

AUDIT REPORT



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

Follow-up Audit Report on the Computer Equipment Inventory On-Hand at the Human Resources Administration's Stockrooms

7F03-149

September 19, 2003



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 responsibilities of the Comptroller contained in Chapter 5, § 93, of the New York City Charter, my office has reviewed the implementation status of four recommendations made in an earlier audit entitled, *Audit Report of the Computer Equipment Inventory On-Hand at the Human Resources Administration's Stockrooms* (Audit No. 7A00-155, issued May 31, 2001). The results of our audit, which are presented in this report, have been discussed with Human Resources Administration officials, and their comments have been considered in preparing this report.

Audits such as this provide a means of ensuring that City agencies maintain complete and accurate inventory records for computer equipment and that equipment is properly safeguarded from theft, damage, or unauthorized use.

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

Very truly yours,

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

William C. Thompson, Jr.

Report: 7F03-149
Filed: September 19, 2003

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*The City of New York
Office of the Comptroller
Bureau of Audit
EDP Audit Division*

**Follow-up Audit Report on the Computer
Equipment Inventory On-Hand at the
Human Resources Administration's Stockrooms**

7F03-149

SUMMARY OF FOLLOW-UP FINDINGS

This is a follow-up audit to determine whether the Human Resources Administration (HRA) has implemented recommendations made in an earlier audit entitled *Audit Report of the Computer Equipment Inventory On-Hand at the Human Resources Administration's Stockrooms* (Audit No. 7A00-155, issued May 31, 2001). The earlier audit evaluated HRA's control over its computer hardware and software stored in HRA stockrooms and in a warehouse of Time Record Storage Company, a contracted storage vendor. In this current audit, we discuss the recommendations we made earlier as well as the implementation status of those recommendations.

The previous audit made four recommendations to HRA, of which one has been implemented and three have not been implemented. The details of these recommendations and their current implementation status follow.

1. "Create an inventory project team, reporting to the Commissioner, whose sole function would be to overhaul and redesign HRA's inventory system, in accordance with DOI's [Department of Investigation] Standards for Inventory Control and Management and in the New York City Comptroller's Directive #1. The ultimate goal would be an inventory control system that is: (1) accurate (i.e., records match on-hand balances); (2) timely (i.e., records are adjusted to immediately reflect disbursements/receipts); (3) useful (i.e., reorder points are defined and are realistic); and (4) encompassing (i.e., the system tracks items that are supposed to be tracked)."
NOT IMPLEMENTED.
2. "Investigate the discrepancies identified in this report. HRA should maintain documentation showing how the discrepancies were resolved."
NOT IMPLEMENTED.

3. “Refer all significant and unresolved discrepancies to DOI for further investigation, if HRA has not already done so.” **NOT IMPLEMENTED.**
4. “Recoup the value of the missing 97 computers from the Time Record Storage Company.” **IMPLEMENTED.**

To address the above issues that still exist, we now recommend that HRA:

- Reassign the inventory project team to report to the Commissioner.
- Ensure that the project team overhauls and redesigns the HRA inventory system in accordance with DOI’s *Standards for Inventory Control and Management* and New York City Comptroller’s Directive #1. The ultimate goal would be an inventory control system that is: (1) accurate (i.e., records match on-hand balances); (2) timely (i.e., records are adjusted to immediately reflect disbursements and receipts); (3) useful (i.e., reorder points are defined and are realistic); and (4) encompassing (i.e., the system tracks items that are supposed to be tracked). In that regard, the project team should ensure that:
 - inventory reconciliation procedures are developed and implemented;
 - inventory responsibilities are properly segregated;
 - a complete log is maintained of all computer equipment received by the agency;
 - equipment disbursement forms are issued in sequential order;
 - disbursement forms contain all required authorizations; and
 - annual physical inventory counts are taken.
- Continue to investigate the discrepancies noted in the prior audit and maintain documentation showing how the matters were resolved. All unresolved discrepancies should be referred to DOI.

INTRODUCTION

Background

The Human Resources Administration (HRA) helps individuals and families achieve their highest level of self-reliance. It is committed to enhancing the quality of life for all New Yorkers through the effective administration of a broad range of programs and services that strengthen families; reduce dependency and increase self-sufficiency; and promote community responsibility.

