

AUDIT REPORT

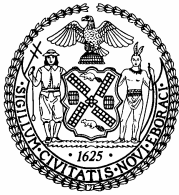


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Financial and Operating Practices of the Office of the Brooklyn Borough President

MG07-114A

May 21, 2008



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 examined the payroll, personnel, purchasing, cash receipts, and inventory practices of the Brooklyn Borough President's Office.

Some of the responsibilities of a Borough President are to prepare and review budget proposals; consult with the Mayor and the City Council on the preparation of the executive and capital budgets; provide technical assistance to the borough's community boards; and propose legislation to be introduced in the City Council. Audits such as this provide a means of ensuring that the Brooklyn Borough President's Office and other city agencies comply with applicable payroll, personnel, purchasing, cash receipts, and inventory policies and procedures.

The results of our audit, which are presented in this report, have been discussed with officials from the Brooklyn Borough President's Office, and their comments were considered in the preparation of this report. Their complete written response is 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: MG07-114A
Filed: May 21, 2008

Table of Contents

| | |
|---|----------|
| AUDIT REPORT IN BRIEF | 1 |
| Audit Findings and Conclusions..... | 1 |
| Audit Recommendations..... | 2 |
| Borough President’s Office Response | 2 |
| INTRODUCTION..... | 3 |
| Background..... | 3 |
| Objective..... | 3 |
| Scope and Methodology | 3 |
| Discussion of Audit Results..... | 6 |
| FINDINGS AND RECOMMENDATIONS | 7 |
| Tracking and Safeguarding of Physical Assets Should Be Improved | 7 |
| Recommendations..... | 9 |
| Cash Collected For Topographical Fees Should Be Deposited More Frequently | 9 |
| Recommendation | 10 |
| Employees Should Sign For Direct-Deposit Earning Statements | 10 |
| Recommendation | 10 |
| Other Matter..... | 10 |
| Recommendation | 11 |
| ADDENDUM | |
| Borough President’s Office Response | |

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

**Audit Report on the
Financial and Operating Practices of the
Office of the Brooklyn Borough President**

MG07-114A

AUDIT REPORT IN BRIEF

The audit determined whether the Brooklyn Borough President's Office (Borough President's Office) is complying with applicable payroll, personnel, purchasing, cash receipts, and inventory policies and procedures.

The Borough Presidents are the elected executive officials of each borough. For their boroughs, the City Charter gives them authority to propose budget priorities directly to the City council; review and comment on major land use decisions; monitor and modify the delivery of city services; and engage in strategic planning. Each Borough President's Office has a Topographical Unit that charges fees for various services it provides, such as assigning street numbers. The Borough President's Office is located at Borough Hall in downtown Brooklyn, which is also used for events and meetings by outside parties. For Fiscal Year 2007, it had revenues of \$809,549, including \$290,309 for topographical fees.

Audit Findings and Conclusions

The Borough President's Office generally complied with applicable payroll, personnel, purchasing, cash receipts, and inventory policies and procedures. However, our audit disclosed that the Borough President's Office did not maintain complete and accurate inventory records for its furniture and equipment, did not deposit cash collected as fees for Topographical Unit services in a timely manner, and evidenced slight weakness in the payroll distribution process. The conditions were not of sufficient materiality to detract from our overall opinion.

In addition, building license fees charged to various groups have been paid to and collected by non-profit organizations affiliated with the Borough President's Office, and not the City, since 1992. The Borough President's Office is responsible for ensuring that the collection and disbursement of these license fees is conducted in accordance with the agreed-upon arrangement.

Audit Recommendations

To address these issues we make six recommendations, including that the Borough President's Office should ensure that:

- All equipment and furniture is assigned and tagged with sequential ID numbers and added to inventory when received
- Inventory control records include the type of equipment, manufacturer, serial number (or unique identifying information), location, date purchased and received, and assigned ID numbers
- All cash receipts from topographical fees continue to be deposited in a timely manner
- Collection and use of license fees for the use of Brooklyn Borough Hall comply with the December 1991 agreement

Borough President's Office Response

In their response, Borough President's Office officials agreed with three recommendations, changed its policies to make one no longer applicable, and did not address the remaining two.

