



# City of New York

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## OFFICE OF THE COMPTROLLER

Scott M. Stringer  
COMPTROLLER



## MANAGEMENT AUDIT

**Marjorie Landa**

Deputy Comptroller for Audit

Audit Report on the New York  
Public Library's Controls over Its  
Financial and Operating Practices

MG14-101A

June 8, 2015

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
1 CENTRE STREET  
NEW YORK, NY 10007

SCOTT M. STRINGER  
COMPTROLLER

June 8, 2015

To the Residents of the City of New York:

My office has audited the New York Public Library's (NYPL) controls over its financial and operating practices. We perform audits of City agencies, City contracts, and City-funded entities such as this as a means of increasing accountability and ensuring compliance with regulations.

The audit found that the NYPL has adequate controls over its financial and operating activities through its establishment of systems and procedures that impose multiple levels of oversight and review. Specifically, the audit found the NYPL established and followed clearly defined policies and procedures for its operations. The audit also found that City, State, and federal funds received by the NYPL, as well as fines and fees collected and sampled private donations, were properly recorded in the general ledger. Finally, expenditures were properly supported and charged to the appropriate fiscal year, appeared to be for appropriate business purposes, and contained the required approvals.

Because we found no material weaknesses in the NYPL's internal controls over its financial and operating activities, we make no recommendations in this report.

The results of our audit have been discussed with NYPL officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

If you have any questions concerning this report, please e-mail my Audit Bureau at [audit@comptroller.nyc.gov](mailto:audit@comptroller.nyc.gov).

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

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# THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER MANAGEMENT AUDIT

## Audit Report on the New York Public Library's Controls over Its Financial and Operating Practices

MG14-101A

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### EXECUTIVE SUMMARY

The objective of the audit was to determine the adequacy of the New York Public Library's (NYPL) internal controls over its financial and operating activities and its compliance with applicable laws, rules and regulations. The NYPL is one of three separate library systems serving the City of New York.<sup>1</sup> The NYPL has a combination of 87 neighborhood branches and four research centers throughout the boroughs of Manhattan, the Bronx and Staten Island. It operates as a private, not-for-profit corporation, and is governed by a Board of Trustees, which includes as ex officio members, the Mayor, the Comptroller, and the Speaker of the City Council. According to funding reports prepared by the City's Office of Management and Budget (OMB), total City appropriations for the NYPL for Fiscal Year 2014 were \$108,381,279. In addition, the NYPL received \$21,144,174 in State funds, \$840,781 in Federal funds, and \$35,765,378 in private donations.

### Audit Findings and Conclusions

The NYPL has adequate controls over its financial and operating activities through the use of various levels of oversight and review. Specifically, the audit found NYPL established and followed clearly defined policies and procedures for its operations. The audit also found that City, State, and federal funds received by the NYPL, as well as fines and fees collected and sampled private donations, were properly recorded in the general ledger. Finally, expenditures were properly supported and charged to the appropriate fiscal year, appeared to be for appropriate business purposes, and contained the required approvals.

Because we found no material weaknesses in the NYPL's internal controls over its financial and operating activities, we make no recommendations in this report. NYPL officials did not have any additional information or comments to add in their response to our draft report.

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<sup>1</sup> The other two library systems are the Brooklyn Public Library and the Queens Public Library.

# AUDIT REPORT

## Background

Founded in 1895, the NYPL is the nation's largest public library system, and is one of three separate library systems serving the City of New York. The NYPL has a combination of 87 neighborhood branches and four research centers throughout the boroughs of Manhattan, The Bronx and Staten Island.

According to the NYPL's website, the library serves more than 18 million patrons a year and millions more online. Collectively, the branch libraries hold more than 51 million items, including books, e-books, DVDs and renowned research collections. In addition to allowing individuals to borrow books, the NYPL offers 55,000 free programs annually, including English language classes, computer training, job counseling, and educational guidance.