HRA has approximately 130 offices throughout the City. The agency furnishes desktop workstations, laptops, laser printers, servers, hubs, routers, and scanners for its Wide Area Network. HRA currently has approximately 17,000 PCs in addition to peripheral devices and software.

Objectives, Scope, and Methodology

This follow-up audit was initiated to determine whether the four recommendations contained in a previous audit, *Audit Report of the Computer Equipment Inventory On-Hand at the Human Resources Administration's Stockrooms* (Audit No. 7A00-155, issued May 31, 2001), were implemented.

Audit fieldwork began in March 2003 and ended in April 2003. To meet our objectives, we reviewed:

- HRA inventory control policies and procedures;
- inventory records for the three HRA stockrooms;
- bid and purchase order documentation for the HRA Inventory Control and Asset Management systems;
- HRA receiving logs and disbursement forms;
- the HRA/MIS (Management Information Systems) Inventory Audit Program; and
- documentation pertaining to HRA's lawsuit against Time Moving and Storage, Inc. (formerly Time Record Storage Company).

We used the Department of Investigation's *Standards for Inventory Control and Management* as the criterion for this audit.

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 City Comptroller's audit responsibilities 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 HRA officials during and at the conclusion of this audit. A preliminary draft report was sent to HRA officials and was discussed at an exit conference held on June 5, 2003. On June 12, 2003, we submitted a draft report to HRA officials with a request for comments. We received a written response from HRA on June 26, 2003. HRA disagreed with the audit's findings, but agreed with two of the three audit

recommendations. The specific issues raised by HRA and our rebuttal are included in the body of this report. The full text of HRA's comments is included as an Addendum to this report.

FOLLOW-UP RESULTS AND RECOMMENDATIONS

PREVIOUS FINDING: The prior audit identified significant weaknesses in HRA stockroom computer inventory procedures. Specifically, the audit disclosed that HRA did not: have written inventory procedures for reconciling computer inventory records; segregate the responsibility for receiving and disbursing equipment; maintain a complete log of computer equipment received; issue equipment disbursement forms in sequential order; and ensure that the disbursement forms contain all required authorizations.

Previous Recommendation #1: "Create an inventory project team, reporting to the Commissioner, whose sole function would be to overhaul and to redesign HRA's inventory system, in accordance with DOI's *Standards for Inventory Control and Management* and in the New York City Comptroller's Directive #1. The ultimate goal would be an inventory control system that is: (1) accurate (i.e., records match on-hand balances); (2) timely (i.e., records are adjusted to immediately reflect disbursements/receipts); (3) useful (i.e., reorder points are defined and are realistic); and (4) encompassing (i.e., the system tracks items that are supposed to be tracked)."

Previous HRA Response: "HRA is only in partial agreement with this recommendation. HRA is in agreement that a new inventory system is needed, and has already developed a project plan for the development of such a system. The plan includes

- Creating a dedicated inventory team within HRA/MIS.
- Contracting with a vendor to verify inventory of all installed systems and stock on hand.
- Contracting with a vendor to perform yearly inventory audits and reconciliation.
- Customizations of Magic Solutions software to contain inventory records and reflect receipts and disbursements of all hardware and software."

"As MIS has responsibility for the entire computer telecommunication technology of HRA, the inventory of the supplies and equipment involved, must be managed by MIS. Consequently MIS does not agree that this project should report to the Commissioner's Office."

Previous Auditor Comment: "Although we agree that MIS has the responsibility for HRA's computer telecommunication technology, the Commissioner has ultimate responsibility for all HRA programs, procedures, property and operations. Since, as indicated in the audit, there is a strong possibility that a substantial amount of inventory may have been lost or stolen, resulting in a substantial loss to the City it would behoove the Commissioner to be an integral part of correcting the system."

Current Status : NOT IMPLEMENTED

Although the Deputy Commissioner in charge of MIS assembled an inventory project team consisting of six individuals from various units of HRA, the team does not report to the Commissioner of the agency, as recommended in the prior audit. In addition, HRA still does not have written inventory procedures for reconciling stockroom computer inventory records. The inventory staff do not: adequately segregate the responsibility for receiving and disbursing equipment; maintain a complete log of computer equipment received; issue equipment disbursement forms in sequential order; and ensure that the disbursement forms contain all required authorizations. Moreover, we noted that HRA does not conduct annual inventory reconciliation of its stockroom inventory, although it is currently negotiating with Micropath, Inc., an outside vendor, to perform its inventory functions.

