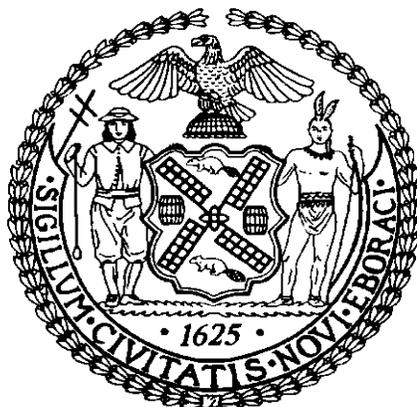


**CITY OF NEW YORK
OFFICE OF THE COMPTROLLER**

**John C. Liu
Comptroller**

BUREAU OF FINANCIAL AUDIT

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



**Audit Report on the
Financial and Operating Practices of the
Financial Information Services Agency**

FP10-054A

March 25, 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

To the Residents of the City of New York

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has audited the financial and operating practices of the Financial Information Services Agency (FISA) regarding purchasing and inventory procedures. We audit City agencies such as FISA as a means of ensuring their compliance with established policies and procedures.

FISA is an information technology services center with all the support facilities needed to provide City officials with Citywide financial, payroll and human resources information. One such support activity is the maintenance and the operation of the Financial Management System (FMS), which is used by officials to administer the City budget and to account for public funds.

The audit found that FISA generally adhered to applicable directives and procedures, and there were no instances in which moneys were improperly used. However, the audit noted that FISA: did not always charge expenses to correct object codes; improperly used the Imprest Fund for recurring expenditures; and, maintained incomplete and inaccurate inventory records. Accordingly, the audit made four recommendations to correct these deficiencies.

The findings presented in our audit have been discussed with FISA officials and their comments have been considered in the preparation of 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 or call my office at 212-669-3747.

Sincerely,

A handwritten signature in black ink, appearing to read "John C. Liu".

John C. Liu

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

**Audit Report
On the Financial and Operating Practices of the
Financial Information Services Agency**

FP10-054A

AUDIT REPORT IN BRIEF

This audit determined whether the Financial Information Services Agency (FISA) complied with certain purchasing procedures as set forth in the New York City Charter, the New York City Comptroller's Internal Control and Accountability Directives (Comptroller's Directives) #3, "Procedures for the Administration of Imprest Funds"; #6, "Travel, Meals, Lodging and Miscellaneous Agency Expenses"; #24, "Agency Purchasing Procedures and Controls"; applicable Procurement Policy Board (PPB) rules; and the New York City Department of Investigation (DOI) *Standards for Inventory Control and Management*.

Audit Findings and Conclusions

With the exception of the issues noted below, we found that the FISA generally adhered to the requirements of Comptroller's Directives #3, #6, and #24, DOI's inventory standards, and applicable PPB rules. In addition, our examination of the FISA's Other Than Personal Service (OTPS) expenditures disclosed no instances in which moneys were improperly used. However, FISA did not always comply with certain aspects of Comptroller's Directive #3, #6, and #24, and DOI's inventory standards. Specifically:

- Expenses were charged to the incorrect object codes.
- Miscellaneous Vouchers were improperly used to pay two expenditures.
- Imprest Fund was improperly used for recurring expenditures.
- Incomplete and inaccurate inventory records were maintained.

We recommend that FISA should:

- Charge all purchases to the correct object code.
- Ensure that miscellaneous vouchers are used only for purposes that are allowed by Comptroller's Directive #24.
- Ensure that the imprest fund is used for appropriate expenses in accordance with Comptroller's Directive #3.
- Maintain complete and accurate inventory records.

INTRODUCTION

Background

FISA is responsible for the data-processing systems that support the activities of City personnel who work with the City's central financial records, employee payroll, and personnel records. One such system is the Financial Management System (FMS), which is used by officials responsible for administering the City budget and accounting for public funds. FMS processes all the data for budgets, accounting, and vendor payments, and furnishes the Comptroller with pertinent financial data.

During Fiscal Year 2009, FISA expended \$28,682,996 on OTPS expenditures.