The NYPL operates as a private, not-for-profit corporation, with its largest single source of funds coming from the City of New York. It is governed by a Board of Trustees, which include as *ex officio* members, the Mayor, the Comptroller, and the Speaker of the City Council.<sup>2</sup> The NYPL follows Generally Accepted Accounting Principles (GAAP), using the accrual method of accounting for recording revenue and expenditures. To account for funds received from various sources, the NYPL uses fund accounting<sup>3</sup> to segregate the sources of funds received.<sup>4</sup> City funding received by the NYPL is used primarily for personnel-related costs (payroll and fringe benefits). The NYPL also receives funding from New York State, the federal government, private donations, investments, and the collection of fines and fees. According to funding reports prepared by the City's Office of Management and Budget (OMB), total City appropriations to the NYPL for Fiscal Year 2014 were \$108,381,279. In addition, the NYPL received \$21,144,174 in State funds, \$840,781 in Federal funds, and \$35,765,378 in private donations.<sup>5</sup>

## Objective

The objective of the audit was to determine the adequacy of the NYPL's internal controls over its financial and operating activities and its compliance with applicable law, rules and regulations.

## Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

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<sup>2</sup> The Nominating Committee, comprised of ten voting Board members, is responsible for nominating new members to the Board of Trustees and existing members of the Board vote to approve the new members.

<sup>3</sup> Fund accounting is an accounting system emphasizing accountability rather than profitability, used by non-profit organizations and governments. In this system, a fund is a self-balancing set of accounts, segregated for specific purposes in accordance with laws and regulations or special restrictions and limitations.

<sup>4</sup> Under the accrual method of accounting, revenues are recognized when earned and expenditures are recorded when incurred.

<sup>5</sup> The NYPL's funding details and performance indicators from Fiscal Years 2008 through 2014 are listed in the appendix.

As noted, the Comptroller is one of three ex-officio trustees of the NYPL who, in conjunction with the appointed trustees, comprise the Board of Trustees of the Library. The Comptroller sits on the Board through a representative. Neither the Comptroller nor his representative on the Board were involved in planning or conducting this audit, or in writing this audit report.

The primary scope of this audit was Fiscal Year 2014. However, to gain an understanding of the current oversight functions of the NYPL's Board of Trustees, we also reviewed the Fiscal Year 2013 Board meeting minutes and the Fiscal Year 2013 Form 990-Return of Organization Exempt from Income Tax. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

## **Discussion of Audit Results with NYPL**

The matters covered in this report were discussed with NYPL officials during and at the conclusion of this audit. The preliminary draft report was sent to NYPL officials on May 7, 2015. Because the audit did not identify any negative findings or make any recommendations, NYPL officials agreed to forgo an exit conference. We submitted a draft report to NYPL officials with a request for comments on May 18, 2015, and received their written response on May 19, 2015. Because the audit did not identify any negative findings or make any recommendations, NYPL officials did not have additional information or comments to add to the report. The full text of NYPL's response is included as an addendum to this report.

# FINDINGS

The NYPL has adequate controls over its financial and operating activities through the use of various levels of oversight and review. These controls are further enhanced through the NYPL's implementation of Workday, a web-based application used as part of the NYPL's accounting system to process transactions and to store supporting documents.

Specifically, the audit found the following:

- The NYPL established and followed clearly defined policies and procedures for its operations, including those pertaining to the roles, functions and responsibilities of its staff. The NYPL had also instituted and adhered to Conflict of Interest Rules that define proper relationships and establish boundaries for its trustees, officers and employees.
- The City, State and federal funds received by the NYPL were properly recorded in its general ledger and traced to corresponding bank statements.<sup>6</sup> Sampled private donations were also properly recorded in the general ledger and traced to corresponding bank statements.
- Fines and fees collected by the branch libraries were properly deposited and recorded in the general ledger.
- Expenditures were properly supported and charged to the appropriate fiscal year, appeared to be for appropriate business purposes, contained the required approvals, and fell within the applicable spending limits.<sup>7</sup>
- Sampled IT equipment was properly accounted for and obsolete items were disposed of in accordance with the NYPL's policies.
- The NYPL Board of Trustees, the Audit Committee, and the Finance Committee met regularly<sup>8</sup> and voted on pertinent issues that have an impact on the library, as required by the NYPL's bylaws.
- Payroll settlement reports matched the amounts posted to the general ledger for the sampled payroll periods. In addition, the Fiscal Year 2014 salary of the President/CEO was in compliance with his employment agreement.
- Personnel records were maintained in compliance with the Employee Handbook. Our field testing confirmed the bona-fide employment status for the employees sampled.
- The application and approval process relating to \$7,050 in emergency loans to eight employees was conducted in compliance with the NYPL's Staff Loan Policy.

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<sup>6</sup> These statements were for the NYPL's Bank of America "concentration account."

<sup>7</sup> There are no spending limits for travel and business expenses. However, spending limits have been established for expenditures made with Purchase Cards.

