City of New York

OFFICE OF THE COMPTROLLER

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COMPTROLLER

MANAGEMENT AUDIT

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Deputy Comptroller for Audit

Audit Report on the Queens Borough President's Office's Controls over Its Inventory of Computers and Related Equipment

July 18, 2019

To the Residents of the City of New York:

My office has audited the Queens Borough President's Office (QBPO) to determine whether it had adequate controls over its inventory of computers and related equipment in compliance with applicable rules and regulations. We audit City operations such as this as a means of ensuring that agencies are accountable for City resources.

The audit found that the QBPO did not have adequate controls over its inventory of computers and related equipment. Specifically, the audit found that the inventory records of the QBPO's computers and related equipment did not accurately reflect the agency's inventory on hand, and contained incorrect information, and some required information was missing. The audit also found that the QBPO did not perform the required periodic physical inventory counts and found several deficiencies relating to the QBPO's asset tag practices. In addition, the audit found that the QBPO did not have an up-to-date and complete list of its unused computers and related equipment, and had no plans of salvaging and relinquishing those items. Finally, the audit found that the QBPO did not follow its own written policies and procedures with regard to its purchasing, receiving and payment processes, nor did it sufficiently segregate these functions among its staff or establish compensating controls when those duties could not be appropriately segregated.

The audit makes 21 recommendations, including that the QBPO: maintain complete and accurate inventory records of all of its computer and related equipment; perform and document annual inventory counts of its entire inventory of computers and related equipment; ensure that tag numbers are sequentially assigned to all computers and related equipment; comply with the City's inventory relinquishment policy, adopt a consistent process, and formalize in writing its procedures for relinquishing its computers and related items; process payments only when all required documents and requisite approvals are present; and ensure that key responsibilities for the management of the agency's inventory of computers and related equipment are adequately segregated or that compensating controls are implemented.

The results of the audit have been discussed with QBPO 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 objective of this audit was to determine whether the Queens Borough President's Office (QBPO) had adequate controls over its inventory of computers and related equipment in compliance with applicable rules and regulations.

The Queens Borough President, along with the Borough Presidents of New York City's (City's) other four boroughs are the executive officials of their respective boroughs. The City Charter grants each Borough President, elected to a term of four years, various powers, including: the power to prepare and review budget proposals for the City Council; recommend capital projects; consult with the Mayor and the City Council on the preparation of the City's executive and capital budgets; and appoint some of the members and provide technical assistance to the borough's community boards.

The Queens Borough Board—a committee consisting of the Borough President (Chairperson), the borough's Council Members, and the borough's community board chairpersons—is empowered to initiate and review comprehensive or special purpose land use plans, mediate disputes between community boards, and make policy recommendations to the Mayor and City Council. Computers and related equipment (including mobile devices) play a vital role in helping QBPO staff carry out the agency's activities. According to the City Comptroller's Comprehensive Annual Financial Report (CAFR) for Fiscal Year (FY) ending June 30, 2018, the QBPO's actual expenditures totaled $5.75 million, which included $4.1 million for Personal Services (PS) and $1.65 million for Other Than Personal Services (OTPS). The OTPS expenses for this period included purchases of computers and related equipment totaling approximately $41,600.

Audit Findings and Conclusion

The QBPO did not have adequate controls over the agency's inventory of computers and related equipment. We identified several discrepancies in the QBPO's inventory records. Preliminarily, the inventory records of the QBPO's computers and related equipment did not accurately reflect the inventory on hand—the records included equipment that auditors could not find in the agency's possession and excluded other equipment that we found in the agency's possession

but that was not listed. Additionally, the QBPO's inventory records contained incorrect information, and some required information was missing. Information that was incorrect or missing included one or more of the following fields: the locations; descriptions; models; and serial numbers of the items. One of the reasons for the discrepancies and missing information is that the QBPO did not perform the required periodic physical inventory counts that would help to ensure the accuracy and completeness of the inventory records.

We also found several deficiencies relating to the QBPO's asset tags. Specifically, we found gaps in the sequence of asset tag numbers used; instances of duplicate asset tag numbers being used; and several equipment items without affixed asset tags. In addition, we found that the QBPO also did not have an up-to-date and complete list of its unused computers and related equipment and had no immediate plans of salvaging and relinquishing those items. Finally, we found that the QBPO did not follow its own written policies and procedures with regard to its purchasing, receiving and payment processes, nor did it sufficiently segregate these functions among its staff or establish compensating controls when those duties could not be appropriately segregated.

The deficiencies identified in the QBPO's controls over its inventory operations, if not corrected, significantly increase the risk of waste, fraud and mismanagement with respect to its computers and related equipment.

Audit Recommendations

Based on the audit, we make 21 recommendations, including that:

- The QBPO should maintain complete and accurate inventory records of all of its computer and related equipment. This includes immediately updating its inventory records when changes occur, including the acquisition of new equipment and the reassignment of existing equipment.

- The QBPO should ensure that all necessary and required information for each inventory item is included in the master inventory record.

- The QBPO should perform and document annual inventory counts of its entire inventory of computers and related equipment and ensure that all discrepancies are independently investigated and any adjustments to its inventory records are reviewed and approved by management. The inventory count should be conducted by QBPO staff independent from the IT unit, and this procedure should be added to the QBPO's written policies and procedures.

- The QBPO should ensure that tag numbers are sequentially assigned to all computers and related equipment without skipping tag numbers. If the issues generating sequential tag numbers using its inventory system and label making software cannot be resolved, the QBPO should maintain a log that adequately tracks the tag numbers to avoid gaps in the numbering sequence.

- The QBPO should comply with the City's inventory relinquishment policy and ensure that it adopts a consistent process and formalizes in writing its procedures for relinquishing its computers and related items.

- The QBPO should process payments only when all required documents are present (such as original approved requisition forms and signed packing slips or receiving reports) and contain the requisite approvals to help avoid duplicate payments.

- The QBPO should ensure that it does not pay sales tax on any item or service that it purchases on behalf of the City for official business purposes. It should also review its prior purchases to determine whether additional payments of sales taxes were made (other than the ones identified by this audit) and request refunds from those vendors.

- The QBPO should ensure that key responsibilities for the management of the agency's inventory of computers and related equipment are adequately segregated or that compensating controls are implemented.

Agency Response

In its response, the QBPO agreed with all of the audit's 21 recommendations, and stated, "we accept all of your recommendations for augmenting our inventory controls, and we have already implemented many of these recommended procedures." Specifically, the QBPO indicated that it has already implemented or partially implemented 11 of them (#s 1, 3, 4, 8, 9, 15, 16, 17, 18, 19, and 21), and will implement or is in the process of implementing the remaining 10 (#s 2, 5, 6, 7, 10, 11, 12, 13, 14, and 20).

AUDIT REPORT

Background

The Borough Presidents are the executive officials of the City's five boroughs. The City Charter grants each Borough President, elected to a term of four years, the power to, among other things, prepare and review budget proposals for the City Council; recommend capital projects; hold public hearings on matters of public interest; consult with the Mayor and the City Council on the preparation of the City's executive and capital budgets; review and recommend applications and proposals for the use, development or improvement of land within the borough; prepare environmental analyses required by law; appoint some of the members and provide technical assistance to the borough's community boards; monitor and make recommendations regarding the performance of contractual services in the borough; and propose legislation in the City Council.

The Queens Borough Board is a committee consisting of the Borough President, who serves as Chairperson; the Council Members for each district in Queens; and the chairpersons of Queens' 14 community boards. The Borough Board is empowered to initiate and review comprehensive or special purpose land use plans for Queens, as well as mediate any disputes between community boards, and make policy recommendations to the Mayor and City Council. Computers and related equipment (including mobile devices) play a vital role in helping QBPO staff carry out the agency's activities.