INTRODUCTION

Background

The Borough Presidents are the elected executive officials of each borough. The City Charter gives them authority to: work with the Mayor in preparing the annual executive budget submitted to the City Council and to propose borough budget priorities directly to the council; review and comment on major land use decisions and propose sites for city facilities within their respective boroughs; monitor and modify the delivery of city services within their boroughs; and engage in strategic planning for their boroughs. Each Borough President's Office has a Topographical Unit that charges fees for various services it provides, such as assigning street numbers. The Brooklyn Borough President's Office (Borough President's Office) is located at Borough Hall in downtown Brooklyn.

For Fiscal Year 2007, the City of New York *Comprehensive Annual Financial Report (CAFR)* of the Comptroller reported that the Borough President's Office had actual expenditures of \$6.1 million, including \$4.7 million for Personal Services and \$1.4 million for Other Than Personal Services. It also had revenues of \$809,549, including \$290,309 for topographical fees.

A previous audit of the financial and operating practices of the Borough President's Office (FP04-058A), issued December 7, 2004, found that it did not maintain complete and accurate inventory records for its equipment.

Objective

The objective of this audit was to determine whether the Borough President's Office complies with applicable payroll, personnel, purchasing, cash receipts, and inventory policies and procedures.

Scope and Methodology

The scope of this audit is Fiscal Year 2007. To achieve our audit objectives, we interviewed officials and staff members of the Borough President's Office to gain an understanding of the internal control processes over payroll, personnel, purchasing, cash receipts, and inventory. In addition, we reviewed the Fiscal Year 2007 *CAFR* and other relevant information to develop an understanding of its revenues and spending.

To evaluate its controls over personnel, payroll, timekeeping, purchasing, and inventory, we used the following sources as audit criteria:

- Comptroller's Directive 1, Principles of Internal Control
- Comptroller's Directive 3, Procedures for the Administration of Imprest Funds
- Comptroller's Directive 13, Payroll Procedures
- Comptroller's Directive 24, Purchasing Function – Internal Controls

- Comptroller's Directive 30, Capital Assets
- New York City Leave Regulations
- Department of Investigation (DOI) Standards for Inventory Control and Management

We also reviewed the Comptroller's Directive 1 Financial Integrity Statement for 2006 filed by the Borough President on January 26, 2007. We looked at the Borough President's response for those sections that applied to our audit objectives, including: Cash Receipts (B), Imprest Funds (C), Expenditures and Payables (E), Inventory (F), and Payroll and Personnel (G).

Payroll and Personnel

To determine whether the Borough President's Office complied with New York City leave regulations we obtained an employee listing from the City's Payroll Management System (PMS), which identified 81 employees of the Borough President's Office as of June 30, 2007. For 100% of these employees, we reviewed leave balances to determine whether any employees carried excess leave balances and maximum or minimum salary ranges to determine whether all salaries were within the appropriate range.

On September 20, 2007, we observed a payroll distribution to 90 employees¹, to ascertain whether all employees signed for their paychecks and payroll stubs. We also checked employee picture IDs to determine whether all employees were bona fide.

Purchasing

To evaluate the Borough President's Office purchasing practices, we used data from the City's Financial Management System (FMS) and identified all payment vouchers issued by the office during Fiscal Year 2007. This included 495 purchases totaling \$752,561.

To assess its purchasing practices, we randomly selected 50 of the 495 purchases, which totaled \$56,629. We examined each payment voucher for the requisite approvals and authorizations, and for evidence that the transactions were for proper business purposes. We also determined whether each payment was correct, properly approved, promptly paid, and supported by adequate documentation (i.e., approval to purchase goods or services, certification that goods were received, and invoices stamped "paid" to prevent duplicate payment). In addition, we determined whether items were appropriately tagged and added to inventory when required.

