City of New York

OFFICE OF THE COMPTROLLER

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COMPTROLLER

FINANCIAL AUDIT

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Audit Report on the New York City Human Resources Administration's Controls over Its Miscellaneous, Employee, and Imprest Fund Accounts

FP16-060A

May 22, 2017

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THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

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To the Residents of the City of New York:

My office has audited the New York City Human Resources Administration (HRA) to determine whether HRA properly administered its Miscellaneous Expense Account (MEA account), Employee Expense Account (EEA account), and Imprest Fund Account (Imprest account) in accordance with Comptroller's Directive #11, #3, #6, and #24 and other applicable policies and procedures. We perform audits of City agency compliance with fiscal rules and procedures to increase transparency, accountability and to ensure that applicable policies and procedures are followed.

The audit found that HRA failed to properly administer the activities of its MEA account, which it used to disburse more than $18 million in Fiscal Year 2015. HRA lacked adequate controls over the MEA account and allowed it to be used for inappropriate expenditures that were contrary to applicable rules and its stated purposes. Our audit also found that HRA mismanaged the account's cash flow and maintained a negative book balance for 7 out of 12 months during Fiscal Year 2015, primarily by failing to voucher sufficient funds to timely cover account expenditures. HRA covered the MEA account's deficits by drawing on City funds that had been allocated to another account for a different purpose. With respect to the Imprest and EEA accounts, HRA generally complied with provisions of the Comptroller's Directives. However, HRA used its Imprest account for expenditures that were contrary to Comptroller's Directive #3, and did not ensure that all of its Imprest account expenditures were adequately supported. Finally, HRA misclassified its MEA and EEA accounts as imprest funds in its Active Agency Bank Account filings.

The audit makes 11 recommendations, including that HRA should establish proper fiscal controls and oversight to prevent disbursements that are not in compliance with the authorized purpose of the MEA account, update its existing Agency Bank Account Request form with a new document that delineates all authorized purposes and uses of the MEA account, and cease its practice of using the MEA account and Imprest account interchangeably. HRA should also determine the causes for the chronic negative book balances incurred in the MEA account and take the necessary steps to voucher for all MEA expenses and ensure adequate funding is available in the account.

The results of the audit have been discussed with HRA 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,

Scott M. Stringer

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OFFICE OF THE COMPTROLLER
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EXECUTIVE SUMMARY

The New York City Human Resources Administration (HRA) is responsible for providing temporary help to individuals and families with financial and social service needs. It provides assistance to help clients address their needs and to enable them to reach self-sufficiency. HRA serves more than 3 million New Yorkers through programs that include temporary cash assistance, Medicaid, food stamps, home health care, child care, adult protective services, assistance to victims of domestic violence, HIV/AIDS support services and child support enforcement. In connection with its operations, HRA administers 16 bank accounts that it uses to disburse public assistance funds and other client-related expenditures, categorized as "programmatic expenses."

This audit focuses on 3 of these 16 accounts: (1) the Miscellaneous Expense Account (MEA account), established to pay for certain client-related programmatic expenses ranging from $250 to $50,000; (2) the Imprest Fund Account (Imprest account), established to pay for agency-related expenses of up to $250; and (3) the Employee Expense Account (EEA account), established to reimburse employees for out-of-pocket expenses, generally with no dollar limit.[1] In Fiscal Year 2015, the audit scope period, expenditures related to those three accounts totaled approximately $19 million.

This audit examined whether HRA properly administers its MEA account, Imprest account and EEA account in accordance with Comptroller's Directive #11, *Cash Accountability and Control*; Comptroller's Directive #3, *Procedures for the Administration of Imprest Funds*; Comptroller's Directive #6, *Travel, Meals, Lodging and Miscellaneous Agency Expenditures;* Comptroller's Directive #24, *Agency Purchasing Procedures and Controls*; and with regard to employee incentive and recognition program activities the New York City Department of Citywide Administrative Services' (DCAS) *Agency Guidelines for Incentive Programs*.

[1] As discussed further in this report, HRA established an MEA account sometime in the 1970s. In 2009, HRA requested that a second MEA account be opened to replace the pre-existing MEA account but then maintained both accounts simultaneously. As used in this report "MEA account" or "the older MEA account" means the account that predated 2009, and "the newer MEA account" or "second MEA account" means the account opened in 2009.

Audit Findings and Conclusion

HRA failed to properly administer the activities of its MEA account, which it used to disburse more than $18 million in Fiscal Year 2015, much of it inappropriately. Our audit revealed that HRA lacked adequate controls over the MEA account and allowed it to be used for inappropriate expenditures that were contrary to its stated purposes, some of which lacked adequate documentation. HRA also improperly used the MEA account as an imprest fund to issue more than 200 replenishment checks totaling over $22,000 in amounts of $250 or less and thereby circumvented the specific controls set forth in Comptroller's Directive #3, and improperly issued 14 Electronic Funds Transfers (EFTs) and checks from the MEA account, totaling $2,711,716, that were above the $50,000 limit that HRA itself established for the account.[2]

Further, HRA mismanaged the MEA account's cash flow, maintained a negative book balance for 7 out of 12 months during Fiscal Year 2015, and left a year-end account deficit of $1,218,432. The repeated negative balances in the MEA account resulted primarily from HRA's failure to voucher sufficient funds in time to cover account expenditures. HRA instead covered the MEA account's deficits by drawing on City funds that had been allocated to another account for a different purpose. Finally, HRA also funded more than $11 million in postage and intra-City expenditures with Miscellaneous Payment Vouchers in violation of Comptroller's Directive #24.

With respect to the two other accounts we audited, the Imprest account and the EEA account, HRA generally complied with provisions of the Comptroller's Directives that call for segregation of duties, the recording of transactions, custody of the funds, and periodic account reconciliations. However, HRA used its Imprest account for expenditures that were contrary to Comptroller's Directive #3, and did not ensure that all of its Imprest account expenditures were adequately supported with appropriate documentation. Finally, HRA misclassified its MEA and EEA accounts as imprest funds in its Active Agency Bank Account filings submitted to the Comptroller's Office.

Audit Recommendations

To address these issues, we make a total of 11 recommendations, including that HRA should:

- Establish proper fiscal controls and independent oversight to: (a) prevent the disbursement of checks and EFTs that are not in compliance with the authorized purpose of the MEA account; and (b) prevent expenditures from the account outside of pre-established monetary limits;
- Update and replace its existing, inaccurate Agency Bank Account Request form with a new, authoritative document that clearly delineates all authorized purposes and uses of the MEA account, with appropriate monetary limits and a list of prohibitions, and provide a copy to the New York City Department of Finance (DOF);
- Review its practice of using the MEA account for large, recurring purchases of goods and services, such as postage, and ensure compliance with Comptroller's Directive #24;

[2] An "imprest fund" allows for small purchases under $250 subject to the rules set out in Comptroller's Directive #3, *Procedures for the Administration of Imprest Funds.*

- Review the validity of using the MEA account for intra-City expenditures and ensure that any such expenditures comply with applicable rules and directives, including Comptroller's Directive #24;
- Cease HRA's practice of using its MEA and Imprest accounts interchangeably; implement controls to restrict the use of all agency-administered accounts to their authorized purposes and monetary limits, and ensure that all such uses are consistent with applicable Comptroller's Directives; and
- Determine the causes for the chronic negative book balances incurred in the MEA account and take the necessary steps to voucher for all MEA expenses and ensure adequate funding is available in the account.

Agency Response

HRA responded to each of the report's findings and recommendations. It disagreed with most of the report's findings, agreed with one recommendation, partially agreed with three recommendations and disagreed with seven recommendations. HRA stated that "[a]lthough there may be other payment vehicles available for [questioned] purchases, none of the expenditures were inappropriate."

However, contrary to HRA's assertion that none of its expenditures were inappropriate, the audit found that more than $11 million (60 percent) of the $18.2 million that HRA spent from the MEA account in Fiscal Year 2015 involved HRA's prohibited use of Miscellaneous Payment Vouchers, mostly for postage, in direct violation of Comptroller's Directive #24. Directive #24 specifically identifies "payments to postal and phone service providers" and "intra-City expenditures" as "unallowable uses" of Miscellaneous Payment Vouchers. An additional $4.8 million (26 percent) was spent on bulk purchases of MetroCards in violation of Directive #24's prohibition against expending funds prior to the submission of payment vouchers. In sum, 86 percent of HRA's spending from the MEA account was for foreseeable, recurring purchases totaling millions of dollars annually that HRA, with proper planning, could have executed directly and transparently through the City's Financial Management System (FMS). Instead, HRA inappropriately used its MEA account to make those and other purchases without vouchering or recording them in FMS—sometimes for months—using funds that had been allocated for other purposes to cover many of them, a practice that is directly contrary to Comptroller's Directive #24.

In addition, HRA used the MEA account for expenditures outside of the minimum and maximum dollar limits that HRA itself established for the account. Finally, although HRA cited the time-sensitive needs of its underprivileged clients as justification for establishing its own agency-controlled MEA bank account, our audit found that HRA also used that account for administrative purposes, for example, to pay for food, beverages, and gift cards for its employees, expenses that the agency never mentioned in its written justification.

AUDIT REPORT

Background

HRA is responsible for providing temporary help to individuals and families with financial and social service needs in an effort to assist them to address those needs and reach self-sufficiency. HRA serves more than 3 million New Yorkers through diverse programs that include temporary cash assistance, Medicaid, food stamps, home health care, child care, adult protective services, assistance to victims of domestic violence, HIV/AIDS support services and child support enforcement.

In connection with its operations, HRA administers 16 bank accounts that it uses to disburse public assistance funds and other client-related expenditures, categorized as “programmatic expenses.” These accounts are also used to make additional agency-related expenditures for products and services including office supplies and employees’ transportation to conduct agency business.

This audit focuses on 3 of these 16 accounts: the MEA account, established to pay for certain client-related programmatic expenses ranging from $250 to $50,000; the Imprest account, established to pay for agency-related expenses of up to $250; and the EEA account, established to reimburse employees for out-of-pocket expenses, generally with no dollar limit. In Fiscal Year 2015, the audit scope period, expenditures related to those three accounts totaled approximately $19 million.

In general, City expenditures in amounts exceeding $250 for the purchase of goods and services or other authorized purposes require that a City agency submit an individual payment voucher, identifying the payee, through FMS prior to a payment being issued.[3] The voucher is accordingly available for review by the agency and the Comptroller prior to payment to ensure that funds to support the payment were appropriated and remain available. The vouchered amount is then paid to the vendor or payee directly from the City Treasury through an FMS-issued check or EFT. DOF’s Treasury Division administers the accounts from which such payments are drawn and manages the City’s cash flow.[4]

Payments for goods and services by HRA directly from its own agency-controlled bank accounts, such as the three accounts that are the subject of this audit, are therefore distinct from the above-described general practice of expending City funds, one payment at a time, through FMS. The three HRA bank accounts that are the subject of this audit are classified as “satellite” or “zero balance” accounts, which are linked to the corresponding City Treasury “pool” accounts administered by DOF. Essentially, the “satellite” bank account operates with a zero balance while the funds to be disbursed from it remain in the City’s Treasury. As checks and EFTs are drawn from the HRA-controlled “satellite” accounts, funds in the same amounts are automatically transferred from the corresponding DOF-administered “pool” accounts to the “satellite” accounts to cover those payments. In order to fund the DOF-administered “pool” accounts, HRA submits

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[3] “A Payment Voucher is a document that authorizes payment to a vendor and must be accepted in FMS before a payment can be issued. Generally, Payment Vouchers must be recorded in FMS in the fiscal year for which the associated expenditure was incurred.” Comptroller’s Directive #24, *Agency Purchasing Procedures and Controls*, §6.0.

[4] City agencies may also use credit cards known as “purchasing cards,” also called “P-cards,” for “micro-purchases” of up to $20,000 pursuant to Procurement Policy Board (PPB) Rule 3-08(c)1(ii). Agencies are instructed to pre-encumber funds in FMS each month in an amount equal to the estimated card usage for the month and to process payment vouchers through FMS to pay the card issuer’s invoice through FMS. Thus, the payment of the “P-card” bill is executed centrally through FMS. See Comptroller’s Memorandum #01-1, §4.1, as updated by Comptroller’s Memorandum #14-1.

payment vouchers (which can reflect individual expenditures or batched groups of expenditures) through FMS. Because those vouchers identify DOF, the "pool" account holder, as the payee or "vendor," the FMS record will likewise show DOF as the "vendor." No individualized record of the payment from the "satellite" account—whether to a vendor or another person or entity—is created in FMS. Instead, the detailed record of that payment, specifying the date, purpose, payee, and other information, is created and maintained by HRA.

Pursuant to the City Charter, §93(h), the administration of City agencies' bank accounts is governed by Comptroller's Directives that prescribe methods for recording, reporting and accounting in the agencies. For this audit specifically, we focus on HRA's compliance with Comptroller's Directives #11, #3, #6, and #24.