According to the CAFR for FY ending June 30, 2018, the QBPO's actual expenditures totaled $5.75 million, which included $4.1 million for PS and $1.65 million for OTPS. The OTPS expenses for this period included purchases of computers and related equipment totaling approximately $41,600.

Objective

The objective of this audit was to determine whether the QBPO had adequate controls over its inventory of computers and related equipment in compliance with applicable rules and regulations.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. 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 primary audit scope period was from July 1, 2016 through January 3, 2019. Please refer to the Detailed Scope and Methodology at the end of this report for specific procedures and tests that were conducted.

Discussion of Audit Results with the QBPO

The matters covered in this report were discussed with QBPO officials during and at the conclusion of this audit. A preliminary draft report was sent to the QBPO and was discussed at an exit conference held on May 24, 2019. On June 12, 2019, we submitted a draft report to the QBPO with a request for comments. We received a written response from the QBPO on July 3, 2019. In its response, the QBPO agreed with all of the audit's 21 recommendations, and stated, "we accept all of your recommendations for augmenting our inventory controls, and we have already implemented many of these recommended procedures." Specifically, the QBPO indicated that it has already implemented or partially implemented 11 of them (#s 1, 3, 4, 8, 9, 15, 16, 17, 18, 19, and 21), and will implement or is in the process of implementing the remaining 10 (#s 2, 5, 6, 7, 10, 11, 12, 13, 14, and 20).

The full text of the QBPO's response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

The QBPO did not have adequate controls over the agency's inventory of computers and related equipment. We identified several discrepancies with the QBPO's inventory records. The inventory records did not accurately reflect the inventory on hand—they included equipment that auditors could not find in the agency's possession and excluded other equipment that we found in the agency's possession but was not listed in its inventory records. Additionally, the QBPO's inventory records contained incorrect information, and some required information was missing. Information that was incorrect or missing included one or more of the following fields: the locations, descriptions, models and serial numbers of the items. One of the reasons for the discrepancies and missing information is that the QBPO did not perform the required periodic physical inventory counts, which are intended to help ensure the accuracy and completeness of the inventory records.

We also found several deficiencies relating to the QBPO's asset tags. Specifically, we found gaps in the sequence of asset tag numbers used; instances of duplicate asset tag numbers being used; and several equipment items without affixed asset tags.

Further, we found that the QBPO does not have an up-to-date and complete list of its unused computers and related equipment and had no immediate plans of salvaging and relinquishing those items.

In addition, we found that the QBPO did not follow its own written policies and procedures with regard to its purchasing, receiving and payment processes, nor did it sufficiently segregate these functions among its staff or establish compensating controls when those duties could not be appropriately segregated.

The deficiencies identified in the QBPO's controls over its inventory operations, if not corrected, significantly increase the risk of waste, fraud and mismanagement with respect to its computers and related equipment.

The details of our findings are discussed in the following sections of this report.

Discrepancies Identified with the QBPO's Inventory Records

Perpetual Inventory Records Did Not Accurately Reflect the Inventory on Hand

According to the QBPO's *Roles, Functions and Responsibilities*, the Computer Systems Manager (Systems Manager) is responsible for creating and scanning asset tags for computers and related equipment that are new to inventory and updating and maintaining the electronic inventory database for computers and related equipment.[1] Additionally, the Department of Investigation's (DOI's) *Standards for Inventory Control and Management* (DOI Inventory Standards) state, "[a] perpetual inventory system is established to maintain an up-to-date count of all items in the inventory."

However, our physical count of the QBPO's computers and related equipment revealed a gross discrepancy of 63 items (18 percent of the 356 items found on hand), consisting of 12 items on

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[1] The QBPO Computer Systems Manager is also known as the IT Director.

the QBPO's master inventory list and legacy list of computers and related equipment (collectively referred to as the master inventory list) that we were unable to locate, and 51 items that we observed in the QBPO's possession that were not recorded on the master inventory list.[2] The results of our count are shown in Table I.

Table I

Inventory Count Results

Item Description	Number Stated in the QBPO's Master Inventory List	Number Found in Auditor's Count	Shortage (fewer on hand than stated in the QBPO's list)	Overage (more on hand than stated in the QBPO's list)	Gross Discrepancy
Desktop/Tower Computers	99	102	1	4	5
Monitors	82	94	5	17	22
Laptops/Tablets	14	13	1	0	1
Multifunction Printers (Printers/Scanners/Copiers/Fax)	21	30	1	10	11
Cell Phones	20	22	1	3*	4
Networking Equipment	53	66	2	15	17
Audio/Video Equipment	28	29	1	2	3
Totals	**317**	**356**	**12**	**17**	**63**

*One of these phones were identified through a review of the QBPO's cell phone bills

One of the three cell phones that were not recorded on the master inventory list was also not observed during our physical count. However, it was identified when we attempted to locate the cell phones recorded on the QBPO's cell phone bill. QBPO officials informed us in substance that the cell phone number associated with this identified cell phone should have been deactivated as of September 2018 when a staff member left the office and reactivated in April 2019, when the QBPO reassigned to a new employee. According to the QBPO's cell phone bills from September 2018 through March 2019, the agency paid approximately $257 for cell phone service for the cell phone number in question when it was not in use.

Regarding the 12 missing items, the QBPO was able to locate only 1 item, an LCD (liquid crystal display) monitor, subsequent to our physical count. We observed the monitor (in its original packaging) on February 25, 2019 and confirmed that it was one of the five monitors that were unaccounted for. In connection with the total of 11 items that could not be located, the Systems Manager provided us with the following explanations to account for 5 of them:

- two of the missing monitors were mistakenly recorded in the inventory records as LED (light-emitting diode) rather than LCD monitors;

- the missing tablet was from the previous administration, but its whereabouts were unknown;

- the missing printer was probably retired and in the storeroom (however, as discussed later in the report, due to the disarray in the QBPO's storeroom we were unable to locate the printer); and

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[2] Our physical count was conducted during the period of October 18, 2018 through November 2, 2018. The QBPO's legacy inventory list is a list of computers and related equipment that are still in use that the present QBPO administration inherited from the previous administration in FY 2015.

- the missing cell phone was lost by a QBPO employee; however, the QBPO had no record of the phone being lost, and no police report was filed for the lost item.

With regard to the representation that two LCD monitors were mistakenly identified as LED monitors, during our count we did not find that any of the models identified had the serial numbers for those two missing monitors. We were unable to substantiate any of the other above explanations as well. In addition, the QBPO did not provide any explanation for the remaining six items that could not be located during our count. However, on May 29, 2019, subsequent to the exit conference, QBPO officials informed us—and we confirmed—that they have located 10 of the 11 unaccounted-for items. The remaining item is the cell phone that the QBPO said had been lost by its employee.

We further note that, during the course of the audit, the QBPO provided us with three versions of its master inventory list, each having a significant variance with the number of listed items: (1) an initial list of 174 items provided on May 22, 2018; (2) a second updated list of 285 items provided on July 23, 2018; and (3) the most recent updated list of 336 items provided on October 18, 2018 (the day of our physical count). The added items were not newly purchased equipment, but were rather existing items, many of which were inherited from the previous administration and still in use by the QBPO, such as single function printers, networking equipment (e.g., switches, routers, etc.), and cell phones.

At the exit conference, QBPO officials attributed their having provided us with multiple versions of the master inventory list to our having made "increasingly specific requests" for information. Officials stated that the initial list provided to us on May 22, 2018 was what they "believed to be responsive to the scope of [the] audit in light of the initial document request, specifically focusing on FY15-FY18 and 'computers and computer-related equipment' purchased and in use by our office during that period." However, this list excluded computer-related equipment such as legacy printers (those purchased by the prior administration and that were still in use), routers and MiFi devices. Officials stated that subsequent lists provided to us included such items. Nevertheless, we identified a number of items that should have been on all three lists but were only on one or two of them. For example, 3 computer towers and 21 monitors that were purchased in 2015 and were included in the second and third inventory lists that the QBPO provided, were incorrectly excluded from the initial list provided to us.