Imprest Fund

In Fiscal Year 2007, the Borough President's Office issued 422 payments from its Imprest Fund account totaling \$31,138. We judgmentally chose a month, September 2006, and reviewed all 48 expenditures, which totaled \$5,368. We examined relevant supporting documentation and receipts to determine whether the expenditures were authorized, permissible, within allowed amounts, and whether any duplicate payments were made. We determined whether checks drawn on the account had safeguards such as "void in excess of 250 dollars" and

¹ Of the 90 employees, 86 were current employees and four had left the borough presidents (one had retired and three resigned) but were still being paid out.

“not valid after ninety (90) days,” printed on them and were made payable to specific payees. We also determined whether the Imprest Fund account was reconciled on a monthly basis.

Cash Receipts

The Borough President’s Office collected \$290,309 in topographical fees during Fiscal Year 2007. We randomly selected 50 of the 1,803 receipts, totaling \$6,037, that were issued for topographical services, to test whether funds: are received prior to providing services, are deposited in a timely manner, and are accurately recognized as revenue on FMS. The sampled receipts included \$3,337 of fees that were paid in currency and \$2,700 that were paid by checks and money orders.

To determine whether the administrative unit’s controls over cash receipts are adequate, we made an unannounced test on the morning of October 12, 2007, of all cash collected for topographical fees being held prior to deposit. We tested the \$13,600, including \$900 in currency and \$12,700 in checks and money orders, that was found in the safe and cross-checked it against a dated, handwritten log of all cash received and copies of topographical receipts stamped “paid.”

Inventory

To determine the adequacy of the controls of the Borough President’s Office over its physical assets, we interviewed Borough President’s Office officials in the Administrative and MIS departments in order to understand its inventory policies and procedures. The Borough President’s Office maintains two inventory lists, electronics and furniture. Since it is unlikely that furniture is taken out of the building unnoticed, we focused most of our testing on the electronics equipment. Therefore, on May 7, 2007, we obtained a report of its electronics inventory from Borough President’s Office officials. It contained capital items along with information on equipment models, serial numbers, physical locations, and assigned Office inventory tag numbers used to identify the assets.

To determine whether the inventory records were accurate, we identified 477 computer and electronic assets (including desktop computers, laptops, printers, and television sets) from the equipment inventory list as of May 7, 2007. Then, we randomly selected 108 items and accompanied by a Borough President’s Office staffer on August 9, 2007, conducted a walkthrough of the office, in which we determined whether the items were on hand, appropriately tagged, and in the locations specified in the inventory records. During the walk-through, in order to determine whether the inventory records were complete, we also selected 37 other pieces of equipment that were on hand at Borough Hall, checked whether they were appropriately tagged, and traced them from their physical location to the inventory list.

Subsequently, Borough President’s Office officials advised us that they had updated their inventory records and we received updated reports of its two inventory lists (electronics and furniture) as of August 14, 2007. To determine if there had been any changes between the May 7, 2007, and August 14, 2007, lists we compared the inventory records for each of the 108 and the 37 sampled items chosen from offices at Borough Hall.

To determine whether recent acquisitions (items purchased during Fiscal Year 2007) were properly recorded on the inventory lists, we reviewed the purchases from our sample of

payment vouchers and Imprest fund transactions, and identified and tested 13 purchases of items that should have been added to inventory. Accompanied by a Borough President's Office staffer on December 3, 2007, we determined whether those items were located at Borough Hall and were tagged as Borough President's Office property, and whether the items had been added to the inventory records.

The City's external auditors review PMS and FMS as part of their annual audit of the City's financial statements. We therefore felt no need to specifically test the reliability and integrity of the payroll and purchasing data that we obtained from those systems.

The results of the above tests, while not statistically projected to the populations from which the samples were drawn, provided a reasonable basis to determine whether the Borough President's Office complies with applicable payroll, personnel, purchasing, cash receipts, and inventory policies and procedures.

The audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of 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 Borough President's Office officials during, and at the conclusion of, this audit. A preliminary draft report was sent to Borough President's Office officials and was discussed at an exit conference on April 1, 2008. On April 9, 2008, we submitted a draft report to Borough President's Office officials with a request for comments.

We received a written response from the Borough President's Office on April 17, 2008. In their response, Borough President Office officials generally agreed with the audit recommendations regarding inventory, revised its policies to make the recommendation regarding signing for pay stubs no longer applicable, and did not address the recommendations regarding timely deposit of topographical fees and the collection and use of license fees for Brooklyn Borough Hall. The full text of the Borough President's Office response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

The Borough President's Office generally complied with applicable payroll, personnel, purchasing, cash receipts, and inventory policies and procedures. Specifically, we determined that all employees receiving pay were bona fide and those receiving paychecks signed for them. In addition, employee salaries were within the salary ranges of their civil service titles and employees did not carry excess leave.

We also determined that the Borough President's Office ensured that purchases were legitimate and necessary for its operations, properly accounted for, authorized, and charged to the proper object codes. In addition, purchases made using the Imprest fund had proper approvals, adequate supporting documentation, and were within the allowed amounts. Further, Imprest fund checks were drawn to specific parties, the account was reconciled monthly, and reimbursement checks were deposited in a timely manner. Cash receipts were recorded accurately and safeguarded until deposited. Physical assets were found on site and generally tagged as property of the Borough President's Office, and inventory records were kept.

However, our audit disclosed that the Borough President's Office did not maintain complete and accurate inventory records for its furniture and equipment, did not deposit cash collected as fees for Topographical Unit services in a timely manner, and evidenced slight weakness in the payroll distribution process. After we advised the Borough President's Office of our findings, officials took appropriate action to correct some of those weaknesses. The conditions were not of sufficient materiality to detract from our overall opinion. Nonetheless, the details of the findings are discussed in the remaining sections of this report.

Tracking and Safeguarding of Physical Assets Should Be Improved

The Borough President's Office keeps inventory records for its electronics equipment, such as computers, printers, and audio-visual equipment, and for its furniture, such as desks, chairs, and file cases. However, those inventory records were not accurate or complete, and newly purchased items are not always added to its inventory lists in a timely manner, if at all.

Comptroller's Directive #1 states, "An agency must establish physical control to secure and safeguard vulnerable assets." In addition, DOI's *Standards for Inventory Control and Management*, Standard No. 28, requires that "readable sturdy property identification tags (reading 'Property of the City of New York') with a sequential internal control number are assigned and affixed to valuable items." Further, the standard states that a "central inventory record should be maintained, contain the internal control number tag assignments, and should be updated to account for reassignment of goods."

While the Borough President's Office is responsible for keeping inventory records, its administrative unit is not always informed when new equipment is deployed. Therefore, items are not always tagged with an ID number or added to inventory before they are sent to the ordering unit. Even when items are tagged and added to inventory, it is possible for ID number tags to be removed from items and for items to be moved to different locations without the knowledge of management.

It would be difficult to track missing ID number tags, since the administrative unit maintains different inventory lists for electronic equipment and for furniture and does not assign ID number tags sequentially on each list. Moreover, the Borough President's Office does not have a written procedure for updating inventory records. Thus the ordering units may not be aware that equipment and furniture must be tagged and added to inventory when received or moved.

During our inventory review, seven of the 108 sampled items including computers and printers, were not found. After further investigation, officials at the Borough President's office were able to locate all but one printer. The inventory records for another 22 items including computers, printers, and audio visual equipment, listed incorrect locations. Four items were recorded incorrectly as different items, including one that also had an incorrect location. In our review of 37 items that were on hand at Borough Hall, we found that five items, including a computer, a shredder, a humidifier, and two portable air conditioners had not yet been recorded in inventory, even though two of the items had ID number tags.

