

AUDIT REPORT

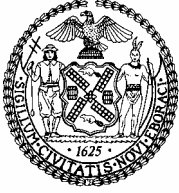


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Use of Procurement Cards By the Department of Transportation

MH05-071A

June 2, 2005



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

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has audited the use of procurement cards by the Department of Transportation (DOT). The audit determined whether DOT had adequate internal controls over the use of procurement cards.

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

Audits such as this provide a means of ensuring that DOT has adequate internal controls over the use of procurement cards and that City funds are used appropriately and in the best interest of the public.

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

Very truly yours,

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

William C. Thompson, Jr.

WCT/fh

Report: MH05-071A
Filed: June 2, 2005

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

**Audit Report on the
Use of Procurement Cards
By the Department of Transportation**

MH05-071A

AUDIT REPORT IN BRIEF

The audit determined whether the Department of Transportation (DOT) had adequate internal controls over the use of procurement cards.

Audit Findings and Conclusions

DOT has monetary restrictions for cardholders, maintains a monthly log of purchases by cardholders, pays credit card bills within the contractually stipulated timeframe, and sanctions unauthorized or inappropriate use of procurement cards. However, based on the weaknesses we identified, we concluded that DOT has inadequate internal controls over its use of procurement cards. These weaknesses include:

- Lack of documentation to support pre-approval of purchases.
- Additional pre-approvals not obtained for 21 (64%) of the 32 purchases requiring them.
- Lack of receipts and receiving reports to verify cost and receipt of purchases.
- Lack of inventory records for purchases of equipment.
- Inadequate segregation of duties among persons responsible for purchasing and for receiving of goods.
- Improper purchase of items available through DCAS (Department of Citywide Administrative Services) Requirements Contracts or the Central Storehouse.
- User Agreements not on file for five (9%) of the 58 cardholders.
- Purchases split to avoid exceeding the \$2,500 per purchase limit.
- Lack of procurement card training for cardholders.
- Purchases not tracked to determine purchasing patterns.

Audit Recommendations

We make 11 recommendations, including the following.

DOT should:

- Include in its guidelines that written pre-approval from a supervisor is required for all purchases.
- Ensure that cardholders obtain additional pre-approvals from Deputy Commissioners or other specified department heads when required.
- Maintain inventory records of equipment purchased with procurement cards. In addition, such items should be tagged, and a physical inventory should be conducted periodically.
- Segregate the duties of purchasing and receiving goods by assigning different employees to those tasks.
- Ensure that all cardholders read and sign an agreement prior to receiving a procurement card.
- Provide cardholders and their supervisors with training in the use of procurement cards.

INTRODUCTION

Background

The mission of the Department of Transportation is to provide for the safe, efficient, and environmentally responsible movement of people and goods in New York City. DOT manages much of the City's transportation infrastructure, including streets, highways, sidewalks, and bridges. Its responsibilities include oversight of street signs, traffic signals, street surfaces, parking meters, municipal parking facilities, and the Staten Island Ferry.

In mid-2001, DOT began using procurement cards on a limited basis as part of a pilot program. A procurement card is a credit card that can be used by agency personnel to make small purchases up to \$2,500 per purchase. The primary benefits of procurement cards are user convenience, the elimination of some steps required by the City's traditional procurement processes, and a reduction in the internal paperwork needed to support a purchase and its payment. Vendors also benefit by speedier payment and reduced transaction costs. DOT has a contract with and uses American Express (Amex) for its procurement card program.

In June 2001, the Comptroller's Office issued Comptroller's Memorandum 01-1, *Guidelines for the Use of Procurement/Purchasing Cards* to facilitate the appropriate use of procurement cards and to establish internal control policy. DOT also issued its own *Procurement Card Guidelines*.

As of August 13, 2004, DOT had 58 procurement card holders, each of whose total purchases was limited to \$3,000–\$20,000 a month. DOT procurement card purchases included those of computer equipment and supplies, office supplies, newspaper subscriptions, and tools. Its procurement card purchases totaled approximately \$1.3 million in Fiscal Year 2004, up from approximately \$950,000 in Fiscal Year 2003.