The differences identified among the three inventory lists the agency provided further demonstrate that QBPO officials did not ensure that the agency's inventory records were appropriately updated in a timely manner. The lack of an accurate perpetual inventory system can lead to waste resulting from duplicative purchases of equipment that the agency already possesses. It can also increase the risk of computers and related equipment being misappropriated without detection.

Perpetual Inventory Records Were Incomplete and Contained Inaccuracies

The DOI Inventory Standards require City agencies to maintain "[p]ermanent records . . . centrally, to track all non-consumable goods issued to each agency unit, including type of equipment, manufacturer, serial number, agency control number, condition, . . . [and] location . . . ." However, we found that the QBPO did not consistently record in its inventory records all of the required equipment-identifying information, such as the equipment type (item description), manufacturer, model, and serial numbers, and found that over one third of the item-specific records contained errors with regard to the item's location, description, model, agency control number and/or serial number.

Regarding missing information, our review of the QBPO's October 18, 2018 master inventory list of computers and related equipment revealed that 77 (24 percent) of the 317 item-specific records lacked one or more of the required equipment-identifying information, such as model numbers, equipment types, and serial numbers. Regarding inaccurate information, we found that 93 (29 percent) of the 317 items were recorded with errors, such as inaccurate locations, serial numbers, models, and asset tag numbers.

Three major factors contributing to these deficiencies are: (1) the QBPO's inaccurate recording of the required key information when the items are initially added to its inventory records; (2) its failure to update its records when items were relocated; and (3) the QBPO's failure to perform periodic inventory counts of its computers and related equipment, as required by the DOI Inventory Standards. According to those standards, an agency should conduct a count of all goods at least once a year to ensure the accuracy of the perpetual inventory records. Such a count should be conducted by individuals independent of the inventory operation who compare the physical inventory count totals with the regularly updated ("perpetual") inventory records and by subsequent independent investigation of any discrepancies. All reconciliation adjustments made as a result of such counts and investigations are to be submitted to management for approval.

QBPO officials informed us that a physical inventory count has not been performed since the current Borough President took office in 2015. Because there were no records of any prior inventory counts or other relevant records, we had no basis for determining what equipment the QBPO had in inventory prior to May 22, 2018, the date that the QBPO provided us with its initial inventory list.

Ensuring that periodic inventory counts are performed by an independent party achieves several essential controls: it ensures that variances are identified; it identifies instances of possible misappropriation or loss; it identifies the need for equipment and other items for the efficient operation of the agency; and it also identifies obsolete items that need to be removed. Conducting periodic inventory counts along with having effective security controls can help reduce the risk that valuable computer assets might be misplaced or misappropriated.

Recommendations

1. The QBPO should maintain complete and accurate inventory records of all of its computer and related equipment. This includes immediately updating its inventory records when changes occur, including the acquisition of new equipment and the reassignment of existing equipment.

   QBPO Response: "We agree with recommendation 1, that QBPO 'should maintain complete and accurate inventory records of all of its computer(s) and related equipment,' which our current policy requires."

2. The QBPO should ensure that it cancels cell phone service and cease payments for cell phone lines that are inactive and any that are assigned to anyone other than a current, authorized employee.

   QBPO Response: "[W]e agree with recommendation 2 . . . . [M]oving forward we will ensure that QBPO ceases payment for all cell phone lines that are not transferred to a new employee prior to the next billing cycle."

3. The QBPO should ensure that all necessary and required information for each inventory item is included in the master inventory record.

> **QBPO Response:** "We . . . <u>agree</u> with recommendation 3, that QBPO should 'ensure that all necessary and required information for each inventory item is in the master inventory record.'"

4. The QBPO should immediately review its inventory records and address the missing and inaccurate information identified during the audit.

> **QBPO Response:** "We also <u>agree</u> with recommendation 4 . . . . Our IT Director recently completed a complete review of our inventory records, which are now accurate and complete, and account for the overages identified during the physical walkthrough."

5. The QBPO should regularly review, reconcile and update its inventory records to ensure that the information recorded is accurate.

> **QBPO Response:** "In order to ensure the accuracy and completeness of inventory records moving forward, we <u>agree</u> with recommendations 5 and 6. With respect to recommendation 5 . . . in April 2019 QBPO hired a new IT staff member who has assumed the responsibility for regularly reviewing and updating our office's inventory records in coordination with the IT Director."

6. The QBPO should perform and document annual inventory counts of its entire inventory of computers and related equipment and ensure that all discrepancies are independently investigated and any adjustments to its inventory records are reviewed and approved by management. The inventory count should be conducted by QBPO staff independent from the IT unit, and this procedure should be added to the QBPO's written policies and procedures.

> **QBPO Response:** "In order to ensure the accuracy and completeness of inventory records moving forward, we <u>agree</u> with recommendations 5 and 6. . . . With respect to recommendation 6 . . . we have adopted a new policy that the General Counsel and Budget Director will jointly conduct an independent inventory count on an annual basis, the findings of which will be reported to and approved by the Chief of Staff. The General Counsel and Budget Director will conduct the inventory count every August."

Inadequate Management of Property Identification Tags

The DOI Inventory Standards states that "[r]eadable, sturdy property identification tags (reading 'Property of the City of New York') with a sequential internal control number are assigned and affixed to valuable items. An inventory log containing the internal control number assignments, updated to account for relocation, is maintained." However, we found that the QBPO's property identification tag practices are inadequate. We identified several weaknesses in the agency's practices, including its computers and related equipment being incorrectly tagged, and some items missing property identification tags altogether.

> *Gaps in Tag Numbers*

While we found that it is the QBPO's practice to generate and print its own property identification tags having unique sequential 5-digit numbers, the QPBO is not consistently generating the tags

in sequential order. An accounting of the tag numbers from the QBPO's inventory records revealed 44 gaps, consisting of 228 tag numbers that were not listed in those records.

Some of the inventory tag gaps we identified were the result of the QBPO using the same set of tags for its non-computer-related equipment and other items (e.g., furniture). From a sample of 60 tag numbers not listed in the QBPO's records, we found that four tag numbers were used on items that were not computer related (e.g., equipment rack, desk, etc.). However, the remaining 56 missing tag numbers were not found in the agency's MobileAsset system (MobileAsset) and were unaccounted for.[3]

The Systems Manager stated that the gaps occurred because MobileAsset does not have the capability to print labels and the QBPO uses a separate label making software to generate its tags. The Systems Manager told us that in order to generate the asset tags, he must manually enter a starting point into the label making software. However, rather than maintaining a record tracking the numbers already generated, so that the next number in the sequential series could be used, he arbitrarily enters a number, possibly skipping numbers in the series, to prevent any overlapping from the labels he previously generated.

Duplicate Tag Numbers

We identified 10 property identification tag numbers from the inventory list that were recorded for 2 items each. Because MobileAsset does not allow more than one item to have the same tag number, nine of these items were not recorded on its inventory records. For the remaining item, we found that it was recorded on the inventory records but with a different asset tag number than the one that was affixed to the item.

The Systems Manager said that it was possible that when generating new labels that he created labels using the same sequential number series and did not realize this. When scanning the tag numbers and recording the equipment information into its inventory database, the most recent scan would be accepted.

Tagged Items Missing

Finally, we found 12 tag numbers listed on the inventory list that were not found on any of the tagged items observed during our physical count. We were able to identify and locate 6 of the 12 items associated with these tag numbers (based on other information recorded in the inventory list); however, we observed that the tag numbers affixed to these items were different from the tag numbers recorded on the inventory list. The remaining six items were not found during our count. (As previously mentioned, subsequent to our inventory count, QBPO officials identified one of the missing six items, an LCD monitor that was still in the original packaging. This item was observed to have the recorded asset tag number affixed to it.)