Objective

This audit was conducted to determine whether FISA is complying with certain purchasing and inventory procedures, as set forth in the Comptroller's Directives #3, "Procedures for the Administration of Imprest Funds"; #6, "Travel, Meals, Lodging and Miscellaneous Agency Expenses"; #24, "Agency Purchasing Procedures and Controls"; applicable PPB rules; and DOI *Standards for Inventory Control and Management*.

Scope and Methodology

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

We are issuing a modified GAGAS compliance statement because of the Comptroller's mandated non-audit responsibility in connection with this agency. According to Chapter 38, §860, of the New York City Charter, "FISA shall be headed by three directors, appointed by the mayor, one of whom shall be appointed upon the recommendation of the comptroller, and one of whom shall be appointed upon the recommendation of the other two. The directors may be city employees. They shall receive no compensation for their services to the agency (except that a city employee may continue to receive regular compensation) but shall be compensated for expenses actually and necessarily incurred in the performance of their duties." §862 states "The directors shall recommend and the mayor shall appoint an executive director of financial information services." The director recommended by the Comptroller was not involved in planning or conducting this audit, or in writing or reviewing the report.

This audit covered the period July 1, 2008, through June 30, 2009.

To obtain an understanding of the purchasing and inventory procedures and regulations with which FISA is required to comply, we reviewed relevant provisions of Comptroller's Directives #3, "Procedures for the Administration of Imprest Funds"; #6, "Travel, Meals, Lodging and Miscellaneous Agency Expenses"; #24, "Agency Purchasing Procedures and Controls"; applicable PPB rules; and DOI *Standards for Inventory Control and Management*. We interviewed staff at FISA to obtain an understanding of the purchasing procedures in place and to determine how physical assets are safeguarded.

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

During Fiscal Year 2009, FISA issued a total of 54 CTs (Contracts) totaling \$25,121,127, 144 PDs (Micro Purchase Documents) totaling \$285,088, 10 PC (Small Purchase Documents) totaling \$70,602, 8 POs (Purchase Orders) totaling \$1,196,500, and 4 PGs (Requirement Contracts Release Orders) totaling \$211,075. For the preceding, FISA issued a total of 760 corresponding vouchers. FISA also issued 7 miscellaneous vouchers totaling \$20,157 and 21 imprest fund vouchers totaling \$8,486.

We examined seven randomly selected contracts totaling \$6,663,858 from the population of 54, and their 37 corresponding vouchers issued by FISA during Fiscal Year 2009. In addition, we examined 30 purchase documents (10 PCs, 8 PDs, 4PGs, and 8 POs) from the population of 166 and the 36 corresponding vouchers, and the 7 miscellaneous vouchers. We examined each purchase document and voucher for the requisite approvals and authorizations, for evidence that the transactions were for proper business purposes, and for adequate documentation. We also determined whether the proper purchase document was used to initiate the purchase of goods or services. Each of the 80 vouchers was examined to ascertain whether it was properly coded and had an authorized purchase order on file, whether applicable, sales and excise taxes were properly excluded from payments, and whether bids were obtained when required by PPB rules. For the seven miscellaneous vouchers, we also determined whether the vouchers were issued for only allowable purposes.

For the 21 imprest fund vouchers issued, we examined the 113 canceled checks related to those vouchers for two authorized signatures and amounts, a specific payee (as opposed to "bearer" or "cash"), an endorsement, and a "void after 90 days" inscription on each check. We also traced the canceled checks to the bank statements and determined whether appropriate bank reconciliations were performed for Fiscal Year 2009. Finally, we determined whether individual imprest fund expenditures were for proper business purposes and were within the \$250 allowable amount.

The results of the above tests, while not projectable to all payment vouchers processed during the audit period, provided a reasonable basis to assess FISA's compliance with Comptroller's Directives #3, #6, and #24 and PPB rules.

Tests of Compliance with DOI Inventory Standards

We selected eight computers that were purchased in Fiscal Year 2009 to determine whether these items were present at the office, were listed on FISA's inventory records, and were properly tagged as property of FISA. We also determined whether 20 other pieces of equipment that we observed during our walkthroughs were listed on the inventory records and properly tagged as property of FISA. In addition, the entire inventory list was reviewed to determine whether there were missing or repetitive serial numbers or identification tag numbers. The results of the above tests, while not projectable to all major equipment items, provided a reasonable basis to assess FISA's controls over inventory as specified in DOI inventory standards.