Objective

The objective of this audit was to determine whether DOT has adequate internal controls over the use of procurement cards.

Scope and Methodology

The scope period of the audit was Fiscal Year 2004 procurement card purchases.

To gain an overall understanding of the DOT Procurement Card Program, we reviewed and used as criteria, Comptroller's Memorandum 01-1, *Guidelines for Use of Procurement/Purchasing Cards*, Comptroller's Directive 1, *Principles of Internal Control*, the DOT *Procurement Card Guidelines*, and the DOT *Audit of the Procurement Card Program*. In

addition, we interviewed several DOT officials responsible for overseeing the procurement card program as well as three of the 58 DOT procurement card holders.

To determine whether only authorized card holders are using the procurement card and whether they are aware of the rules and regulations, we obtained a current list of procurement card holders as of August 2004 and compared the names on the list with the names of users on the July 2004 Amex card statement. We also looked at DOT files to see that all cardholders had completed and signed a Cardholders' User Agreement.

We examined all DOT Fiscal Year 2004 Amex statements to determine whether the bills were paid on time, whether any purchases were above the individual or monthly purchase thresholds, and whether any purchases were split to circumvent the purchasing threshold.

We judgmentally selected the month of June 2004 (appearing on the July 6, 2004 Amex statement) and examined each purchase made during that period. The period was selected because it showed the most cardholder activity with the highest dollar amount of purchases made during Fiscal Year 2004. We reviewed all of the 235 procurement card purchases made by 44 cardholders in June 2004 which totaled \$132,105. We tested whether the purchases were approved, additional authorizations were obtained for those that needed them, whether receiving reports and receipts were present and matched the charge on the credit card statement, and whether purchased items were available through the Department of Citywide Administrative Services (DCAS) Requirements Contracts or from the Central Storehouse.

We obtained the monthly logs of procurement-card purchases maintained by DOT to determine whether there were purchasing patterns. We sorted the purchases on the logs by vendor for the entire fiscal year. In addition, for the June 2004 log, we reviewed each purchase by type of item purchased to determine whether similar items were purchased multiple times.

To determine whether equipment purchased was received and used by DOT, we requested an inventory listing from DOT. We found that DOT does not maintain an inventory of equipment purchased with the procurement card. We then judgmentally selected five purchases of equipment made during June 2004. Those items consisted of laptops and printers. Accompanied by the head of the Management Information Systems (MIS) department, we attempted to find and account for those items.

The results of the above test, while not projectable to the entire population of Fiscal Year 2004 procurement card purchases, provided a reasonable basis for us to determine whether DOT has adequate controls over the use of procurement cards.

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

Discussion of Audit Results

The matters covered in this report were discussed with DOT officials during and at the conclusion of this audit. A preliminary draft report was sent to DOT officials and discussed at an exit conference held on April 11, 2005. On April 15, 2005, we submitted a draft report to DOT officials with a request for comments. We received a written response from DOT officials on May 3, 2005. In their response, DOT officials agreed with 10 recommendations and disagreed with the remaining recommendation (recommendation #1). In addition, DOT disagreed with our conclusion that DOT's internal controls over the procurement cards are inadequate and stated that "the current system of internal controls, taken as a whole, is adequate for this program."

Our conclusion that DOT's internal controls are inadequate is based on the combination of weaknesses found: the lack of written pre-approvals and of additional required approvals; the lack of receipts and receiving reports; the lack of segregation of duties between the purchasing and receipt of goods; the lack of inventory records; and the lack of training. We therefore concluded that DOT internal controls are inadequate. DOT should strengthen these internal controls to ensure the success of the program.