Comptroller's Directive #11, *Cash Accountability and Control*, concerns the establishment and use of City agencies' bank accounts.[5] Comptroller's Directive #3, *Procedures for the Administration of Imprest Funds*, governs the operation and control of those funds, which City agencies use to maintain petty cash accounts and for small purchases of up to $250. The Directive specifies uniform procedures for the establishment of new imprest funds and the replenishment of existing imprest funds.[6]

Comptroller's Directive #24, *Agency Purchasing Procedures and Controls*, specifies accounting, internal control, and documentation requirements for City agency purchasing transactions and expenditures and instructs agencies on the proper use of FMS in processing those transactions. Further, Comptroller's Directive #6, *Travel, Meals, Lodging and Miscellaneous Agency Expenditures*, establishes guidelines governing expenditures for employee travel, agency-provided meals and refreshments, and a variety of other miscellaneous agency expenditures. The Directive specifically notes that such expenses are often targets of abuse and should be the subject of careful agency scrutiny.

Finally, for employee incentive and recognition program activities, City agencies are required to adhere to DCAS' *Agency Guidelines for Incentive Programs*. During Fiscal Year 2015, HRA initiated 82 EFTs totaling approximately $15 million in payments through the MEA account and issued 14,217 checks in the combined total amount of roughly $4 million using the MEA, Imprest and EEA accounts.

Objective

The objective of this audit was to determine whether HRA properly administers its miscellaneous, employee, and imprest fund accounts in accordance with Comptroller's Directives #11, #3, #6 and #24 and other applicable policies and procedures.

[5] Comptroller's Directive #11, *Cash Accountability and Control*, effective March 18, 2011, was in effect during the audit scope period; it has since been superseded by the current version of Comptroller's Directive #11, effective January 10, 2017. References to Comptroller's Directive #11 herein are to the March 18, 2011 version unless otherwise stated.

[6] Imprest funds are agency-controlled checking accounts that can be used for small purchases and petty cash transactions. Agencies are permitted to establish imprest funds as a practical aid in reducing processing costs for minor expenditures and to eliminate the need to process a large volume of very small transactions through the City of New York's integrated accounting and budgeting system, the FMS. Comptroller's Directive #3, p. 1 (March 2011). That directive has been superseded by the current version of Comptroller's Directive #3, effective December 6, 2016. References herein are to the March 2011 version unless otherwise stated.

Scope and Methodology Statement

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 covers Fiscal Year 2015. We modified our scope to review the balance and funding source of one of HRA's two MEA accounts from Fiscal Year 2011 through Fiscal Year 2016. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with HRA officials during and at the conclusion of this audit. A preliminary draft report was sent to HRA officials and discussed at an exit conference on March 2, 2017. At the exit conference, HRA officials provided additional information regarding certain issues discussed in the report, all of which was considered in connection with the preparation of the draft report. On March 9, 2017, we submitted a draft report to HRA with a request for comments. We received a written response from HRA on March 22, 2017. In its response, HRA agreed with one recommendation, partially agreed with three recommendations and disagreed with the other seven recommendations. HRA also generally disagreed with most of the report's findings.

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

FINDINGS

HRA failed to properly administer the activities of its MEA account, which was used to disburse more than $18 million in Fiscal Year 2015, much of it inappropriately. Specifically, our audit revealed the following inappropriate uses of the account:

- HRA lacked adequate controls over the MEA account and allowed it to be used for inappropriate expenditures that were contrary to its stated purposes and not in compliance with Comptroller's Directive #6, such as paying for gifts, awards, food, and beverages for HRA employee-recognition ceremonies and food for HRA staff meetings and events, some of which lacked adequate documentation.

- Most of HRA's spending from the MEA account—approximately $16 million out of a total $18 million—was for recurring expenditures such as large bulk purchases of postage and MetroCards that could have been purchased directly through FMS with greater transparency in accordance with the City's purchasing rules. HRA funded more than $11 million of those expenditures with Miscellaneous Payment Vouchers in violation of Comptroller's Directive #24.

- HRA improperly used the MEA account as an imprest fund—issuing more than 200 replenishment checks totaling over $22,000 in amounts of $250 or less and thereby circumvented the specific controls and external oversight that are established for imprest funds by Comptroller's Directive #3. Further, HRA improperly issued 14 EFTs and checks from the MEA account, totaling $2,711,716, that were above the $50,000 limit that HRA itself established for the account.

- HRA mismanaged the account's cash flow, maintained a negative book balance for 7 out of 12 months during Fiscal Year 2015 and left a year-end account deficit of $1,218,432, primarily by failing to voucher sufficient funds to timely cover account expenditures. As explained in more detail below, HRA covered the deficit by drawing on City funds that had been allocated to another account for a different purpose.

With respect to the Imprest and EEA accounts, HRA generally complied with provisions of the Comptroller's Directives that call for segregation of duties, the recording of transactions, custody of the funds, and periodic account reconciliations. However, HRA used its Imprest account for expenditures that were contrary to Comptroller's Directive #3, and did not ensure that all of its Imprest account expenditures were adequately supported. Finally, HRA misclassified its MEA and EEA accounts as imprest funds in its Active Agency Bank Account filings submitted to the Comptroller's Office. Those accounts are not imprest fund accounts as their expense limitations exceed the $250 threshold established for an imprest fund account under Directive #3.

Lack of Accountability and Control over the MEA Account

MEA Account Not Used in Accordance with Its Authorized Purpose

HRA used the MEA account to pay for numerous expenditures that were not client-related, contrary to the description of the account's purpose HRA submitted to DOF when establishing the account. According to the Agency Bank Account Request Form that HRA submitted to DOF in 2009, "[t]his account replenishes Sub-Imprest Fund (SIF) accounts for claims in excess of $250.00, as well as various non-SIF expenditures in amounts of up to $50,000.00. These expenditures are usually for goods or services of a programmatic nature and are in compliance with current Agency and City of New York procurement regulations."[7] According to an internal HRA fiscal document entitled the *Sub-Imprest Fund Manual,* "SIFs [sub-imprest funds] are petty cash funds or checking accounts established to assist various offices in their daily operations by providing ready access to cash or checks." The same manual states that "programmatic" expenses are "generally client related" and would include but are not limited to client transportation, emergency food, clothing, lodging, and drug tests.

Contrary to HRA's stated purpose for the account, however, the audit found that the account was frequently used for agency-related, and more specifically, employee-related, expenses rather than for programmatic expenses. For example, our review of 74 expenditures, totaling $53,814, out of a total of 278 expenditures reported for the month of June 2015, found that 58 expenditures, totaling $42,668 (79 percent), were *not* client related. They included 41 expenditures involving gifts, awards, food, and beverages for employee recognition and incentive ceremonies, and 17 involving food and other goods for HRA staff at meetings and events, employee travel, and purchase of equipment.

> ***HRA Response:*** "HRA disagrees with this finding. The MEA account is being used in accordance with its stated account purpose. It is used for all client-related costs regardless of dollar amount and for non-client related costs that exceed $250 and thus, are ineligible to be paid from IFA [Imprest account]." HRA also stated that "MEA payments . . . are issued for . . . IFA-eligible items that were paid when IFA is closed."
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> ***Auditor Comment:*** HRA's response conflates the different authorized purposes for the Imprest and MEA accounts, an apparent problem in its use of these accounts as well as in its response to the audit. The Imprest account [IFA] is limited to expenditures up to $250, while the MEA was established for expenditures above that amount up to $50,000. HRA inappropriately used the two accounts interchangeably not only when the Imprest account was temporarily unavailable, or "closed," as HRA asserted, but throughout the entire Fiscal Year 2015. Further, it used the MEA account for various non-programmatic expenditures.

Inadequate Documentation for the MEA Account

HRA failed to consistently ensure that all of its MEA account expenditures were adequately supported with payment vouchers and related documentation that reflected appropriate approvals

[7] The term "Sub-Imprest Funds" is not found in Comptroller's Directive #3, which governs the operation and control of imprest funds and specifies "uniform procedures for the establishment of new Imprest Funds and the replenishment of existing funds." Comptroller's Directive #3, *Administration of Imprest Funds*.

and proper processing. Our sample of 74 expenditures for the month of June 2015 found 16 expenditures totaling $13,912 that were not supported by adequate documentation.

Of the 16 inadequately supported expenditures, 12 were payments advanced to HRA employees to cover anticipated expenses for agency events, including 9 payments in the total combined amount of $9,383 for expenditures related to "Commissioner's Excellence" and "Employee Recognition" ceremonies. HRA's guidelines, which set forth certain requirements for such events, state that to obtain advance funding, HRA employees should submit the following items:

- a memorandum sent to the Internal Capital Payments Department summarizing all event information on agency letterhead and signed by the employee who is submitting the request;
- a Funding Request Form (FIN 7); and
- a numbered roster of employees attending.

In addition, Comptroller's Directive #6 also states that "receipts and supporting documentation, which indicates the number of attendees, are required."

However, each of the nine inadequately supported Commissioner's Excellence and Employee Recognition expenditures was missing one or more of the abovementioned supporting documents. For example, HRA issued a check in the amount of $2,055 to an employee without a memorandum summarizing the event on agency letterhead signed by the employee. In addition, the purported receipt supporting the expenditure was a word-processed document on plain paper showing the name of a coffee shop without an address, telephone, license, or tax identification number, an identifiable name or signature of an individual acknowledging the payment on behalf of the coffee shop, or any other identifying information. The document merely states, "For 600 People Danishes and Bagels . . . Total: 2,500." In another two examples, we also identified purchases for gift cards totaling $820, ostensibly for HRA employees who were being recognized at an event, without the detailed distribution log identifying which employees received the gift cards or their signatures to confirm receipt.

With respect to the four inadequately supported checks for expenditures unrelated to agency events, those involved payments made directly to vendors for training, food and equipment.

Without adequate documentation, we could not ascertain whether any of the 16 above-described expenditures were appropriate.

> ***HRA Response:*** "HRA disagrees with this finding. Our review found that 18 of 19 instances cited were indeed, properly supported with one or more documents. . . . For eight (8) out of the nine (9) Commissioner Excellence/Employee Recognition (CEI/ER) expenditures, the auditors cited the lack of either a memo or the Funding Request Form FIN-7. After review we determined that 7 of the 8 . . . payments were supported by either a formal request memo or the FIN-7, and that the 8th payment was supported by both. . . . The presence of [either document] . . . meets both requirements.
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> [Regarding gift cards] HRA policy does not require the employees' signatures as proof of distribution. . . . However, in an effort to strengthen our control procedures, HRA will update its procedures in the future to require signatures when distributing gift cards. That said, we find the documentation in these two instances to be in compliance with both Comptroller and internal policy.

Of the four (4) payments related to training, food and other expenses: one . . . was cited for lack of a receipt . . . . After review, we found that the program had provided an invoice that contained the imprint of the delivered rubber stamp as proof of receipt. [T]wo . . . payments cited for lack of receipts involved training requests; however, in each of the 2 instances, the vendor submitted supporting documentation (either an e-mail or a document confirming attendance). In the 4th instance, for the purchase of food, the original receipt was maintained by the responsible HRA program and we issued payment on the basis of a PDF copy of the receipt.

Of the three . . . checks cited as client transportation expenses . . . two checks were for client transportation. . . . [P]roper and detailed documentation . . . was made available for the auditor's inspection. The HRA location completes a W-719g form . . . to disburse transportation-related funds to the client. This form requires two approval signatures from the location and the client must sign a W-719 form indicating they have received carfare from an HRA location. . . . The third payment was for messenger carfare. Receipts are not required according to our procedures. The messenger instead signs a messenger carfare sheet similar to the client carfare sheet."

Auditor Comment: HRA's explanation for its position that its documentation for the three above-referenced transportation payments satisfied applicable requirements addresses a preliminary finding that is not included in this final report. It was removed based on HRA's above-quoted response to our draft report. However, after reviewing HRA's response regarding the remaining 16 inadequately-documented expenditures, we found no reason to further change our audit finding for the following reasons.

With regard to the nine inadequately-supported expenditures for Commissioner's Excellence and Employee Recognition events, our determination of what constitutes adequate documentation was based on HRA's written policy, which contrary to HRA's response, required employees to submit a memo summarizing all event information, a funding request form, and a numbered roster of employees attending. In each instance cited in the report, at least one of the required documents was missing.

Concerning the remaining seven inadequately-supported expenditures for food, equipment, and training, we found that required receipts were either missing or inadequate. For example, the equipment purchase was supported only by an invoice and not with a vendor's receipt signed by an HRA representative confirming HRA's receipt of the items or by a cancelled check confirming that the vendor received the payment. Claimed training expenses were supported only by a brochure and several registration forms and not by a receipt from the vendor. A food purchase was not supported by a copy of any receipt in pdf form or otherwise, and none was produced to our auditors by HRA.