Of the 13 items that should have been added to inventory from the 50 sampled purchases, we confirmed that all were present at Borough Hall. However, we found that only five items had been recorded in the inventory records and tagged. The remaining eight items, including a computer, two computer monitors, a speaker, an amplifier, mail processing equipment, and two file cabinets, were not recorded on the inventory list. Moreover, of the eight items not on the inventory list, six had ID tags attached and the remaining two file cabinets did not have ID tags attached.

Officials could not explain how items had ID tags attached and yet had not been added to the inventory records. Officials also failed to explain how some purchases, such as the mail processing equipment costing over \$19,000 that was purchased in September 2006, had not yet been added to the inventory records more than a year later. However, officials stated that they now have two people assigned to keeping track of inventory, as well as new procedures that require that the administration is notified by e-mail whenever items are put into service or moved.

Comptroller's Directive #30, Capital Assets §9.1.2, states that each agency must maintain inventory records that at a minimum should include the following information: type of equipment, manufacturer, serial number, location, date purchased and received, and assigned ID#. In addition, DOI's *Standards for Inventory Control and Management*, Standard No. 8 states that inventory records must be complete and adequately preserved so that they present a complete picture of the "who, what, when and why of a transaction from initiation through completion."

The inventory records of the Borough President's Office contain limited information for each item, so it is difficult to identify specific items, especially when there are many similar items, or if the items have been replaced or moved around. Insufficient and inaccurate information in the inventory records make it difficult to identify the items clearly and easily. Not entering information for each item accurately or completely in inventory, and then not updating the records to reflect changes in where inventory is located, increases the risk that misappropriation or theft may occur and go undetected.

Recommendations

The Borough President's Office should ensure that:

1. All equipment and furniture is assigned and tagged with sequential ID numbers and added to inventory when received.
2. Inventory control records include the type of equipment, manufacturer, serial number (or unique identifying information), location, date purchased and received, and assigned ID numbers.
3. Inventory records are updated to reflect any changes.

Borough President's Office Response: In its response, the Borough President's Office stated that its current policies include the following: "Administration is informed of all purchases, and inventory is tagged immediately upon receipt. Two staff members are assigned to the task of maintaining inventory, one on the receiving end and one in Administration who maintains inventory lists and is informed of all moves of equipment via e-mail."

Auditor Comment: These new inventory procedures, instituted in Fiscal Year 2008, should help the Office better track and safeguard its assets.

Cash Collected For Topographical Fees Should Be Deposited More Frequently

The Topographical Unit processes applications and assigns street numbers and vanity addresses, conducts street-status and building-alterations map reviews, and sells Borough maps. It issues receipts to customers stating the specific fee for the requested services. Once cash is collected by Borough President's Office Administrative Unit, the customer brings a stamped receipt back to the Topographical Unit so that their application is processed. The collected cash is kept in a locked safe in the Administrative Unit until it is deposited.

In Fiscal Year 2007, the Administrative Unit collected \$290,309 for topographical fees, including \$124,555 (43%) in currency and \$165,794 (57%) in checks and money orders. Based upon our unannounced test on October 12, 2007, we determined that the Administrative Unit adequately safeguarded the cash it had not yet deposited totaling \$13,600, including \$900 in currency and \$12,700 in checks and money orders.

Regarding cash deposits, Comptroller's Directive #11 states, "Generally, cash deposits must be made on a daily basis ... the accumulation of cash [i.e., currency, checks, and money orders] is not permitted." In Fiscal Year 2007, the Administrative Unit made 30 deposits, generally every two weeks, each representing a total of \$9,677 on average. Of the 50 receipts we tested, we found that some cash receipts were held as long as three weeks before being deposited and that on average, cash was held for 11 days.

During our audit, the Administrative Unit started making more frequent deposits (every week instead of every two weeks) starting in May 2007. We believe this is a more effective control over cash receipts since cash in any form is highly susceptible to theft and misappropriation. Failure to ensure timely deposits of cash receipts, allowing cash to accumulate, increases the risk that currency could be lost or misappropriated.