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

FINDINGS AND RECOMMENDATIONS

Based on our testing, we found that DOT has monetary restrictions for cardholders, maintains a monthly log of purchases by cardholders, pays credit card bills within the contractually stipulated timeframe, and sanctions unauthorized or inappropriate use of procurement cards. However, based on the weaknesses we identified, we concluded that DOT has inadequate internal controls over its use of procurement cards. These weaknesses include:

- Lack of documentation to support pre-approval of purchases.
- Additional pre-approvals not obtained for 21 (66%) of the 32 purchases requiring them.
- Lack of receipts and receiving reports to verify cost and receipt of purchases.
- Lack of inventory records for purchases of equipment.
- Inadequate segregation of duties among persons responsible for purchasing and for receiving of goods.
- Improper purchase of items available through DCAS Requirements Contracts or the Central Storehouse.
- User Agreements not on file for five (9%) of the 58 cardholders.
- Purchases split to avoid exceeding the \$2,500 per purchase limit.
- Lack of procurement card training for cardholders.
- Purchases not tracked to determine purchasing patterns.

Overall, DOT officials are enthusiastic about the procurement card program. They stated that the cards have made the purchase of small items less cumbersome and have saved them time in obtaining the purchases. As a result, they are planning to expand the program. To ensure the success of the program, DOT needs to strengthen its internal controls and provide training to all its current and future cardholders, as well as to their supervisors. Everyone involved in this program must have an understanding of the rules and regulations established in Comptroller's Memorandum 01-1 and DOT guidelines.

The following sections of the report detail the weaknesses found.

Inadequate Documentation

Weak Controls over Pre-Approval of Purchases

There was no evidence that the 31 DOT supervisors pre-approved the 235 purchases totaling \$132,105 made by 44 cardholders during June 2004. Although the DOT Procurement Card Guidelines state, "Purchases will be made only after getting prior approval from the cardholder's supervisor," DOT guidelines do not require written pre-approval. Therefore, there was no evidence that these purchases were in fact pre-approved. Requiring pre-approval of purchases is a control technique that can prevent cardholders from making fraudulent and improper purchases. Prepurchase requests signed by a supervisor would provide DOT with documentation that purchases were pre-approved.

In addition, DOT requires cardholders to fill out a Purchase Summary Sheet that lists all purchases made in a month. At the end of each month, the Summary Sheet, along with receiving reports, invoices, and the credit-card statement, are forwarded to the cardholder's supervisor so that all purchases on the credit card statement can be reconciled to the summary sheet and accompanying receiving reports and invoices.

The Purchase Summary Sheet includes a line for the supervisor to sign after reviewing the purchases. We found problems with six (14%) of the 44 summary sheets for June 2004, as follows:

- Four summary sheets with purchases totaling \$9,848 were not signed by the supervisor.
- Two summary sheets with purchases totaling \$2,261 were signed by the supervisors more than two months after the purchases were made.

Comptroller's Memorandum 01-1 states, "Agency staff independent of the card holders must conduct monthly reviews of each card holder's activity to ensure that the card is being used in accordance with the rules and procedures established by the agency."

Recommendations

DOT should:

1. Include in its guidelines that written pre-approval from a supervisor is required for all purchases.

DOT Response: "We disagree. While DOT's procedures require the pre-approval of all P-Card [purchase card] purchases, this approval may be verbal. Requiring written pre-approvals would not be efficient in that many of the P-Cardholders and their supervisors are not located in the same area."

Auditor Comment: Written pre-approval assures DOT management that the approval of the cardholder's supervisor was obtained prior to making the purchase. In addition, since DOT plans to expand the program, which will increase the volume of purchases, written supervisory approval will become even more critical to maintenance of purchasing controls.

Further, when the cardholder and the supervisor are not in the same area, an e-mail would be sufficient to document approval.

2. Ensure that supervisors are reviewing monthly purchases and documenting their review by signing and dating the Summary Sheets in a timely fashion.

DOT Response: "We agree and this has been implemented."

Additional Approvals Not Obtained

The cardholders made 32 purchases during June 2004 that required additional pre-approvals from Deputy Commissioners. The additional approvals were not obtained for 21 (66%) of the 32 purchases, contrary to DOT guidelines. The guidelines state that for purchases of furniture; clothing; training, seminars or conferences; computer equipment; telephone and communication equipment; security equipment; portable or mobile radios; televisions; video-cassette recorders; refrigerators; microwave ovens; subscriptions; and membership dues or food purchases; additional pre-approvals should be attached to the receiving report. Table I, on the following page, identifies the types of purchases made by the DOT cardholders during June 2004 that required additional pre-approvals at the Deputy Commissioner level or by other specified department heads.

