

AUDIT REPORT

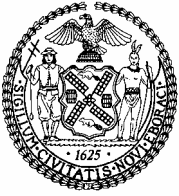


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Follow-up Audit on the Financial Practices of the Office of the Actuary

FP06-085F

April 19, 2006



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 Office of the Actuary (OA) to determine whether it has implemented the nine recommendations made in an earlier audit, *Audit Report on the Financial Practices of the Office of the Actuary*, (#ME04-077A), issued June 30, 2004. The results of this audit, which are presented in this report, have been discussed with OA officials, and their comments have been considered in the preparation of this report.

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

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

Very truly yours,

William C. Thompson, Jr.

WCT/fh

Report: FP06-085F
Filed: April 19, 2006

Table of Contents

AUDIT REPORT IN BRIEF	1
Audit Findings and Conclusions	1
Audit Recommendations	2
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	3
Discussion of Audit Results	5
RESULTS OF FOLLOW-UP AUDIT	6
Previous Finding: Inadequate Segregation of Duties	6
Previous Finding: The OA Did Not Perform Annual Physical Inventory Counts	7
Previous Finding: Lack of Purchase Requisitions	8
Previous Finding: The OA Did Not Consistently Prepare Receiving Reports	8
Previous Finding: Incorrect Use of Miscellaneous Vouchers	9
Previous Finding: Imprest Fund Purchases	9
Previous Finding: Payroll and Timekeeping Weaknesses	10
NEW FINDINGS	12
Employees Permitted to Maintain Annual Leave	
Balances Greater Than the Two-Year Limit	12
PMS Paycheck Distribution Control Report Not Certified	12
RECOMMENDATIONS	13
ADDENDUM Office of the Actuary's Response	

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

**Follow-up Audit on the
Financial Practices of the
Office of the Actuary**

FP06-085F

AUDIT REPORT IN BRIEF

This audit determined whether the OA has implemented the nine recommendations made in an earlier audit, *Audit Report on the Financial Practices of the Office of the Actuary*, (#ME04-077A), issued June 30, 2004.

Audit Findings and Conclusions

Of the nine recommendations made in the previous audit the OA implemented six recommendations, partially implemented two, and was not able to implement one.

The six recommendations that were fully implemented pertain to updating the inventory list and conducting periodic counts of all physical assets, preparing and maintaining purchase requisitions and receiving reports, using miscellaneous vouchers for allowable purposes, preparing purchase requisition for imprest fund purchases, and ensuring that employees sign for their paychecks. The two recommendations that were partially implemented pertain to having adequate procedures to ensure that duties within the purchasing and the timekeeping/payroll functions are sufficiently segregated and developing a complete inventory list. The one recommendation that was not implemented pertains to ensuring that all employee time reports are signed by the preparer, supervisor, and data entry operator.

In addition to following up on the earlier recommendations, we identified two new findings. Specifically, the OA permitted its employees to accumulate annual leave balances in excess of the maximum amount provided for by City guidelines and did not ensure that the individual responsible for paycheck distribution sign the Payroll Management System's Paycheck Distribution Control Report (PDCR).

Audit Recommendations

To address the issues that still exist, as well as the new issues noted, we recommend that the OA should:

- More consistently implement its procedures to ensure that the duties within the purchasing and the timekeeping-payroll functions are sufficiently segregated.
- Ensure that pre-numbered inventory tags are affixed to all items.
- Include the tag number and serial number for all items on the inventory list.
- Ensure that all ETRs are signed by the preparer, the supervisor, and the PMS data entry operator.
- Convert excess annual leave to sick leave at the end of each leave year unless it authorizes the carryover in writing in accordance with DCAS rules and leave regulations.
- Ensure that the PDCR is certified on each page.

INTRODUCTION

Background

The Office of the Actuary (OA) performs annual actuarial valuations of the assets and liabilities of the City's five actuarial retirement systems and other, non-actuarial, pension funds. It also computes employer contributions and members' benefits, determines suitability of actuarial assumptions, and recommends changes when necessary. The OA provides services and information to City agencies, legislative bodies, and active and retired employees.

During Fiscal Year 2005, the OA's budget for Personal Services (PS) was \$2,923,791, and \$1,192,662 for Other Than Personal Services (OTPS).