Inappropriate Use of Miscellaneous Payment Vouchers

During Fiscal Year 2015, HRA inappropriately used Miscellaneous Payment Vouchers to fund payments exceeding $11 million from its MEA account for postage and intra-City expenditures (payments by one City agency to another). As a result, HRA's payments to a commercial vendor for postal services through the MEA account, funded through Miscellaneous Payment Vouchers, bypassed the City's system of accounting, purchasing, and tax-compliance controls embodied in Directive #24 and prevented the creation of a record in FMS that would have identified the vendor that received the City's payments from HRA.

Directive #24 specifically lists “payments to postal and phone service providers” and “intra-City expenditures” as “unallowable uses” of Miscellaneous Payment Vouchers. Collectively those “unallowable” transactions represent the majority—60 percent—of the total expenditures recorded in the MEA account in Fiscal Year 2015.

The following table illustrates the total expenditures processed through the MEA account for postage and intra-City expenditures compared with the total expenditures record in Fiscal Year 2015.

Total Expenditures Processed
Through the MEA Account
For Fiscal Year 2015

Category of Expense	Number of Checks	Number of EFTs	Dollar Amount	Total Expenditures Recorded in the MEA Account in FY2015	Percentage of Total Expenditures
Postage	150	46	$10,181,938		
Intra-City	923	0	829,536		
Totals	**1,073**	**46**	**$11,011,474**	**$18,238,046**	**60%**

Moreover, Directive #24, §6.3, states that Miscellaneous Payment Vouchers “may be used only when estimated or actual future liability is not determinable, or a contract or a Purchase Document is not required or applicable.” However, HRA violated this Directive when it paid $582,000 (out of the $10.2 million expended from the MEA on postage in Fiscal Year 2015) for postage to a commercial vendor (i.e., not the United States Postal Service) without a registered contract or appropriate Purchase Documents. HRA paid the vendor through five EFTs that ranged from $12,000 to $350,000, drawn from the MEA account, which were funded through the inappropriate use of Miscellaneous Payment Vouchers listing DOF as the “vendor.” As a result, the record in FMS, which is based on the Miscellaneous Payment Vouchers processed through FMS, shows DOF as the “vendor” and fails to identify the commercial vendor that actually received the City funds.

For much of Fiscal Year 2015, under Directive #24, a Payment Voucher should have been used for payments to a commercial postal service provider. This would have required HRA’s Agency Chief Contracting Officer to approve a contract or Purchase Document in FMS identifying the vendor and confirming that the transaction complied with the City’s Procurement Policy Board Rules. Further, the agency would have been required under Directive #24 to obtain the vendor’s Taxpayer Identification Number or Employer Identification Number and ensure that the appropriate number was entered into FMS. For the last three months of Fiscal Year 2015 (April 1 through June 30, 2015) a Purchase Document designated “PON1” would have been required for payments to a commercial vendor for postage in lieu of a contract or other Purchase Document.[8] The use of Miscellaneous Payment Vouchers for such payments remained unallowable after April 1, 2015.

[8] Comptroller’s Memorandum #2015-1, Update to Comptroller's Directive #24, *Agency Purchasing Procedures and Controls*, April 1, 2015.

Had HRA processed large bulk purchases involving millions of dollars directly through FMS as required by City rules rather than through the MEA account, there would have been a precise record of the transactions in FMS. As a result, direct FMS processing of large, seemingly recurring and predictable payments for routine services such as postage would aid the budgeting, purchasing, and spending processes—and potentially prevent or at least minimize problems such as the negative book balances and inappropriate use of funds HRA experienced in connection with the MEA account.

We also noted that notwithstanding its justification of need for the MEA account based in part on the need to replenish Sub-Imprest Funds and provide cash assistance to clients, in fact, the vast majority of HRA's MEA expenditures by dollar value involved large purchases and intra-City transfers: in addition to the $11 million in such expenditures described above, HRA processed 23 EFTs totaling $4,826,095 for bulk purchases of MetroCards through the MEA account in Fiscal Year 2015. In sum, nearly $16 million of the $18.2 million spent through the account during the audit scope period involved either large purchases or intra-City transfers. We question the necessity and validity of using an agency-administered "satellite" account for such purposes.[9]

> ***HRA Response:*** "HRA disagrees with this finding. Based on our understanding of accounting principles, we could not pay for postage in advance of its use. Therefore, we issued the postage payments against MEA at the point of purchase. Likewise, we believe that the IntraCity expenditures cited by the audit were appropriately paid via the MEA. However, we will initiate discussions with DCAS to develop an IntraCity MOU [Memorandum of Understanding] that covers the vast majority of these payments. . . . Based on our understanding of accounting principles, we could not pay for MetroCards in advance of their use. Therefore, we issued the MetroCard payments against MEA at the point of purchase."
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> ***Auditor Comment:*** HRA's response is internally inconsistent: although HRA states that it "could not pay for" postage or MetroCards "in advance of their use," that is *exactly* what HRA did, using its MEA account. What HRA failed to do was to prepare timely vouchers in advance of those payments as required by Comptroller's Directive #24 and submit them through FMS. We are encouraged to learn that HRA will initiate discussions with DCAS to develop a MOU because, under Comptroller's Directive #24, Miscellaneous Payment Vouchers should not be used for Intra-City payments.

Inappropriate Use of the MEA Account as an Imprest Fund

HRA used the MEA account in ways that were sometimes similar to—and at other times indistinguishable from—the way an imprest fund is operated, except that unlike an imprest fund, the MEA account was not required to make an equivalent level of reporting to the Comptroller's Bureau of Accountancy. Moreover, the audit revealed significant deficiencies in HRA's internal controls over the MEA account.

[9] Effective January 10, 2017, Comptroller's Directive 11, §2.2.1, provides, in part: "Agency Held Bank Accounts create opportunities for misappropriation of City funds and there is a need for substantial agency control, monitoring, and supervision. As part of the Fiscal Year-End Closing Instructions, each agency must carefully evaluate the continued need for these types of accounts and the circumstances that have caused them to be created….*Every effort should be made to discontinue the use of such accounts and account for the funds using the City's Financial Management System (FMS)*. [Emphasis added.]

The Introduction to Comptroller's Directive #3 summarizes the intended role of an imprest fund within a City agency and also warns agencies of the potential for abuse and the consequent need for effective control of such accounts:

> Imprest Funds are agency-controlled checking accounts that can be used for small purchases and petty cash transactions. Agencies are permitted to establish Imprest Funds as a practical aid to reduce processing costs for *minor expenditures* and to eliminate the need to process a large volume of *very small transactions* through the City of New York's integrated accounting and budgeting system, the Financial Management System (FMS).
>
> Although Imprest Fund expenditures are minor in nature, Agency Heads and their Designees must be alert to the fact that *Imprest Funds, and their petty cash components, have significant potential for abuse and misappropriation*. To ensure adequate protection of these assets, Imprest Fund procedures must be implemented and monitored at a senior level of authority within the agency. Detailed operating procedures that incorporate an appropriate level of internal control are provided herein for this purpose. [Emphasis added.]

Accordingly, Comptroller's Directive #3 limits individual imprest fund expenditures to $250 or less and requires every City agency administering an imprest fund account to submit a year-end *Accountability Report* listing among other things all vouchers processed through FMS to cover disbursements from the account, a bank statement and reconciliation, and an explanation of any overage or shortage in the account, to the Comptroller's Bureau of Accountancy. The Bureau of Accountancy also reserves the right to audit all imprest fund expenditures at a later date. Neither of those controls applied to HRA's MEA account.

The above-described reporting safeguards did not exist for the MEA account. Rather, our review found that HRA used the MEA account to make imprest fund-type payments, even when the account balance was zero, a practice that is described in more detail below. It then processed payment requests, after-the-fact, to allocate funds to the City Treasury "pool" account to cover the payments from the MEA "satellite" account, batching multiple expenditures into larger Miscellaneous Payment Vouchers. Consequently, there was no transparency as to the purposes of the individual expenditures or even the amounts. Thus, for example, HRA processed a Miscellaneous Payment Voucher dated July 2, 2015 in the amount of $7,436 to fund eight checks issued during the preceding eight weeks in amounts that ranged from $240 to $2,715 for one or more "Commissioner's Excellence" ceremonies held by the agency. The majority of those payments exceeded the $250 maximum allowable for an imprest fund account.

> ***HRA Response:*** "HRA disagrees with this finding. The satellite account is a disbursement account that is part of the HRA pool system and should always maintain a zero balance. . . . The vouchering process through FMS (and the City's Treasury account) takes place after payments have been made and HRA is in possession of all the receipts and necessary documentation. . . . This process is to ensure that expenditures are not recorded in FMS without the proper and required documentation."
>
> ***Auditor Comment:*** HRA cites no authority for the proposition that its payments from the MEA were exempt from the prescription of Comptroller's Directive #24, that "[a] Payment Voucher is a document that authorizes payment to a vendor, and must be accepted in FMS *before* a payment can be issued." [Emphasis added.] HRA has failed to provide any basis for us to change our finding.

Payments Outside of Authorized Limits for the MEA Account

HRA failed to ensure all MEA expenses were within the prescribed limits. Our review found that HRA made improper payments that were outside the authorized minimum and maximum limits of its MEA account. For example, as discussed above, our review of HRA's MEA check register for Fiscal Year 2015 identified 2,808 checks totaling $3,029,886 of which 236 checks totaling $1,654,448 (55 percent) were either below the $250 minimum or above the $50,000 ceiling. Specifically, we found 227 SIF replenishment checks, totaling $22,732, that were below the $250 minimum, and nine checks, totaling $1,631,716 that were above the $50,000 limit. Of the nine checks that exceeded $50,000, eight were for postage and one check was for fees paid to another City agency. Furthermore, our review of 10 EFTs totaling $1,778,289 during the month of June 2015 found that five EFTs totaling $1,080,000 were issued in excess of the $50,000 limit either for postage or for advancement of funds to a unit within HRA.

> ***HRA Response:*** "HRA disagrees with this finding. The 227 payments cited were issued from the MEA account either (a) during the period when the IFA account was closed; or (b) consisted of client-related payments which are not IFA eligible. . . . With regard to the more than $50,000 payments, these items were all related to the purchase of postage from the USPS or our commercial postage meter vendor. While we acknowledge that these purchases exceeded the limit, we must recognize HRA's public assistance mandate that requires the prompt access to a large quantity of postage."

> ***Auditor Comment:*** Although HRA disagrees with the finding, its response neither refutes the relevant facts stated in the audit nor cites any authority for breaching the monetary limits the agency established for itself. With respect to postage expenses, the audit refers to specific mechanisms such as a payment voucher or a purchase document designated "PON1" that HRA could have used to voucher and pay them directly through FMS. Moreover, HRA fails to establish how following the applicable financial management and accounting rules would have prevented its prompt access to a large quantity of postage.

Inappropriate Use of Funds to Cover Negative Account Balance

HRA operated the MEA account with a negative book balance for much of Fiscal Year 2015. Rather than pre-encumbering funds for its MEA expenditures, HRA caused funds that were allocated for other purposes to be drawn from its Treasury "pool" account to cover its MEA expenditures. As a result, payments for goods and services were made with funds that had not been allocated for those purposes. For example, we found that funds budgeted to be spent on HIV/AIDS expenditures were instead used to pay for MEA expenditures that did not involve HIV/AIDS related expenses. Specifically, on one occasion during the fiscal year HRA transferred more than $700,000 from its second MEA account (established in 2009 and then largely not used) to cover the negative balance in its first MEA account, thereby using City funds that were designated for the HIV/AIDS program for a different purpose as recorded by HRA in FMS.

In addition, we found that in February 2015, HRA issued 10 checks totaling $312,876 from the MEA account payable to "Postmaster New York" and "Postmaster Brooklyn," but did not submit a voucher to support those payments until July 2015, five months after the checks were paid. The only funds from which those 10 checks could have been paid in the interim were those in the Treasury "pool" account that were vouchered for other purposes. Paying a vendor for goods or services before submitting the voucher in FMS as was done in this case contravenes Comptroller's Directive #24, § 6.0, which states in part that "[a] Payment Voucher is a document that authorizes payment to a vendor, *and must be accepted in FMS before a payment can be issued*." [Emphasis added.] Section 93 of the City Charter also provides that agencies may not spend or commit funds other than for the program and purposes for which the funds were appropriated and must prepare and audit vouchers before payment. In effect, HRA used the MEA account to bypass the requirement that vouchers must precede payments, particularly with respect to large, recurring "non-SIF" expenditures for bulk postage and MetroCards. Moreover, HRA's maintenance of two MEA accounts rather than one was contrary to its stated purposes when it obtained permission to open the second account. According to the Agency Bank Account Request Form that HRA submitted to DOF in September 2009, HRA established a second MEA account to replace, not replicate, its pre-existing MEA account, which HRA stated was operating under an expired contract with the City's previous bank. HRA's request form stated in sum and substance that the agency needed a new MEA account with the City's current bank to pay for the same kinds of goods and services, primarily client-related, for which it had been paying through the pre-existing MEA account. In short, HRA justified and obtained permission for maintaining a *single* MEA account to serve its clients. The audit revealed, however, that contrary to its written representations, HRA never stopped using its pre-existing MEA account. In fact, in Fiscal Year 2015, more than five years after stating that the account was being replaced, HRA used its pre-existing MEA account for approximately $18 million in expenditures, while its newer MEA account remained largely dormant—with no external expenditures and an average monthly book balance of $1,465,584 throughout Fiscal Year 2015. Consequently, HRA failed to exercise proper accountability and transparency over the administration of the funds maintained in its dormant account.