Table I

Types of Purchases That
Required Additional Approvals

Type of Purchase	Number of Purchases	Total Dollar Amount of Purchases
Training	2	\$1,295
Computer equipment	3	\$4,958
Cameras	3	\$3,710
Subscriptions	6	\$1,550
Membership dues	1	\$87
Food	6	\$1,146
TOTAL	21	\$12,746

According to DOT officials, these purchases require a second pre-approval for the following reasons: training requires a second pre-approval because it may require out-of-town travel; computer and digital camera purchases require a second pre-approval to ensure that the purchases are necessary and are compatible with the existing computer system; subscriptions require a second approval to prevent duplication of subscriptions within the same department; membership dues require a second approval to ensure that employees are affiliated only with appropriate organizations; and food requires a second pre-approval to ensure compliance with allowable expenditures as described in Comptroller's Directive #6 *Travel, Meals, Lodging and Miscellaneous Agency Expenses*.

Recommendation

3. DOT should ensure that cardholders obtain additional pre-approvals from Deputy Commissioners or other specified department heads when required.

DOT Response: “We agree and as a result of our internal audit a check-off column indicating that the pre-approvals have been obtained has already been added to the purchase logs.”

Lack of Receipts and Receiving Reports

Receipts (i.e., invoices) and receiving reports were not present to support all purchases made. We identified 24 (10%) purchases totaling \$7,447 out of the 235 purchases in which a receipt for the purchase was missing. The DOT Procurement Card Guidelines state, “Receipts should be attached to each Receiving Report. If a receipt is not available, e.g., because the order was placed over the internet or the telephone or for any other reason, a note indicating the reason it is missing should be attached to the Receiving Report.” We found no notes attached to the receiving reports to explain why receipts were not present. In addition, Comptroller’s Memorandum 01-1 states, “All receipts and charge slips should be maintained on file and be available to vouchering personnel.” Receipts verify that the items were purchased and their cost.

In addition, 17 (7%) purchases totaling \$2,841 of the 235 purchases lacked a receiving report. The receiving report is an internal document that is signed and dated when goods or services are received. The individual signing the receiving report certifies that the material specified has been received and that the correct quantities have been delivered.

Moreover, six of the above purchases totaling \$4,460 lacked both receipts and receiving reports. Without receipts and receiving reports, we cannot identify what was purchased, the itemized cost, or whether the items were actually received.

Recommendation

4. DOT should ensure that cardholders comply with its guidelines to submit receipts and receiving reports for all purchases. If a receipt is not available, a note indicating the reason it is missing should be attached to the receiving report.

DOT Response: “We agree.”

Lack of Inventory Records For Purchases of Equipment

DOT does not maintain inventory records for equipment purchased with the procurement card. During Fiscal Year 2004, DOT employees used procurement cards to purchase portable equipment that can be easily converted to personal use. For example, in June 2004 cardholders purchased two laptop computers, seven printers, 10 digital cameras, one digital camcorder, four palm pilots, and one shredder. These items totaled \$12,990 (10%) of the total purchases made in June 2004.

Comptroller's Directive 1 states, "An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, computers, and other equipment, which might be vulnerable to risk of loss or unauthorized use. Periodic counting and comparison to control records for such assets is an important element of control of these assets."

We attempted to find two laptops and three printers that were purchased by procurement cardholders during June 2004. However, since DOT does not keep an inventory listing and does not tag the equipment, we could not determine whether the equipment shown to us was the actual equipment purchased with the procurement card. When equipment is not inventoried, thefts may occur and go undetected, equipment may be disposed of improperly, and duplicate equipment may be unnecessarily purchased.

Recommendation

5. DOT should maintain inventory records of equipment purchased with procurement cards. In addition, such items should be tagged, and a physical inventory should be conducted periodically.

DOT Response: "We agree that certain items should be inventoried. For example, the department has an inventory listing of all laptop computers which includes model and serial number, assignee, etc."