Our prior audit, issued approximately two years ago, indicated that there was a strong possibility that a substantial amount of HRA inventory may have been lost or stolen, resulting in a substantial loss to the City. To date, with the exception of creating an inventory project team and some procedures, HRA has taken no steps to safeguard its computer inventory. Therefore, we consider recommendation #1 not implemented.

HRA Response: “We disagree and believe the status of this finding should be designated ‘Partially Implemented.’”

“An Inventory Committee was formed in January 2002, which reports to the Deputy Commissioner of Management Information System (MIS). As stated in our response to the Comptroller’s previous audit, MIS has responsibility for all computer technology for the Agency, thus the inventory of equipment must be managed by MIS.

“We disagree with the statement that, ‘...the project team has not adequately addressed any of the weaknesses....’ The Agency has already taken several actions in response to the auditor’s report. We are in the process of letting a contract for the provision of inventory management and control services. The winning vendor will conduct a physical inventory of all of the Agency’s microcomputer equipment, including reconciliation of new data to existing records, bar coding of all devices and creation of a new database. Once the contract, which is in the final stages of the procurement process, is awarded, MIS will work with the vendor on reengineering the procedures and reconciling the inventory.

“Additional measures and improvements implemented include relocating stockroom items to a larger facility at 260 11th Avenue, enhancing the existing inventory system to prevent the issuance of duplicate serial numbers, implementing program changes to distribution forms and revising the procedure manual to comply with applicable New York City Department of Investigation (DOI) standards.”

Following is the Agency’s response to each point in this finding:

- “The HRA Microcomputer Management Manual (revised August 27, 2002), as supplied to auditors, includes detailed instructions on reconciliation procedures and provides for separation of duties for the receiving and disbursement of equipment.

While the Agency complies with this policy whenever possible, we have adopted the compensating controls recommended in the section of the DOI Standards Manual, entitled Controls Where Separation of Duties is Inadequate in order to ensure separation of duties. The DOI guidelines state that if limited resources on occasion require that the same individual handle both tasks, ‘receiving reports may be prepared by staff from a unit separate from the receiving, distribution, storage and control units.’ We have instituted these measures.”

- “A log of all equipment received is maintained as required. Please see attachment.”
- “Equipment disbursement is performed using forms that are computer generated with an auto increment-numbering feature to ensure sequential order.”
- “A list of Staff Authorized to Disburse Equipment’ is posted in each stockroom. This list is referenced for verification of personnel authorized to approve disbursements.”

“As part of an Agency follow-up audit, our Bureau of Internal Audit performed a verification of physical inventory in our stockrooms during March and April 2003. In addition, the Fiscal Year 2003 reconciliation of our three stockrooms began today, June 26, 2003.”

Auditor Comment: Although HRA claims that several actions have been taken in response to the prior audit, it did not provide any evidence that the inventory system has been redesigned in accordance with the recommendation. Specifically, HRA has not conducted annual physical inventory reconciliations; it does not maintain complete inventory receiving logs to account for new computer items purchased and received; and it does not issue equipment disbursement forms sequentially, which would provide an audit trail and would help ensure that appropriate approvals are obtained before equipment is released from the agency’s storeroom. Consequently, the inventory system is still not up-to-date, accurate, and useful in terms of being able to track items received and disbursed from the storeroom. Therefore, we maintain that recommendation #1 has not been implemented.

* * * * *

PREVIOUS FINDING: “HRA could not account for 568 pieces of equipment that were listed on the inventory records. In addition, 1,035 items found during the count were not listed on the records.”

Previous Recommendation #2: “Investigate the discrepancies identified in this report. HRA should maintain documentation showing how the discrepancies were resolved.”

Previous HRA Response: “HRA agrees and has already begun research into the discrepancies that the Comptroller’s Office has identified. The findings will be documented.”

Current Status : NOT IMPLEMENTED

Although HRA officials stated that they investigated the discrepancies identified in the prior report, the records they provided did not account for 450 of the 568 pieces of equipment that were missing during the prior audit. Therefore, we consider recommendation #2 not implemented.

HRA Response: “We disagree and believe the status of this finding should be designated ‘Partially Implemented.’”