Objective

This follow-up audit was initiated to determine whether the OA has implemented the nine recommendations made in an earlier audit, *Audit Report on the Financial Practices of the Office of the Actuary*, (#ME04-077A), issued June 30, 2004.

Scope and Methodology

This audit covered the period July 1, 2004, through June 30, 2005. We reviewed prior audit report #ME04-077A to determine the findings and recommendations of that audit. To obtain an understanding of the payroll, personnel, timekeeping, purchasing, and inventory procedures and regulations with which the OA is required to comply, we reviewed relevant provisions of: Comptroller's Directives #1, #3, #13, and #24; DCAS personnel rules and leave regulations; PMS Guidelines; applicable Procurement Policy Board (PPB) rules; and the Department of Investigation *Standards for Inventory Control and Management*. We interviewed staff at the OA to obtain an understanding of the payroll, personnel, timekeeping, and purchasing procedures in place and to determine how physical assets are safeguarded.

Tests of Compliance with Comptroller's Directive #13, PMS Guidelines and DCAS Personnel and Leave Regulations

We reviewed the attendance records of all 43 OA employees for the month of December 2004 to determine whether the OA maintains reliable and accurate time records. We examined the attendance records for completeness and evidence of supervisory review. We compared the attendance records to the City Payroll Management System (PMS) Employee Leave Details Report (PEILR721) to determine whether all reportable timekeeping transactions were accurately posted on PMS. We reviewed compensatory time transactions and annual leave use for evidence of proper approvals and posting. Lastly, we examined the Employee Time Reports (ETRs) to determine whether they were reviewed by a supervisor and displayed evidence of adequate segregation of duties.

To determine whether OA employees were receiving salaries that were within the salary ranges of their civil service titles, we compared the salaries of all 43 individuals listed on PMS as of June 30, 2005, to the minimum and maximum salary amounts of their civil service titles specified in the City Career and Salary Plan. We reviewed the Paycheck Distribution Control Report (PDCR) for the pay periods ending July 16, 2004, and July 1, 2005, to ascertain whether employees signed for their paychecks and whether each page of the report was certified, as required by PMS guidelines.

We determined whether medical documentation, when required by DCAS personnel rules and leave regulations, appropriately supported sick-leave use. We also determined whether approved carryover authorizations were present in employees' personnel files for those employees who had excess annual leave balances (more than the amount that each employee earns in a two-year period) to their credit.

The results of the above tests, while not projectable, provided a reasonable basis to assess whether the OA has implemented the prior report's recommendations, as well as whether the OA has complied with Comptroller's Directive #13, DCAS personnel rules and leave regulations and PMS Guidelines.

Tests of Compliance with Comptroller's Directive #3 and #24 and PPB rules

We examined 29 randomly selected purchase documents from the population of 61 that were issued by the OA (two contracts; one small purchase document for a purchase of at least \$2,500 using other than capital funds; 20 micro purchase documents for purchases of \$5,000 or less; and six purchase orders) and their 59 corresponding vouchers. We also examined 24 miscellaneous vouchers and 13 imprest fund vouchers. We examined each purchase document and voucher for the requisite approvals and authorizations, and for evidence that the transactions were for proper business purposes and were supported by adequate documentation. For the 96 vouchers, we also determined whether: each voucher was properly coded; an authorized purchase order was on file, if applicable; sales and excise taxes were properly excluded from payments; and bids were obtained when required by PPB rules. We also checked for evidence of adequate segregation of duties between the persons requesting, authorizing, and receiving items ordered. With regard to the 24 miscellaneous vouchers and 13 imprest fund vouchers, we determined whether the vouchers were issued for only allowable purposes.

To assess the OA's controls over the imprest fund, we selected all bank statements for the imprest fund for Fiscal Year 2005. We examined all 30 canceled checks listed on the bank statements for: two authorized signatures; a specific payee (as opposed to "bearer" or "cash"); and endorsement; and a "void after 90 days" inscription on each check. We also determined whether appropriate bank reconciliations were performed and whether individual imprest fund expenditures were within the \$250 allowable amount specified in Comptroller's Directive #3. We also determined whether the OA maintains an adequate segregation of duties between the persons responsible for authorizing payments and signing checks issued from the imprest fund.

