

AUDIT REPORT

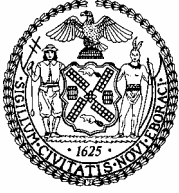


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Financial Controls of the New York Public Library

MG05-092A

November 22, 2005



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

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has audited the New York Public Library to determine whether Library expenditures funded by City appropriations were valid and accurate.

The City supports the Library by providing yearly tax-levy appropriations, and the Library uses these funds for general operating expenditures, such as payroll, fringe benefits, book purchases, supplies and equipment. We audit organizations such as this to ensure that non-City organizations receiving City funds expend those funds appropriately and in accordance with established procedures and safeguards.

The results of our audit, which are presented in this report, have been discussed with Library officials, and their comments have been considered in the preparation of this report. Their complete written responses are attached to this report.

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

Very truly yours,

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

William C. Thompson, Jr.

WCT/ec

Report: MG05-092A

Filed: November 22, 2005

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

**Audit Report on the Financial Controls of
The New York Public Library**

MG05-092A

AUDIT REPORT IN BRIEF

This audit determined whether the New York Public Library (Library) expenditures funded by City appropriations were valid and accurate. The Library uses funds from City appropriations for general operating expenditures such as payroll, fringe benefits, book purchases, supplies, and equipment. For Fiscal Year 2004, Library expenditures from City appropriations were \$87,031,652 for Personal Services (PS) and \$29,582,615 for Other Than Personal Services (OTPS).

Audit Findings and Conclusions

In general, the New York Public Library expenditures funded by City appropriations were valid and accurate.

Specifically,

- OTPS expenditures were reasonable and necessary for Library operations.
- Vendor invoices were in the system to substantiate payments, and payments were valid and accurate.
- Fines and fees collected at Library branches were accurately reported to the Accounting Department and deposited in the bank.

The Library also maintained adequate personnel files that contained all required and appropriate documentation. Additionally, the Library implemented three of the five recommendations made in the previous audit report, *Follow-Up Audit Report on the Financial Operating Practices of the New York Public Library*, issued June 29, 2001.

However, the audit disclosed some internal control deficiencies in the Library's purchasing practices, inventory management, and record-keeping of computer equipment.

Specifically, the Director of the Purchasing Department did not oversee the purchases of goods and services incurred by the Library Facility Department; purchase orders were issued without required competitive bidding or proper approval; some files were incomplete, lacking contractual agreements documenting the justification for purchasing certain goods and services; and some expired contracts were not renewed although vendors continued to perform services. In addition, there was a lack of segregation of duties in the management of equipment leases.

Audit Recommendations

To address these issues, we make 12 recommendations. The major recommendations are that the Library should:

- Ensure that all purchase orders are properly approved and authorized by the appropriate personnel in the Purchasing Department.
- Ensure that the Purchasing Department follows the Library's policies and procedures for procurement of all goods and services. This would include purchases incurred for the Facility and Information Technology Group (ITG) and all other Library departments.
- Ensure that all expired contracts are renewed through competitive bidding before additional purchases are made on those contracts, and that purchase orders are not issued against expired contracts.
- Establish written procedures for the inventory of all computer equipment. The procedures should ensure that all equipment, whether in the warehouse or installed in the Library, is accurately accounted for in the Library's inventory records.
- Ensure that distribution of computer equipment from the warehouse is appropriately documented and recorded in the master inventory database.
- Regularly update its computer equipment inventory records, verify that equipment is properly tagged, ensure that equipment is in the reported location, and ensure that additions and deletions of inventory are properly recorded.

INTRODUCTION

Background

The New York Public Library (Library) is a private, not-for-profit educational corporation. It is one of the three separate library systems serving the City. In 1895, the Astor and Lenox Libraries consolidated with the Tilden Trust to form the Library. Six years later, in 1901, the New York Free Circulating Library consolidated with the Library. It was during that time that philanthropist Andrew Carnegie offered the Library a gift of \$5.2 million to establish sites for 65 Branch Libraries and fund their maintenance and operation. In July 1901 the Library entered into an agreement with the City of New York to operate those Branch Libraries.

The Library serves the residents of the Bronx, Manhattan, and Staten Island through its 85 branches and four research centers. In addition to allowing individuals to borrow books, the Branch Libraries offer free English classes, computer training, job counseling, and educational guidance. The research centers offer non-circulating collections to the public.

The City supports the Library by providing yearly tax-levy appropriations from its annual budget. The Library also receives funding from New York State, the federal government, private donations, book fine revenues, and library fees. The Mayor, the Comptroller, and the Speaker of the City Council are ex officio members of the Library Board of Trustees.

The Library uses funds from City appropriations for such general operating expenditures as payroll, fringe benefits, book purchases, supplies, and equipment. For Fiscal Year 2004, Library expenditures from City appropriations were \$87,031,652 for Personal Services (PS) and \$29,582,615 for Other Than Personal Services (OTPS).

Objective

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

Scope and Methodology

The scope period of this audit was Fiscal Years 2004 and 2005 through March 2005.

To achieve the objectives of our audit, we interviewed Library personnel to gain an understanding of the internal controls and processes over personnel, payroll, timekeeping, purchasing, and the collection of fines and fees. Based on the interviews and our review of the Library's policy and procedures manual, we documented the processes and entered them on a flowchart. We also reviewed relevant documentation and conducted audit tests to assess the Library's compliance with its own policies and procedures. We then evaluated the internal

controls over personnel and payroll, the collection and recording of fines and fees, purchases, and payments to vendors to determine whether the controls were adequate.