Meanwhile, the older MEA account began and ended Fiscal Year 2015—and operated for 7 out of 12 months that year—with a negative book balance. The account deficit exceeded $1.2 million at the end of the fiscal year. To cover the negative account balance, HRA transferred funds in the amount of $738,887 from its newer MEA account to the pre-existing MEA account, through the Treasury "pool" account maintained by DOF. At the time of the transfer, most of the funds allocated to the newer MEA account had been vouchered for the HIV/AIDS Services Administration (HASA) Rent Cap Program. Based on the documentation provided by HRA, there is no assurance that the funds transferred from the second MEA account to the pre-existing MEA account were ever spent for the purpose for which they had been vouchered in FMS.

In sum, by maintaining two separate MEA accounts simultaneously for more than five years and using one to plug a deficit in the other, HRA failed to adhere to its stated purpose and rationale under which it obtained DOF's and the Comptroller's permission to establish its second MEA account. Additionally, HRA mismanaged its MEA account by failing to ensure that its expenditures were drawn only from properly allocated funds in the corresponding "pool" accounts. Finally, by transferring vouchered funds from one account to the other for a purpose other than that stated in its voucher, HRA failed to ensure that its expenditures were accurately recorded in FMS and may have inappropriately commingled funds.

> ***HRA Response:*** "HRA disagrees with this finding. The negative balance identified here is not evidence of the mismanagement of funds. Rather this normally occurs when the payments issued against the MEA account cannot be immediately vouchered against FMS to replenish the account. . . . Furthermore, the Bank Opening Letter signed by the DOF Deputy Commissioner, clearly states that 'This account is part of the cash management arrangement under which we (DOF) have authorized the bank to offset temporary overdrafts against positive balances in other accounts.' This means that in the event we ever have a negative balance in the MEA account, we are still authorized to issue checks/EFT against the account. . . . Furthermore, the report states that HRA vouchered for replenishment of the BOA

MEA for expenses related to the HASA Rent Cap program. This is incorrect. Please note that at the time (8/7/2014) when this voucher was issued, the BOA MEA account was not operational. The replenishment was mistakenly recorded to the BOA MEA by DOF instead of the HRA pool account."

Auditor Comment: The fact that HRA has temporary overdraft protection on the MEA account does not constitute an authorization for it to manage the account in ways that create chronic negative book balances for extended periods of time.

With regard to the $738,837 that HRA transferred to the MEA account, according to both HRA officials and the budget and object codes that appear on HRA's payment vouchers associated with this transaction, the transferred funds had previously been allocated for the HASA Rent Cap program. Further, the bank statement reflects that the transfer was made to cover an overdraft.

Split Purchases Exceeding the $250 Limit for the Imprest Account

Our review of a sample of 65 payments issued from the Imprest account during the month of June 2015 found that 7 payments totaling $1,515 (18 percent) involved prohibited split purchases to avoid the $250 limit established by Comptroller's Directive #3, which in pertinent part states, "[p]urchases must not be split to circumvent the $250 expenditure limitation."

Specifically, the audit found that HRA split purchases in its Imprest account to circumvent the $250 limit. For example, after voiding a $585 check drawn from the MEA account for an employee-training expense, HRA replaced it with three checks of $195 each from the Imprest account. Consequently, it appeared that HRA knowingly circumvented the $250 expenditure limit established for the Imprest account under Comptroller's Directive #3 rather than adhering to the applicable purchasing limitation and guidelines including Comptroller's Directive #3.

HRA Response: "HRA disagrees with this finding. The program authorized payment for training for six (6) individuals, each of which eligible to paid by IFA because they were less than $250. The audit misinterpreted the single request to mean that one MEA payments [sic] should have been issued."

Auditor Comment: The documentation associated with this payment does not support this explanation. Further, HRA did not issue separate payments for six individuals; instead, the agency voided one $585 check that it replaced with three checks of $195 each.

Imprest Account Expenditures Not Adequately Supported

Our review found that HRA did not ensure that all of its Imprest account expenditures were adequately supported. As a result, we could not determine whether those expenditures were reasonable and appropriate. The inadequately supported payments included funds for carfare and for employee incentive events that did not comply with HRA's internal policies.

Of 65 sampled Imprest payments made in June 2015, 16 (25 percent) totaling $2,161 were not adequately supported with at least one of the following documents as stated in HRA's own advance funding guidelines: an HRA Funding Request Form (FIN 7); a numbered roster of employees attending an HRA-funded event; a memorandum summarizing the event, on agency letterhead, sent to the HRA Internal Capital Payments Department, signed by the employee submitting the request; or a receipt showing that advanced or reimbursed funds were spent for the event. In addition, our review found that HRA issued three checks totaling $603 supported by receipts that were dated after the date of the events. Further, HRA issued two checks in the amount of $240 that were supported with duplicated receipts rather than an individual receipt for each check. Since the documentation submitted for approval was inadequate, HRA may have inappropriately paid for those expenditures. Therefore, HRA did not administer the Imprest account in accordance with Comptroller's Directive #3.

Finally, we found that HRA did not file the required New York City Incentive and Recognition Program Report of Activities forms with DCAS as required under DCAS' *Agency Guidelines for Incentive Programs* for HRA's employee incentive events.

> ***HRA Response:*** "HRA disagrees with this finding. Based on our review, 15 of the 16 cited payments was [sic] supported by one or both of the authorization documents (authorization memo or FIN-7), as well as appropriate receipts. . . . In two (2) of the three (3) instances cited, the responsible HRA program areas held their events on a date later than the date indicated on their original funding request memo. The receipts provided coincided with the actual date of the event."

> ***Auditor Comment:*** In each instance of inadequate documentation cited in the report, at least one of the documents that HRA's written policy requires was not on file. With respect to the receipts that did not match the scheduled event dates listed in HRA's records, nothing in the documentation provided to us showed that those events were in fact held on the dates recited in the receipts. Subsequent to the exit conference, HRA had the opportunity to submit additional documentation; however, it did not produce any documentation to support its claim.

Improper Coding of Accounts

HRA improperly coded the MEA bank account as an imprest fund on its annual Active Agency Bank Account filings with the Comptroller's Office. As noted, although HRA administered the MEA account indistinguishably from an imprest fund account in some respects, it is not an imprest fund because it was established to enable HRA to make expenditures that exceed the $250 limit for an imprest fund account established by Comptroller's Directive #3. In addition, the MEA account and the Imprest account have different administrative requirements under Comptroller's Directives, and HRA has not subjected the MEA account to the regimen of accountability reporting and annual external review by the Comptroller's Bureau of Accountancy that would be required for an imprest fund account.

Similarly, HRA also improperly coded the EEA account as an imprest fund on its annual Active Agency Bank Account filings with the Comptroller's Office. Again, the expenditures from the EEA account can be for transactions above the $250 limit allowed for an imprest fund account, as there is no stated limit for the account. Also, while the imprest fund is subject to the administrative requirements of Comptroller's Directive #3, the EEA account is subject to the requirements of Comptroller's Directive #11. HRA officials stated in substance that the MEA account had been coded as an imprest fund in their books and records for many years. At this point, the misclassification of both accounts in HRA's Active Agency Bank Account filings with the Comptroller's Office should be reviewed and corrected.

> ***HRA Response:*** "HRA agrees that the accounts were erroneously miscoded on a document; however this was a clerical error. It should not be interpreted as a misrepresentation of the operation."

Auditor Comment: By miscoding these accounts, HRA did not accurately disclose the operations of these accounts that process millions of dollars in expenditures each year.

RECOMMENDATIONS

HRA should:

1. Establish proper fiscal controls and independent oversight to: (a) prevent the disbursement of checks and EFTs that are not in compliance with the authorized purpose of the MEA account; and (b) prevent expenditures from the account outside of pre-established monetary limits;

   HRA Response: "HRA disagrees. HRA currently has in place the proper controls that prevent payments that are not in compliance with the authorized purpose of the MEA account. HRA was in compliance with all applicable internal procedures and our interpretation of unclear Comptroller's Directives. . . . Further, if the Comptroller provides HRA with written authorization to voucher at the point of purchase, the over $50,000 issuances would be eliminated."

   Auditor Comment: HRA's controls failed to prevent inappropriate payments from the MEA account, as amply demonstrated in the audit report. HRA fails to cite any rule or external impediment that prevents it from properly vouchering its expenditures or managing the MEA account within the monetary limits that HRA itself established, with or without a written authorization from the Comptroller to do so.

2. Ensure that all expenditures are adequately supported in accordance with applicable rules, Comptroller's Directives, and agency policies and procedures;

   HRA Response: "HRA disagrees. HRA believes that our expenditures are adequately supported in accordance with the applicable rules."

   Auditor Comment: The report cites multiple instances in which HRA either did not obtain the documentation required by its own written policies or where its receipts were inadequate or questionable. Under HRA's own written policies, HRA employees are required to submit a memorandum sent to the Internal Capital Payments Department summarizing all event information on agency letterhead and signed by the employee who is submitting the request; a Funding Request Form (FIN 7); and a numbered roster of employees attending.

3. Strengthen its policies and procedures to expressly and unambiguously require that any advance funding or reimbursement of expenditures for employee-recognition events and other agency purposes must be adequately supported with specified documentation;

   HRA Response: "HRA disagrees. Expenditures are adequately supported with documentation."

   Auditor Comment: As noted in response to Recommendation 2, the audit report cites multiple instances in which HRA either did not obtain the documentation required by its own written policies or where its receipts were inadequate or questionable. Furthermore, HRA should ensure that its written requirements for funding employee events are clear and unambiguous.

4. Update and replace its existing, inaccurate Agency Bank Account Request form with a new, authoritative document that clearly delineates all authorized purposes and uses of the MEA account, with appropriate monetary limits and a list of prohibitions and provide a copy to DOF;

HRA Response: "HRA partially agrees. The current filing accurately describes the MEA account purpose. We will however, update [it] with a new, authoritative document that more clearly delineates all authorized purposes and uses of the MEA account. It will include the appropriate monetary limits and a list of prohibitions and provide a copy to [DOF]."

Auditor Comment: We are encouraged that as a result of this audit, HRA has agreed to improve the clarity and completeness of its account request form for the MEA account.

5. Review its practice of using the MEA account for large, recurring purchases of goods and services, such as postage, and ensure compliance with Comptroller's Directive #24;

HRA Response: "HRA partially agrees. If the Comptroller's Office provides written authorization that such payments against FMS can be made at the point of purchase, HRA will cease using the MEA account for such purchases and process these payments through a PON1 purchase order. We will work with the Comptroller's office for implementation. "

Auditor Comment: HRA should refer to Comptroller's Memorandum #2015-1, in conjunction with Comptroller's Directive #24, both of which provide statements by the Comptroller of applicable procedures, and seek further advice, if needed, to properly manage its recurring expenditures totaling millions of dollars annually.

6. Review the validity of using the MEA account for intra-City expenditures and ensure that any such expenditures comply with applicable rules and directives, including Comptroller's Directive #24;

HRA Response: "HRA partially agrees. . . . HRA will take under advisement the recommendation to move the DCAS fingerprinting expenditures to an Intra-City Agreement. However, based on the small volume and unpredicatable nature of the other expenses, an Intra-City agreement is not practical."

Auditor Comment: HRA should ensure its compliance with Comptroller's Directive #24 and cease its use of Miscellaneous Payment Vouchers for intra-City expenditures.

7. Cease HRA's practice of using its MEA and Imprest accounts interchangeably; implement controls to restrict the use of all agency-administered accounts to their authorized purposes and monetary limits, and ensure that all such uses are consistent with applicable Comptroller's Directives;

HRA Response: "HRA disagrees. HRA currently does not use the MEA and IFA accounts interchangeably and, in most instances, complies with the authorized monetary limits."

Auditor Comment: As amply demonstrated in the report, HRA inappropriately utilized the MEA on numerous occasions as an Imprest account throughout Fiscal Year 2015.

8. Determine the causes for the chronic negative book balances incurred in the MEA account and take the necessary steps to voucher all MEA expenses and ensure adequate funding is available in the account;

HRA Response: "HRA disagrees. The cause of these negative balances is known. . . . As part of the cash management arrangement under which DOF has authorized the bank to offset temporary overdrafts against positive balances in other accounts, the presence of a negative book balance is not evidence that adequate funding is unavailable. Further this occurrence can be most effectively remedied if the Comptroller's Office permits HRA to voucher these items immediately upon purchase."