The results of the above tests, while not projectable to all payment vouchers processed during the audit period, provided a reasonable basis to assess whether the OA has implemented the prior report's recommendations, as well as the OA's compliance with Comptroller's Directives #3 and #24 and the PPB rules.

Tests of Inventory Records

We randomly selected 73 of the 270 major equipment items (including computers, monitors, printers, scanners, laptops, fax machines, and televisions) listed on the OA's inventory records as of September 23, 2005 (the most current list available), and determined whether they were on hand at the OA. We also determined whether other pieces of equipment that were on hand in the OA were listed on the inventory records. Finally, we determined whether all items examined were properly tagged as property of the OA. The results of the above tests, while not projectable to all major equipment items, provided a reasonable basis to assess whether the OA has implemented the prior audit report's recommendations, as well as the OA's controls over inventory as specified in the Department of Investigation *Standards for Inventory Control and Management*.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered

necessary. This audit was performed in accordance with the audit responsibilities of the 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 OA officials during and at the conclusion of this audit. A preliminary draft report was sent to OA officials and was discussed at an exit conference held on March 1, 2006. On March 13, 2006, we submitted a draft report to OA officials with a request for comments. We received written comments from the OA on March 27, 2006. The OA generally agreed with the audit's findings and recommendations and stated that "in general, the OA agrees that additional improvements could be made in providing documentation for some current practices and in redistributing responsibilities for certain sequential administrative processes." The full text of the OA response is included as an addendum to this report.

RESULTS OF FOLLOW-UP AUDIT

Previous Finding: Inadequate Segregation of Duties

The previous audit found that OA officials did not segregate the responsibilities for the authorizing, processing, and recording of transactions, contrary to requirements of Comptroller's Directives #13 and #24. Instead, the Procurement Officer performed most of the purchasing functions, and the Payroll Officer performed all of the timekeeping and payroll functions. This lack of appropriate segregation of duties can allow errors or irregularities to occur without being detected.

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

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

Current Status: PARTIALLY IMPLEMENTED

The OA prepared two memoranda, "Segregation of Timekeeping and Payroll Functions" (as of 5/1/05) and "Segregation of Purchasing Functions" (as of 5/1/05). However, based on the results of our testing of the OA's controls over the purchasing and timekeeping functions, we consider this recommendation only partially implemented.

Our review found that seven of the 96 voucher packages tested did not contain evidence of sufficient segregation of duties. Specifically, the OA did not always segregate the responsibilities of requesting, authorizing, and receiving items that were purchased for the office. In addition, we found that 13 of the 30 imprest fund checks issued during our audit period were signed by the same person who approved the purchase.

Comptroller's Directive #24 states, "City agencies should assign different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities of allowing any person to be in a position perpetuate and conceal errors or irregularities in the normal course of performing his or her duties." In addition, Comptroller's Directive #3 states: "Individuals who authorize the purchase of goods or services should not approve payments or sign checks."

We found that 151 of the 152 ETRs completed in December 2004 and 106 of the 159 ETRs completed in June 2005 had the same person sign off as the preparer and key entry operator. Moreover, a total of 151 of these 257 reports were not signed by the supervisor.

This lack of segregation of duties, along with the lack of supervisory approval, increases the possibility of mistakes and irregularities. Comptroller's Directive #1 states that "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.” We therefore consider Recommendation #1 partially implemented.

Previous Finding: The OA Did Not Perform Annual Physical Inventory Counts

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

Previous Recommendation #2: “OA should perform a complete inventory and develop a list of all physical assets.”

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

Current Status: PARTIALLY IMPLEMENTED

We obtained a copy of the OA’s most recent inventory list and performed an inventory walk-through on November 17, 2005. The inventory list we obtained from OA officials did not contain the inventory tag numbers for the equipment listed nor the serial numbers for the monitors in the office.

Based on our review, we found that the OA did not maintain complete and accurate inventory records for its equipment. While all sampled items were present at the office, 57 of the 73 items tested were not tagged with pre-numbered inventory tags. Further, four of the 15 additional items selected during our inventory review were not tagged, although all 15 items were recorded on the inventory list. *Standards for Inventory Control and Management* states that as part of the minimum requirements for the physical inventory, pre-numbered inventory tags should be used.

Based on the results of our tests, we consider Recommendation #2 partially implemented.