We obtained and reviewed Library policies and procedures regarding the processing of OTPS expenditures and fine and fee transactions through the Library computer system, which uses a software package called PeopleSoft.

We reviewed prior audit reports issued by the Office of the New York City Comptroller on the Library's operations: *Audit Report on the Financial Operating Practices of the New York Public Library*,” issued June 27, 1996, and *Follow-Up Audit Report on the Financial Operating Practices of the New York Public Library*, issued June 29, 2001. To determine the current implementation status of the five recommendations made in the 2001 follow-up audit report, we interviewed Library officials and reviewed the relevant documents. In addition, we reviewed the Library's certified financial statements for Fiscal Years 2003 and 2004.

In Fiscal Year 2004, the Library made 18,938 disbursements totaling \$24,156,235. We stratified the population to identify 2,678 disbursements with dollar values of \$1,000 or more, which amounted to \$21,384,700. To ascertain whether the Library complied with its own policies and procedures for the purchasing of goods and services, we randomly selected a sample of 50 of the 2,678 disbursements, totaling \$312,699, for review.

For the 50 disbursements sampled, we reviewed records from the Purchasing and Accounts Payable Departments. We reviewed the purchase orders to determine whether they were complete, authorized, and appropriately used. We also reviewed the initial procurement records to determine whether the purchase requisitions were properly approved and whether bids, price quotes, or Requests for Proposals were obtained, when required by Library purchasing procedures.

We examined all the invoices related to our sample of 50 disbursements to determine whether the goods ordered were received and whether the services purchased were performed. We compared the amounts on the invoices to the amounts shown on the related purchase orders. We also reviewed the invoices to determine whether they were authorized for payment. In addition, we reviewed the canceled checks to determine whether they had been endorsed appropriately.

We judgmentally selected the month of June 2004, the last month of the fiscal year, and randomly selected one of the banks where branch libraries are authorized to make deposits. For this bank, there was only one branch that made deposits. We then tested the deposits made by that branch to determine whether the Library properly recorded the fines and fees collected by that branch. The Branch Library reports each day's collection of fines and fees on a cash receipt report. We compared the amounts on the cash receipts report submitted by the branch that made deposits to the bank to the amounts of fines and fees recorded in the Library accounting system. We also reconciled the bank statement with the deposit slips and the cash receipts report to determine whether all fines and fees recorded for June 2004 were deposited. We examined all June 2004 disbursements made by the sampled Branch Library from its petty cash (which is funded by collected fines and fees) for proper supporting documentation and authorization.

To evaluate the accuracy of the Library's equipment inventory records, we selected - computer equipment for our review because it constitutes the major part of the inventory that is not basic supplies. The Library's Information Technology Group (ITG) is responsible for maintaining controls over the Library computer equipment. This includes maintaining the records as well as installing computer equipment in various locations. On October 29, 2004, we performed an inventory count of the computer equipment in the warehouse; we compared the computer equipment recorded as received to the physical inventory present in the warehouse.

We also performed on January 25, 2005, an observation of the computer equipment installed at work stations in the Accounting Department at the Central Office to determine whether equipment recorded in ITG master inventory database was at the designated sites and was tagged and identified as property of the Library. The Accounting Department was selected because it is one of the Library's largest departments.

To determine whether the Library complied with its personnel procedures, we randomly selected the names of 20 of the 35 employees paid from funds categorized as City general expenses for branches in Fiscal Year 2004.¹ We examined the related files to determine whether the employees were bona fide personnel of the Library and whether the personnel files contained required documents, such as letter of appointment, Immigration and Naturalization Service Form I-9, proper identification, and evaluations. We also observed the March 4, 2005, payroll distribution at the Library's Central Branch.

We evaluated the reliability and integrity of the Library's computer-generated financial data by testing the completeness and accuracy of this data. We randomly selected 30 vendor invoices from the 18,938 vendor invoices in the Library Accounts Payable filing cabinets that were processed in Fiscal Year 2004. We compared the information shown on the invoices with the information entered in the computer system. It should be noted that the Library's external auditors attested to the Library's financial statements for Fiscal Years 2003 and 2004.

We did not expand the initial samples we selected because, based on the results of our testing, we determined that expanding the samples would not substantially change our conclusions. The results of the above tests, while not projectable to the respective populations, provided us a reasonable basis to determine whether the Library's expenditures funded by City appropriations were valid and accurate.

Independence Disclosure

The Comptroller is one of three City ex officio trustees of the New York Public Library. The ex officio trustees together with the appointed trustees constitute the Board of Trustees of the New York Public Library. The Comptroller participates on the Board through a designated representative. Neither the Comptroller nor his representative was involved in planning or conducting this audit or in writing or reviewing the audit report.

¹ The Library has five categories of funds coded as followed: 10001 (City General, Branches), 10006 (Adult Literacy), 10007 (Class, School Program), 40001 (City General, Research), and 17004 (Fines and Fees Revenues).