Auditor Comment: HRA should adhere to Comptroller's Directive #24, § 6.0, which states in part that "[a] Payment Voucher is a document that authorizes payment to a vendor, *and must be accepted in FMS before a payment can be issued*." [Emphasis added.] HRA should reexamine the basis for its implicit and unsupported assertions that (1) its temporary overdraft protection authorizes it to operate the MEA account with chronic negative balances, and (2) it cannot properly voucher its expenditures without special permission from the Comptroller's Office.

9. Review and assess the use of its two existing MEA accounts (the original MEA account and the MEA account opened in 2009) and determine whether the agency has a continuing and justifiable need for either of them, taking into account the policy expressed in the current version of Comptroller's Directive #11, that every effort should be made to discontinue the use of such accounts and account for the funds using the City's Financial Management System;

HRA Response: "HRA disagrees. As part of a new banking services contract . . . a new MEA account was established in 2009. HRA experienced . . . problems with the new account. HRA continued to utilize the existing . . . MEA [account] while these issues were being resolved. This was necessary to ensure critical services to clients were not disrupted. Further, a request to close the [older] MEA was forwarded to the Department of Finance earlier this month. We continue to assert that the MEA is used appropriately."

Auditor Comment: Although HRA disagrees with our recommendation, its response indicates that, as we recommended, HRA has at least begun reassessing its needs and closing one of its two MEA accounts. For the reasons cited in Comptroller's Directive #11, we urge HRA to also use its best efforts to reasses its need for the remaining MEA account and wind it down or, at the very least, minimize and carefully limit its future use to genuine programmatic demands for which no practical alternative exists.

10. Cease splitting purchases to circumvent the $250 limit allowed for individual imprest fund expenditures and impose adequate controls to ensure that split purchases are not made going forward; and

HRA Response: "HRA disagrees. . . . [W]e correctly issued separate payments via the IFA account. In order to prevent this confusion for the Comptroller's office in the future, HRA will update our internal procedures to instruct staff to provide individual requests . . . and not batch such requests."

Auditor Comment: HRA's response fails to explain why it cannot process payments exceeding the $250 Imprest limit directly through FMS, where no such limit applies.

11. Review all active bank accounts to ensure the proper classification of account codes and inform the Comptroller's Bureau of Accountancy of any changes.

HRA Reponse: "HRA agrees. The NYC active agency bank account will be updated to correct that clerical error. The Comptroller's Bureau of Accountancy will be informed accordingly. HRA did not systematically misrepresent the operation of this account."

DETAILED 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 covers July 1, 2014 to June 30, 2015. We modified our scope to review the balance and funding source of the new MEA account from its inception of the account, Fiscal Year 2011, through June 2016. To obtain a preliminary understanding of the audit engagement, we obtained and reviewed the Comptroller's Directive #1, *Principles of Internal Control*, Directive #3, *Procedures for the Administration of Imprest Funds*, Directive #6, *Travel, Meals, Lodging and Miscellaneous Agency Expenses*, Directive #11, *Cash Accountability and Control*, Directive #24, *Agency Purchasing Procedures and Controls*, and DOF's Bank Account Policy and Procedures. Directive #11 includes the segregation of duties, cash disbursements, authorized signatory procedures and control procedures. We also obtained and reviewed HRA's policies and procedures for Cash Book Balance Reports, bank reconciliations, employee expense reimbursement, and the imprest fund. Furthermore, to gain an understanding of policies and procedures relating to employee incentive programs we obtained and reviewed HRA's employee recognition funding policy, gift card policy, and DCAS' *Agency Guidelines for Incentive Programs*.

To gain an understanding of HRA's operations and internal controls over its bank accounts, we interviewed relevant HRA officials (i.e., officials from the Bureau of Reconciliation and Control, Bureau of Accounting and Special Programs, and Accounts Payable). We conducted interviews to obtain an overview of HRA's bank accounts, the purpose of each account, and how bank reconciliations are performed. We also conducted observations of the Checks Retrieval Tracking System (CRTS) and the Employee Expense System (EES). Additionally, we observed HRA's unwritten checks maintained in the vault at the Accounts Payable Unit.

We interviewed relevant DOF officials to obtain an overview of the New York City banking structure for "pool" and "satellite" bank accounts. We documented the results through narrative memoranda and flow charts.

We tested the completeness of HRA's bank account population and classification of each account by comparing HRA's internal List of Bank Accounts to the list of NYC Active Agency Bank Accounts at the close of Fiscal Year 2015 (as of June 30, 2015) submitted to the Comptroller's Office Bureau of Accountancy. Additionally, we reviewed DOF's "Agency Bank Account Request Form" for each of HRA's bank accounts to ensure that the purpose of each bank account was accurately reported.

To identify the highest total monthly disbursement amount for each bank account, we analyzed the monthly beginning book balance, total deposits, total disbursements, and ending book balance for each bank account in Fiscal Year 2015. We then judgmentally selected seven bank accounts, one from each preparer and reviewer of the bank reconciliations, with the highest month of total disbursements from the HRA's cash book balance report in Fiscal Year 2015. To ensure the accuracy of the bank reconciliations, we reviewed and reconciled HRA's bank reconciliations prepared by the BORAC unit to HRA internal financial reports, DOF's Cash Management Reports (CMR), and bank statements.

To ensure that HRA had proper internal controls over its bank accounts, we assessed whether there were adequate segregation of duties for preparing and approving the bank reconciliations and cash book balance reports in the month of the highest total disbursements in Fiscal Year 2015. Additionally, we reviewed whether the bank reconciliations, cash book balance reports, and disbursements were not prepared and reviewed by personnel from other functions (i.e., authorizing disbursement, recording of cash book balance, signatories of checks) in Fiscal Year 2015.

To identify all deposits and withdrawals of funds from the new MEA bank account, we reviewed the new MEA CMR and bank statements from the inception of the bank account, Fiscal Year 2011, through June 2016. We analyzed each deposit and withdrawal to identify the source of the funding or withdrawal. We also traced each funding activity to the FMS documentation to determine the budget codes and object codes used to fund the account.

To determine whether HRA accurately and completely recorded transactions in the MEA account, we judgmentally selected 25 checks out of the 278 checks listed on the MEA Check Register based on payee name in June 2015 (the month with the largest total expenditures). Additionally, we judgmentally selected the highest 49 expenditures from the June 2015 MEA Check Register after eliminating intra-City transactions and postage expenses. For the 74 sampled expenditures from the MEA account, we traced each expenditure from the Check Register to the supporting voucher documentation, which included the review of invoices, receipts, approvals, and other documentation. We determined whether each expenditure was reasonable, appropriate, adequately supported, and properly approved. In addition to the samples taken from the Check Register, we also reviewed all 10 EFTs processed through the MEA bank account in June 2015. We also reviewed the postage and intra-City expenditures recorded in the check register for the MEA account and reconciled those transactions with the FMS transaction report for Fiscal Year 2015. For each transaction, we determined payee, voucher amount, and voucher type (e.g. Miscellaneous Payment Voucher) and whether the processing of the payment was in accordance with Directive #24. Furthermore, we reviewed the MEA Check Register for Fiscal Year 2015 to identify any SIF replenishment checks that were below the $250 minimum established for the account and any non-SIF checks that exceeded the $50,000 limit established for the account. We also reviewed the supporting documentation for EFTs processed through the MEA account in the month of June 2015 to identify any EFTs that were issued above the $50,000 limit.

To determine whether HRA accurately and completely recorded transactions in the Imprest account, we randomly selected 48 checks out of the 118 checks issued, and judgmentally selected an additional 17 checks for the same date to the same payee that exceeded $250 in the month of June 2015 (the month with the largest total expenditures). From these 65 sampled expenditures, we ascertained whether there were any possible split purchases and whether all purchases were properly approved, reasonable, appropriate, and adequately supported (i.e., vouchers, invoices and receipts).

To determine whether HRA accurately and completely recorded transactions in the EEA account, we judgmentally selected 58 checks out of 1,506 checks listed on the Check Register in May 2015 (the month with the largest total expenditures) as our initial sample based on duplicate or erroneous employee identification numbers for the highest check amounts. We reviewed the different levels of authorization and detail expenses recorded in the EES as well as verifying that all copies of checks had two signatories. We then expanded our original sample by judgmentally selecting an additional 42 checks which range from $100 to $125 out of the 1,002 checks issued in the month of June 2015 to determine if HRA employees were reimbursed for MetroCards.

We analyzed the total monthly deposit of funds from DOF's CMR, including the detailed breakdown of beginning balance, clearing, adjustment, and ending balance for Fiscal Year 2015. We traced the MEA deposit activities from DOF's CMR to HRA's internal summary of DOF's CMR, bank statements for clearing activities, FMS transactions and bank statements for adjustments, and to HRA's Cash Book Balance Report in June 2015. Additionally, we tested the reliability of HRA's Check Disbursement Tracking Sheet for the MEA bank account for Fiscal Year 2015 by performing a match of checks that have not been vouchered in the tracking sheet to checks in the Check Register.

The results of the above tests, while not projectable to their respective populations, provided a reasonable basis for us to evaluate HRA's compliance with Comptroller's Directives #11, #3, #6 and #24 and other applicable policies and procedures.

W-2-570

NYC
Department of Social Services
Human Resources Administration
Department of Homeless Services

Office Of Audit & Quality Assurance

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Commissioner

Saratu Ghartey
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March 22, 2017

Marjorie Landa
Deputy Comptroller for Audit
New York City Office of the Comptroller
1 Centre Street, room 1100
New York, NY 10007

Re: Audit Report on the Human Resources Administration's Controls Over its Miscellaneous, Employee, and Imprest Fund Accounts FP16-060A

Dear Ms. Landa:

We have reviewed the referenced report, and our responses are enclosed.

Our mission is to serve New York City's most vulnerable population in the most compassionate, efficient and effective manner, while adhering to all applicable rules, regulations and laws by which we are bound. We would like to express our sincere appreciation for the efforts that your office is investing in this review, as it will assist us in achieving our goals.

We are confident that our responses demonstrate our commitment to improving our operations going forward. Should you have any questions, please contact Klara Shoumackher, Director of the DSS Bureau of Audit Coordination at 929-221-7063.

Sincerely,

Maria Ciniglio

Enclosures

NYC Comptroller Audit of HRA' Controls Over its Miscellaneous, Employee, and Imprest Fund Accounts Draft Report

March 22, 2017

HRA Response

FINDINGS

The following section responds to Page 7 of the draft report, which is a high level summary of the findings.

Auditor's finding:

- HRA failed to properly administer the activities of its MEA account, which was used to disburse more than $18 million in Fiscal Year 2015, much of it inappropriately.

Agency's Response:

- **HRA disagrees with this finding. The MEA account was consistently utilized to provide payments that properly fell within its authorized activities.**

The MEA account was consistently utilized to provide payments that properly fell within its authorized activities, which involved payments for programmatic activities and non-client related activities in excess of the $250 Imprest Fund Account's (IFA) limit. Payments in excess of $50,000 were issued for critically needed postage that, in HRA's view, could not be provided in an alternative manner because, in our understanding, to voucher before the postage was used would be to issue a payment in advance. (If written authorization is provided by the Comptroller's Office, HRA will voucher directly against FMS at the time of purchase.) Non-programmatic payments of less than $250 issued by MEA were processed when the IFA account was closed. (As the Comptroller's Office has now authorized in an email dating 3/2/17 these payments are to be issued under the IFA during this time. HRA will discontinue the MEA payment process in this area.) Although there may be other payment vehicles available for these purchases, none of the expenditures were inappropriate.

Auditor's finding:

- HRA lacked adequate controls over the MEA account and allowed it to be used for inappropriate expenditures that were contrary to its stated purposes and not in compliance with Comptroller's Directive #6, such as paying for gifts, awards, food and beverages for HRA employee recognition ceremonies and food for HRA staff meetings and events, some of which lacked adequate documentation.

Agency's Response:

- **HRA disagrees with this finding. The 58 purchases referenced in the audit were properly processed through MEA. Further, HRA disputes the finding regarding the adequacy of documentation in 18 of the 19 cited examples.**

HRA believes that the purchases referenced in the audit were properly processed. Specifically, 56 of the 58 payments identified in the audit were in excess of $250 and could not appropriately be paid through the IFA. The final two items were paid when the IFA account was closed for the annual accountability exercise. These two items total $212.50 and are cited repeatedly in this audit. HRA also disputes the finding regarding the adequacy of documentation in 18 of the 19 cited examples.

Auditor's finding:

- Most of HRA's spending from the MEA account – approximately $16 million out of a total of $18 million – was for recurring expenditures such as large bulk purchases of postage and MetroCards that could have been purchased directly through FMS with greater transparency in accordance with the City's purchasing rules. HRA funded more than $11 million of those expenditures with Miscellaneous Payment Vouchers in violation of Comptroller's Directive 24.

