AUDIT REPORT

Audit Report on the Financial Controls of the Brooklyn Public Library

MD05-059A

June 22, 2005

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

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has audited the financial controls of the Brooklyn Public Library (Library). The audit determined whether the Library expenditures funded by City appropriations were valid and accurate.

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

Audits such as this provide a means of ensuring that City funds are used appropriately and in the best interest of the public.

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

Very truly yours,

William C. Thompson, Jr.
WCT/fh

Report: **MD05-059A**
Filed: **June 22, 2005**

Table of Contents

AUDIT REPORT IN BRIEF

INTRODUCTION

FINDINGS AND RECOMMENDATIONS

ADDENDUM – Library Response

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

Audit Report on the Financial Controls of
The Brooklyn Public Library

MD05-059A

AUDIT REPORT IN BRIEF

This audit determined whether the Brooklyn Public Library (Library) expenditures funded by City appropriations were valid and accurate.

Audit Findings and Conclusions

In general, Library expenditures funded by City appropriations were valid and accurate. Specifically,

- Other Than Personal Services (OTPS) expenditures were documented, reasonable, and necessary for Library operations.

- Purchase orders had proper approvals, and vendor invoices were on file to substantiate the amounts paid.

- Compensation was paid to bona-fide employees.

However, our review disclosed concerns with certain computer equipment inventory practices.

In addition, as part of this audit we reviewed the implementation status of recommendations made in an earlier audit issued by our office, *Follow-up Audit on the Financial and Operating Practices of the Brooklyn Public Library*, issued June 6, 2001. The follow-up audit disclosed that the Library did not work with the City's Office of Management and Budget (OMB) to develop a written cost-allocation plan that specifies expenses to be paid with City appropriations and that requires an explanation of any deviation from the cost allocation plan. The Library and OMB also did not take steps to update the agreement between the City and the Library. Finally, OMB did not conduct an annual review of the Library's book-fine revenues. Of the five recommendations in the earlier audit, four were implemented and one was not implemented.

Office of New York City Comptroller William C. Thompson, Jr.

Based on our findings on the Library's computer equipment inventory practices, we make three recommendations:

Library officials should ensure that:

1. The physical computer equipment inventory list is adequately reviewed and approved by a supervisor.

2. Discrepancies cited in this report are investigated and that the Finance Department's computer equipment inventory list is corrected and updated accordingly.

3. Asset tags are assigned to computer equipment inventory to denote Library ownership and location, and ensure that this information is recorded in the physical computer equipment inventory list.

INTRODUCTION

Background

The Library is one of three separate and independent library systems serving the City. On June 5, 1903, the City, through the Board of Estimate, entered into an agreement with the Library to make it the free public library system in the borough of Brooklyn.

The Library has a Central Library, a Business Library, and 58 branches that offer free, open access to books, periodicals, electronic resources, and non-print materials, as well as career services and education, cultural, and recreational programs. The Library is a private, not-for-profit corporation that receives major support for its operations through City and State appropriations, in addition to support from private donations, book fine revenues, and other sources.

According to the Fiscal Year 2003 Expenditure Report, City appropriations funded $53,435,673 of Personal Services (PS) expenditures, and $13,054,810 of OTPS expenditures. The Fiscal Year 2004 Expenditure Report disclosed that City appropriations funded $54,762,159 for PS and $15,080,308 for OTPS.

Objective

The objective of our audit was to determine whether Library expenditures funded by City appropriations were valid and accurate.

Scope and Methodology

The scope period of our audit was July 1, 2002 through June 30, 2004.

To gain an understanding of the policies, procedures, and regulations governing the Library's operations, we reviewed the Library's *Financial Planning and Management Manual* dated October 22, 2003. To obtain an overview of the Library's flow of revenue and expenditure transactions, we interviewed the Library Controller and managers of the Accounts Payable and Purchasing Units, as well as the payroll bookkeeper. In addition, we obtained the Finance Department's organization chart delineating the lines of responsibility relating to cash receipts, purchasing, and payroll functions.

To determine how the Library allocated its resources, we examined the Library's budget as reported in its *Fiscal Year 2003 Spending Plan.* We reviewed its actual expenditures as reported in its Cash Payments Register for Fiscal Year 2003. We also read the independent auditor's report on the Library's combined financial statements for Fiscal Year 2003.