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

Discussion of Audit Results

The matters covered in this report were discussed with Library officials during and at the conclusion of this audit. A preliminary draft report was sent to Library officials on September 13, 2005, and was discussed at an exit conference on September 27, 2005. On October 13, 2005, we submitted a draft report to Library officials with a request for comments. We received a written response from the Library on October 27, 2005.

The Library agreed with all 12 recommendations made in this report.

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

FINDINGS AND RECOMMENDATIONS

In general, the New York Public Library expenditures funded by City appropriations were valid and accurate. Specifically,

- OTPS expenditures were reasonable and necessary for the Library operations.
- Vendor invoices were in the system to substantiate payments, and payments were valid and accurate.
- Fines and fees collected at Library branches were accurately reported to the Accounting Department and deposited in the bank.

The Library also maintained adequate personnel files that contained all required and appropriate documentation. Additionally, the Library implemented three of the five recommendations made in the previous audit.

However, there were some control deficiencies in the Library's financial practices that could affect expenditures of City funding. For example, the Library was deficient in its purchasing practices and its tracking and record-keeping of computer equipment. Specifically, the Purchasing Department did not oversee the purchases of goods and services incurred by the Library's Facility Department; purchase orders were issued without required competitive bidding or proper approval; some files were incomplete, lacking contractual agreements documenting the justification for purchasing certain good and services; and some expired contracts were not renewed although vendors continued to perform services. Additionally, there was a lack of segregation of duties in the management of equipment leases and there were inadequate controls over computer equipment inventory.

Our findings are discussed in greater detail in the following sections of this report.

Inadequate Internal Controls in the Purchasing Department

No Oversight of Purchases Incurred by the Facility Department

Our review of 50 disbursements totaling \$312,699 disclosed that there were seven (14%) disbursements totaling \$93,065 related to purchase orders whose purchase-order amounts were changed without proper authorization, approval, or justification. All seven of these disbursements were for services received by the Facility Department.

According to Library procedures, "Commitments by the Purchasing Department must first have proper approval of authorized personnel. In addition, approval signatures, either written or electronic, must be obtained prior to making commitments for New York Public Library."

According to Purchasing and Facility officials, the Facility Department instructed the Purchasing Department to change purchase order amounts when the Facility Department deemed it necessary. However, the Library could not provide any documentation showing the appropriate authorization and approval for the changes to these purchase orders. It appears that the Purchasing Department processed those changes without formal authorization or justification. For example, one purchase order, issued for Spartan Security Services, was changed several times throughout the course of the fiscal year; the revised purchase orders were not signed. The purchase order was initially issued September 19, 2003, for \$220,000. It was later increased, on January 24, 2004, by \$217,800, bringing the amount to \$437,800. The amount was then later decreased on May 26, 2004, by \$120,000, resulting in a new purchase order amount of \$317,800. The only statement appearing on the purchase order was "Funds needed to complete FY04."

We brought the matter of the lack of authorization and documentation for revising these purchase order amounts to the attention of the Director of Purchasing. He stated that the Purchasing Department does not monitor the Facility Department's purchasing and that the Facility Department monitors its own purchases and negotiates its own contracts. This practice bypasses Purchasing Department controls in place.

The failure to apply controls in the Purchasing Department over purchases of the Facility Department resulted in purchase orders being revised without formal documentation indicating the appropriate authorization, justification, and approval as required. Moreover, the changes to purchase order amounts suggest that the Facility Department may be encumbering funds that could be used for other Library purposes.

Services Procured without Formal Contracts and Without Following the Library's Purchasing Procedures

Of the 50 disbursements that we reviewed, nine totaling \$143,552 were related to contracts. Of those nine disbursements, two were related to contracts that had expired and had not been renewed, even though the vendors still provided the services. Three other disbursements were related to purchase orders containing a reference to a contract number for which there was no corresponding contract. Nevertheless, the Library continued to place orders with these vendors, although there were no valid contracts. We also found that the Library purchasing procedures, including provisions for competitive bidding, were not always followed as required.

Vendors Providing Service without Contract

According to Library procedures,

"Competitive bidding must occur when the estimated expenditure for a product or service exceeds \$2,500 (\$10,000 in the case of Facilities). Routine services and contract that have a forecast requirement will be bid for on an annual or multi-year basis as determined by the internal requestor and Purchasing. Any exception

to this process must be documented and approved in writing by the Library Purchasing manager prior to any commitment being made with a supplier.”

Two of the nine disbursements were related to contracts that had expired; however, the vendors continued to provide the services. The two disbursements were for security and maintenance services that were procured and monitored by the Facility Department.

For example, Spartan Security, the Library’s largest supplier in terms of dollar value of purchases, had a contract with the Library from July 23, 1999, to June 30, 2002. After the contract expired, the services should have been rebid. However, the Library continued to obtain services from Spartan for more than two additional years, with annual expenditures of approximately \$3.5 million. Even after the Library rebid for security services in the last half of Fiscal Year 2004, it did not execute a formal contract with Spartan Security until March 9, 2005, with a term of five years and an effective date of January 1, 2005.

In January 2005, when we asked the Purchasing Director why Spartan Security was still providing services without a contract, he said that the Director of the Facility Department was managing this service, and his Department had no say in the matter. As stated previously, purchases managed by the Facility Department bypass the controls of the Purchasing Department.