Discussion of Audit Results

The matters covered in this report were discussed with FISA officials during and at the conclusion of this audit. A preliminary draft report was sent to FISA officials and discussed at a conference held on February 24, 2010. On March 1, 2010, we submitted a draft report to FISA officials with a request for comments. In their response, FISA officials agreed with all four of the report's recommendations.

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

FINDINGS AND RECOMMENDATIONS

FISA generally adhered to the requirements of Comptroller's Directives #3, #6, and #24, DOI's inventory standards, and applicable PPB rules. In addition, FISA's OTPS expenditures disclosed no instances in which moneys were improperly used. However, FISA did not always comply with certain aspects of Comptroller's Directive #3, #6, and #24, and DOI's inventory standards. These instances of noncompliance, which did not cause us to change our overall opinion, are discussed in detail in the following sections of this report.

Incorrect Object Codes Charged

During Fiscal Year 2009, FISA charged the incorrect object code for 3 purchase vouchers, totaling \$12,937, of the 73 purchase vouchers tested, and 3 miscellaneous vouchers, totaling \$1,050, of the 7 miscellaneous vouchers tested. For example, for payment of laptop computers the agency used object code 315, "office equipment." However, the Chart of Accounts indicates that a more specific object code, 332—"Purchases of Data Processing Equipment"—should be used to pay for personal computers. FISA also charged a purchase of office chairs to object code 315, "Office Equipment." However, the appropriate code is object code 314, "Office Furniture."

The use of incorrect object codes prevents agencies from accurately categorizing the type and amount of a particular item expense during the fiscal year, which can compromise management's ability to plan future budgets.

Recommendation

1. FISA should ensure that all payments are charged to the correct object codes.

FISA Response: "FISA agrees with this finding. Going forward, FISA will utilize the correct codes."

Unallowable Use of Miscellaneous Vouchers

Two purchases for \$17,865 were improperly processed using miscellaneous vouchers. One voucher totaling \$16,365 was for auto-mail maintenance, which should have been paid under a contract. According to FISA, it had no contract in place for July 2008 because of a delay in the procurement. This vendor agreed to continue servicing FISA's equipment without a contract until a new contract was awarded. The other purchase was for renewal of computer software totaling \$1,500. Directive #24, §6.3, states, "Miscellaneous Payment Vouchers (PVMs) may be used only when estimated or future liability is not determinable, or a contract or a Purchase Document is not required or applicable."

The proper payment type for this expenditure is the payment voucher (PVE). Improper use of miscellaneous vouchers contributes to the distortion of the City's books of account by misstating the City's outstanding obligations.

Recommendation

2. FISA should ensure that miscellaneous vouchers are used only for purposes that are allowed by Comptroller's Directive #24.

FISA Response: "FISA agrees with this recommendation and will use miscellaneous vouchers only for allowable purposes, provided, however, that we will continue to utilize this method to pay a single software vendor who will not subscribe to the City process. This vendor provides an inexpensive, niche software product that FISA requires (currently, approximately \$1,500/annually). We believe it is in the best interest of the City to continue use of this product, which will be required until we completely transition our systems from the mainframe. This transition is not expected to be completed at least until the City has replaced the Payroll Management System, which is currently planned for approximately 2015."

Improper Use of Imprest Fund for Recurring Expenditures

FISA used 11 imprest fund vouchers to pay for recurring monthly cable charges, totaling \$152.88, which is not allowable under Comptroller's Directive #3. According to Comptroller's Directive #3, §6.0, "Continuing monthly expenditures (e.g., ongoing rental of office equipment and Internet or cell phone services)" are not allowed. The proper payment type for this expenditure is the PVE.

Recommendation

3. FISA should ensure that the imprest fund is used for appropriate expenses in accordance with Comptroller's Directive #3.

FISA Response: "FISA agrees with this finding. FISA will not use the imprest fund for recurring expenses."

