OA Comment: All purchase requests are reviewed thoroughly to ensure that the specifications for the items requested match the requestor's needs and that the items purchased conform to City and OA procurement policies. All requests are approved for final purchase by either the Director of Administration or the Chief Actuary.

It is true that the OA has generally not prepared written purchase requisitions on specifically designated forms. However, this does not mean that there is a lack of oversight in the pre-purchase process.

Audit Recommendation: OA should ensure that a requisition is prepared and maintained for each purchase.

OA Response: To comply with the audit's recommendation, the OA has implemented a process in which formal written purchase requisitions are prepared for every purchase.

Audit Finding: OA Did Not Consistently Prepare Receiving Reports

The auditors reported that the OA did not consistently prepare and maintain receiving reports in its payment voucher packages.

OA Comment: The OA includes in its payment voucher packages an endorsement that denotes that the items ordered were received and accepted. It has been the OA's practice to "check-off" the items received on either the packing slip or on the invoice and then mark each invoice with a stamp that states the following:

"I hereby certify that the articles or services above specified were received or performed on (date) and the quantity and quality thereof have been verified with the exceptions noted on the margin.

Cert. Date _____

Signature _____ "

As indicated, the stamp provides room for the reviewer to mark the dates the articles or services were received and accepted and a signature that certifies the delivery of the goods or services ordered. The OA believed that the above stamp was sufficient to validate the delivery and acceptance of goods or services prior to authorizing payment. However, going forward, the OA is preparing a separate document that will serve as the receiving report for items ordered.

Audit Recommendation: OA should ensure that a receiving report is prepared and maintained in each voucher package.

OA Response: The OA will implement a process in which a separate formal written receiving report is prepared prior to payment for every order delivered.

Audit Finding: No Authorization Lists for Purchase Documents

The auditors reported that the OA did not have lists of individuals authorized to approve purchase documents for Fiscal Year 2003.

OA Comment: Due to an administrative oversight, the list of authorized signatories for purchase orders for Fiscal Year 2003 was prepared but never finalized for submission to the Comptroller's Office. However, the OA did submit a list of authorized signatories for payment vouchers to the Comptroller's Office for Fiscal Year 2003.

Audit Recommendation: OA should ensure that it maintains lists of those individuals authorized to approve purchase documents.

OA Response: The OA will comply with this recommendation.

Audit Finding: Incorrect Use of Miscellaneous Payment Vouchers

The audit reported that the OA "incorrectly used miscellaneous vouchers rather than purchase orders...to pay for annual membership dues in three professional organizations....The costs for annual membership dues were determinable."

OA Comment: It has been the OA's policy that the responsibility for maintaining active memberships in professional credentialing organizations lies with the employees, not with the agency. The onus is placed on the employees to keep their associations current. As a result, the process involves payment up front, acceptance of continued enrollment by the professional organization and finally reimbursement made after the employee has completed the paperwork. The OA used the miscellaneous payment voucher to reimburse employees for professional memberships because it is the only vehicle available for reimbursing employees for expenses over \$250.00.

The OA will consider changing its policy on handling employee professional memberships.

Audit Recommendation: OA should ensure that miscellaneous vouchers are used when appropriate.

OA Response: The OA only uses miscellaneous vouchers when appropriate. However, it will consider securing professional memberships as a planned annual expenditure, thereby using the purchase order as the vehicle for payment.

Audit Finding: Imprest Fund Issue

The auditors reported that the OA did not maintain purchase requisitions for eight of the 26 Imprest purchases reviewed.

OA Comment: All purchase requests through the Imprest Fund are reviewed thoroughly to ensure that the specifications for the items requested match the requestor's needs and that the items purchased conform to City and OA procurement policies. All requests are approved for final purchase by either the Director of Administration or the Chief Actuary.

It is true that the OA failed to consistently prepare written purchase requisitions for Imprest Fund purchases. However, this does not mean that there is a lack of control over the Imprest Fund pre-purchase process.

Audit Recommendation: OA should prepare and maintain a purchase requisition, or similar document, for each Imprest Fund purchase as recommended by Directive #3.

OA Response: To comply with the audit's recommendation, the OA has implemented a process in which formal written purchase requisitions are prepared for every Imprest Fund purchase.

Audit Finding: Timekeeping Weaknesses

The auditors reported that the "OA often did not properly review Employee Time Reports ("ETR"). Of the 154 ETRs prepared...in our sample, 142 were not signed by the preparer and all 154 were not signed by the supervisor.....In addition, 142 of the 154 ETRs were not signed by the person who entered the data into the Payroll Management System."

OA Comment: It should be noted that the auditors did not report finding any inappropriate recording of leave balances or leave usage in PMS.

Each week several ETRs are randomly selected by the Director of Administration for review against the source timesheets. Unfortunately, time constraints prevent the Director from examining each ETR. It is recognized that each ETR should be reviewed to ensure that all entries are accurate. The review of each ETR will be delegated to another employee in the agency with random review to continue by the Director of Administration.

Audit Recommendation: OA should ensure that all ETRs are signed by the preparer, the supervisor and the PMS data entry operator.

OA Response: The OA will ensure that the timekeeper/payroll officer signs the ETRs. The OA will look into alternatives available in obtaining supervisory signatures.

Audit Finding: Payroll Weaknesses

The auditors reported that the Paycheck Distribution Control Report (PDCR) of July 3, 2003 was missing the signature of one employee acknowledging the receipt of the paycheck.

OA Comment: It should be noted that the auditors did not report finding any inconsistencies in the salaries or payrolls reviewed.

The employee who failed to sign the PDCR had resigned his position in the OA and left prior to the pay date. The OA mailed the pay check to the employee. The OA inadvertently omitted the notation on the PDCR that the check was mailed to the employee.

Audit Recommendation: OA should ensure that employees always acknowledge the receipt of their paychecks by signing the PDCR.

OA Response: The OA requires that all employees sign the PDCR. The OA will ensure that this requirement is followed each pay period.

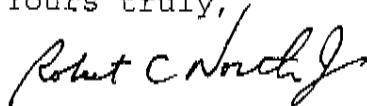
Conclusion

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.

Although the OA disagrees with some of the observations made herein, I would like to thank your staff for their professionalism during the audit and their production of a fair and reasoned report.

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

cc: Ms. S.M. Flaschenberg