“MIS provided a detailed listing of the disposition of all the items in question dated April 28, 2003 to the auditors. In addition, we disagree with the numbers mentioned above, which were based on a worksheet presented by the Comptroller’s representative at the June 5, 2003 exit conference. This worksheet included 97 items that the Agency’s Office of Legal Affairs (OLA) is litigating with Time Moving and Storage. Documentation substantiating this litigation was provided to the auditors and is addressed under Current Status of Auditors’ Recommendation #4.”

“It was agreed at the June 5, 2003 exit conference with the Comptroller’s audit team that our explanation regarding consumable items was acceptable. The independent auditors from the Agency’s Bureau of Internal Audit subsequently verified that 445 of the 450 items reported as missing have been accounted for as either in stock or distributed. We are still attempting to locate the remaining five items.”

Auditor Comment: Based on documentation provided by HRA officials at the exit conference, we were able to account for 123 of the 568 items reported as missing in the prior audit. The remaining 445 items remain unaccounted for, since HRA provided no documentation that indicated when the items were released from the storerooms, who authorized the release, and the current locations of the equipment. It should be noted that no action had been taken by HRA to resolve any of the discrepancies identified during the prior audit until we notified them of our intentions to conduct this follow-up audit. Accordingly, we maintain that recommendation #2 has not been implemented.

Previous Recommendation #3: “Refer all significant and unresolved discrepancies to DOI for further investigation, if HRA has not already done so.”

Previous HRA Response: “HRA agrees with this recommendation and will refer all significant and unresolved discrepancies to DOI for further investigation.”

Current Status : NOT IMPLEMENTED

HRA still has not referred the unresolved discrepancies to DOI. Therefore, we consider recommendation #3 not implemented.

HRA Response: “We disagree and believe the status of this finding should be designated ‘Partially Implemented.’”

“The Agency does adhere to the policy of reporting thefts to DOI for follow-up, and, as the review by the Agency’s Bureau of Internal Audit has found, we referred 61 incidents during calendar year 2002. Should any equipment remain unaccounted for once the vendor completes the reconciliation of equipment in inventory, we will notify DOI accordingly.”

Auditor Comment: To date, HRA has not provided documentation showing that any unresolved discrepancies from the previous audit have been referred to DOI for further investigation. Therefore, we maintain that this recommendation has not been implemented.

* * * * *

PREVIOUS FINDING: Time Record Storage Company could not locate 97 of HRA’s Dell computers in its Brooklyn warehouse. Time Record’s contract with HRA required that it “maintain an up-to-date inventory by model and serial number of all equipment received and withdrawn from stock. Contractor will be responsible for any discrepancies in inventory.”

Previous Recommendation #4: “Recoup the value of the missing 97 computers from the Time Record Storage Company.”

Previous HRA Response: “HRA agrees with this recommendation. As stated above, we have been working with Time Record Storage to locate the missing equipment. However, as we have been unsuccessful in this endeavor, MIS Budget and Contracts Unit will ask HRA’s Office of Legal Affairs to begin the legal process to recoup from Time Record Storage the replacement value of the computers.”

Current Status: IMPLEMENTED

HRA filed a lawsuit against Time Moving and Storage, Inc. (formerly Time Record Storage Company), on May 15, 2002. Currently, HRA is awaiting discovery materials from Time Moving and Storage. Therefore, we consider recommendation #4 implemented.

HRA Response: “We agree with this finding and will continue to pursue this matter via litigation.”

RECOMMENDATIONS

We recommend that HRA:

1. Reassign the inventory project team to report to the Commissioner.

HRA Response: “We disagree with this recommendation. As stated above in our response to Current Status #1, an Inventory Committee was formed in January 2002, which reports to the MIS Deputy Commissioner. Further, as stated in our response to the

Comptroller's previous audit, MIS has responsibility for all computer technology for the Agency, thus the inventory of equipment must be managed by MIS."

Auditor Comment: Since many of the weaknesses identified in our prior audit are still not resolved, we question the effectiveness of the HRA inventory committee. As stated in the prior report, the Commissioner has ultimate responsibility for all HRA programs, procedures, property, and operations; therefore, the Commissioner should be an integral part of ensuring that the system is corrected.

2. Ensure that the project team overhauls and redesigns the HRA inventory system in accordance with DOI's *Standards for Inventory Control and Management* and New York City Comptroller's Directive #1. The ultimate goal would be an inventory control system that is: (1) accurate (i.e., records match on-hand balances); (2) timely (i.e., records are adjusted to immediately reflect disbursements and receipts); (3) useful (i.e., reorder points are defined and are realistic); and (4) encompassing (i.e., the system tracks items that are supposed to be tracked). In that regard, the project team should ensure that:

- inventory reconciliation procedures are developed and implemented;
- inventory responsibilities are properly segregated;
- a complete log is maintained of all computer equipment received by the agency;
- equipment disbursement forms are issued in sequential order;
- disbursement forms contain all required authorizations; and
- annual physical inventory counts are taken.