Recommendation

4. The Borough President's Office should ensure that all cash receipts continue to be deposited in a timely manner.

Borough President's Office Response: "The Borough President's Office maintains that all fees/funds were accounted for at all times."

Auditor Comment: The Borough President's Office response does not address our recommendation. Cash receipts should not only be accounted for but deposited in a timely manner. Accordingly, we reaffirm our recommendation.

Employees Should Sign For Direct-Deposit Earning Statements

In their response to the checklist "Agency Evaluation of Internal Controls Directive #1" (Directive #1 checklist), §G.5d, the Borough President's Office affirmed that its employees are required "to sign for their paychecks or payroll stubs for those receiving direct deposit." During our interviews and payroll distribution observation, we noted that the Borough President's Office did not require its employees to sign for receipt of their payroll stubs. An official stated that "the Office of Payroll Administration advised the Borough President's Office that those on direct deposit are not required to sign for their pay check stubs. Although signing for payroll stubs is not a City requirement, the Borough President's Office has opted to make it a policy, as evidenced by its response in the Directive #1 checklist. Furthermore, requiring employees to sign for their payroll stubs ensures that only the employee concerned receives the sensitive information contained on the payroll stub.

Recommendation

5. The Borough President's Office should ensure that employees sign for their payroll stubs.

Borough President's Office Response: "The City of New York does not require employees to sign for paystubs. Our Directive #1 checklist has been updated to reflect our practice."

Other Matter

Brooklyn Borough Hall is used for events and meetings by outside parties. During our audit, we noted that building license fees charged to various groups have been paid to and collected by certain non-profit organizations affiliated with the Borough President's Office, and not the City, since 1992. This payment arrangement was agreed to by the Borough President's

Office and the Commissioner of the Department of General Services (a predecessor of the Department of Citywide Administrative Services) in December 1991 and appears to still be in effect. However, it also appears that the fees are now being used for purposes other than what was originally agreed to, i.e., to defray and or offset the cost of overtime associated with these events and building maintenance costs. We did not review the financial practices of the non-profit organization; as such a review is outside the scope of this audit, so we can offer no conclusions about the appropriate collection and disbursement of fees collected. Nevertheless, the Borough President's Office is responsible for ensuring that the collection and disbursement of license fees is conducted in accordance with the agreed-upon arrangement.

Recommendation

6. The Borough President's Office should ensure that collection and use of license fees for the use of Brooklyn Borough Hall comply with the December 1991 agreement.

Borough President's Office Response: "These are Best of Brooklyn matters."

Auditor Comment: The Borough President's Office, not the non-profit organization, is ultimately responsible for ensuring that the collection and disbursement of license fees is conducted in accordance with the agreed-upon arrangement. Accordingly, we reaffirm our recommendation.



OFFICE OF THE BROOKLYN BOROUGH PRESIDENT

April 16, 2008

Mr. John Graham
Deputy Comptroller,
Audits, Accountancy & Contracts
Office of the Comptroller
1 Centre Street
New York, N.Y. 10007

Dear Mr. Graham:

In response to your report regarding our 2007 Agency Audit, please be advised of our current practices to ensure full compliance with Comptroller's Directives as well as Citywide Policies and Regulations.

INVENTORY - The Borough President's Office maintains that all inventories were accounted for by the Auditors. Administration is informed of all purchases, and inventory is tagged immediately upon receipt. Two staff members are assigned to the task of maintaining inventory, one on the receiving end and one in Administration who maintains inventory lists and is informed of all moves of equipment via email.

TOPOGRAPHICAL FEES - The Borough President's Office maintains that all fees/funds were accounted for at all times.

DIRECT DEPOSIT EARNING FEES - The City of New York does not require employees to sign for paystubs. Our Directive #1 checklist has been updated to reflect our practice.

OTHER MATTER - These are Best of Brooklyn matters.

If you have any questions, feel free to contact me at (718) 802-4095.

Sincerely,

Melody Ruiz
Director of Administration