We reviewed prior audit reports issued by the City Comptroller's Office on the Library's operations: *Audit Report on the Financial and Operating Practices of the Brooklyn Public*

Library, issued June 27, 1996, and *Follow-up Audit on the Financial and Operating Practices of the Brooklyn Public Library*, issued June 6, 2001. To determine the current implementation status of the five recommendations in the 2001 follow-up audit, we interviewed the Controller and analyzed the Monthly Expenditures Reports submitted by the Library to OMB.

We analyzed the documentation for the Library's computerized financial system—the Lawson Management Information System. To determine whether security controls were in place, we interviewed the Systems Manager and received a demonstration of the system.

To determine whether the Library's procurement and purchasing policies and procedures were followed, we randomly selected a sample of 50 OTPS purchases funded through City appropriations from a population of 2,677 purchases made in Fiscal Year 2003 that were each in excess of $1,000. The purchases in our sample totaled $1,497,404 and were taken from a population of purchases that totaled $35,433,148[1]. For each of the sampled items, we ascertained whether purchases had the requisite authorizations and approvals. We reviewed vendor invoices to determine whether the purchases were documented, reasonable, and necessary for the Library's operations. We also verified whether competitive bids were solicited, when required.

To test the Library's controls over its inventory, we reviewed its inventory procedures. We obtained the Library's Fixed Assets Listings for Computer Equipment for Fiscal Years 2003 and 2004. The lists contained a total of 143 equipment purchases funded by City appropriations that totaled $550,647. From the lists, we judgmentally selected all items that were recorded for the Finance Department, a total of 23 items costing $27,349. We selected computer and computer-related items, such as PCs, laptops, and printers, since we considered them to be high-risk equipment that can be easily misplaced or stolen.

We traced these sampled items to the December 2004 computer equipment inventory list, which represented the most recent physical inventory of such items, and ascertained whether they were on hand during our inspection conducted on February 3, 2005. To determine whether these items were accurately recorded on the Library's computer equipment inventory list, we compared the model numbers and manufacturer's serial numbers of the items we observed to those recorded in the December 2004 computer equipment inventory list. In addition, we ascertained whether these items were correctly tagged to denote Library ownership and site location to ensure adequate safeguarding.

We reviewed payroll and personnel duties to ensure that there is proper separation of responsibilities of these functions. We determined whether access to personnel and payroll files is restricted. We also reviewed the Library's written policies and procedures that related to accounting for vacations, holidays and sick leave.

We randomly selected a sample of 20 out of 1,448 employees listed in the June 12, 2004 payroll check register. We selected this period since it was the most recent one available. We reviewed the personnel files for the sampled employees to determine whether they were bona-

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[1] This figure includes all Library expenditures funded by City appropriations and other sources.

fide personnel of the Library and whether the files were adequately maintained.

To evaluate the Library's controls over the collection and accounting for book-fine revenues, we reviewed receipts recorded by a randomly selected branch for June 2004, the last month in our audit scope period. To determine the accuracy of recorded daily receipts, we vouched them to cash register tapes and correction slips. We traced daily collections from the Cash Summary Report to the weekly collections reported in the Fine Income Report for June 2004. We compared the total fines collected for June to the Fine Income Report for Fiscal Year 2004. Finally, we reviewed the Library's Cash Account bank statement for June 2004 to ascertain whether collections were deposited.

The results of the above tests, while not projectable, to their respective populations, provided us a reasonable basis to determine whether Library expenditures funded by City appropriations were valid and accurate.

Independence Disclosure

The Comptroller is one of three City ex officio trustees of the Library. The ex officio trustees in conjunction with the other 22 appointed trustees comprise the Board of Trustees of the Library. The Comptroller sits on the Board through a representative. Neither the Comptroller nor his representative was involved in planning or conducting this audit, or in writing or reviewing the audit report.

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

Library Response

The matters covered in this report were discussed with Library officials during and at the conclusion of this audit. A preliminary draft report was sent to Library officials on May 4, 2005 and was discussed at an exit conference on May 18, 2005. We submitted a draft report to Library officials on May 23, 2005, with a request for comments. We received a written response from Library officials on June 6, 2005.

In their response, Library officials stated that they have taken steps to implement our three recommendations. However, they still disagree with one recommendation from our previous audit.

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

FINDINGS AND RECOMMENDATIONS

In general, Library expenditures funded by City appropriations were valid and accurate.

Specifically,

- OTPS expenditures were documented, reasonable, and necessary for Library operations.

- Purchase orders had proper approvals, and vendor invoices were on file to substantiate the amounts paid.

- Compensation was paid to bona-fide employees.