We also found seven items without asset tags affixed to them, including a MiFi device, cell phones, and battery-packs for the QBPO computer network.

Failure to ensure that sequential control tag numbers are used and that those tag numbers are properly tracked nullifies the function of identification tags as a control mechanism. In the absence of adequate recordkeeping and assignment of sequential tag numbers, it will be difficult, if not impossible for QBPO officials to monitor, track, and account for all computers and related equipment, especially when those items are disposed of, which reduces the effectiveness of tags

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[3] The MobileAsset system (a product of Wasp Barcode Technologies) is an inventory software used by the QBPO to record and track its inventory.

as a control mechanism. In addition, by not properly tagging such equipment, there is an increased risk that such items could be misplaced, lost, or stolen without detection.

Recommendations

7. The QBPO should ensure that tag numbers are sequentially assigned to all computers and related equipment without skipping tag numbers. If the issues generating sequential tag numbers using its inventory system and label making software cannot be resolved, the QBPO should maintain a log that adequately tracks the tag numbers to avoid gaps in the numbering sequence.

   QBPO Response: "We <u>agree</u> with recommendation 7 . . . . As we explained during the course of the audit and you reference in your report, the gaps in the tag sequence resulted from a workaround used by our IT Director due to a limitation with the coordination between our tagging and inventory software systems. Because we have not yet been able to resolve this limitation, we now maintain a log that 'adequately tracks the tag numbers to avoid gaps in the numbering sequence,' as proposed in recommendation 7. All future tags will be sequential."

8. The QBPO should identify all the missing tag numbers in its inventory records and record in the system that these missing numbers have been skipped by the Systems Manager and do not belong to an asset.

   QBPO Response: "We also <u>agree</u> with recommendation 8 . . . . QBPO has already implemented this recommendation; the IT Director and staff member have confirmed that the missing numbers do not correspond with any assets, and have recorded this information in the log created in response to recommendation 7."

9. The QBPO should retag the items with duplicate tag numbers, affix new asset tags to those items identified without one, and update inventory records to reflect these newly issued tag numbers.

   QBPO Response: "[W]e <u>agree</u> with recommendation 9 . . . . [O]ur IT Director conducted a comprehensive review of our technology asset inventory and has corrected or issued new tags and updated attendant inventory records as necessary."

Weaknesses in the QBPO's Relinquishment Practices

According to the DOI Inventory Standards, agencies are required to develop relinquishment policies for the disposal of obsolete inventory. The DOI Inventory Standards also call for agency personnel to inspect and certify the obsolescence of goods presented for relinquishment, and to record the type, condition and quantity of all items presented for relinquishment on a relinquishment list. The DOI Inventory Standards further state that relinquished items are to be deleted from the inventory log. The QBPO does not have its own written relinquishing policy, and instead refers to the Department of Citywide Administrative Services' (DCAS') citywide policy for relinquishment of equipment.

According to DCAS' *Office of Citywide Procurement Policies and Procedures - Office of Surplus Activities* (April 2018), the Office of Surplus Activities (OSA) is responsible for the timely and proper disposition of surplus City assets relinquished from the various Mayoral and other City agencies (Non-Mayoral). It further states that, "OSA seeks to ensure that the City of New York

reuses surplus property whenever and wherever possible by facilitating inter-agency transfers or, when transfer is not a viable option, realizing the highest possible revenue through resale."

We found that the QBPO does not have a consistent process for relinquishing its obsolete computers and related equipment. According to QBPO officials, the agency has not relinquished its obsolete inventory of computers and related equipment and does not have any current plans to do so. According to QBPO officials, there are obsolete items in its storage going back to at least May 2015 (when the QBPO upgraded its computer equipment).

We also determined that the QBPO's obsolete inventory list was inaccurate. We observed at least 70 obsolete monitors, whereas the inventory list included only 19 monitors. We also were only able to locate 52 of the 61 obsolete computer towers listed.

The deficiencies of the QBPO's process for relinquishing obsolete computers and related equipment increases the risk that computer equipment can be misappropriated without detection. Also, any money that could potentially be made from the sale of the items diminishes over time, as the items become increasingly obsolete and lose any potential resale value.

Recommendations

10. The QBPO should maintain a complete and accurate inventory list of its obsolete computers and related equipment. The obsolete inventory list should be updated to reflect the discrepancies identified by this audit.

    QBPO Response: "We agree with recommendation 10 that QBPO 'should maintain a complete and accurate inventory list of its obsolete computers and related equipment' . . . ."

11. The QBPO salvage officer should actively look for ways to relinquish the agency's obsolete inventory in accordance with DCAS regulations.

    QBPO Response: "[W]e also agree with recommendation 11 . . . . The IT Director is finalizing our office's list of obsolete inventory to account for the audit's findings, and upon completion of that list, our salvage officer will consult with DCAS regarding appropriate methods to dispose of our obsolete inventory."

12. The QBPO should comply with the City's inventory relinquishment policy and ensure that it adopts a consistent process and formalizes in writing its procedures for relinquishing its computers and related items.

    QBPO Response: "We also agree with recommendation 12 . . . . We will formalize a written policy for QBPO following our consultation with DCAS discussed above. We will ensure that the procedures adopted by our office promote efficiency in relinquishing obsolete inventory and comply with your report's recommendations, DCAS policy, and best practices in general."

Lack of Systematic Sanitization or Destruction of the QBPO's Electronically-stored Sensitive Information

Regarding information stored on salvaged computer equipment, the *Digital Media Re-use and Disposal Policy* issued by the City's Department of Information Technology & Telecommunications (DOITT) states that

[a]ll digital media must undergo a data sanitization process prior to disposal or reuse to protect against unauthorized access to information. Data Sanitization Procedures will be internally documented by each agency.[4]

The policy further states that

[w]here any equipment containing digital media is to be discarded or re-used, donated, sold or otherwise transferred to an external person, organization or vendor . . . , the City agency must use one of the . . . approved methods appropriate for rendering all information on the media permanently unreadable. . . . An asset can be transferred for disposal to a vendor who has contractually committed to following one or more of the above methods.

Further, federal guidelines state that certain details relating to sanitized equipment should be retained for each piece of electronic media that has been sanitized, including, but not limited to, the manufacturer; model; serial number; media type; sanitization description; method used; and name and title of person performing the sanitization.[5]

However, the QBPO does not have any policy or procedures to sanitize data from relinquished computer equipment. When we inquired about the sanitizing or destruction of its obsolete computers' hard drives in storage, QBPO officials informed us that they removed and securely stored all of the hard drives associated with these computers. QBPO officials also informed us on March 1, 2019 that they have sanitized 28 of the 59 identified hard drives and plan to sanitize the rest by March 4, 2019. When asked about the maintenance of a record for each item sanitized, QBPO officials told us that no information other than a count of the sanitized hard drives is being maintained.

We question whether QBPO officials have identified all of the hard drives from all the obsolete computers. Although the QBPO identified 59 hard drives to be sanitized, at a minimum, they should be sanitizing 72 hard drives—52 from the obsolete towers we observed in the storeroom that were on the inventory list, 9 from the obsolete towers we did not observe in the storeroom that were on the list, and 11 from the obsolete towers we observed in the storeroom that were not on the list.

The QBPO's obsolete computers have been in storage for approximately four years. So long as the hard drives remain intact, there remains a risk that potential sensitive information recorded on the drives could be inappropriately disclosed.

Recommendations

13. The QBPO should establish a written policy and procedure to document its data sanitization process to be used on its digital media prior to their disposal or reuse.

    QBPO Response: "Although QBPO has regularly sanitized hard drives removed from unused or obsolete computers in order to protect sensitive data, we agree that formalizing our procedures in writing is appropriate. We therefore <u>agree</u> with recommendation 13 . . . . We are in the process of drafting such a policy."

