



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
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MARJORIE LANDA
DEPUTY COMPTROLLER FOR
AUDIT

BUREAU OF AUDIT

April 18, 2017

BY ELECTRONIC MAIL

Ms. Ronnie Lowenstein
Director
Independent Budget Office
110 William Street, 14th Floor
New York, NY 10038

**Re: Final Letter Report on the Independent Budget Office's Inventory Practices
(Report Number FK17-069AL)**

Dear Ms. Lowenstein:

This Final Letter Report summarizes the findings of our review of the Independent Budget Office's (IBO's) inventory practices for office equipment. The objective of the audit was to determine whether IBO maintains a reliable and effective internal control system over inventory as required by Comptroller's Directive #1, *Principles of Internal Control and Financial Integrity Statement*, and the New York City Department of Investigation's *Standards for Inventory Control and Management*.

Background

IBO provides nonpartisan information about the City's budget to the public and elected officials. It presents budgetary reviews, economic forecasts, and policy analyses in the form of reports, testimony, memos, letters, and presentations. In addition, IBO produces guides to understanding the budget and provides online access to key revenue and spending data from past years. In the Comptroller's Comprehensive Annual Financial Reports for Fiscal Year 2015 and Fiscal Year 2016, IBO reported expenditures totaling \$3,944,381 and \$3,991,457; of those amounts, \$618,612 (15.7 percent) and \$631,175 (15.8 percent), respectively, were for other than personal service expenditures. Based on our review of purchasing records, we estimate that IBO purchased office equipment items with a total value of \$49,406 during Fiscal Year 2015 and Fiscal Year 2016.

Audit Findings

The audit found that, with some exceptions, IBO generally adhered to applicable procedures related to the safeguarding of assets. However, the audit found several weaknesses, which IBO should address to strengthen its controls over inventory.

In particular, the audit found that IBO did not tag all office equipment and include all equipment on its inventory of assets. The Department of Investigation's (DOI's) *Standards for Inventory Control and Management* require that "[p]ermanent records are maintained, centrally, to track all non-consumable goods issued to each agency unit, including type of equipment, manufacturer, serial number, agency control number, condition, location, date issued, and the person(s) responsible for maintenance Readable, sturdy property identification tags (reading 'Property of the City of New York') with a sequential internal control number are [to be] assigned and affixed to valuable items."¹

However, based on our review of IBO's purchasing records and inventory records, which were updated November 17, 2016, IBO did not tag and record in its inventory list 66 pieces of office equipment with a total value of \$20,362. Those items, which were purchased during Fiscal Years 2015 and 2016, included computer monitors, server equipment, and other electronic devices. Further, based on our physical observations of IBO's inventory, IBO did not tag and record an additional 18 items that were purchased during prior fiscal years. Primarily, IBO did not account for the above-mentioned items because it chose, as a matter of policy, not to tag or include on its inventory list items that cost less than \$250. By not tagging and listing valuable items of equipment in its inventory of assets, an agency incurs a risk that such items could be misplaced, lost, or stolen without detection.

In addition, IBO informed us that it conducted periodic inventory counts of its main office and off-site location, and updated its inventory list based on the results of those counts. However, IBO did not document its performance of such counts or the count results. Moreover, as previously noted, IBO did not fully update its inventory list to ensure that it was accurate and complete.

Lastly, IBO did not maintain written policies and procedures for controls over the safeguarding of assets as required by DOI's *Standards for Inventory Control and Management*, which states, "[a]gency management is responsible for ensuring that there are policies and procedures and that these are updated to include the requirements established in these Standards."

Agency Response

In its response, IBO stated that it was "pleased that you found our agency 'generally adhered to applicable procedures related to the safeguarding of assets'" and agreed to implement three of the audit's four recommendations.

IBO did not agree to tag and inventory all office equipment with a useful life of more than one year as required by DOI's *Standards for Inventory Control and Management*. In its response signed by its Director, IBO stated that "[b]ased on the ultimate finding that every item sought by your audit team was accounted for, I believe that we have implemented a process that works well for an agency of our size."

¹ A commodity is considered non-consumable if it has a life expectancy of more than one year.

Recommendations

We recommend that IBO:

1. Tag and inventory all office equipment with a useful life of more than one year as required by DOI's *Standards for Inventory Control and Management*.

IBO Response: In its written response, IBO did not explicitly state whether it agreed to implement this recommendation. However, IBO stated, “[a]n essential part of the effective use of resources is crafting management approaches that work well for an organization. Many city procedures are developed for agencies that have staffs many times the size of IBO and have multiple locations across the five boroughs. Grafting these procedures onto a small agency like IBO is at best cumbersome and at worst burdensome and overly bureaucratic. Based on the ultimate finding that every item sought by your audit team was accounted for, I believe that we have implemented a process that works well for an agency of our size.”

Auditor Comment: We acknowledge that IBO is a small agency and would not ask IBO to implement a recommendation that was not practicable. As a small agency, IBO purchases equipment infrequently and in small quantities. Therefore, we believe that tagging and inventorying all office equipment with a useful life of more than one year, as prescribed by DOI's *Standards for Inventory Control and Management*, would not unreasonably burden IBO. For example, implementing this recommendation would involve IBO tagging and inventorying only 66 additional pieces of office equipment that IBO acquired during a two-year period—an average of three items per month—and then maintaining that policy going forward. Therefore, we reiterate our recommendation.

2. Document the date and results of periodic inventory counts performed for its main office and off-site location.

IBO Response: “I do agree with your recommendation that rather than keeping our inventory control list on a rolling basis, we should date and document the results of each periodic inventory that our staff undertakes. This will add minimally to their workload while ensuring we have a sequential inventory list for our office equipment that is easily accessible and enables us to quickly track back to prior inventory reviews.”