Lack of Segregation of Duties between Purchasing and Receipt of Goods

We found that 112 of the 214 receiving reports were signed by the same cardholder who made the purchases. Comptroller's Directive 1 states:

"Key duties and responsibilities need to be divided or segregated among different staff members to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

Someone other than the cardholder should be responsible for the receipt and acceptance of the purchases. This practice would strengthen internal purchasing controls by segregating the duties of ordering and receiving items.

Recommendation

6. DOT should segregate the duties of purchasing and receiving goods by assigning different employees to those tasks.

DOT Response: “While we agree with the intent of this recommendation, there are some locations where the segregation of duties is not always possible. Supervisory reviews will serve as a compensating control.”

Cardholders Improperly Bypassed DCAS Requirement Contracts and Central Storehouse

Twenty-five (11%) of the 235 purchases made during June 2004 were available on DCAS Requirements Contracts or from the Central Storehouse but were purchased from non-contracted vendors. The purchases were made by 13 cardholders for a total of \$12,648 (10%) of the total purchases made during June 2004. Items purchased included paper shredders, air conditioners, wrist-rests, mouse pads, mops, buckets, soap, bleach, glass cleaner, batteries, glare-filter screens, and caulking. Those purchases were made contrary to Comptroller’s Memorandum 01-1 and to the DOT Procurement Card Guidelines, which state that procurement cards cannot be used to acquire items that are available from DCAS Requirements Contracts, open market price agreements, or the Central Storehouse.

DOT officials said that cardholders are likely to use the procurement card to purchase items that are available from Requirements Contracts or the Central Storehouse because the delivery time for the purchase card purchases is much shorter. Unless the items are needed for emergency situations, DOT may be buying items at higher cost and lower quality by purchasing from a non-contracted vendor. Additionally, delivery time is not an acceptable rationale for not using a Requirements Contract.

Recommendation

DOT should:

7. Add a check-off column to the Purchase Summary Sheets to document that DCAS Requirements Contracts and Central Storehouse were checked before the purchase was made.

DOT Response: “We agree and a check-off column has already been added in response to the recommendation in our internal audit report.”

User Agreements Were Not on File For Five Cardholders

We were unable to find User Agreements for five (9%) of the 58 DOT cardholders. As an authorization control, Comptroller's Memorandum 01-1 states, "It is recommended that agencies use 'cardholder agreements,' signed by the employee which detail the terms and conditions of the card assignment."

DOT officials informed us that all cardholders are required to sign an agreement prior to receiving a card. By signing the agreement, the individual is acknowledging receipt and agreeing to the conditions of the card.

We brought this matter to the attention of DOT officials on October 26, 2004. On November 10, 2004, we were provided with the agreements for the five cardholders. However, four of the five agreements were dated after October 26, 2004. Those individuals had been issued procurement cards without signing an agreement. If cardholders do not read and sign an agreement, there is no evidence that they were made aware of the terms and conditions of the card and could lead to the misuse of the card.

Recommendation

8. DOT should ensure that all cardholders read and sign an agreement prior to receiving a procurement card.

DOT Response: "We agree and have ensured that this DOT requirement has been implemented. There are now signed agreements from all cardholders in the file."

Purchases Split to Avoid Exceeding Purchase-Limit Threshold

In five instances during Fiscal Year 2004, purchases were split to avoid exceeding the \$2,500 per purchase limit. Three cardholders purchased the same items from the same vendors, either on the same day or within a one-day period. Comptroller's Memorandum 01-1 states that, agencies may not use procurement cards to split a purchase in order to circumvent the rules regarding the dollar threshold. Table II, on the following page, shows the split purchases made by the four cardholders.