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[4] According to the DOITT policy, "digital media" consists of file systems and storage devices, including but not limited to, desktop and laptop computers, servers, photocopiers, fax machines, portable and internal hard drives, optical media (e.g., CDs and DVDs), magnetic media (e.g., tapes, diskettes), electronic media (e.g., memory sticks), portable devices, cell phones, and smart phones.
[5] *Guidelines for Media Sanitization*, United States Department of Commerce, National Institute of Standards and Technology, issued December 2014.

14. The QBPO should ensure that it protects the agency's sensitive and confidential information saved on its digital media (e.g., on its computers' internal hard drives) through a timely sanitization or physical destruction of the storage media. A record of the destruction should be maintained, including, at a minimum, the following details: manufacturer; model; serial number; method and tool that were used; name and title of person performing the sanitization process; and the date and location of the sanitization.

> ***QBPO Response:*** "The written policy [referred to in response to Recommendation 13] will also reflect that we <u>agree</u> with recommendation 14, that QBPO should 'ensure . . . timely sanitization or physical destruction of the storage media' and maintain the information about the sanitized/destroyed drives that you list in this recommendation."

15. The QBPO should immediately sanitize or destroy the remaining internal hard drives removed from its relinquished computers and any other digital media no longer in use to ensure that the agency's sensitive and confidential records are protected.

> ***QBPO Response:*** "[W]e <u>agree</u> with recommendation 15 . . . . This recommendation has already been partially implemented, and all hard drives that have been removed from obsolete and unused computers at QBPO have already been sanitized and are being securely stored pending destruction. We plan to destroy these drives following our consultation with DCAS regarding relinquishment procedures, as discussed above."

Failure to Adhere to Policies and Procedures Regarding Its Purchase and Its Receipt of and Payments for Computers and Related Equipment

According to the QBPO's Inventory Policy, "[e]ach department will order goods via a non-stock requisition [form]. . . . All non-stock forms completed by staff, require approval by supervisor and will then be sent to the Director of Administration for authorization." Further, according to the QBPO's Inventory Narrative, "[t]he Systems Manager receives the shipment, opens the item to check contents, and checks the packing slip against the Purchase Order," and the aforementioned policy states that the packing slip "will be signed, removed and given to Fiscal to be maintained for their records." In addition, according to QBPO officials, the payment process includes the Budget Director's stamping, signing and dating the invoice, documenting his certification that the goods or services have been received, and his approval for payment.

However, we found many instances where the QBPO did not follow its own procedures. We reviewed purchase documentation related to 41 payment vouchers, totaling $101,155, from Fiscal Years 2015 through 2018—representing 40 payments and one return—and found that 32 (78 percent) did not have an approved non-stock requisition form as required; in 31 instances the form was missing, and in 1 instance the form did not have the required approval signatures.

Also, for the 40 payments, totaling $100,175, that we reviewed, we found complete packing slips (meaning that all the items purchased and reportedly received, and for which payment was made, were included on the packing slips provided) for only 18 (45 percent) of them, having a total purchase price of $45,851. Of the remaining 22 payments totaling $54,324, we received no packing slips for 13 of them (having a total purchase price of $35,737). In addition, none of the

27 packing slips provided—consisting of the 18 complete packing slips and 9 partial packing slips (meaning that not all the items purchased and received were included in the packing slips provided)—were signed as required by the persons who received the items.

Because the QBPO uses the packing slips as its official record confirming receipt of the items, it is important for the person receiving and verifying the items sign the packing slips. According to QBPO officials, the reason for the missing packing slips we identified was because vendors do not always provide a packing slip. However, in those instances that a packing slip is not included with the delivery, the QBPO should prepare and sign a receiving report to document the items received.

Additionally, the Budget Director is not enforcing the QBPO's procedure that calls for the director to sign the invoices, documenting his certification that the good or services have been received, before he approves payment in the City's Financial Management System (FMS). We found that the invoices for 26 (65 percent) of the 40 payments reviewed were not stamped, signed and dated by the Budget Director as required.

Further, our review of sampled payments made during the period Fiscal Years 2015 through 2018 revealed that the QBPO made inappropriate payments totaling $2,724, consisting of:

- $506 in a duplicate payment made to Vendor A for a purchase of computer-related accessories, including an HDMI kit, adapter plug and cables. QBPO officials informed us that after we brought this matter to their attention, they requested and received a credit from Vendor A on October 5, 2018.

- $2,218 in sales tax payments for four purchases from Vendor B. According to the New York State (NYS) Department of Taxation and Finance, purchases by City agencies are exempt from sales tax. QBPO officials informed us that after we brought this matter to their attention, they requested and received credit for the tax from Vendor B on March 1, 2019.

Unless the above-mentioned deficiencies are corrected, the QBPO will continue to have an increased risk of paying for items it purchased that it may not have received or receiving and paying for items that it did not order. In addition, the lack of review and approval by the responsible QBPO officials may result in inappropriate payments, such as the duplicate payments and payments of sales tax we identified.

At the exit conference, QBPO officials informed us that in December 2018 they created and began using a vendor payment checklist for its staff to follow to document that the required reviews and approvals have been performed prior to authorizing vendor payments. The Budget Director will provide his final sign-off on the checklist, in place of stamping the invoice as was previously the process, certifying that the goods or services have been received or performed, and that the items and total cost have been verified and found to be correct.

Recommendations

16. The QBPO should consistently adhere to its policies and procedures for purchases and payments, ensuring that approvals are obtained prior to its processing of purchases and payments in the FMS, and that a record of delivery and receipt of all goods and services is maintained and signed by the person accepting delivery.

> **QBPO Response:** "We <u>agree</u> with recommendation 16, that QBPO 'should consistently adhere to its policies and procedures for purchases and payments, ensuring that approvals are obtained prior to its processing of purchases and payments in FMS, and that a record of delivery and receipt of all goods and services is maintained and signed by the person accepting delivery.'"

17. The QBPO should process payments only when all required documents are present (such as original approved requisition forms and signed packing slips or receiving reports) and contain the requisite approvals to help avoid duplicate payments.

> **QBPO Response:** "We also <u>agree</u> with recommendation 17, that QBPO 'process payments only when all required documents are present (such as original approved requisition forms and signed packing slips or receiving reports) and contain the requisite approvals to help avoid duplicate payments.' We disagree, however, with the implication in these recommendations that QBPO somehow executed purchases or payments without the documented approval of the Budget Director. All purchases and payments are reviewed and approved by the Budget Director and a record of this approval is retained in FMS. QBPO has never made a purchase or payment without necessary managerial approval. But the fiscal staff's use of the vendor payment checklist ensures that these approvals are also consistently reflected in physical records."

> **Auditor Comment:** We acknowledge that the Budget Director's approvals of the payments are shown in FMS. However, the audit found that some of the documents that the Budget Director should have reviewed before approving the payments were missing, such as documents reflecting basic details about the items purchased and documentation showing that the purchased items were received. Since such documentation is not found in FMS, the Budget Director's mere approval of the payments in FMS does not establish that the QBPO received the items it paid for. Further, the Budget Director's approving of the payments in FMS did not prevent the duplicate payment found during this audit. Nevertheless, we are pleased that the QBPO has agreed with the recommendation and has already taken steps to implement it.

18. The QBPO should ensure that it does not pay sales tax on any item or service that it purchases on behalf of the City for official business purposes. It should also review its prior purchases to determine whether additional payments of sales taxes were made (other than the ones identified by this audit) and request refunds from those vendors.