Agency Response:

- **HRA disagrees with this finding. Based on our interpretation of Comptroller's Directives, the cited postage and MetroCard payments could not be vouchered against FMS at the point of purchase.**

The postage and MetroCard payments, which provide critical support and assistance to HRA's clients, were issued against MEA at the time of purchase. Based on our interpretation of Comptroller's Directives that these items could not be vouchered against FMS until documentation of their use was received, it needed to voucher such items as Miscellaneous Vouchers. If the Comptroller's Office provides written authorization that these payments can be vouchered in FMS at the time of purchase, HRA will update our procedure to voucher these items using PON1 purchase orders.

Auditor's finding:

- HRA improperly used the MEA account as an imprest fund – issuing more than 200 replenishment checks totaling over $22,000 in amounts of $250 or less and thereby circumvented the specific controls, and external oversight that are established for imprest funds by Comptroller's Directive #3. Further, HRA improperly issued 14 EFTs and checks from the MEA totaling $2,711,716 that were above the $50,000 limit HRA itself established for this account.

Agency Response:

- **HRA disagrees with this finding. The MEA account is used to replenish sub-imprest fund accounts for expenditures that are consistent with HRA's stated purpose for the account.**

The MEA account is used to replenish sub-imprest fund accounts for expenditures that are consistent with HRA's stated purpose for the account. As noted above, the less than $250 MEA checks involved either programmatic items that are not IFA-eligible or non-programmatic items that were submitted for payment when IFA was down.

Of the 227 checks cited by the auditors:

- 67 payments totaling $5,568.49 were issued during the periods when the IFA account was closed (from July 1, 2014 through October 27, 2014 and from June 25, 2015 through August 27, 2015), because of the annual IFA accountability exercise.

- 160 payments totaling $17,163.14 were client-related and were properly paid against the MEA account.

Again, as stated above the over $50,000 payments involved postage payments needed to meet the critical needs of HRA's clients. If the Comptroller's Office provides written authorization that these payments can be vouchered in FMS at the time of purchase, HRA will update our procedure to voucher these items using PON1 purchase orders.

Auditor's finding:

- HRA mismanaged the account's cash flow, maintained a negative book balance for 7 out of 12 months during Fiscal Year 2015 and left a year-end account deficit of $1,218,432, primarily by failing to voucher sufficient funds to timely cover account expenditures. HRA covered the deficit by drawing on City funds that had been allocated to another account for a different purpose.

Agency's Response:

- **HRA disagrees with this finding. The negative balance identified here is not evidence of the mismanagement of funds. Rather this normally occurs when the payments issued against the MEA account cannot be vouchered against FMS to replenish the account.**

The negative balance identified here is not evidence of the mismanagement of funds. Rather this normally occurs when the payments issued against the MEA account cannot be vouchered against FMS to replenish the account. As HRA interprets Comptroller's Directives and Guidance, FMS vouchers for payment cannot be effectuated until the required documentation providing proof of expenditure is received.

Auditor's finding:

- HRA used its imprest account for expenditures that were contrary to Comptroller's Directive #3, and did not ensure that all of its Imprest account expenditures were adequately supported.

Agency's Response:

- **HRA disagrees with this finding. The MEA and IFA accounts were utilized in conformity with the pertinent directives, and appropriate documentation was available for 15 of 16 instances cited.**

As noted above, the MEA and IFA accounts were utilized in conformity with the pertinent directives; HRA also disputes 15 of the 16 instances cited by the auditors regarding the adequacy of the supporting documentation for these payments.

Auditor's finding:

- HRA misclassified its MEA and EEA accounts as imprest funds in its Active Agency Bank Account filings submitted to the Comptroller's Office. Those accounts are not imprest fund accounts as their expense limitations exceed the $250 threshold established for an imprest fund account under Directive #3.

Agency's Response:

- **HRA agrees that the accounts were erroneously miscoded on a document; however this was a clerical error. It should not be interpreted as a misrepresentation of the operation.**

HRA disputes the fact that it has ever represented the MEA and Employee Expense (EEA) Accounts to be imprest funds. HRA will correct the clerical error on the NYC active agency bank account form.

The following section responds to Pages 8-14 of the draft report, which is a detail level description of the findings.

LACK OF ACCOUNTABILITY AND CONTROL OVER THE MEA ACCOUNT

MEA ACCOUNT NOT USED IN ACCORDANCE WITH ITS AUTHORIZED PURPOSE – page 8

Auditor's finding:

- HRA used MEA Account to pay for numerous expenses that were not client-related, contrary to its description in the account's purpose submitted to DOF when establishing the account.

Agency's Response:

- **HRA disagrees with this finding. The MEA account is being used in accordance with its stated account purpose. It is used for all client-related costs regardless of dollar amount and for non-client related costs that exceed $250 and thus, are ineligible to be paid from IFA.**

We first need to properly distinguish between the activities authorized and not authorized under IFA and MEA. Payments against the IFA are limited to non-client related items that are less than $250; MEA payments, however, are issued for (1) all client-related costs; (2) non-client related costs that exceed the $250 IFA cap; and (3) during the scope of this audit, those IFA-eligible items that were paid when IFA is closed. Payments in 1) and 2) above are both within the stated purpose of the HRA MEA account and in line with the Comptroller's Directive #3. Payments within the last group were made from the MEA account based on HRA's interpretation of Comptroller's Directive #3 as we discuss in detail below. Therefore, we insist that the use of IFA and MEA for the items audited was consistent with both the Agency Bank Account Request and the Sub-Imprest Fund Manual referenced in the audit.

With regard to IFA-eligible items paid during the IFA account close, Directive 3 states that "Subsequent year replenishment vouchers submitted by the agency until Imprest Fund/Ledger Maintenance Unit had reviewed and approved the Accountability Report." [This is a direct quote from the Comptrollers Directive 3, page 12, section 8 "ANNUAL ACCOUNTABILITY REPORTING" and is unclear]. HRA interprets this statement to mean that we should stop all IFA processing until such time when the Comptroller authorizes us to reopen the account. Therefore, based on our internal year-end closing manual, we close the IFA account by June 30 of every year in preparation of the Accountability report. HRA is then instructed on the date in which the YTD Expense report should be printed from FMS, and the date in which the accountability report must be submitted. Once the Accountability report has been submitted to the Comptroller's Office, it is reviewed and if found acceptable, a J2I is approved, essentially transferring funds from the old fiscal year to the new fiscal year. At this point, the Comptroller's Office then issues a letter authorizing HRA to reopen the IFA. It is at this point that HRA resumes all IFA activities.

With specific reference to the period covered in the audit, in accordance with the Comptroller's closing instructions, the IFA account was closed on June 24, 2015. Our accountability report was submitted on July 22, 2015. Furthermore, J2I 069 201516 in the amount of $6,895.07, to transfer funds from FY 15 to FY 16, was issued on August 25, 2015. We received instructions from the Comptroller to reopen the IFA on August 27, 2015. Therefore, based on our internal procedures we used the MEA account from June 24 through August 27, to pay for items that otherwise would have gone through IFA. We could not delay issuing necessary payments for a period of two months until IFA reopened.

HRA has recently requested clarification of our interpretation. We received an e-mail on March 2, 2017, from the Comptroller's Office Bureau of Accountancy, giving us additional instructions that clarify the use of the IFA account during the period of preparing the IFA Accountability Report. The email acknowledged that aspects of Comptroller's Directive #3 can have various interpretations. The additional instruction states that we can continue using the IFA during this period. We cannot however, voucher the expenses until we obtain the Comptroller's Office's authorization to reopen the IRA post the citywide yearly closeout exercise. Based on this new instruction, HRA will stop using the MEA account during this period for IFA-eligible expenses. However, we respectfully request that for purposes of this audit, the Comptroller's Office consider that these purchases were not found to be inappropriately supported or malfeasant in any way, but rather followed agency policy that interpreted the Comptroller's Directive.

Auditor's finding:

- Contrary to HRA's stated purpose for the account, however, the [MEA] account was frequently used for agency-related and, more specifically, employee related expenses, rather than for programmatic expenses. For the month of June 2015..., 58 expenditures totaling $42,699 (79 percent) were not client related. They included 41 expenditures involving gifts, awards, food and beverages for employee recognition and incentive programs and 17 involving food and other goods for HRA staff at meetings and events, employee travel and purchases of equipment.

Agency's Response:

- **HRA disagrees with this finding. The Comptroller's audit misinterprets the section cited from the Bank Account Request Letter. Furthermore, the 56 non-client expenditures exceeded the $250 IFA limit, and thus, were appropriately paid from the MEA account.**

We believe the Comptroller's audit misinterprets the short section cited from the Bank Account Request Letter that was filed with the Department of Finance in 2009. In full, this section reads "This account replenishes Sub-Imprest Fund (SIF) accounts in excess of $250.00, as well as various non-SIF expenditures in amounts of up to $50,000.00. These expenditures are usually for goods or services of a programmatic nature and are in compliance with current Agency and City of New York procurement regulations", and states that the purpose of the account is as discussed above in response to the last finding - for client-related expenses and non-client related expenses over the $250 IFA limit.

The audit is correct in that 56 of the 58 expenditures were not client-related; however, consistent with the $250 transactional limit for the IFA as set by Comptroller's Directive #3 and the stated purpose of the MEA account, they were paid through the MEA as they exceeded the $250 IFA cap. The remaining two (2) items cited in this section total $212.50 and are non-client related expenses under $250 that typically would be paid through the IFA account. However, following our interpretation of the Comptroller's Directive, these expenses were reimbursed using the MEA account, as they occurred during the period the IFA account was closed from June 24, 2015 through August 27, 2015 per the Comptroller's requirements.

Furthermore, despite the fact that the MEA account's stated purpose includes non-client related expenditures, it should be noted that HRA holds, as per agency policy, its Commissioner Excellence and Employee Recognition events mostly in the months of May and June. So, for the month sampled in the audit, the number of expenditures for gifts, awards, food and beverages was disproportionate to similar activities that would be recorded in the other ten months of the year. For example, in comparison during January 2015, only four (4) Commissioner Excellence payments - totaling $1,370 – and no Employee Recognition payments were processed.

We respectfully request that the Comptroller's Office withdraw this finding.

INADEQUATE DOCUMENTATION FOR THE MEA ACCOUNT – pages 8-9

Auditor's finding:

- HRA failed to consistently ensure that all of its MEA account expenditures were adequately supported with payment vouchers and related documentation that reflected appropriate approvals and proper processing. Our sample of 74 expenditures for the month of June 2015 found 19 expenditures that were not supported by adequate documentation.

Agency's Response:

- **HRA disagrees with this finding. Our review found that 18 of 19 instances cited were indeed, properly supported with one or more documents.**

With regard to the 19 instances cited by the auditors, 18 out of 19 have been found in our review to have the required supporting documentation.

- In nine (9) instances, the auditors state that, "...inadequately supported Commissioner's Excellence and Employee Recognition expenditures were missing one or more supporting documents."

For eight (8) out of the nine (9) Commissioner Excellence/Employee Recognition (CEI/ER) expenditures, the auditors cited the lack of either a memo or the Funding Request Form FIN-7. After review we determined that 7 of the 8 CEI/ER payments were supported by either a formal request memo or the FIN-7, and that the 8th payment was supported by both a formal memo request and the FIN-7. The FIN-7 form was developed internally at HRA to assist requestors in their submissions. This form is not required by the Comptroller's Directive or internal policy. The presence of a formal request memo or a FIN-7 meets both requirements. Therefore, these eight (8) instances are not lacking adequate documentation as cited by the audit.

For the remaining one (1) instance of nine (9) cited, the auditors identify a receipt that was submitted without the appropriate detail for a CEI/ER expenditure. After review, we agree with the Comptroller's finding. We must, however, note that HRA strongly prefers the extensive use of small, locally owned businesses to provide catering services for HRA events and such entities do not always possess the capacity to provide detailed receipts. In order to continue our support for small locally owned businesses, HRA will provide a template containing the minimum requirements that a receipt should possess, i.e., business name, business address, business phone number, HRA program "sold to", date of purchase, etc.

In one (1) instance of the 19 cited, the auditors cited the lack of a numbered roster of attendees. This roster was received along with the request for funds however, after the payment was made, it was misfiled.

In two (2) instances of the 19 cited, the auditors also state, "...In another two examples, we also identified purchases of gift cards totaling $820 for HRA employees who were being recognized at an event, without the detailed distribution log identifying which employees received the gift cards or their signatures to confirm receipt."

In order to effectively manage resources and meet operational needs, HRA purchases gift cards centrally in bulk and then distributes upon authorized request. Our records indicate that a detailed roster was provided that identified the names of the employees and the gift card denomination (either $10 or $25) being awarded to each employee. HRA policy does not require the employees' signatures as proof of distribution. Further, we believe this is in compliance with the Comptroller's Directive. However, in an effort to strengthen our control procedures, HRA will update its procedures in the future to require signatures when distributing gift cards. That said, we find the documentation in these two instances to be in compliance with both Comptroller and internal policy.

Finally, in the remaining seven (7) of the 19 instances, the auditors state, "With respect to the seven inadequately supported checks for expenditures unrelated to agency events, four involved payments made directly to vendors for training, food and other expenditures, and three were payments made to HRA Operating Centers to replenish SIF cash funds for client-related transportation expenditures that were not adequately supported."