In subsequent discussions with the Purchasing Director and the Director of Finance, we were told that changes were being made to centralize the management of all Library purchases. According to the officials, the Purchasing Department would have formal oversight of the entire purchasing process. This would eliminate the Facility Department from independently negotiating contracts and its bypassing of purchasing controls and Library procedures. The officials further stated that a full review of all contracts would be made and that formal contracts would be issued for all existing purchases when required.

Failure to Follow Competitive Bidding Procedures

The Purchasing Department failed to solicit bids when required by Library purchasing procedures and did not maintain complete bidding records. We found that there were no controls to ensure that competitive bidding procedures were followed. The failure to solicit bids includes that of the Facility Department when making purchases.

Our sample of 50 disbursements indicated that 18 purchases totaling \$236,165 required bids. Based on our review of the files, 10 of the 18 (56%) were made without the required bids. Specifically, five of 10 purchases were above \$50,000, requiring the use of a Request for Proposals or Request for Qualified Bids to solicit at least three written bids; four of the 10 purchases were more than \$10,000 but less than \$50,000, thus requiring a minimum of three written bids; and the remaining purchase of the 10 was between \$2,500 and \$10,000, thus requiring a minimum of two written bids.

The Library had no documentation in its purchasing files indicating whether the required number of bids was obtained for these purchases or how the chosen vendors were selected. The

only bidding document in the files for these purchases was the bid summary, which listed only the vendor that was awarded the contract. For example, the Library purchased maintenance services for \$49,685 from the Lincoln Center for Performing Arts. While three written bids were required, the files showed only the bid documentation for Lincoln Center, the selected supplier. Even if this vendor was chosen through a sole-source procedure, the Library's procedures indicate that "any exception to this process [i.e., competitive bidding] must be documented and approved in writing by the Library Purchasing manager."

The lack of oversight by the management of the Purchasing Department resulted in funds being committed without proof that the proper bidding procedures were followed. As a result, the Library may have paid more than necessary for the goods and services it purchased. In addition, by not maintaining adequate records to indicate that vendors were selected in an objective and fair manner, the Purchasing Department failed to preserve the integrity of the Library vendor-selection and bid-award processes.

Inappropriate Tracking of Contracts

The Library does not have an adequate tracking system that can link the contract numbers appearing on purchase orders to actual contracts. Although contract numbers appear on purchase orders that were issued against a contract, the contract numbers affixed to the purchase orders had no relationship to actual contracts.

Of our sample of 50 disbursements, 19 had related purchase orders. We reviewed these purchase orders and found that 11 listed contract numbers. Our review disclosed that the contract numbers on the 11 purchase orders had no relationship to actual contracts. We requested copies of contracts based on the contract numbers shown on our 11 sampled purchase orders. In some cases, we were told that no contract existed, and in other cases we were given a copy of a contract not related to the purchase order. In fact, five of the purchase orders were related to the same contract, but different contract numbers were listed on each purchase order; and the contract the Library provided corresponding to these purchase orders lacked a contract number.

According to the Purchasing Director, contract numbers are automatically generated by the Library computer system to track contracts so that the department can confirm at any given time the number of existing contracts and the number of purchase orders issued against a specific contract.

However, the contract numbering system used on the purchase orders does not correspond to the actual contracts. As a result of this inadequate tracking system, Library officials do not know the actual number of contracts or the number of purchase orders issued against contracts.

When we brought this matter to the attention of Library officials, they told us that the problem existed because the contract module in the old version of PeopleSoft did not allow for the proper tracking of contracts. According to the Purchasing Director, the new version of

PeopleSoft, Version 8.8, will have a contract module that will allow them to establish a master number for each contract and will eliminate the multiple numbering system.

Purchase Orders Not Issued When Required

The Library procedures require that purchase orders be issued for all purchases in excess of \$1,000 that are not made online, even if a contract already exists with the vendor. However, of 24 sampled disbursements exceeding \$1,000 and requiring purchase orders, the Library did not issue purchase orders for five purchases totaling \$87,606. For example, a payment of \$44,500 was made to PeopleSoft, and a payment of \$3,940 was made to Serial Solutions, although no corresponding purchase orders were issued.

These incidences occurred because requisitioning departments procured goods and services directly from the vendors, bypassing the Purchasing Department. Therefore, funds were committed without being encumbered. By not following Library procedures, savings opportunities may be lost, and the Library may be paying more than it should for goods and services.

Recommendations

The Library should:

1. Ensure that all purchase orders are properly approved and authorized by the appropriate personnel in the Purchasing Department.

Library Response: The Library agreed with this recommendation, stating, “The Library recognizes that its policies and practices need to be revised and updated. As a result, the Library is currently undergoing a review of its procurement practices. . . . Policies and procedures will ensure that purchase orders are properly approved and authorized by appropriate personnel.”

2. Ensure that any changes to purchase-order amounts are appropriately authorized, approved, justified, and properly documented.

Library Response: The Library agreed with this recommendation, stating, “The revised policies referred to previously will include a process for changes to purchase orders. Purchasing Department documentation will include appropriate authorization and justification for changes.”

3. Ensure that the Purchasing Department follows the Library’s policies and procedures for procurement of all goods and services. This would include purchases incurred for all Library departments such as Facility and ITG.