Previous Recommendation #3: “OA should regularly update the inventory list and conduct periodic counts of all physical assets.”

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

Current Status: IMPLEMENTED

Based on our testing, the inventory is up-to-date, and periodic counts are performed. Therefore, we consider Recommendation #3 implemented.

Previous Finding: Lack of Purchase Requisitions

The previous audit found that the OA generally did not prepare purchase requisitions. There were no purchase requisitions in the purchasing files for 17 (89%) of 19 purchase orders in the audit sample and only informal documentation (an e-mail and a memo) for the remaining two.

Previous Recommendation #4: “OA should ensure that a requisition is prepared and maintained for each purchase.”

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

Current Status: IMPLEMENTED

Our review of 29 purchase documents and their corresponding 59 vouchers, 24 miscellaneous, and 13 imprest fund vouchers revealed that the OA prepared and maintained a requisition for all purchases for which they were required. Therefore, we consider Recommendation #4 implemented.

Previous Finding: The OA Did Not Consistently Prepare Receiving Reports

The previous audit found that the OA did not consistently prepare and maintain receiving reports in its payment voucher packages, contrary to Comptroller’s Directive #24. Of the 20 voucher packages reviewed, all contained the necessary invoices, but eight lacked receiving reports.

Previous Recommendation #5: “OA should ensure that a receiving report is prepared and maintained in each voucher package.”

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

Current Status: IMPLEMENTED

Our review of 29 purchase documents and their corresponding 59 vouchers, 24 miscellaneous, and 13 imprest fund vouchers revealed that the OA prepared and maintained a receiving report for all but one purchase tested during our audit period. Therefore, we consider Recommendation #5 implemented.

Previous Finding: Incorrect Use of Miscellaneous Vouchers

The previous audit found that for some purchases, the OA incorrectly used miscellaneous vouchers rather than purchase orders during Fiscal Year 2003. It incorrectly used miscellaneous vouchers rather than purchase orders for three purchases (with a total value of \$1,890) of the five miscellaneous vouchers reviewed. These vouchers were used to pay for annual membership dues in three professional organizations, the costs of which were determinable, thereby invalidating this use of miscellaneous vouchers.

The report stated, “The incorrect use of miscellaneous vouchers contributes to the distortion of the City's book of accounts by understating the City's outstanding obligation. In this connection, it is important for OA to ensure compliance with this requirement, which was designed to limit agencies’ use of miscellaneous vouchers.”

Previous Recommendation #6: “OA should ensure that miscellaneous vouchers are used correctly.”

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

Current Status: IMPLEMENTED

The OA paid 24 miscellaneous vouchers during our audit period. All of these vouchers were for purposes that are allowable under Comptroller’s Directive #24. Therefore, we consider Recommendation #6 implemented.

Previous Finding: Imprest Fund Purchases

The previous audit found that the OA did not handle certain imprest fund purchases properly. Imprest fund purchases are agency-controlled checking accounts, which can be used for small purchases of less than \$250 as well as for petty cash transactions. A review of 26 purchases that related to five imprest fund vouchers disclosed that for eight purchases, the OA did not prepare or maintain a purchase requisition, as required by Comptroller’s Directive #3, §5.3.

Previous Recommendation #7: “OA should prepare and maintain a purchase requisition, or similar document, for each imprest fund purchase as recommended by Directive #3.”

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

Current Status: IMPLEMENTED

Our review of the 13 imprest fund vouchers paid during our audit period revealed that the OA prepared and maintained a purchase requisition for each imprest fund purchase. Therefore, we consider Recommendation #7 implemented.

Previous Finding: Payroll and Timekeeping Weaknesses

The previous audit found that the OA often did not properly review Employee Time Reports. Of the 154 ETRs prepared for work performed between March 30, 2003 and July 5, 2003 by the 11 employees in the audit sample, 142 were not signed by the preparer, and all 154 were not signed by the supervisor. In addition, 142 of the 154 ETRs were not signed by the person who entered the data into the Payroll Management System. The ETR is a key payroll document that requests the signatures of the preparer, the supervisor, and the data entry person to ensure the generation of accurate paychecks and the appropriate recording of leave use.