> **QBPO Response:** "We also <u>agree</u> with recommendation 18 . . . . The audit identified four payments made to one vendor that mistakenly included sales tax. We acknowledged this oversight when it was brought to our attention and sought and received a reimbursement from the vendor. But it should be noted that it is very uncommon for QBPO to make a sales tax payment in error. Further, pursuant to this recommendation, we reviewed our prior payments and confirmed that QBPO is not currently owed any reimbursement for mistaken sales tax payments."

Inadequate Segregation of Duties

According to Comptroller's Directive #1, *Principles of Internal Control*, "[k]ey 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." In addition, the DOI Inventory Standards require City agencies to reduce the risk of error and fraud by establishing a separation of duties between the employees who handle the assets that constitute an agency's inventory and those who record inventory transactions. Where an agency is so small that complete segregation of duties is not feasible, the DOI Inventory Standards require that compensating controls, such as increased reviews of inventory-related transactions at the managerial or supervisory level.

The QBPO has not sufficiently segregated the duties of maintaining and overseeing inventory among its staff, nor has it established sufficient compensating controls when those duties could not be appropriately segregated. The QBPO has only one individual, the Systems Manager, responsible for overseeing the QBPO's computers and related equipment. The Systems Manager is responsible for the overall direction, strategy, final selection and ordering of the agency's computers and related equipment, as well as for receiving, storing, deploying, tagging, and maintaining the agency's computers and related equipment, which includes maintaining and updating the QBPO inventory list. Those functions involve direct control of valuable assets and the expenditure of potentially hundreds of thousands of dollars.

QBPO officials have not assigned any other individuals to assist in these functions or to establish a measure of independent verification or oversight. The lack of adequate segregation of duties or compensating controls increases the risk that misappropriation or loss of items may occur without detection because key processes intended to aid in the identification of errors or fraud are assigned to and executed by only one individual.

Recommendation

19. The QBPO should ensure that key responsibilities for the management of the agency's inventory of computers and related equipment are adequately segregated or that compensating controls are implemented.

    QBPO Response: "QBPO is a small agency with limited resources; segregating duties among a limited staff often poses a challenge. Despite this, we <u>agree</u> with recommendation 19 . . . . QBPO hired an additional IT Department staff member in April 2019. In order to segregate the responsibilities for managing our technology inventory, many tasks formerly performed exclusively by the IT Director – including tagging and deploying assets as well as updating and maintaining inventory records – are now responsibilities of the new staff member."

Other Matters

Inadequate Storage of Unused Inventory

According to DOI Inventory Standards, City agencies should ensure that "[t]he storage space is divided into specific locations for the storage of all commodities used by the agency . . . [and that a] reference list is developed and maintained to identify each location. Similar items are stored in adjacent locations." However, we found that the QBPO does not maintain its stored inventory of computers and related equipment in a manner prescribed by the DOI standards. The QBPO stores its unused inventory in its computer room, which is also used by the Systems Manager as his office. There are no designated areas in the room identified for the computers and related equipment to be stored.

We observed boxes, including some that contained computer-related and non-computer-related equipment piled on top of one another at one side of the room and at least 80 unboxed items strewn around the floor in a haphazard manner, including old computer towers, monitors and printers. Some items stored in the room date back more than four years to the previous administration, according to the Systems Manager. In the circumstances described above, distinguishing active inventory items from those that are unusable is difficult.

The manner in which the above-described inventory is stored increases the risk that the computer room may contain City-funded equipment that should be tagged and included in the QBPO's inventory list but is not. The lack of an organized equipment-storage system also increases the potential that items could be misappropriated, undetected, or that the QBPO may unnecessarily purchase items that may already be in stock.

Incorrect Object Codes Used for Payments

Comptroller's Directive #24, § 6.0, requires that "Payment Voucher approvers . . . ensure that . . . [t]he appropriate accounting and budget codes are being charged. This includes charging the correct unit of appropriation and correct object code within that unit of appropriation."

However, while reviewing the QBPO's payments to identify possible purchases of computers and related equipment, we found that 18 (20 percent) of 92 sampled payments, totaling $27,490, were categorized with incorrect object codes. For example, we identified the following discrepancies:

- A Samsung TV, costing $1,290, was incorrectly charged to object code 684 (Professional Services – Computers Contractual);

- A Nikon Battery, Nikon Stereo Microphone, and Nikon Cameras, having a total cost of $1,821, were also incorrectly charged to Object Code 684;

- Several subscription services (e.g., LexisNexis, Constituent Database) and Newspaper Advertisements, totaling $4,549, were incorrectly charged to Object Code 199 (Data Processing Supplies); and

- A New York Law Journal subscription, costing $835, was charged to Object Code 332 (Purchase of Data Processing Equipment).

According to the Budget Director, the identified payments were charged to incorrect object codes through an oversight. Using incorrect object codes prevents the QBPO from accurately categorizing the type and amount of each particular expense incurred during the fiscal year. The resulting inaccuracy, in turn, can compromise management's ability to plan future budgets. In addition, using the incorrect object code could potentially conceal a purchase of computers and related equipment, potentially increasing the risk that theft and misappropriation of an agency's computers and related equipment could occur and go undetected.

Recommendations

20. The QBPO should effectively organize its storage space and designate certain areas for its unused computers and related equipment and maintain a reference list identifying the stored locations allowing for easy identification of the equipment.

   QBPO Response: "We agree with recommendation 20 . . . . Pursuant to our review of our relinquishment practices and obsolete inventory, we are also in

the process of reorganizing our storage space. This reorganization will allow us to more efficiently relinquish or reassign items when appropriate."

21. The QBPO should ensure that correct object codes are used when processing payments in FMS.

   QBPO Response: "[W]e <u>agree</u> with recommendation 21 . . . . The incorrect object codes identified by your report resulted from inadvertent oversight. It should be noted that the incorrect categorization of payments is uncommon. Nevertheless, the Budget Director has reviewed and discussed these mistakes with fiscal staff in order to ensure that correct object codes are used moving forward and such mistakes are avoided."

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. 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 primary audit scope period was July 1, 2016 through January 3, 2019.

To obtain an understanding of the policies, procedures and regulations governing the QBPO's controls over its inventory of computers and related equipment, we reviewed and used as criteria the following:

- DOI's *Standards for Inventory Control and Management*;

- Comptroller's Directive #1, *Principles of Internal Control*;

- Comptroller's Directive #24, *Agency Purchasing Procedures and Controls*;

- DOITT's *Digital Media Re-use and Disposal Policy;*

- United States Department of Commerce, National Institute of Standard and Technology, *Guidelines for Media Sanitization*, issued December 2014;

- DCAS' *Office of Citywide Procurement Policies and Procedures—Office of Surplus Activities* (April 2018);

- The QBPO's *Inventory Policy* (Effective November 2013);

- The QBPO's Narrative of its Inventory Process of Computers and Related Equipment;

- FMS Report ID: CWA-OBJDSC-001, *Object Class Descriptions*; and

- NYS Department of Taxation and Finance's Tax Bulletin ST-700 (TB-ST-700), *Purchases and Sales by Governmental Entities*

To obtain an understanding of the QBPO's organizational structure as it related to the management of its computers and related equipment, we reviewed the QBPO organization chart to identify the reporting structures of the units and the personnel involved. We also reviewed the QBPO roles, functions, and responsibilities of the related personnel.

To obtain an understanding of staff responsibilities and the internal control structure over the QBPO's management of its inventory of computers and related equipment, we conducted walkthrough meetings and interviewed the following key agency personnel:

- Budget Director;

- Assistant General Counsel;

- Director of Information Technology (IT);

- Fiscal Officer; and

- Two Community Associates (within the Fiscal Unit).

To obtain an understanding of the QBPO's computerized inventory system, MobileAsset, we had a demonstration of the inventory system with the Director of IT, and reviewed the systems manual.

To determine whether the QBPO performed annual inventory counts, we requested documentation of the agency's inventory counts performed during Fiscal Years 2016 through 2018.