Table II
Split Purchases

Date of Purchase	Vendor	Dollar Amount	Item Purchased
7/21/03	Thatford Glass	\$1,475	Custom-made glass
7/22/03	Thatford Glass	\$2,250	Custom-made glass
Total		\$3,725	
8/27/03	Afax Business Machines	\$2,603	Computer supplies
8/27/03	Afax Business Machines	\$2,603	Computer supplies
Total		\$5,206	
9/10/03	Airbill Inc.	\$1,418	Safety tees
9/10/03	Airbill Inc.	\$2,431	Safety tees
9/10/03	Airbill Inc.	\$1,322	Safety tees
Total		\$5,171	
9/16/03	MSC I	\$2,162	Tools
9/16/03	MSC I	\$225	Tools
9/17/03	MSC I	\$976	Tools
9/17/03	MSC I	\$105	Tools
9/17/03	MSC I	\$112	Tools
Total		\$3,580	
1/5/04	Humanscale Corp.	\$1,800	Monitor mounts
1/5/04	Humanscale Corp.	\$1,800	Monitor mounts
Total		\$3,600	

When we notified DOT officials of this finding, they informed us that they had sanctioned these cardholders and subsequently cancelled their cards. A careful review of those purchases by the cardholders' supervisors would have detected these split purchases.

Recommendation

9. DOT supervisors should carefully review purchases before approving them to identify possible split purchases.

DOT Response: "We agree and this has been implemented."

Other Matters

Lack of Procurement Card Training for Cardholders

Procurement card users and their supervisors do not receive any training in the use of the procurement cards. DOT has its own written procedures for the use of procurement cards; however, training would ensure that cardholders are aware of all rules and regulations. For example, training would ensure that cardholders obtain all approvals that are needed, check Requirements Contracts and check the Central Storehouse before purchasing items, and submit the required documentation for all purchases. Comptroller's Memorandum 01-1 states that agencies must ensure that cards are issued to employees who are adequately instructed in the security risks that accompany card assignments. Training would ensure that the cardholders have the appropriate knowledge and skills needed for the use of procurement cards.

In addition, DOT procurement card users work in different units throughout the agency and may not have had any previous experience with City purchasing rules; training would help those individuals with procurement card purchases.

Recommendation

10. DOT should provide cardholders and their supervisors with training in the use of procurement cards. This training should occur prior to receipt of the card, and should include periodic refresher courses.

DOT Response: "We agree and based on the recommendation in our internal audit report, all cardholders and their supervisors have already received training."

Purchases Are Not Tracked to Identify Purchasing Patterns

DOT does not track purchases to identify spending patterns. For example, we identified 97 purchases from the same electrical supply company made with the procurement card during Fiscal Year 2004 for various electrical supplies totaling \$43,583. In addition, during June 2004, DOT made 13 purchases of Hewlett Packard ink and toner cartridges, totaling \$2,849, from six different vendors. Had DOT tracked these purchases by vendors and by items purchased, it might have determined that entering into Requirements Contracts for these items would be beneficial and would achieve better prices.

The DOT *Audit of Procurement Card Program*, dated May 28, 2004, addressed this issue. The Procurement Card Unit responded to the finding stating, "We . . . will review the monthly purchases to identify repeat purchases to the same vendor for similar items. We will then report to DCAS if we find that any of these repeat purchases approached \$25,000 and would be amenable for DCAS to issue a requirement contract to the particular vendor in question." On December 21, 2004, we brought up this matter to one of DOT officials who told us that purchases were still not being tracked to identify purchasing patterns.

Recommendation

11. DOT officials should keep track of procurement card purchases by vendor and type of purchase. This can be done either through the credit card company or by DOT.

DOT Response: “We agree that this information should be tracked. However, to maximize the potential benefits, this might be best handled centrally for all City employees. The feasibility of having the credit card company track this data is being considered as part of a new procurement.”



**New York City
Department of Transportation**

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May 3, 2005

Greg Brooks, Deputy Comptroller
Policy, Audits, Accountancy & Contracts
City of New York
Office of the Comptroller
1 Centre Street
New York, New York 10007-2341

Re: MH05-071A

Dear Mr. Brooks:

This is in response to your draft "Audit Report on the Use of Procurement Cards by the Department of Transportation".