Moreover, in a review of a sample of 11 employees for the period of March 30, 2003, through July 5, 2003, the audit found that employees generally signed the Paycheck Distribution Control Report to acknowledge the receipt of their paychecks, in accordance with Comptroller's Directive #13; there was no signature for one of the 11 employees.

Previous Recommendation #8: "OA should ensure that all ETRs are signed by the preparer, the supervisor, and the PMS data entry operator."

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

Current Status: NOT IMPLEMENTED

We examined all ETRs prepared in December 2004 and June 2005. We found that 115 of the 152 December ETRs (76%) and 90 of the 159 June ETRs (57%) were not signed by the supervisor. Comptroller's Directive #13 states: "Completing the ETR requires a review of the accuracy of the daily attendance reports, the transfer of the information from the daily attendance reports to the ETR, and signing as preparer. . . . [If] the timekeeper also prepares and submits the ETRs, the ETRs must be verified and approved by the Work Unit's supervisor."

As stated in the previous report, the ETR is a key payroll document that requests the signatures of the preparer, the supervisor, and the data entry person. To ensure the generation of accurate paychecks and the appropriate recording of leave use, it is essential that ETRs be properly prepared, reviewed, and approved. We consider Recommendation #8 not implemented.

Previous Recommendation #9: "Ensure that employees always acknowledge the receipt of their paychecks by signing the PDCR."

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

Current Status: IMPLEMENTED

We examined the PDCR for the pay periods ending July 16, 2004, and July 1, 2005, and determined that all employees signed for their paychecks as required by Comptroller’s Directive #13. Therefore, we consider Recommendation #9 implemented.

NEW FINDINGS

Employees Permitted to Maintain Annual Leave Balances Greater Than the Two-Year Limit

Our review of the OA employees' annual leave balances at the end of the leave year revealed that 10 of the 43 employees had leave balances to their credit that exceeded the maximum amount allowable under DCAS personnel rules and leave regulations. These 10 employees collectively exceeded the allowable amounts by a total of 3,575 hours, or 511 days, representing \$120,051. The director of administration at the OA informed us that although the office did not maintain waivers permitting its employees to carry over the excess annual leave during the audit period, it will create them for the 10 employees who are currently in violation of the regulation. On January 10, 2006, the director of administration provided us with copies of the waivers authorizing the carryover of the excess annual leave balances.

City leave regulations limit the amount of annual leave an employee can carry over from one leave year to another. DCAS rules and leave regulations state that "an employee's [annual] leave balance must be reduced by May 1 in any given year to the amount accruable in the preceding two years." Any annual leave balance that exceeds this limit is to be converted to sick leave at the end of each leave year unless the employee receives written authorization by the agency head to carry over the excess leave. The purpose of this limit is to reduce the money that the City will have to pay employees when they leave City service. Employees who leave City service are generally paid for the full value of any unused annual leave, but are paid for only a portion (one half or one third depending on the employee's managerial status) of the value of any unused sick leave.

Excess annual leave balances represent a potential liability for the City should any of the agency employees depart or be terminated. The agency can reduce this liability by adhering to DCAS rules and leave regulations regarding excess annual leave balances.

PMS Paycheck Distribution Control Report Not Certified

The PDCRs for July 16, 2004, and July 1, 2005, were not signed by the person responsible for distributing the paychecks, as required by PMS guidelines.

RECOMMENDATIONS

To address the issues that still exist, as well as the new issues noted, we recommend that the OA should:

1. More consistently implement its procedures to ensure that the duties within the purchasing and the timekeeping-payroll functions are sufficiently segregated.

OA Response: “The OA will continue to review its current practices to improve the segregation of its purchasing and timekeeping/payroll functions. It bears repeating, however, that the OA had and continues to have supervisory and management controls in place to ensure the integrity of the purchasing and timekeeping/payroll functions.”

2. Ensure that pre-numbered inventory tags are affixed to all items.

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

3. Include the tag number and serial number for all items on the inventory list.

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

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

OA Response: “The OA has been working with the Office of Payroll Administration since February 2006 to implement the CityTime system in the OA. CityTime is designed to electronically forward time records to authorized managerial, supervisory and timekeeping personnel for the approval and then route approved time to the City’s Payroll Management System (PMS) to calculate pay.

“Accordingly, the implementation of CityTime in the OA will address this recommendation. Implementation is planned by the end of May 2006.”