3. Ensure that it updates its inventory list after periodic inventory counts are performed.

IBO Response: Please see IBO response to Recommendation #2.

4. Develop and implement written policies and procedures as required by DOI's *Standards for Inventory Control and Management*.

IBO Response: “IBO will also develop written procedures for its inventory process as the audit suggests. Again, as a small agency, the informal process has worked well for us for two decades. But now with the recent addition of a small, off-site location where we keep back up servers and other IT equipment, we agree that it makes sense to formalize our inventory procedures.”

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 was from July 1, 2014 to June 30, 2016 (Fiscal Years 2015 and Fiscal Year 2016).

To obtain an understanding of the inventory procedures and regulations with which IBO is required to comply, we reviewed relevant provisions of DOI’s *Standards for Inventory Controls and Management*, Comptroller’s Directive #1, Comptroller’s Directive #24, and the Procurement Policy Board Rules. We requested and reviewed IBO’s available internal policies and procedures, and interviewed IBO officials to obtain an understanding of the inventory procedures in use and to determine how physical assets are safeguarded. We also reviewed the prior New York City Comptroller’s Audit Report on the Financial and Operating Practices of the New York City Independent Budget Office (FP09-135A) issued December 11, 2009.

To identify office equipment that was purchased by IBO, we obtained and reviewed purchasing records and supporting documentation for all purchases made by IBO during Fiscal Years 2015 and 2016. Specifically, we reviewed purchases recorded in the City of New York Financial Management System (FMS), IBO Agency Procurement Logs and P-Card statements, and IBO Imprest Fund records. We compiled a listing of office equipment items that were purchased by IBO during Fiscal Years 2015 and 2016. We requested and obtained IBO’s most recent inventory records. We then compared our list to IBO’s inventory records to determine whether IBO recorded all equipment. We also determined whether IBO’s inventory records included required information such as type of equipment, serial number, agency control number, and location.

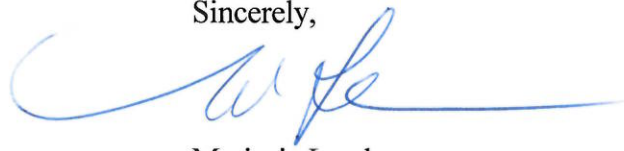
We conducted physical observations of IBO’s inventory on December 19, 2016, December 20, 2016, and January 23, 2017 to determine whether office equipment items listed on IBO’s most recent inventory records which were updated November 17, 2016, were located in either IBO’s main office or off-site location. During our observations, we also determined whether all items of office equipment that we observed on site were listed on IBO’s inventory records.

Ms. Lowenstein
April 18, 2017
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The matters covered in this report were discussed with IBO officials during and at the conclusion of this audit. A preliminary draft letter report was sent to IBO and discussed at an exit conference held on March 31, 2017. On April 4, 2017, we submitted a draft letter report to IBO with a request for written comments. We received a written response from IBO on April 11, 2017. In its response, IBO stated that it was “pleased that you found our agency ‘generally adhered to applicable procedures related to the safeguarding of assets’” and agreed to implement three of the audit’s four recommendations.

The full text of IBO’s comments is included as an addendum to this report.

Sincerely,



Marjorie Landa

- c: Douglas Turetsky, Chief of Staff/Communications Director, Independent Budget Office
- Indera Segobind, Director of Administration, Independent Budget Office
- Anthony Shorris, First Deputy Mayor
- Dean Fuleihan, Director, Office of Management and Budget
- Mindy Tarlow, Director, Mayor’s Office of Operations
- George Davis III, Deputy Director, Mayor’s Office of Operations
- Bernard Rosen, Chairperson, Audit Committee



Ronnie Lowenstein
DIRECTOR

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April 7, 2017

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

Dear Deputy Comptroller Landa:

I have reviewed the Preliminary Letter Report on IBO's inventory practices for office equipment (FK17-069AL) and am pleased that you found our agency "generally adhered to applicable procedures related to the safeguarding of assets." I am particularly pleased by a finding that is not overtly stated in the report but is implicit in its conclusions: that out of more than 200 pieces of office equipment—from printers to electric staplers to disk arrays--sought by your audit staff *not a single one was lost or misplaced*.

As a budget agency, IBO is keenly aware of the valuable role played by the Comptroller's audit staff in ensuring that taxpayer dollars are used appropriately and effectively. An essential part of the effective use of resources is crafting management approaches that work well for an organization. Many city procedures are developed for agencies that have staffs many times the size of IBO and have multiple locations across the five boroughs. Grafting these procedures onto a small agency like IBO is at best cumbersome and at worst burdensome and overly bureaucratic. Based on the ultimate finding that every item sought by your audit team was accounted for, I believe that we have implemented a process that works well for an agency of our size.

I do agree with your recommendation that rather than keeping our inventory control list on a rolling basis, we should date and document the results of each periodic inventory that our staff undertakes. This will add minimally to their workload while ensuring we have a sequential inventory list for our office equipment that is easily accessible and enables us to quickly track back to prior inventory reviews.

IBO will also develop written procedures for its inventory process as the audit suggests. Again, as a small agency, the informal process has worked well for us for two decades. But now with the recent addition of a small, off-site location where we keep back up servers and other IT equipment, we agree that it makes sense to formalize our inventory procedures.

Thank you for the opportunity to respond to the preliminary letter. I would also like to note and commend the professionalism of your staff throughout the audit process.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ronnie Lowenstein". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ronnie Lowenstein

c: Indera Segobind, Director of Administration, IBO
Mindy Tarlow, Director, Mayor's Office of Operations
George Davis III, Mayor's Office of Operations