- Of the four (4) payments related to training, food and other expenses:

- one (1) instance was cited for lack of a receipt for the purchase of a rubber stamp. After review, we found that the program had provided an invoice that contained the imprint of the delivered rubber stamp as proof of receipt.

- two (2) of the payments cited for lack of receipts involved training requests; however, in each of the 2 instances, the vendor submitted supporting documentation (either an e-mail or a document confirming attendance).

- In the 4th instance, for the purchase of food, the original receipt was maintained by the responsible HRA program and we issued payment on the basis of a PDF copy of the receipt.

We respectfully request the Comptroller's Office to remove this finding as we have the proper documentation for these four (4) expenditures.

- Of the three (3) SIF checks cited as client transportation expenses:

- It should be noted that only two (2) checks were for client transportation. Furthermore, proper and detailed documentation authorizing client carfare is maintained on file and was made available for the auditor's inspection. The HRA location completes a W-719g form, which is the authorization form to disburse transportation-related funds to the client. This form requires two approval signatures from the location and the client must sign a W-719 form indicating they have received carfare from an HRA location. HRA cannot expect its clients to make a return trip to submit proof that the carfare funds were used. This would require HRA to issue additional carfare to enable clients to present the receipts.

- The third payment was for messenger carfare. Receipts are not required according to our procedures. The messenger instead signs a messenger carfare sheet similar to the client carfare sheet.

In both cases, receipts are not practical and would result in additional and unnecessary expenditures on behalf of HRA. As such, we request that these findings be removed. HRA has furnished the appropriate documentation which meets our internal policy standards and the Comptroller's Directives and requirements.

INAPPROPRIATE USE OF MISCELLANEOUS PAYMENT VOUCHERS – pages 9-10

This section of the audit report addresses three (3) broad categories of spending: 1) MEA payments issued to the United States Postal Service and a commercial postage vendor; 2) MEA payments issued to the Metropolitan Transportation Authority (MTA) and; 3) MEA payments issued to several other NYC agencies. The postage and MTA payments enable HRA to meet the critical need to provide public assistance benefits, notices and MetroCards to its clients. These payments are made at the point of purchase. The payments to other NYC agencies are for services that they provide to individual HRA clients.

Auditor's finding:

- During Fiscal Year 2015, HRA inappropriately used Miscellaneous Payment Vouchers to fund payments exceeding $11 million from its MEA account for postage and Intra-City expenditures.

Agency's Response:

- **HRA disagrees with this finding. Based on our understanding of accounting principles, we could not pay for postage in advance of its use. Therefore, we issued the postage payments against MEA at the point of purchase. Likewise, we believe that the IntraCity expenditures cited by the audit were appropriately paid via the MEA. However, we will initiate discussions with DCAS to develop an IntraCity MOU that covers the vast majority of these payments.**

During FY 2015, HRA utilized the MEA account to replenish postage meters for use at 54 agency locations. We made these purchases from the MEA account based on the need to purchase the postage prior to use of the meters. In our interpretation of fiscal guidelines, as we have discussed in our prior responses, we are paying for a good at the point of purchase; this is a payment in advance and may result in a purchase in one fiscal year for expenses recognized in a subsequent fiscal year. Therefore, we use the MEA account for the point of purchase payment and voucher the expense in FMS via Miscellaneous Payment Vouchers (MPV) once the postage is used. If the Comptroller's Office provides written authorization that such payments against FMS can be made at the point of purchase, HRA will cease using the MEA account for such purchases and process these payments through a PON1 purchase order. However, we respectfully request that the Comptroller's Office remove this finding. While HRA, with written authorization from the Comptroller's Office, will agree to move to another purchase vehicle, these expenditures are not inappropriate or unsupported. Our use of the MPV document was based on our interpretation of accounting principles, which appear to be in contradiction with the Comptroller's guidance in this audit.

With regards to the 923 Intra-City payments totaling $829,536, the payments were made mostly on behalf of HRA's clients, as follows:

- 826 payments totaling $796,631 were issued to DCAS to support the fingerprinting of our public assistance clients who are being placed in employment. These payments are issued for the benefit of clients as part of their public assistance pass-through and therefore are tied back to their individual client's transactional needs.
- 57 payments totaling $513 were made to the City Clerk to support fingerprinting services provided to HRA's clients.
- 24 payments were issued to the Department of Finance (DOF), most of which were utilized to replenish HRA bank accounts that DOF manages.
- Seven (7) payments totaling $11,641 were made to the Buildings Department for the filing of building permits and related items for HRA facilities.

These expenditures were all small, time-sensitive transactions that are an appropriate use of the MEA account as per the account's stated purpose. HRA will take under advisement the recommendation to move the DCAS fingerprinting expenditures to an Intra-City Agreement. However, based on the small volume and unpredictable nature of the other expenses, and Intra-City agreement is not practical. We request this finding be removed.

Auditor's finding:

- HRA processed 23 EFTs totaling $4,826,095 for bulk purchases of MetroCards through the MEA account in Fiscal Year 2015.

Agency's Response:

- **HRA disagrees with this finding. Based on our understanding of accounting principles, we could not pay for MetroCards in advance of their use. Therefore, we issued the MetroCard payments against MEA at the point of purchase.**

MetroCards provide critical, and statutory mandated, transportation assistance to HRA's clients. They are distributed at HRA program locations, most significantly at the many Job Centers and Medicaid and Food Stamp offices. Prior to the advent of the MetroCards, client transportation was initially paid through the individual SIF accounts. Centralizing the MetroCard purchasing process allowed HRA to reduce SIF capitalizations and minimize HRA's exposure to cash shortages at the locations. Furthermore, MetroCards can be ordered and delivered to a host of HRA program sites in a timely basis. It is possible to issue payment via FMS vouchers (with delivery overrides) directly to the MTA at the point of MetroCard purchase. However, as discussed above in relation to postage, such a practice would provide a payment in advance of the MetroCard's actual utilization, which HRA interprets to be in conflict with accounting principles and prior guidance. HRA will address the question of issuing payments at the point of purchase if authorized, in writing, by the Comptroller's Office to take such action. However, we respectfully request that the Comptroller's Office remove this finding. Again, while HRA, with written authorization from the Comptroller's Office, will agree to move to another purchase vehicle, these expenditures are not inappropriate or unsupported. Our use of the MPV document was based on our interpretation of accounting principles, which appear to be in contradiction with the Comptroller's guidance in this audit. Further, we find no specific guidance on MPVs and the purchase of MetroCards.

INAPPROPRIATE USE OF THE MEA ACCOUNT AS AN IMPREST FUND - page 11

Auditor's finding:

- The auditor on page 11, last paragraph, states; "Rather, our review found that HRA used the MEA satellite account to make imprest fund-type payments even when the account balances were 0)".

Agency's Response:

- **HRA disagrees with this finding. The satellite account is a disbursement account that is part of the HRA pool system and should always maintain a zero balance.**

Note that the satellite account is simply a disbursement account and, as such, should always maintain a zero balance. This account is a part of the HRA pool system. Therefore, a zero balance in the account is not an indication of the availability of funds.

Furthermore, the auditor states; "It then processed payment requests, after-the-fact, to allocate funds from the City Treasury pool account to cover the payments from the MEA satellite account". This is inaccurate. The funds used to cover the payments from the satellite account do not come from the City Treasury Pool account. These funds come from the HRA Pool account. This is a daily process handled by the bank. As checks/EFTs are cleared during the day through the Satellite account, funds are transferred from the HRA pool account to settle disbursements. This explains the presence of zero balance in the satellite account. At the end the month a book balance report is prepared using the Check Register, the bank reconciliation from the previous month, the Cashpro (Bank of America Application) to verify all the transactions that occurred during the month, the cancellation memos, the Cash Management report (DOF) and other related documents. Upon completion of the book balance report, it is then sent to the bank reconciler who verifies all the items that affected the account in detail. All these reports (bank reconciliation and Book balance reports) are sent to the Comptroller's office at the end of the fiscal year as a requirement set by the Comptroller's Office in the Fiscal Year end Closing Manual. In addition, the Accountability Report is also prepared for the IFA and sent to the Comptroller's Office. It is worth noting that during all these years, HRA has never been contacted regarding the way we handle certain transactions even though these reports are sent to Comptroller's Office every year.

At the end the month a book balance report is prepared using the Check Register, the bank reconciliation from the previous month, the Cashpro (Bank of America Application) to verify all the transactions that took place during the month, the cancellation memos, the Cash Management report (DOF) and other related documents. Upon completion of the book balance report, it is then sent to the bank reconciler who verifies all the items that affected the account in detail. All these reports (bank reconciliation and Book balance reports) are sent to the Comptroller's office at the end of the fiscal year as a requirement set by the Comptroller's Office in the Fiscal Year end Closing Manual. In addition, the Accountability Report is also prepared for the IFA and sent to the Comptroller's Office. It is worth noting that during all these years, HRA has never been contacted regarding the way we handle certain transactions even though these reports are sent to Comptroller's Office every year.

The vouchering process through FMS (and the City's Treasury account) takes place after payments have been made and HRA is in possession of all the receipts and necessary documentation. The processing of vouchers represents a way to replenish the account and the funds are actually allocated from a given budget code via City Treasury pool account. This process is to ensure that expenditures are not recorded in FMS without the proper and required documentation.

As discussed several times in our responses above, the MEA is currently utilized to pay IFA eligible payments when the latter has been shut down.

Please refer to our response to the Auditor's finding relating to "MEA Account Not Used in Accordance with Its Authorized Purpose" for additional information on the processing of IFA-eligible payments when the IFA account is closed.

PAYMENTS OUTSIDE THE AUTHORIZED LIMITS FOR THE MEA ACCOUNT – page 12

Auditor's finding:

- HRA failed to ensure all MEA expenses were within the prescribed limits... Specifically, we found 227 SIF replenishment checks, totaling $22,732, that were below the $250 minimum, and nine checks, totaling $1,631,716 that were above the $50,000 limit.

Agency's Response:

- **HRA disagrees with this finding. The 227 payments cited were issued from the MEA account either (a) during the period when the IFA account was closed; or (b) consisted of client-related payments which are not IFA eligible.**

With regards to the appropriateness of using the IFA or MEA accounts, please refer to our response to the finding on the "MEA Account Not Used in Accordance with Its Authorized Purposes". To reiterate, 67 of the cited payments were issued during the period when the IFA was closed and 160 payments were client-related, and thus, were properly paid against the MEA.

Therefore, HRA disagrees with the finding as it relates to payments below $250 limit.

With regard to the more than $50,000 payments, these items were all related to the purchase of postage from the USPS or our commercial postage meter vendor. While we acknowledge that these purchases exceeded the limit, we must recognize HRA's public assistance mandate that requires the prompt access to a large quantity of postage. To support its vital functions, such as issuing client notifications, HRA uses bulk and metered mail. Thus, the receipt of specific orders as large as $350,000 is necessary adequately supported and appropriate.

Further in our interpretation of fiscal guidelines, as we have discussed in our prior responses, we are paying for a good at the point of purchase; this is a payment in advance and may result in a purchase in one fiscal year for expenses recognized in a subsequent fiscal year. Therefore, we use the MEA account for the point of purchase payment and voucher the expense in FMS via Miscellaneous Payment Vouchers once the postage is used. If the Comptroller's Office provides written authorization that such payments against FMS can be made at the point of purchase, HRA will cease using the MEA account for such purchases and process these payments through a PON1 purchase order.

INAPPROPRIATE USE OF FUNDS TO COVER NEGATIVE ACCOUNT BALANCE – pages 12-13

Auditor's finding:

- HRA operated the MEA account with a negative balance for much of Fiscal Year 2015. Rather than pre-encumbering funds for its MEA expenditures, HRA caused funds that were allocated for other purposes to be drawn from its Treasury 'pool' account to cover its MEA expenditures. As a result, payments for goods and services were made with funds that had not been allocated for these purposes.

Agency's Response:

- **HRA disagrees with this finding. The negative balance identified here is not evidence of the mismanagement of funds. Rather this normally occurs when the payments issued against the MEA account cannot be immediately vouchered against FMS to replenish the account.**

The MEA is not a contract. Therefore, we cannot pre-encumber funds to be vouchered for future expenditures.

Furthermore, the Bank Opening Letter signed by the DOF Deputy Commissioner, clearly states that "This account is part of the cash management arrangement under which we (DOF) have authorized the bank to offset temporary overdrafts against positive balances in other accounts" .This means that in the event we ever have a negative balance in the MEA account, we are still authorized to issue checks/EFT against the account.

This account was created by the DOF. As such, there are certain guidelines governing the operation of the bank that were established and that HRA must follow. Also, it is equally important to note the MEA is a part of the HRA Management Pool.

In addition to the above, the negative book balance stems from two causes:

1) The need for BAP to receive proper and complete documentation of all payments issued against the MEA and ensuring that the items have been spent before vouchering them against FMS to replenish the fund. In order to maintain proper accountability, BAP will only voucher MEA funded items against FMS when all of these requirement have been met; to do otherwise would not be fiscally responsible.