HRA Response: "We agree with this recommendation and have already taken steps to address this issue. We are in the process of letting a contract for the maintenance of our inventory. Once this contract is in place, the vendor will be responsible for effecting the controls indicated in the report."

3. Continue to investigate the discrepancies noted in the prior audit and maintain documentation showing how the matters were resolved. All unresolved discrepancies should be referred to DOI.

HRA Response: "We agree with this recommendation and will continue to investigate the discrepancies. Once the contracted vendor completes the reconciliation, any unresolved issues will be forwarded to DOI in accordance with Agency procedure."



HUMAN RESOURCES ADMINISTRATION
OFFICE OF AUDIT SERVICES
180 WATER STREET
NEW YORK, NEW YORK 10038
(212) 331-3978 Fax: (212) 331-5474
E-mail: lehmand@hra.nyc.gov

VERNA EGGLESTON
Administrator/Commissioner

DAN LEHMAN
Executive Deputy Commissioner

June 26, 2003

Mr. Greg Brooks
Deputy Comptroller
Policy, Audit, Accountancy & Contracts
The City of New York
Office of the Comptroller
1 Centre Street – Room 530
New York, NY 10007-2341

Re: Follow-up Audit Report on the
Computer Equipment Inventory
On-Hand at the Human Resources
Administration's Stockroom
Audit No. 7F03-149

Dear Mr. Brooks:

Thank you for the opportunity to respond to the draft report on the above referenced audit. The report has assisted us in our ongoing efforts to improve the operations of our Agency.

Following are our specific responses to the follow-up findings and recommendations:

Follow-up Findings and Recommendations

Previous Auditors' Finding: The prior audit identified significant weaknesses in HRA's stockroom computer inventory procedures. Specifically, the audit disclosed that HRA did not: have written inventory procedures for reconciling computer inventory records; segregate the responsibility for receiving and disbursing equipment; maintain a complete log of computer equipment received; issue equipment disbursement forms in sequential order; and ensure that the disbursement forms contain all required authorizations.

Previous Auditors' Recommendation #1: Create an inventory project team, reporting to the Commissioner, whose sole function would be to overhaul and to redesign HRA's inventory system, in accordance with DOI's "Standard for Inventory Control and Management and in the New York City Comptroller's Directive #1. The ultimate goal would be an inventory

control system that is: (1) accurate (i.e., records match on-hand balances); (2) timely (i.e., records are adjusted to immediately reflect disbursements and receipts); (3) useful (i.e., reorder points are defined and are realistic); and (4) encompassing (i.e., the system tracks items that are supposed to be tracked).”

Previous Auditors’ Comments: “Although we agree that MIS has the responsibility for HRA’s computer telecommunication technology, the Commissioner has ultimate responsibility for all HRA programs, procedures, property and operations. Since, as indicated in the audit, there is a strong possibility that a substantial amount of inventory may have been lost or stolen, resulting in a substantial loss to the City it would behoove the Commissioner to be an integral part of correcting the system.”

Current Status: NOT IMPLEMENTED

Although the Deputy Commissioner in charge of MIS assembled an inventory project team consisting of six individuals from various units of HRA, the team does not report to the Commissioner of the agency, as recommended in the prior audit. In addition, the Department does not have written inventory procedures for reconciling stockroom computer inventory records. The Department inventory staff does not: adequately segregate the responsibility for receiving and disbursing equipment; maintain a complete log of computer equipment received; issue equipment disbursement forms in sequential order and ensure that the disbursement forms contain all required authorizations. Moreover, we noted that HRA does not conduct annual inventory reconciliation of its stockroom inventory, although HRA is currently negotiating with Micropath, Inc., an outside vendor, to perform its inventory functions.

Our prior audit, issued approximately two years ago, indicated that there was a strong possibility that a substantial amount of HRA’s inventory may have been lost or stolen, resulting in a substantial loss to the City. To date, with exception of creating an inventory project team and some procedures, HRA has taken no steps to safeguard its computer inventory. Therefore, we consider recommendation #1 not implemented

Agency’s Response To Current Finding:

We disagree and believe the status of this finding should be designated “Partially Implemented.”