5. Convert excess annual leave to sick leave at the end of each leave year unless it authorizes the carryover in writing in accordance with DCAS rules and leave regulations.

OA Response: “The OA will ensure that letters authorizing the carryover of excess annual leave are prepared and placed in employee records. The OA will also ensure that, for those employees for whom authorizing letters are not provided, appropriate management measures are taken to either reduce the excess balances or to convert the overages to sick leave.”

6. Ensure that the PDCR is certified on each page.

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



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ROBERT C. NORTH, JR.
CHIEF ACTUARY

March 24, 2006

Mr. John Graham
Deputy Comptroller
Audits, Accountancy and Contracts
NYC Office of the Comptroller
1 Centre Street, 11th Floor
New York, NY 10007

Re: Follow-Up Audit on the Financial Practices
of the Office of the Actuary
Audit Number: FPO6-085F

Dear Mr. Graham:

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

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

The OA has a review mechanism in place to provide a check on the work performed for each function that was audited. At no time are payrolls issued, overtime and leave approved, purchases made and payments remitted without a second, separate layer of review and approval. These review and approval processes may not have been clearly documented, and thus not apparent to the auditors, but they are in place.

Mr. John Graham
March 24, 2006
Page 2

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

However, in general, the OA agrees that additional improvements could be made in providing documentation for some current practices and in redistributing responsibilities for certain sequential administrative processes.

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

1. Audit Recommendation: OA should more consistently implement its procedures to ensure that the duties within the purchasing and the timekeeping-payroll functions are sufficiently segregated.

OA Response to Audit: The OA will continue to review its current practices to improve the segregation of its purchasing and timekeeping/payroll functions. It bears repeating, however, that the OA had and continues to have supervisory and management controls in place to ensure the integrity of the purchasing and timekeeping/payroll functions.

2. Audit Recommendation: The OA should ensure that pre-numbered inventory tags are affixed to all items.

OA Response to Audit: The OA agrees and will comply with this recommendation.

3. Audit Recommendation: The OA should include the tag number and serial number for all items on the inventory list.

OA Response to Audit: The OA agrees and will comply with this recommendation.

Mr. John Graham
March 24, 2006
Page 3

4. Audit Recommendation: The OA should ensure that all ETRs are signed by the preparer, the supervisor, and the Payroll Management System ("PMS") data entry operator.

OA Response to Audit: The OA has been working with the Office of Payroll Administration since February 2006 to implement the CityTime system in the OA. CityTime is designed to electronically forward time records to authorized managerial, supervisory and timekeeping personnel for approval and then route approved time to the City's Payroll Management System (PMS) to calculate pay.

Accordingly, the implementation of CityTime in the OA will address this recommendation. Implementation is planned by the end of May 2006.

5. Audit Recommendation: The OA should convert excess annual leave to sick leave at the end of each leave year unless it authorizes the carryover in writing in accordance with DCAS rules and leave regulations. .

OA Response to Audit: The OA will ensure that letters authorizing the carryover of excess annual leave are prepared and placed in employee records. The OA will also ensure that, for those employees for whom authorizing letters are not provided, appropriate management measures are taken to either reduce the excess balances or to convert the overages to sick leave.

6. Audit Recommendation: The OA should ensure that the PDCR is certified on each page.

OA Response to Audit: The OA will comply with this recommendation.

Mr. John Graham
March 24, 2006
Page 4

Conclusion

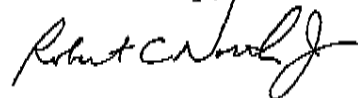
As noted in the beginning of this letter, the OA believes that it does provide oversight and management control over its administrative operations.

Nevertheless, in response to the suggestions made, the OA has made and continues to make changes in policies and procedures in order to better comply with the process segregation and documentation requirements identified in your follow-up report.

Although we do not necessarily agree with every detail of the audit's comments, I would like to thank your staff. Based on what I have seen, they conducted themselves throughout the audit in an extremely professional manner, produced a fair and reasoned report and brought distinction to your office.

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

Yours truly,



Robert C. North, Jr.
Chief Actuary

cc: Ms. S.M. Flaschenberg
Mr. L. Welgrin

ADM/sf:city compt/payroll & purchase audit:1140L