Library Response: The Library agreed with this recommendation, stating, “The Purchasing Department has continuously requested that all departments, including Facilities and ITG, adhere to the Library’s Purchasing policies. . . . The Library

recognizes that compliance is lacking in this area. The Purchasing Department will work with senior management to ensure that all departments covered under the revised policy adhere to such policies and procedures.”

4. Ensure that all expired contracts are renewed through competitive bidding before additional purchases are made on those contracts, and that purchase orders are not issued against expired contracts.

Library Response: The Library agreed with this recommendation, stating, “As part of the Library’s review and update of its procurement policies and procedures, the Library is committed to developing procedures for competitive bidding and will monitor timing of contract renewals, as appropriate.”

5. Comply with its bidding procedures to ensure that the required number of solicited bids is obtained and the selection and award process is documented.

Library Response: The Library agreed with this recommendation, stating, “With the support of senior management, the Purchasing Department will enforce compliance with competitive bidding policies and procedures, and that the selection and award process is appropriately documented.”

6. Ensure that all purchase orders related to contracts correctly identify those contracts.

Library Response: The Library agreed with this recommendation, stating, “The Purchasing Department will ensure that purchase orders related to contracts will correctly identify those contracts.”

7. Ensure that purchase orders are issued for all purchases that are not made online and that are valued at more than \$1,000, as required.

Library Response: The Library agreed with this recommendation, stating, “As previously mentioned, the Library is currently undergoing a review of its procurement practices and will modify policies and procedures, where necessary, to ensure that they reflect appropriate procedures for purchases, whether conducted online or not, and that documented policies and procedures are followed.”

Lack of Segregation of Duty in Equipment Leasing

Good business practice requires a segregation of duties among the authorization, recording, and payment functions of accounting transactions. Our review disclosed that there is no segregation of duties at the Library in the management of equipment leasing.

Although, the Director of Purchasing is required to approve contracts and agreements, the Associate Purchasing Manager is solely responsible for managing equipment leases. She approves the purchase requisitions, negotiates the equipment leases, approves the purchase

orders, records lease-payment information, and tracks the lease payments. Although we did not find any errors in the equipment leases, the lack of segregation of duties and the lack of management oversight would make any errors or irregularities difficult to detect.

Recommendation

8. The Library should segregate the functions of negotiating equipment leases, approving and tracking of lease payments, and provide management oversight.

Library Response: The Library agreed with this recommendation, stating, “The Purchasing Department has already developed revised procedures to ensure that the responsibilities for approving purchase requisitions, negotiating equipment leases, approving the purchase orders, recording lease payment information, and tracking lease payments are appropriately segregated.”

Lack of Inventory Controls

The Library does not have effective inventory controls in place to ensure that its computer equipment is accounted for in its warehouse and when it is transferred from the warehouse for use in Library operations. The warehouse clerk does not always document and record when equipment is received and when it is transferred from the warehouse; and the ITG Department does not always ensure that when computer equipment is installed at workstations, it is tagged as property of the Library and recorded in the Library’s master inventory database.

Lack of Inventory Controls at the Library’s Central Warehouse

The Library has poor inventory management and controls. It has no procedures in place to ensure that all computer equipment received and transferred is recorded in its inventory records. As a result, the computer equipment inventory records maintained by the Library are inaccurate.

According to the warehouse clerk, the Purchasing Department enters the purchase of computer equipment on a Purchasing control spreadsheet named Shared Drive. When the equipment is received, the warehouse clerk should count the equipment received and enter the serial numbers and the date of receipt on the Shared Drive spreadsheet, and record the information in the Library’s master inventory database. In addition, the warehouse clerk should indicate on the Shared Drive spreadsheet when the computer equipment is transferred to another location in the Library. However, we found that when new computer equipment is received at the warehouse, the clerk does not record receipt in the master inventory database, and that the transfer of computer equipment to the end-user was not always documented. Therefore, the Library does not have an accurate inventory database to track receipts and transfers of computer equipment.

On October 29, 2004, we conducted an inventory count of the computer equipment in the warehouse. The Shared Drive spreadsheet listed 334 items of computer equipment that should have

been there.² There was no indication on the spreadsheet that those items were transferred from the warehouse. Of the 334 items, 153 were not in the warehouse. The warehouse clerk could provide documentation for only 54 items that were transferred to other locations in the Library. There was no documentation (e.g., signed delivery slips) indicating the locations of the remaining 99 items of computer equipment. For example, the spreadsheet listed four laptop computers as received and not transferred from the warehouse. The warehouse clerk could provide evidence that one laptop was properly transferred, but the location of the other three could not be determined.

In addition, the 181 items of computer equipment that we observed in the warehouse were purchased up to five years earlier; 65 items were received between 2000 and 2003, and 116 were received in 2004. Those items may have been overlooked by Library officials, because when new equipment is received it is not always recorded in the master inventory database. When we brought this issue to the attention of the Library officials, they said that they were not aware of it. As a consequence of poor inventory management, it appears that some of this equipment may never be used because it has become obsolete.

As a result of the lack of adequate inventory controls over the receipt and distribution of computer equipment from the warehouse, the Library runs the risk of wasting resources by permitting its computer equipment to become obsolete before use, as well as susceptible to undetectable theft.