An Inventory Committee was formed in January 2002, which reports to the Deputy Commissioner of Management Information System (MIS). As stated in our response to the Comptroller’s previous audit, MIS has responsibility for all computer technology for the Agency, thus the inventory of equipment must be managed by MIS.

We disagree with the statement that, “...the project team has not adequately addressed any of the weaknesses...” The Agency has already taken several actions in response to the auditor’s report. We are in the process of letting a contract for the provision of inventory management and control services. The winning vendor will conduct a physical inventory of all of the Agency’s microcomputer equipment, including reconciliation of new data to existing records, bar coding of all devices and creation of a new database. Once the contract, which is in the final stages of the

procurement process, is awarded, MIS will work with the vendor on reengineering the procedures and reconciling the inventory.

Additional measures and improvements implemented include relocating stockroom items to a larger facility at 260 11th Avenue, enhancing the existing inventory system to prevent the issuance of duplicate serial numbers, implementing program changes to distribution forms and revising the procedure manual to comply with applicable New York City Department of Investigation (DOI) standards.

Following is the Agency's response to each point in this finding:

- The "HRA Microcomputer Management Manual" (revised August 27, 2002), as supplied to auditors, includes detailed instructions on reconciliation procedures and provides for separation of duties for the receiving and disbursement of equipment. While the Agency complies with this policy whenever possible, we have adopted the compensating controls recommended in the section of the DOI Standards Manual, entitled "Controls Where Separation of Duties is Inadequate" in order to ensure separation of duties. The DOI guidelines state that if limited resources on occasion require that the same individual handle both tasks, "receiving reports may be prepared by staff from a unit separate from the receiving, distribution, storage and control units." We have instituted these measures.
- A log of all equipment received is maintained as required. Please see attachment.
- Equipment disbursement is performed using forms that are computer generated with an auto increment-numbering feature to ensure sequential order.
- A list of "Staff Authorized to Disburse Equipment" is posted in each stockroom. This list is referenced for verification of personnel authorized to approve disbursements.

As part of an Agency follow-up audit, our Bureau of Internal Audit performed a verification of physical inventory in our stockrooms during March and April 2003. In addition, the Fiscal Year 2003 reconciliation of our three stockrooms began today, June 26, 2003.

Previous Auditors' Finding: "HRA could not account for 568 pieces of equipment that were listed on the inventory records. In addition, 1,035 items found during the count were not listed on the records."

Previous Auditors' Recommendation #2: "Investigate the discrepancies identified in this report. HRA should maintain documentation showing how the discrepancies were resolved."

Current Status: NOT IMPLEMENTED

Although HRA officials stated that they investigated the discrepancies identified in the prior report, the records they provided did not account for 450 of the 568 pieces of equipment that were missing during the prior audit. Therefore, we consider recommendation #2 not implemented.

Agency's Response To Current Finding:

We disagree and believe the status of this finding should be designated "Partially Implemented."

MIS provided a detailed listing of the disposition of all the items in question dated April 28, 2003 to the auditors. In addition, we disagree with the numbers mentioned above, which were based on a worksheet presented by the Comptroller's representative at the June 5, 2003 exit conference. This worksheet included 97 items that the Agency's Office of Legal Affairs (OLA) is litigating with Time Moving and Storage. Documentation substantiating this litigation was provided to the auditors and is addressed under Current Status of Auditors' Recommendation #4.

It was agreed at the June 5, 2003 exit conference with the Comptroller's audit team that our explanation regarding consumable items was acceptable. The independent auditors from the Agency's Bureau of Internal Audit subsequently verified that 445 of the 450 items reported as missing have been accounted for as either in stock or distributed. We are still attempting to locate the remaining five items.

Previous Auditors' Recommendation #3: "Refer all significant and unresolved discrepancies to DOI for further investigation, if HRA has not already done so."

Current Status: NOT IMPLEMENTED

HRA still has not referred the unresolved discrepancies to DOI. Therefore, we consider recommendation #3 not implemented.

Agency's Response To Current Finding:

We disagree and believe the status of this finding should be designated "Partially Implemented."