However, our review disclosed concerns with certain computer equipment inventory practices, which are discussed below:

Physical Inventory List Errors

The Library's December 2004 computer equipment inventory list for the Finance Department contained some errors. Four items were not recorded and two items were recorded twice — one of these items was recorded with an incorrect model number and the other was recorded with an incorrect serial number.

We found no evidence of supervisory review and approval of the computer equipment inventory list. Without supervisory review, accurate data entry on inventory records is not assured. Conducting an accurate physical inventory is important in confirming the accuracy and completeness of the Library's fixed assets of computer equipment. Further, unrecorded items can be misplaced or stolen without being detected.

Recommendations

Library officials should ensure that the:

1. Physical computer equipment inventory list is adequately reviewed and approved by a supervisor.

Library Response: "Computer equipment inventory records will be maintained by the Information Technology Department and reviewed by the Director of Information Technology. The computer equipment inventory records will be forwarded to the Finance Department and, as an added control, independently verified annually by the Controller (or designee)."

2. Discrepancies cited in this report are investigated and that the Finance Department's computer equipment inventory list is corrected and updated accordingly.

Office of New York City Comptroller William C. Thompson, Jr.

Library Response: "The discrepancies noted in this report have been investigated and the computer equipment inventory has been corrected and updated accordingly."

Computer Equipment Not Tagged

None of the sampled computer equipment in the Finance Department was affixed with a tag to denote Library ownership and the equipment's location.

Although Library officials stated that, since October 2004, they have begun to assign an asset tag to each computer (consisting of a PC, monitor, keyboard, and mouse), the December 2004 physical inventory list, which includes such items, has only the manufacturer's serial numbers of each computer listed for identification.

When computer equipment is identified by permanent tags and identified accordingly on the physical computer equipment inventory list, it is less likely to be misplaced or stolen.

Recommendation

3. Library officials should ensure that asset tags are assigned to computer equipment inventory to denote Library ownership and location, and ensure that this information is recorded on the physical computer equipment inventory list.

Library Response: "In Fiscal Year 2005, the Library implemented a major technology upgrade program. . . . As part of this upgrade, all new and existing computers were assigned an asset tag.

"The computer equipment inventory maintained by the Information Technology Department contains the following data for each computer: serial number, asset tag #, location, make, model # and cost. . . . The computer equipment inventory records are forwarded to the Finance Department to become part of the complete physical inventory."

Status of Follow-up Audit Recommendations

Of the five recommendations made in the follow-up audit, four were implemented and one was not implemented. Those recommendations and their current implementation status are as follows:

Previous Recommendation #1: "Library officials should seek assistance from the Office of Management and Budget, and decide which expense items are to be charged against City accounts. A formal, written cost allocation should be consistently applied."

Previous Library Response: "The Brooklyn Public Library (BPL) will provide to OMB for information purposes only an annual cost allocation plan for New York City funds. This plan will support the monthly expenditure reports that are already regularly submitted by BPL to OMB."

Current Status: IMPLEMENTED

Library officials provided us with a copy of the *Spending Plan* for Fiscal Year 2003 which was submitted to OMB showing allocation of City appropriations to specific functional expenses.

Previous Recommendation #2: "Library officials should document and explain any expenses or individual bills not allocated in accordance with its cost-allocation plan."

Previous Library Response: #2: "Consistent with its intent to share some cost allocation information with OMB, BPL will periodically explain any significant variances that may occur in the annual cost allocation plan for New York City funds."

Current Status: IMPLEMENTED

Library officials prepared variance reports and provided them to OMB showing differences between budgeted amounts reported in its *Spending Plan* with actual amounts expended.

Previous Recommendation #3: "The Library and the Office of Management and Budget should ensure that their officials meet to establish a cost-allocation plan that would predetermine specific expense items that should be charged to City accounts and those specific expense items that should be charged to Corporate Accounts."

Previous Library Response: "BPL will provide to OMB for information purposes only an annual cost allocation plan for NYC funds"

Current Status: IMPLEMENTED

Same as stated earlier for Recommendation #1

Previous Recommendation #4: "The Library and the Office of Management and Budget should ensure that their officials, together with the Mayor's Office of Operations, seek to amend and update the 1903 agreement with the City. The new agreement should more clearly define each party's duties, obligations, and responsibilities. In addition, the Comptroller's audit authority should include full and detailed access to all Library records."

Previous Library Response: "BPL continues to maintain that it is unnecessary to

change in any way its existing agreement with New York City."