To determine whether the QBPO maintained an inventory list including the key information required by DOI Inventory Standards (e.g., equipment type, manufacturer, serial number and agency control number), we requested from the QBPO its master inventory list of computers and related equipment with all available fields. The QBPO provided us with its master inventory list on May 22, 2018. Subsequent to this initial master inventory list, the QBPO provided us with a second master inventory list on July 23, 2018 to include additional items that were not previously provided. We reviewed the master inventory list to determine whether each listed item had the required key information (as per DOI Inventory Standards). We also reviewed the recorded property identification tag numbers (agency control numbers) to determine whether the agency control numbering sequence was consecutive and that there were no missing numbers. We found that the master inventory list contained 44 gaps in the number sequence with 228 asset tag numbers missing. We randomly selected 60 missing asset tag numbers and reviewed the records of these numbers in MobileAsset to determine whether assets were recorded against these numbers.

In addition, we requested and reviewed the purchase documents (e.g., purchase orders, packing slips and invoices) from the QBPO's most recent capital purchases of computers and related equipment made in Fiscal Year 2015. We traced each item on the purchase orders and packing slips to the inventory list by matching the listed item descriptions and serial numbers (where listed) to ensure that all items were accurately recorded in the QBPO's master inventory list.

We independently generated reports from FMS of the QBPO's payments from July 1, 2014 to June 30, 2018, to identify possible payments made for purchases of computers and related items. First, we judgmentally selected all payments valued at $250 or above that were charged to Object Codes 199 (Data Processing Supplies) and 332 (Purchase of Data Processing Equipment). In total, we identified 65 payments totaling $153,528. Upon further review, we determined that only 41 of these 65 payments, totaling $101,155 were related to computers and related equipment; the remaining 24 payments, totaling $52,373, were for purchases of goods and services other than computer-related equipment, such as software, maintenance services and database services.

Further, to determine whether any additional computers and related equipment were purchased and potentially miscategorized in FMS when the QBPO processed the payments, we reviewed the FMS payment reports covering July 1, 2014 to June 30, 2017 and identified payments charged to object codes other than to Object Codes 199 and 332 to vendors known to sell computer-related items. In total, we identified 329 payments totaling $242,258. From these payments, we judgmentally selected a sample of 27 payments totaling $60,480.

We reviewed the QBPO's payment voucher packages (e.g. requisition forms, packing slips and invoices) for 68 sampled payments, consisting of: the 41 payments for computer-related equipment charged to Object Codes 199 or 332; and the 27 payments charged to object codes other than Object Codes 199 and 332) to determine whether any computers or related equipment were purchased. In total, we identified 47 such items valued at $100 or above, costing a total of $71,949. (These 47 items were associated with 23 of the 41 payments charged to Object Codes 199 or 332; there were no purchases of computers or related equipment identified from the 27

sampled payments charged to object codes other than Object Codes 199 and 332.) We determined whether these purchases of computers and related equipment were properly recorded on the QBPO's master inventory list. As part of our review, we also determined whether the QBPO adhered to its own purchasing and payment procedures and obtained the required approvals, and also determined whether the QBPO affixed property identification tags to each item valued at $100 or more, as per the QPBO's policies and procedures.

In addition, we reviewed and determined whether the above-mentioned 92 sampled payments totaling $214,008—consisting of the 65 payments charged to Object Codes 199 and 332, totaling $153,528, and the 27 payments charged to object codes other than to Object Codes 199 and 332, totaling $60,480—were appropriately categorized with the correct object code.

We conducted a complete physical inventory count at the QBPO's Office of all computers and related equipment on October 18, 22, 24 and November 2, 2018. We attempted to locate all of the items on the QBPO's master inventory list as of October 18, 2018, and compared critical information, such as: serial numbers, tag numbers and location, to the information on the master inventory list. We also identified and recorded items we observed during our counts that were not identified in the agency's inventory list. For each inventory item checked, we determined whether the item was sequentially tagged with appropriate property identification tags. Additionally, we ascertained the identity of all persons who were issued the QBPO cell phones by checking the serial and International Mobile Equipment Identity (IMEI) numbers on the physical cell phones to the information recorded for those phones in the inventory records.

To determine whether the QBPO assigned cell-phone devices to current employees and whether services were discontinued upon the separation of the employees from the agency, we reviewed cell-phone bills for the period July through December 2018, and compared the payments made on behalf of the QBPO staff to the list of personnel employed by the QBPO during these months.

To determine whether the QBPO has a relinquishment policy in place and to ascertain when the QBPO has relinquished any of its computers and related equipment, we interviewed the Fiscal Officer, who is also the QBPO's Salvage Officer, the Budget Director, and the Assistant General Counsel. We obtained a list of all obsolete computers and related items (termed as e-waste by the QBPO). We then conducted a cursory observation of the obsolete computers and related equipment stored in the QBPO's storeroom. We compared all the obsolete computer towers to the e-waste list using the property identification tag numbers. We performed a general count of the obsolete computer monitors, printers and fax machines, and compared the total number of items observed to the total number of items on the list. We also inquired about the hard drives of the e-waste computer towers and their sanitization status.

The results of our tests while not projectable to their respective populations, provided a reasonable basis for us to evaluate and to support our findings and conclusions about the QBPO's controls over its inventory of computers and related equipment.

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July 3, 2019

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

RE: Audit MJ18-123A

Dear Ms. Landa,

Thank you for allowing me to review and respond to your audit report regarding our office's
controls over its inventory of computers and computer-related equipment. I would also like to
acknowledge your staff for their professionalism and courteousness throughout this process.

The Queens Borough President's Office ("QBPO") is committed to maintaining appropriate
controls over its inventory of technology assets. Accordingly — despite some disagreement with
the report's characterization of our prior policies — we accept all of your recommendations for
augmenting our inventory controls, and we have already implemented many of these
recommended procedures.

We respond to each of the report's recommendations below.

Discrepancies Identified with the QBPO's Inventory Records

Your report ultimately confirmed that all technology assets recorded in our master inventory list
at the time of the physical count were ultimately accounted for (with the exception of a cell
phone that an employee had previously reported lost). But we acknowledge that several items
were not correctly documented in the master inventory list or located in a timely fashion, and the
report identifies numerous ways that our inventory recording practices should be improved.

We agree with recommendation 1, that QBPO "should maintain complete and accurate inventory

records of all of its computer(s) and related equipment," which our current policy requires. Regarding the completeness and accuracy of these inventory records, the audit found that the records for some items in our inventory did not include all relevant identifying information and/or included incorrect information. We therefore agree with recommendation 3, that QBPO should "ensure that all necessary and required information for each inventory item is in the master inventory record." We also agree with recommendation 4, that QBPO "should immediately review its inventory records and address the missing and inaccurate information identified during the audit." Our IT Director recently completed a complete review of our inventory records, which are now accurate and complete, and account for the overages identified during the physical walkthrough. In many instances, we were also able to determine the specific reason that incorrect information had been recorded in the database. For example, we discovered that the handheld scanner used to track inventory often would scan the serial number of the speaker bar underneath the monitor rather than that of the monitor itself, resulting in an incorrect serial number being listed for the monitor. These types of errors have been corrected and resolved.

In order to ensure the accuracy and completeness of inventory records moving forward, we agree with recommendations 5 and 6. With respect to recommendation 5, which is to "regularly review, reconcile and update [our] inventory records to ensure that the information recorded is accurate," in April 2019 QBPO hired a new IT staff member who has assumed the responsibility for regularly reviewing and updating our office's inventory records in coordination with the IT Director. With respect to recommendation 6 – which is to "perform and document annual inventory counts of [our] entire inventory of computers and related equipment and ensure that all discrepancies are independently investigated and any adjustments to [our] inventory records are reviewed and approved by management" – we have adopted a new policy that the General Counsel and Budget Director will jointly conduct an independent inventory count on an annual basis, the findings of which will be reported to and approved by the Chief of Staff. The General Counsel and Budget Director will conduct the inventory count every August.