Inaccurate Inventory Records

The Library's inventory records for computer equipment are inaccurate. We found computer equipment installed in the Accounting Department that was not recorded in the master inventory database and not properly tagged as property of the Library. As stated above, we found that the receipt of new computer equipment is generally not recorded in the master inventory database by the warehouse clerk. Moreover, when computer equipment is installed at designated Library work sites, the ITG staff does not ensure that the locations are recorded in the master inventory database and tagged the property of the Library.

On January 25, 2005, we conducted an inventory count of the computer equipment in the Accounting Department. We determined whether the 21 items of computer equipment listed in the inventory master database were in the indicated locations in the Accounting Department and were tagged as property of the Library. We found that:

- Two Central Processing Units (CPUs) and three monitors were not in the Accounting Department;
- Two of the six printers in the Accounting Department were not listed on the master inventory records, and one printer was not tagged as property of the Library;
- Two printers were assigned the same tag number;
- Five CPUs and six monitors were not listed on the master inventory records. In addition, those items, which were new, were not tagged as property of the Library.

² Our analysis showed that 158 (47%) of the 334 computer equipment items listed on the spreadsheet were purchased with funds from City appropriations.

There is a lack of management oversight, and there are inadequate controls over the computer equipment inventory and records maintenance. New computer equipment was not tagged with the Library's property label by the ITG Department, as required, nor was it accounted for in the Library master inventory database. Further, there are no written procedures detailing the inventory management process and requiring that all computer equipment be accounted for by the Library. To reduce the risk of loss and theft of this valuable equipment and to improve its accountability for City funding, the Library needs to institute controls and establish records that will accurately account for all its computer equipment.

Recommendations

The Library should:

9. Establish written procedures for the inventory of all computer equipment. The procedures should ensure that all equipment, whether in the warehouse or installed in the Library, is accurately accounted for in the Library's inventory records.

Library Response: The Library agreed with this recommendation, stating, "The Library's Information Technology Group has already started to implement much of the auditors' recommendations. . . . ITG is working on written policies and procedures for tagging, tracking, and updating equipment, where the department has specific responsibility."

10. Ensure that when new computer equipment, including computer laptops, is received it is recorded in the Library's master inventory database.

Library Response: The Library agreed with this recommendation, stating, "The entire computer equipment procurement process is currently being reviewed for efficiency gains. . . . ITG is working with the relevant department(s) to ensure that the inventory is accurately updated to include all new equipment, including laptops."

11. Ensure that distribution of computer equipment from the warehouse is appropriately documented and recorded in the master inventory database.

Library Response: The Library agreed with this recommendation, stating, "ITG is working with the Shipping Department to address this requirement. . . . With the series of meetings that include Accounts Payable, Purchasing, ITG, and Shipping, it was discovered that each group has different requirements. Addressing all the different requirements is one of the objectives of these meetings while making the process simple."

12. Regularly update its computer equipment inventory records: verify that equipment is properly tagged, ensure that the equipment is in the reported location, and ensure that additions and deletions of inventory are properly recorded.

Library Response: The Library agreed with this recommendation, stating, "The current ITG master inventory database is regularly updated and verified. Items such as the

conversion to new labels (discussed below) came about through our stringent monitoring of the database. This item is also directly correlated to a lack of personnel with the time to verify and check equipment against what is recorded in the inventory database. Once staffing levels are more in line with inventory management, ITG will be better prepared to resume more frequent verifications.”

Status of Follow-up Audit Recommendations

Of the five recommendations made in the follow-up audit; three were implemented and two were not implemented, as follows:

Monitoring of Purchasing Policy

In its response, the Library agreed to the recommendation that the Purchasing Department more actively monitor purchasing policies and undertake a major effort to educate Library staff concerning proper procedures. However, we found that the Library is still purchasing goods and services without issuing purchase orders, as discussed in this report. Therefore this recommendation was not implemented.

Library Response: The Library agreed to implement this recommendation, stating, “As indicated in the Library’s response throughout, the Library is undergoing a review of its purchasing practices and will make necessary changes to improve internal controls over its purchasing activities and educate and train Library personnel, as appropriate.”

Travel-Related Expenditures

The Library agreed with the recommendation to credit the City fund for the audited travel-related amount, and transferred the \$5,504 to the City treasury. According to Library officials, those travel expenses, for a consultant, an honoree, and a lecturer of the Library, were inadvertently miscoded during the implementation of the Library’s new accounting and account coding system. The Library now charges the travel expenses to its corporate funds, thus implementing this recommendation.

Supporting Documentation for Purchases

The Library officials agreed with the recommendation requiring the Library to ensure that its payment files contain all documentation supporting purchases, but stated that many instances cited by the report that prompted this recommendation did not require the use of purchase orders (e.g., telephone charges and emergency repairs). However, in those instances where purchase orders are required, they stated that the Purchasing Department would continue to monitor all exceptions to departmental processing procedures.

We found that the Library payment files still do not include all documentation supporting purchases. As discussed in this report, the Library does not keep all required documents supporting the bidding process or copies of all contracts in the purchasing files. Therefore, this

recommendation was not implemented.

Library Response: The Library agreed with this recommendation, stating, “After the completion of the review of its purchasing practices, the Library will update its purchasing policies and procedures and enhance internal controls over its procurement activities to ensure that purchasing files contain purchase orders, bidding documentation, or any other documentation needed to support the appropriateness of Library purchases.”