2) Such transaction types as training involve situations the application costs must be provided in advance of the actual training or where the actual course lasts over a period of time. These items cannot be vouchered against FMS until the courses have been completed and the employees' attendance verified.

Auditor's finding:

- "In sum, by maintaining two separate MEA accounts for more than five years and using one to plug a deficit in the other, HRA failed to adhere to its stated purpose and rationale..."

Agency's Response:

- **HRA disagrees with this finding. We did not at any point use both accounts to plug deficits nor did we fail to adhere to the stated purpose of the account.**

A new account was opened with Bank of America (BOA) for the MEA in 2009, after HRA entered into a new contract with a new vendor, BOA. The operation of the MEA remained with Chase bank several years thereafter because BOA could not accommodate HRA's operational needs with respect to electronic funds transfer and check specifications. In September 2012, the issues were thought to be totally resolved and as a result HRA anticipated the account being activated. Consequently, $738,887.40 was deposited to BOA account. Unfortunately, the systems issues between HRA and BOA remained unresolved and BOA MEA account was never available for use. In August 2014, rather than leaving the aforementioned deposit in an inactive account, HRA transferred the funds to the active account at Chase.

Furthermore, the report states that HRA vouchered for replenishment of the BOA MEA for expenses related to the HASA Rent Cap program. This is incorrect. Please note that at the time (8/7/2014) when this voucher was issued, the BOA MEA account was not operational. The replenishment was mistakenly recorded to the BOA MEA by DOF instead of the HRA pool account. Again at the time of posting, the BOA MEA account was totally inactive.

SPLIT PURCHASES EXCEEDING THE $250 LIMIT FOR THE IMPREST ACCOUNT – page 13

Auditor's finding:

- After voiding a $585 check drawn from the MEA account for an employee-training expense, HRA replaced it with three checks of $195 each from the Imprest account.

Agency's Response:

- **HRA disagrees with this finding. The program authorized payment for training for six (6) individuals, each of which eligible to paid by IFA because they were less than $250. The audit misinterpreted the single request to mean that one MEA payments should have been issued.**

These three (3) items concerned the payment of training costs for six (6) employees, each of which was less than the IFA $250 limit. The HRA program authorized the training on one memorandum, although the request was for separate individuals, for whom separate attendance records were required. The auditors interpreted this to mean that a single MEA payment should have been issued since the payments were authorized by one memo and totaled more than $250. However, while the memorandum was one request, we correctly issued separate payments via the IFA account. In order to prevent a repetition of such a situation, HRA will direct the submitting programs to limit their training authorization memos to, wherever practical and appropriate, individual employees; this action will also expedite the vouchering of these actions against FMS, since we would not have to wait until the documentation of all trainings funded by the check are received.

IMPREST ACCOUNT EXPENDITURES NOT ADEQUATELY SUPPORTED – page 13

Auditor's finding:

- HRA did not ensure that all of its imprest account expenditures were adequately supported as required. As a result, we could not determine whether these expenditures were reasonable and appropriate. Of 65 sampled Imprest payments made in June 105, 16 (25%) totaling $2,161 were not adequately supported with at least one of the documents as stated in HRA's own advance funding guidelines.

Agency's Response:

- **HRA disagrees with this finding.**

Based on our review, 15 of the 16 cited payments was supported by one or both of the authorization documents (authorization memo or FIN-7), as well as appropriate receipts.

Auditor's finding:

- HRA issued three checks totaling $603 supported by receipts that were dated after the date of the events. Further, HRA issued two checks in the amount of $240 that were supported with duplicated receipts.

Agency's Response:

- **HRA disagrees with the one exception noted above, as these five (5) items are part of the 16 identified in the finding above. In two (2) of the three (3) instances cited, the responsible HRA program areas held their events on a date later than the date indicated on their original funding request memo. The receipts provided coincided with the actual date of the event.**

The auditor's cited three (3) instances where three (3) checks totaling $603 were supported by receipts after the date of the event. We disagree with this finding.

- In two (2) of the three (3) instances cited, the responsible HRA program areas held their events on a date later than the date indicated on their original funding request memo. In one (1) of these instances ($171), the event was originally scheduled for June 15, 2015 but was actually held on June 30, 2015, which is the date on which the receipt was obtained. In the second instance ($228), the event was originally scheduled for June 19, 2015 but was actually held on June 22, 2015, which is also the date on which the receipt was obtained.
- In the third instance ($204), only one of the receipts, for a mere $3.12, had a date of July 1, 2015 but the event was held on June 30, 2015. Please note that the vendor in this case was a 99-cent store, and it is likely that there was a date-stamp error in the vendor's machine.

Going forward, in the rare situation where the events are held on a date other than indicated on the request, we will ensure that the responsible HRA program area informs us of such date changes – and - that it is clearly noted on the supporting documents.

The auditors also cited two (2) checks totaling $240 that were supported by duplicated receipts. We agree with this finding. This concerns two payments in the amount of $120 each that were issued to two different programs within the same responsibility center that held their events one day apart - and requested funding in the same amount of money (i.e., each program had the same number of attendees, but different individuals, for their respective events). The program area submitted one receipt, and then provided the same receipt for the second event, in error.

HRA has already implemented a technological solution that will prevent this from happening.

IMPROPER CODING OF ACCOUNTS – page 14

Auditor's finding:

- HRA improperly coded the MEA bank account as an imprest fund on its annual Active Agency Bank Account filings with the Comptroller's Office. As noted, although HRA administered the MEA account indistinguishably from an imprest fund account in some respects, it is not an imprest fund because it was established to enable HRA to make expenditures that exceed the $250 limit for an imprest fund account established by Comptroller's Directive 3.

Agency's Response:

- **HRA agrees that the accounts were erroneously miscoded on a document; however this was a clerical error. It should not be interpreted as a misrepresentation of the operation.**

HRA disputes the fact that it has ever represented the MEA and Employee Expense (EEA) Accounts to be imprest funds. HRA will correct the clerical error on the NYC active agency bank account form.

Auditor's finding:

- Finally, we found that HRA did not file the required New York City Incentive and Recognition Program Report of Activities forms with DCAS as required under DCAS's Agency Guidelines for Incentive Programs for HRA's employee incentive events.

Agency's Response:

- **HRA agrees with the finding. Agency reached out to DCAS and obtained the appropriate form and email address it should be sent to. Agency will begin submissions in April 2017.**

The following section responds to Page 15 of the draft report, which outlines the draft recommendations.

RESPONSES TO RECOMMENDATIONS

1. Recommendation #1 – "Establish proper controls and independent oversight to (a) prevent the disbursement of checks and EFTs that are not in compliance with the authorized purpose of the MEA account; and (b) prevent expenditures from the account outside of pre-established monetary limits."

HRA disagrees.

HRA currently has in place the proper controls that prevent payments that are not in compliance with the authorized purpose of the MEA account. HRA was in compliance with all applicable internal procedures and our interpretation of unclear Comptroller's Directives. In situations where SIF related payments were made through the MEA account when the latter is shut down; based on the Comptroller's recent clarification of Directive #3 HRA will in the future issue payments from the IFA during the City–wide closeout exercise. Beyond this situation, those less than $250 payments that are issued through MEA are authorized, client related, payments that cannot properly be funded through the IFA account. Further, if the Comptroller provides HRA with written authorization to voucher at the point of purchase, the over $50,000 issuances would be eliminated.

2. Recommendation #2 – "Ensure that all expenditures are adequately supported all expenditures are adequately supported in accordance with applicable rules, Comptroller's Directives, and agency policies and procedures"

HRA disagrees.

HRA believes that our expenditures are adequately supported in accordance with the applicable rules. If the Comptroller's Office provides written authorization that such payments against FMS can be made at the point of purchase, HRA will cease using the MEA account for such purchases and process these payments through a PON1 purchase order. We will work with the Comptroller's office for implementation.

3. Recommendation #3 – "Strengthen its policies and procedures to expressly and unambiguously require that any advance funding or reimbursement of expenditures for employee-recognition events and other agency purposes must be adequately supported with specified documentation"

HRA disagrees.

Expenditures are adequately supported with documentation. Of the Comptroller's 19 items cited, our review indicates the presence of adequate documentation for 18 items.

4. Recommendation #4 – "Update and Replace Agency Bank Account Request Form , inaccurate Agency Bank Account Request form with a new, authoritative document that clearly delineates all authorized purposes and uses of the MEA account "-

HRA partially agrees.

The current filing accurately describes the MEA account purpose. We will however, update the Agency Bank Account Request with a new, authoritative document that more clearly delineates all authorized purposes and uses of the MEA account. It will include the appropriate monetary limits and a list of prohibitions and provide a copy to the New York City Department of Finance.

5. Recommendation #5 – "Review practice of using the MEA Account for Large Recurring Purchases of goods and services, such as postage and ensure compliance with Comptroller's Directive #3"

HRA partially agrees.

If the Comptroller's Office provides written authorization that such payments against FMS can be made at the point of purchase, HRA will cease using the MEA account for such purchases and process these payments through a PON1 purchase order. We will work with the Comptroller's office for implementation.

6. Recommendation #6– "Review the validity of using the MEA account for Intra-City expenditures and ensure that any such expenditures comply with applicable rules and directives, including Comptroller's Directive #24 "

HRA partially agrees.

As these expenditures were all small, time-sensitive transactions that are an appropriate use of the MEA account as per the account's stated purpose. HRA will take under advisement the recommendation to move the DCAS fingerprinting expenditures to an Intra-City Agreement. However, based on the small volume and unpredictable nature of the other expenses, an Intra-City agreement is not practical.

7. Recommendation #7– "Cease HRA's practice of using its MEA and Imprest accounts interchangeably; implement controls to restrict the use of all agency administered accounts to their authorized purposes and monetary limits, and ensure that all such uses are consistent with applicable Comptroller's Directives"

HRA disagrees.

HRA currently does not use the MEA and IFA accounts interchangeably and, in most instances, complies with the authorized monetary limits; except for situations, as noted in our response to Recommendation #1, where MEA payments were issued when the IFA account is closed down, the segregation in these payments is firmly and consistently maintained. HRA however, will cease to issue IFA checks through the MEA during the time when the IFA Accountability Report is being prepared, as per a clarified instruction received on March 2, 2017 from the Comptroller's Office Bureau of Accountancy. (The issue regarding the over $50,000 payments is addressed in our response to Recommendations 1 and 4.)

8. Recommendation #8– "Determine the causes for the chronic negative book balances incurred in the MEA account and take the necessary steps to voucher for all MEA expenses and ensure adequate funding is in the available account "

HRA disagrees.

The cause of these negative balances is known. HRA initiates the FMS vouchering based on the required supporting documentation demonstrating the expenditure. As part of the cash management arrangement under which DOF has authorized the bank to offset temporary overdrafts against positive balances in other accounts, the presence of a negative book balance is not evidence that adequate funding is unavailable. Further this occurrence can be most effectively remedied if the Comptroller's Office permits HRA to voucher these items immediately upon purchase. As stated previously in our responses, HRA will require written authorization from the Comptroller's Office to effectuate this action.

9. Recommendation #9– "Review and assess the use of its two existing MEA accounts(the original MEA account and the MEA account opened in 2009) and determine if the agency has a continuing justifiable need for either of them, taking into account the policy expressed in the current version of Comptroller's Directive #11, that every effort should be made to discontinue the use of such accounts and account for the funds using the City's Financial Management System"

HRA disagrees.

As part of a new banking services contract with Bank of America, a new MEA account was established in 2009. HRA experienced electronic fund transfer and check specification problems with the new account. HRA continued to utilize the existing Chase MEA while these issues were being resolved. This was necessary to ensure critical services to clients were not disrupted. Further, a request to close the Chase MEA was forwarded to the Department of Finance earlier this month. We continue to assert that the MEA is used appropriately.

10. Recommendation #10– "Cease practice of splitting purchases to circumvent the $250 limit allowed for individual imprest fund expenditures and impose adequate controls to ensure that split purchases are not made going forward."

HRA disagrees.

These three (3) items concerned the payment of training costs for six (6) employees, each of which was less than the IFA $250 limit. The HRA program authorized the training on one memorandum, although the request was for separate individuals, for whom separate attendance records were required. The auditors interpreted this to mean that a single MEA payment should have been issued since the payments were authorized by one memo and totaled more than $250. However, while the memorandum was one request, we correctly issued separate payments via the IFA account. In order to prevent this confusion for the Comptroller's office in the future, HRA will update our internal procedures to instruct staff to provide individual requests for training and not batch such requests.

11. Recommendation #11– "Review all active bank accounts to ensure the proper classification of account codes and inform the Comptroller's Bureau of Accountancy of any changes"

HRA agrees.

The NYC active agency bank account will be updated to correct that clerical error. The Comptroller's Bureau of Accountancy will be informed accordingly. HRA did not systematically misrepresent the operation of this account.