Current Status: NOT IMPLEMENTED

In their comments, Library officials stated, "the BPL (and OMB officials, as expressed in OMB's response of May 22, 2001) continues to maintain that it is unnecessary to change in any way the existing long-term agreement with New York City."

Previous Recommendation #5:   "OMB should review the book-fine revenue annually, and take the revenue received from this funding source into consideration when budgeting future City appropriations."

Previous OMB Response: "OMB uses all financial information available in determining the best mix of public and private funding; and will continue to require the submission of a detailed spending plan at the beginning of the fiscal year."

Current Status: IMPLEMENTED

Library officials stated that they report book-fine revenue on a semi-annual basis in the "Mayor's Management Report" and are required to submit an annual spending plan to OMB.

**Brooklyn
Public
Library**

June 6, 2005

Mr. Greg Brooks
Deputy Commissioner
Policy, Audits, Accountancy and Contracts
The City of New York
Office of the Comptroller
1 Center Street
New York, NY 10007-2341

Re: DRAFT REPORT
       Audit Report on the Financial Controls
       of the Brooklyn Public Library
       Audit Number: MD05-059A

Dear Mr. Brooks:

Thank you for providing Brooklyn Public Library ("BPL") with a copy of the above draft report. We appreciate the opportunity to add our comments before a final version of the report is released to the public. Our comments are as follows:

Previous Recommendation #4: (p. 8 of the DRAFT REPORT) "The Library and the Office of Management and Budget should ensure that their officials, together with the Mayor's Office of Operations, seek to amend and update the 1903 agreement with the City. The new agreement should more clearly define each party's duties, obligations, and responsibilities. In addition, the Comptroller's audit authority should include full and detailed access to all Library records."

BPL's Current Response – BPL (and OMB officials, as expressed in OMB's response of May 22, 2001) continues to maintain that it is unnecessary to change in any way the existing long-term agreement with New York City.

New Recommendation #1: (p. 6 of the DRAFT REPORT) "Library officials should ensure that the physical computer equipment inventory list is adequately reviewed and approved by a supervisor."

BPL Response to DRAFT REPORT
May 26, 2005
Page 2 of 3

BPL's response – In Fall 2004, BPL began a project to review and update its practices for managing fixed assets. Establishing routines for maintaining accurate physical inventory records (including computer equipment inventory) is part of this effort. Going forward, computer equipment inventory records will be maintained by the Information Technology Department and reviewed by the Director of Information Technology. The computer equipment inventory records will be forwarded to the Finance Department and, as an added control, independently verified annually by the Controller (or designee). Inventory records for all other fixed assets will be maintained by the Purchasing Department and reviewed by the Purchasing Manager, with annual independent verification by the Controller (or designee). Together, the computer equipment inventory records and the other fixed asset records will comprise the BPL Physical Inventory, which is maintained by the Controller.

New Recommendation #2: (p. 6 of the DRAFT REPORT) "Library officials should ensure that the discrepancies cited in this report are investigated and that the Finance Department's computer equipment inventory list is corrected and updated accordingly."

BPL's response – The discrepancies noted in this report have been investigated and the computer equipment inventory has been corrected and updated accordingly.

New Recommendation #3: (p. 7 of the DRAFT REPORT) "Library officials should ensure that asset tags are assigned to computer equipment inventory to denote Library ownership and location, and ensure that this information is recorded on the physical inventory list."
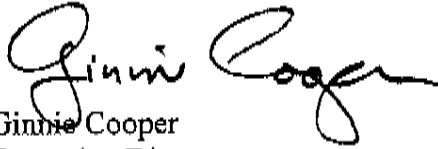
BPL's response – In fiscal year 2005, BPL implemented a major technology upgrade program, replacing 951 public use and staff computers. As a part of this upgrade, all new and existing computers were assigned an asset tag. Staff and public use computers were affixed with asset tags with a numbering sequence of 'sxxxx' and 'pxxxx', respectively

The computer equipment inventory maintained by the Information Technology Department contains the following data for each computer: serial number, asset tag #, location, make, model # and cost. As mentioned in BPL's response to recommendation #1, the computer equipment inventory records are forwarded to the Finance Department to become part of the complete Physical Inventory.

BPL Response to DRAFT REPORT
May 26, 2005
Page 3 of 3

Again, thank you for the opportunity to provide our comments, which we understand will
be included in your final report.

Yours truly,

Ginnie Cooper
Executive Director

Cc: John Vitali, CFO