The Transfer of Library Funds

The Library did not agree with the interpretation of the Comptroller’s Office that there was an overpayment of \$403 relating to consulting services. The Library said it would review the case in point and adjust records, if necessary. However, subsequently the Library officials provided us with documentation showing that the amount was credited to City funds in Fiscal Year 2002. This recommendation was therefore implemented.

Proper Recording of Expenses

The Library officials agreed with the recommendation that expenses should be recorded properly and charged to the appropriate fiscal year, and stated that they would ensure such records are kept and are charged to the appropriate fiscal year. Library officials provided us with expenditure reports and budget allocations for Fiscal Years 2003 and 2004, which indicate that the recommendation has been implemented.

The New York Public Library

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October 27, 2005

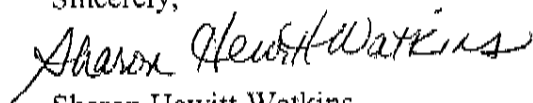
Mr. Greg Brooks
The City of New York
Office of the Comptroller
Executive Offices
1 Centre Street
New York, NY 10007-2341

Re: Audit Report on the Financial Controls of the New York Public Library
MG05-092A

Dear Mr. Brooks:

We have received the City's draft audit report dated October 13, 2005 on the financial controls of the New York Public Library. Enclosed, please find the Library's responses to the findings and recommendations documented therein. Should you have any questions, please feel free to contact me at (212) 592-7403, or Jeanette Rick, Audit Coordinator at (212) 592-7421.

Sincerely,



Sharon Hewitt Watkins
Assistant Vice President for Finance & Controller

Encl.

Cc: Dr. Paul LeClerc - President, New York Public Library (NYPL)
David G. Offensend - Senior Vice President and Chief Financial & Administrative
Officer, NYPL
Jeanette Rick - Audit Coordinator, NYPL

Library Response to the Draft Audit Report on the Financial Controls of the New York Public Library

Finding: Inadequate Internal Controls in the Purchasing Department

Auditor Recommendation:

The Library should:

1. Ensure that all purchase orders are properly approved and authorized by the appropriate personnel in the Purchasing Department.

Library Response

The Library recognizes that its procurement policies and practices need to be revised and updated. As a result, the Library is currently undergoing a review of its procurement practices, the goal of which is to identify areas for process improvement, enhance policies and procedures, improve internal controls where necessary, and explore opportunities for possible cost savings that may be achieved through either centralization and/or by engaging in appropriate bidding and contracting procedures. Policies and procedures will ensure that purchase orders are properly approved and authorized by appropriate personnel. The Purchasing Department has already obtained a list of approved signatories from each unit of the Library. This list will be updated on an ongoing basis. The Purchasing Department will ensure that approvals on each purchase order is compared against the list for authenticity and will monitor all incoming documents for proper authorization and approval levels.

Time Frame for implementation: Immediately

2. Ensure that any changes to purchase order amounts are appropriately authorized, approved, justified and properly documented.

Library Response:

The revised policies referred to previously will include a process for changes to purchase orders. Purchasing Department documentation will include appropriate authorization and justification for changes. Effective immediately, a random internal review of changes over \$500 will be performed quarterly by the Purchasing Manager or his designee to ensure that proper approvals and justification of changes are obtained and documented.

Time Frame for implementation: Immediately

3. Ensure that the Purchasing Department follows the Library's policies and procedures for procurement of all goods and services. This would include purchases incurred for all Library departments such as Facilities and ITG.

Library Response:

The Purchasing Department has continually requested that all departments, including Facilities and ITG, adhere to the Library's Purchasing policies. Section 2 of the current Purchasing Policy clearly states "requisitions covering all needs are to be

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Response to Draft Audit Report on Financial Controls

prepared, coded, authorized, and forwarded to Purchasing prior to any commitments to a vendor and in sufficient time to allow the Purchasing Office to process the Requisitions into Purchase Orders via the guidelines below." The Library recognizes that compliance is lacking in this area. The Purchasing Department will work with senior management to ensure that all departments covered under the revised policy adhere to such policies and procedures. The Purchasing Department will ensure that competitive bidding occurs, where required by policy. In addition, any records for vendor selection will be kept in a central registry for record keeping. To improve the process for procuring and safeguarding computer equipment, representatives from the Purchasing Department, the Information Technology Group (ITG), Shipping, and the Accounting Office has already convened a group to review and improve internal controls over such purchases.

Time Frame for implementation: Fall 2006

4. Ensure that all expired contracts are renewed through competitive bidding before additional purchases are made on those contracts and that purchase orders are not issued against expired contracts.

Library Response:

As part of the Library's review and update of its procurement policies and procedures, the Library is committed to developing procedures for competitive bidding and will monitor timing of contract renewals, as appropriate.

Time Frame for implementation: Fall 2006

5. Comply with its bidding procedures to ensure that the required number of solicited bids is obtained and the selection and award process is documented.

Library Response:

The requirements for competitive bidding will be reviewed and modified, if necessary, in the revised policies and procedures. With the support of senior management, the Purchasing Department will enforce compliance with competitive bidding policies and procedures, and that the selection and award process is appropriately documented.

Time Frame for implementation: Fall 2006

6. Ensure that all purchase orders related to contracts correctly identify those contracts.

Library Response:

The Purchasing Department will ensure that purchase orders related to contracts will correctly identify those contracts. The Assistant Purchasing Manager will ensure that all contract numbers appearing on purchase orders reflect the actual contracts to which they pertain.