Finally, we agree with recommendation 2, in that QBPO should "ensure that it cancels cell phone service and cease(s) payments for cell phone lines that are inactive and any that are assigned to anyone other than a current, authorized employee." The report references a cell phone line that had been assigned to an employee who left QBPO in September 2018; the line remained unassigned to a new employee until April 2019. Although our IT Director immediately deactivated access to this line by the former employee upon their departure, he kept the line available for reassignment with the expectation that it would be used by the former employee's replacement. Typically, when an employee leaves the office, a replacement is hired shortly thereafter and the line used by the former employee is promptly transferred and reactivated for the new employee. In this particular case, however, QBPO subsequently reevaluated its staffing needs and no replacement was hired. The phone line was later reassigned to a new employee in a different division when it was determined that the new employee required a work cell phone. Although this situation was unique, moving forward we will ensure that QBPO ceases payment for all cell phone lines that are not transferred to a new employee prior to the next billing cycle.

Inadequate Management of Property Identification Tags

We agree with recommendation 7 that QBPO "should ensure that tag numbers are sequentially assigned to all computers and related equipment without skipping tag numbers." As we explained during the course of the audit and you reference in your report, the gaps in the tag sequence resulted from a workaround used by our IT Director due to a limitation with the coordination between our tagging and inventory software systems. Because we have not yet been able to resolve this limitation, we now maintain a log that "adequately tracks the tag numbers to avoid gaps in the numbering sequence," as proposed in recommendation 7. All future tags will be sequential.

We also agree with recommendation 8 that QBPO "should identify all the missing tag numbers in its inventory records and record in the system that these missing numbers have been skipped by the Systems Manager and do not belong to an asset." QBPO has already implemented this recommendation; the IT Director and staff member have confirmed that the missing numbers do not correspond with any assets, and have recorded this information in the log created in response to recommendation 7.

Finally, we agree with recommendation 9 that QBPO "should retag the items with duplicate tag numbers, affix new asset tags to those items identified without one, and update inventory records to reflect these newly issued tag numbers." As mentioned above, our IT Director conducted a comprehensive review of our technology asset inventory and has corrected or issued new tags and updated attendant inventory records as necessary.

Weaknesses in the QBPO's Relinquishment Practices

We agree with recommendation 10 that QBPO "should maintain a complete and accurate inventory list of its obsolete computers and related equipment" and we also agree with recommendation 11 that "the QBPO salvage officer should actively look for ways to relinquish the agency's obsolete inventory in accordance with DCAS regulations." The IT Director is finalizing our office's list of obsolete inventory to account for the audit's findings, and upon completion of that list, our salvage officer will consult with DCAS regarding appropriate methods to dispose of our obsolete inventory.

We also agree with recommendation 12 that QBPO "should comply with the City's inventory relinquishment policy and ensure that it adopts a consistent process and formalizes in writing its procedures for relinquishing its computers and related items." We will formalize a written policy for QBPO following our consultation with DCAS discussed above. We will ensure that the procedures adopted by our office promote efficiency in relinquishing obsolete inventory and comply with your report's recommendations, DCAS policy, and best practices in general.

Lack of Systematic Sanitization or Destruction of the QBPO's Electronically-stored Sensitive Information

Although QBPO has regularly sanitized hard drives removed from unused or obsolete computers in order to protect sensitive data, we agree that formalizing our procedures in writing is appropriate. We therefore agree with recommendation 13, that QBPO "should establish a written policy and procedure to document its data sanitization process to be used on its digital media prior to their disposal or reuse." We are in the process of drafting such a policy. The written policy will also reflect that we agree with recommendation 14, that QBPO should "ensure . . . timely sanitization or physical destruction of the storage media" and maintain the information about the sanitized/destroyed drives that you list in this recommendation.

Finally, we agree with recommendation 15 that QBPO "should immediately sanitize or destroy the remaining internal hard drives removed from its relinquished computers and any other digital media no longer in use to ensure that the agency's sensitive and confidential records are protected." This recommendation has already been partially implemented, and all hard drives that have been removed from obsolete and unused computers at QBPO have already been sanitized and are being securely stored pending destruction. We plan to destroy these drives following our consultation with DCAS regarding relinquishment procedures, as discussed above.

Failure to Adhere to Policies and Procedures Regarding Its Purchase and Its Receipt of and Payments for Computers and Related Equipment

As you mention in your report, as of December 2018 QBPO has adopted a policy requiring the use of a vendor payment checklist that will help prevent the types of rare oversights described in your report and addressed in your recommendations.

We agree with recommendation 16, that QBPO "should consistently adhere to its policies and procedures for purchases and payments, ensuring that approvals are obtained prior to its processing of purchases and payments in FMS, and that a record of delivery and receipt of all goods and services is maintained and signed by the person accepting delivery." We also agree with recommendation 17, that QBPO "process payments only when all required documents are present (such as original approved requisition forms and signed packing slips or receiving reports) and contain the requisite approvals to help avoid duplicate payments." We disagree, however, with the implication in these recommendations that QBPO somehow executed purchases or payments without the documented approval of the Budget Director. All purchases and payments are reviewed and approved by the Budget Director and a record of this approval is retained in FMS. QBPO has never made a purchase or payment without necessary managerial approval. But the fiscal staff's use of the vendor payment checklist ensures that these approvals are also consistently reflected in physical records.

We also agree with recommendation 18, that QBPO "should ensure that it does not pay sales tax

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on any item or service that it purchases on behalf of the City for official business purchases." The audit identified four payments made to one vendor that mistakenly included sales tax. We acknowledged this oversight when it was brought to our attention and sought and received a reimbursement from the vendor. But it should be noted that it is very uncommon for QBPO to make a sales tax payment in error. Further, pursuant to this recommendation, we reviewed our prior payments and confirmed that QBPO is not currently owed any reimbursement for mistaken sales tax payments.

Inadequate Segregation of Duties

As you undoubtedly observed during this audit, QBPO is a small agency with limited resources; segregating duties among a limited staff often poses a challenge. Despite this, we agree with recommendation 19, that QBPO "should ensure that key responsibilities for the management of the agency's inventory of computers and related equipment are adequately segregated or that compensating controls are implemented." As mentioned above, QBPO hired an additional IT Department staff member in April 2019. In order to segregate the responsibilities for managing our technology inventory, many tasks formerly performed exclusively by the IT Director – including tagging and deploying assets as well as updating and maintaining inventory records – are now responsibilities of the new staff member. But because the QBPO IT Department continues to be small, additional compensating controls are appropriate. As discussed above, the General Counsel and Budget Director will conduct annual inventory counts and findings will be presented to the Chief of Staff for review and approval, and the purchase and payment of technology items will continue to be subject to the review and approval of fiscal staff as per our existing policy.

Other Matters

We agree with recommendation 20, that QBPO "should effectively organize its storage space and designate certain areas for its unused computers and related equipment and maintain a reference list identifying the stores locations allowing for easy identification of equipment." Pursuant to our review of our relinquishment practices and obsolete inventory, we are also in the process of reorganizing our storage space. This reorganization will allow us to more efficiently relinquish or reassign items when appropriate.

Finally, we agree with recommendation 21, that QBPO "should ensure that correct object codes are used when processing payments in FMS." The incorrect object codes identified by your report resulted from inadvertent oversight. It should be noted that the incorrect categorization of payments is uncommon. Nevertheless, the Budget Director has reviewed and discussed these mistakes with fiscal staff in order to ensure that correct object codes are used moving forward and such mistakes are avoided.

Thank you for the opportunity to respond to your findings and to improve our practices, as well as for including this response in the published report.

Best regards,

Allan Swisher
Acting General Counsel
Queens Borough President's Office