The report indicates that based on weaknesses identified, the Department of Transportation has inadequate internal controls over its use of procurement cards. We disagree with this conclusion. The current system of internal controls, taken as a whole, is adequate for this program. However, we do agree with some of the weaknesses identified in the report and have already taken appropriate corrective action. This was mainly because the procurement card program was the subject of an internal review by the DOT Office of the Auditor General. The review disclosed similar weaknesses and corrective actions were in progress as your staff started its audit. The internal audit report was finalized in May 2004; a month before the end of the fiscal year reviewed by your audit team. The report was provided to your staff. Your staff selected the month of June 2004 as the primary focus of its audit. Please note that this was the month after our audit was complete and was the period we began to implement our recommendations.

The following are the recommendations included in the report and our comments:

- 1.) "DOT should include in its guidelines that written pre-approval from a supervisor is required for all purchases."

We disagree. While DOT's procedures require the pre-approval of all P-Card purchases, this approval may be verbal. Requiring written pre-approvals would not be efficient in that many of the P-Cardholders and their supervisors are not located in the same area.

Greg Brooks
May 3, 2005
Page 2

- 2.) "DOT should ensure that supervisors are reviewing monthly purchases and documenting their review by signing and dating the Summary Sheets in a timely fashion."

We agree and this has been implemented.

- 3.) "DOT should ensure that cardholders obtain additional pre-approvals from Deputy Commissioners or other specified department heads when required."

We agree and as a result of our internal audit a check-off column indicating that the pre-approvals have been obtained has been already added to the purchase logs.

- 4.) "DOT should ensure that cardholders comply with its guidelines to submit receipts and receiving reports for all purchases. If a receipt is not available, a note indicating the reason it is missing should be attached to the receiving report."

We agree.

- 5.) "DOT should maintain inventory records of equipment purchased with procurement cards. In addition, such items should be tagged, and a physical inventory should be conducted periodically."

We agree that certain items should be inventoried. For example, the department has an inventory listing of all laptop computers which includes model and serial number, assignee, etc.

- 6.) "DOT should segregate the duties of purchasing and receiving goods by assigning different employees to those tasks."

While we agree with the intent of this recommendation, there are some locations where the segregation of duties is not always possible. Supervisory reviews will serve as a compensating control.

- 7.) "DOT should add a check-off column to the Purchase Summary Sheets to document that DCAS Requirements Contracts and Central Storehouse were checked before the purchase was made."

We agree and a check-off column has been already added in response to the recommendation in our internal audit report. We disagree with the comment in the report that delivery time is not an acceptable rationale for not using a requirements contract. On the contrary, there are times, such as when a repair is in progress that it is more efficient to obtain a needed part by procurement card rather than stopping the repair and waiting for delivery of the part.

- 8.) "DOT should ensure that all cardholders read and sign an agreement prior to receiving a procurement card."

We agree and have ensured that this DOT requirement has been implemented. There are now signed agreements from all cardholders in file.

Greg Brooks
May 3, 2005
Page 3

- 9.) "DOT supervisors should carefully review purchases before approving them to identify the possibility of split purchases."

We agree and this has been implemented.

- 10.) "DOT should provide cardholders and their supervisors with training in the use of procurement cards. This training should occur prior to the receipt of the card, and should include refresher courses."

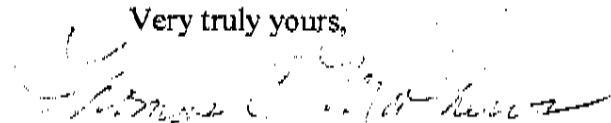
We agree and based on a recommendation in our internal audit report, all cardholders and their supervisors have already received training.

- 11.) "DOT officials should keep track of procurement card purchases by vendor and type of purchases. This can be done either through the credit card company or by DOT."

We agree that this information should be tracked. However, to maximize the potential benefits, this might be best handled centrally for all City purchases. The feasibility of having the credit card company track this data is being considered as part of a new procurement.

If you have any questions concerning this response, I can be reached at 212-788-8162.

Very truly yours,



Thomas C. Mathews
Auditor General

cc: Commissioner Iris Weinshall
F/D/C Judith Bergtraum
D/C Howard Altschuler
D/C Conan Freud
George Davis (MOO)