Time Frame for implementation: Immediately

7. Ensure that purchase orders are issued for all purchases that are not made online and that are valued at more than \$1,000, as required.

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Library Response:

As previously mentioned, the Library is currently undergoing a review of its procurement practices and will modify policies and procedures, where necessary, to ensure that they reflect appropriate procedures for purchases, whether conducted online or not, and that documented policies and procedures are followed.

Time Frame for implementation: Fall 2006

Finding: Lack of Segregation of Duties in Equipment Leasing

Auditor Recommendation:

8. The Library should segregate the functions of negotiating equipment leases, approving and tracking of lease payments, and/or provide management oversight.

Library Response:

The Purchasing Department has already developed revised procedures to ensure that the responsibilities for approving purchase requisitions, negotiating equipment leases, approving the purchase orders, recording lease payment information, and tracking lease payments are appropriately segregated. To the extent that segregation is not possible in certain of these activities due to staff size, the Library will ensure that appropriate management oversight occurs.

Time Frame for implementation: Immediately

Finding: Lack of Inventory Controls

Auditor Recommendations:

The Library should:

9. Establish written procedures for the inventory of all computer equipment. The procedures should ensure that all equipment, whether in the warehouse or installed in the Library, is accurately accounted for in the Library's inventory records.

Library Response:

The Library's Information Technology Group has already started to implement much of the auditors' recommendations. As a continual effort to improve our procedures and become more efficient, ITG is working toward improving how computer equipment is tracked. In connection with this recommendation, ITG is working on written policies and procedures for tagging, tracking, and updating equipment, where the department has specific responsibility. The written document will serve as a training tool for relevant staff throughout in the department.

Time Frame for implementation: Spring 2006

10. Ensure that when new computer equipment, including computer laptops, is received it is recorded in the Library's master inventory database.

Library Response:

The entire computer equipment procurement process is currently being reviewed for efficiency gains. ITG has begun a series of meetings to detail the present process,

New York Public Library
Response to Draft Audit Report on Financial Controls

which includes the procedures for all involved departments: Purchasing, Shipping, Accounts Payable, and ITG. While ITG is not the initial input mechanism for the master inventory, ITG is working with the relevant department(s) to ensure that the inventory is accurately updated to include all new equipment, including laptops.

Time Frame for implementation: Spring 2006

11. Ensure that distribution of computer equipment from the warehouse is appropriately documented and recorded in the master inventory database.

Library Response:

ITG is working with the Shipping Department to address this requirement. With the series of meetings that include Accounts Payable, Purchasing, ITG, and Shipping, it was discovered that each group has different requirements. Addressing all the different requirements is one of the objectives of these meetings while making the process simple. The current master inventory database can and does track the location of equipment through our facilities.

Time Frame for implementation: Immediately

12. Regularly update its computer equipment inventory records: verify that equipment is properly tagged, ensure that the equipment is in the reported location, and ensure that the additions and deletions of inventory are properly recorded.

Library Response:

The current ITG master inventory database is regularly updated and verified. Items such as the conversion to new labels (discussed below) came about through our stringent monitoring of the database. This item is also directly correlated to a lack of personnel with the time to verify and check equipment against what is recorded in the inventory database. Once staffing levels are more in line with inventory management, ITG will be better prepared to resume more frequent verifications.

Regarding the auditors' comment regarding tagging of equipment, when the auditors were on site performing their review, certain equipment was not tagged because ITG was in the process of changing all of our equipment labels. The original labels were paper labels and would fall off the equipment or be pulled off by Library staff. Because of these issues with the paper labels, ITG has been moving to metallic labels. It is a much more expensive proposition but its added benefits are obvious: these labels stay on the equipment and can not be written over or destroyed. During large installations, we quickly run through our small supply and must wait for the procurement of new labels. In the instances cited by the auditors, we did not have enough labels.

Time Frame for implementation: Summer 2006

Status of Follow-up Audit Recommendations

Monitoring of Purchasing Policy

The auditors had recommended that the Purchasing Department more actively monitor purchasing policies and undertake a major effort to educate staff concerning proper procedures. However, the Library continues to purchase goods and services without issuing purchase orders, where appropriate.

Library Response:

As indicated in the Library's responses throughout, the Library is undergoing a review of its purchasing practices and will make necessary changes to improve internal controls over its purchasing activities and educate and train Library personnel, as appropriate.

Time Frame for implementation: Fall 2006

Supporting Documentation for Purchases

The auditors had recommended that the Library ensure that its payment files contain all documentation supporting purchases. The Library indicated that many of the instances cited by the auditors did not require the use of purchase orders (e.g., telephone charges and emergency repairs). However, for those purchases requiring purchase orders, the Library agreed that it would monitor all exceptions to departmental processing procedures. The auditors found that payment files still did not include all documentation supporting purchases, such as documents supporting the bidding process or copies of all contracts in the purchasing files.

Library Response:

After the completion of the review of its purchasing practices, the Library will update its purchasing policies and procedures and enhance internal controls over its procurement activities to ensure that purchasing files contain purchase orders, bidding documentation, or any other documentation needed to support the appropriateness of Library purchases.

Time Frame for implementation: Fall 2006