The Agency does adhere to the policy of reporting thefts to DOI for follow-up, and, as the review by the Agency's Bureau of Internal Audit has found, we referred 61 incidents during calendar year 2002. Should any equipment remain unaccounted for once the vendor completes the reconciliation of equipment in inventory, we will notify DOI accordingly.

Previous auditors' Recommendation #4: "Recoup the value of the missing 97 computers from the Time Record Storage Company."

Current Status: IMPLEMENTED.

Agency's Response to Current Finding: We agree with this finding and will continue to pursue this matter via litigation.

Current Auditors' Recommendation #1: We recommend that HRA reassign the inventory project team to report to the Commissioner.

Agency's Response To Current Recommendation:

We disagree with this recommendation. As stated above in our response to Current Status #1, an Inventory Committee was formed in January 2002, which reports to the MIS Deputy Commissioner. Further, as stated in our response to the Comptroller's previous audit, MIS has responsibility for all computer technology for the Agency, thus the inventory of equipment must be managed by MIS.

Current Auditors' Recommendation #2: We recommend that HRA ensure that the project team overhauls and redesigns the HRA inventory system in accordance with DOI's standards for Inventory Control and Management and New York City Comptroller's Directive #1. The ultimate goal would be an inventory control system that is; (1) accurate (i.e., records match on-hand balances); (2) timely (i.e., records are adjusted to immediately reflect disbursements and receipts); (3) useful (i.e., reorder points are defined and are realistic); and (4) encompassing (i.e., the system tracks items that are supposed to be tracked)."

Agency's Response To Current Recommendation:

We agree with this recommendation and have already taken steps to address this issue. We are in the process of letting a contract for the maintenance of our inventory. Once this contract is in place, the vendor will be responsible for effecting the controls indicated in the report.

Current Auditors' Recommendation #3: Continue to investigate the discrepancies noted in the prior audit and maintain documentation showing how the matters were resolved. All unresolved discrepancies should be referred to DOI

Agency's Response To Current Recommendation:

We agree with this recommendation and will continue to investigate the discrepancies. Once the contracted vendor completes the reconciliation, any unresolved issues will be forwarded to DOI in accordance with Agency procedure.

We appreciate the opportunity to respond to this draft report. We believe that the corrective actions outlined above will address the findings and recommendations identified by the auditors.

Should you have any questions or concerns, please contact Hope Henderson, Director of the Agency's Bureau of Audit Coordination (212) 331-3522.

Sincerely,



Dan Lehman

C: Commissioner Verna Eggleston
Patricia M. Smith

Agency's Attachment
for

Comptroller's Audit No. 7F03-149

| DATE RECEIVED | VENDOR | PO# | PROJECT | #BOXES | ITEM DESCRIPTIONS | RCVD BY | LOCATION WHERE BOXES ARE STORED | COMMENTS |
|---------------|------------------------|-----------------|----------|--------|--|------------|---------------------------------|--|
| 5/30/03 | PITNEY BOWES | | | 1 | FINALIST RELEASE 7.40-H SON | RH | COMPUTER STORE | CITY OF NEW YORK GIVING TO MONICA JOHNSON, 5/20/03 |
| 5/23/03 | ARRON MCCA | 200300 17678 | PO# 1749 | 3 | ELECTRIC EQUIP | J.C. PT | COMPUTER ROOM | |
| 6/2/03 | DELL | | | 1 | DELL 21" MONITOR | BT | GRADE STOCK ROOM | |
| 6/3/03 | PITNEY BOWES | | | 1 | MAILER'S CHOICE RELEASE 7.30 16F | RH | COMPUTER STORE | S.M.MX 8046474185 JOST GIVING TO MONICA JOHNSON 6/3/03 |
| 6/4/03 | MICROSOFT MSDN | | | 3 | MSDN | J.C. PS | COMPUTER STORE | CITY OF NEW YORK NY STATE AGS 1) |
| 6/3/03 | DEARIE TECHNOLOGIES | 200300 19358 | 1809 | 1 | MICROSOFT - VSTUDIO NET ENT DEV 2K2 WIN 32 ENG DR. MVD | PS | COMPUTER STORE | HRH/MIS |
| 6/6/03 | H.P. | | | 1 | CPU S/MUSUBIOS 5 PACKAGE WITH CD ROBO HELP OFFICE | J.C. | COMPUTER STORE | HRH/MIS |
| 6/10/03 | ETHER CORP | | | 1 | | BT | COMPUTER STORE | RALPH HARRIS NYC HRH/MIS |