Incomplete Inventory Records

Our review of the eight computers purchased by FISA during Fiscal Year 2009 found that all eight computers were properly tagged and on hand at FISA. However, these eight computers were not included on FISA's Master PC Inventory List printed on November 18, 2009. The other 20 items we observed during our walkthroughs were properly tagged and listed on FISA's Inventory List.

Our review of FISA inventory list found that the list was incomplete, inaccurate, and contained identification errors. Table I, below, lists the type of errors found and the number of times each error was found to occur.

Table I
Errors on Inventory List

| | Population | CPUs | Monitors | Fax Machines | Printers | Others | Vehicles | Total |
|-----------------------------------|------------|------|----------|-----------------|----------|--------|----------|-------|
| Total inventory population | 878 | 899 | 36 | 103 | 139 | 6 | 2061 | |
| Serial number repeats | 18 | 10 | 0 | 0 | 1 | 0 | 29 | |
| Identification tag number repeats | 21 | 4 | 0 | 0 | 0 | 0 | 25 | |
| No serial number | 0 | 0 | 5 | 1 | 16 | 0 | 22 | |
| No asset tag number | 34 | 77 | 0 | 4 | 5 | 0 | 120 | |

Section 28 of the DOI inventory standards states, “Permanent records are maintained, centrally, to track all non-consumable goods issued to each agency unit, including type of equipment, manufacturer, serial number, agency control number, condition, location, date issued, and the person(s) responsible for maintenance.” Properly listed equipment enhances the chance of its recovery in case of theft.

Recommendation

4. FISA should ensure that complete and accurate inventory records are maintained.

FISA Response: “FISA agrees and will strive to record all relevant information in a timely manner.”



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Financial Information Services Agency

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MICHAEL R. BLOOMBERG, *Mayor*
JOHN C. LIU, *Comptroller*

ROBERT W. TOWNSEND
Executive Director

March 8, 2010

Ms. Tina Kim
Deputy Comptroller for Audits
Office of the Comptroller
1 Centre Street Room 1100
New York, N.Y. 10007-2341

Re: Audit Report on the Financial and Operating Practices of the
Financial Information Services Agency
FP10-054A

Dear Ms. Kim:

Attached for your review is FISA's response to draft report FP10-054A dated March 2, 2010 covering Fiscal Year 2009. If you or your staff have any questions, please contact Richard McCarrick, Director of Internal Audit, at (212) 857-1534.

Sincerely yours,

A handwritten signature in cursive script, appearing to read 'Robert W. Townsend'.

Robert W. Townsend

Attachment

cc: Lawrence Welgrin, Audit Manager, Office of the Comptroller
Edward Fitzpatrick, Deputy Executive Director Administration, FISA
Adrienne R. Edley, Deputy executive Director and General Counsel, FISA
Richard McCarrick, Director of Internal Audit, FISA



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MICHAEL R. BLOOMBERG, *Mayor*
JOHN C. LIU, *Comptroller*

ROBERT W. TOWNSEND
Executive Director

March 8, 2010

FISA Responses to the Recommendations in Report FP10-054A covering FY2009:

Recommendations:

1. FISA should ensure that all payments are charged to the correct object code.

FISA Response: FISA agrees with this finding. Going forward, FISA will utilize the correct codes.

2. FISA should ensure that miscellaneous vouchers are used only for purposes that are allowed by Comptroller's Directive #24.

FISA Response: FISA agrees with this recommendation and will use miscellaneous vouchers only for allowable purposes, provided, however, that we will continue to utilize this method to pay a single software vendor who will not subscribe to the City process. This vendor provides an inexpensive, niche software product that FISA requires (currently, approximately \$1,500/annually). We believe it is in the best interest of the City to continue use of this product, which will be required until we completely transition our systems from the mainframe. This transition is not expected to be completed at least until the City has replaced the Payroll Management System, which is currently planned for approximately 2015.

3. FISA should ensure that imprest fund is used for appropriate expenses in accordance with Comptroller's Directive #3.

FISA Response: FISA agrees with this finding. FISA will not use the imprest fund for recurring expenses.

4. FISA should ensure that complete and accurate inventory records are maintained.

FISA Response: FISA agrees and will strive to record all relevant information in a timely manner.

All of these changes are effective immediately.