<sup>8</sup> The Board of Trustees met five times; the Finance Committee as well as the Audit Committee each met four times.

## DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

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

The primary scope of this audit was Fiscal Year 2014. However, to gain an understanding of the current oversight functions of NYPL's Board of Trustees, we also reviewed the Fiscal Year 2013 Board meeting minutes and the Fiscal Year 2013 Form 990-Return of Organization Exempt from Income Tax.

To evaluate the NYPL's internal controls over its financial and operating practices, we conducted walkthroughs and observations of the Library's day-to-day operations. This included interviews with the following individuals: the Vice President of Finance and Strategic Initiatives, the Director of Budget and Planning, the Purchasing Manager, the Controller of the Accounting Department (along with the Associate Controllers), the Disbursement Manager, the General Accounting Manager; and staff analysts. In addition, we interviewed the NYPL's Vice President and Chief Technology Officer to assess the controls and security measures in place for Workday and observed demonstrations and simulations conducted in Workday's Accounting and Human Resources Administration modules.

To further evaluate the NYPL's internal controls over its branch libraries, research libraries, and book operations,<sup>9</sup> we also conducted walkthroughs and interviews with the following management and staff: the Acting Vice President of Public Service, Network Managers, Branch Managers, the Managing Librarian, the Science Industry and Business Library Operations Manager, and library staff. We also interviewed the Acting Director of NYPL's Integrated Library Services (ILS) and conducted observations of the ILS book ordering process. In addition, to obtain an overview of the NYPL's Human Resource (HR) process and the controls in place to ensure the security of employees' confidential information, we met with the Vice President of HR Administration and with the Director of Employee and Labor Relations.

To assess the adequacy of the NYPL's internal controls as they related to our audit objective, we evaluated information obtained from the NYPL's website, interviews, and the NYPL's policies and procedures. We used the following as audit criteria:

- Bylaws of the NYPL's Astor, Lenox and Tilden Foundations - Board of Trustees;
- The NYPL Astor, Lenox and Tilden Foundations' Ethics and Conflicts Policies for Trustees, Officers and Employees;
- The NYPL Policy Regarding Financial and Ethical Misconduct;

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<sup>9</sup> The NYPL and Brooklyn Public Library both use the same book sharing facility.



- The NYPL Policies and Procedures for Purchases;
- The NYPL Policy and Procedures for Travel and Business Expenses;
- The NYPL Inventory Procedures and Guidelines for IT Supported Equipment;
- The NYPL Employee Handbook – Policies and Procedures for Conduct;
- Branch Libraries Memorandum #36 – Procedures for Handling Library Monies; and
- The NYPL Staff Loan Policy.

To identify the number of trustees and to determine whether they received a salary, we reviewed the Fiscal Year 2013 Form 990-Return of Organization Exempt from Income Tax. To further enhance our understanding of the oversight function of the Board of Trustees, we reviewed the Fiscal Year 2013 and 2014 minutes of the Board of Trustee meetings. In addition, to understand the role of the Board as it relates to the NYPL financial results and reporting requirements, we attended a scheduled Audit Committee meeting on October 29, 2014, and observed presentations made by the NYPL Treasurer and by external auditors. We also witnessed the passing of two Board resolutions by the Audit Committee.

To assess the NYPL's controls over revenues received in Fiscal Year 2014 and to determine whether the revenues were properly recorded and reported, we traced City, State and Federal revenues received to the NYPL bank statements, the general ledger, and financial statements. Specifically, we traced a total of \$119,776,355 in public funding: \$97,791,400 in City funds,<sup>10</sup> \$21,144,174 in State funds; and \$840,781 in Federal funds. We reconciled \$108,381,279 of the Fiscal Year 2014 City appropriations to the City's Office of Management and Budget (OMB) funding reports and matched the dollar amounts in the OMB funding reports to what was reported in the Comptroller's Comprehensive Annual Financial Report.

To determine whether donations were accurately recorded, we identified the donors and traced a sample of \$4,073,125 donations made by 29 of the highest 131 corporate donors<sup>11</sup> from NYPL's bank statements to the postings in the general ledger. We observed the reconciliation and posting of donations to the general ledger by the NYPL's Accounting Department. In addition, we observed the process for the collection of fines and fees by the library branches to the point where they were posted in the general ledger. Furthermore, to determine whether fines and fees received were properly recorded and reported, we judgmentally selected August, the month with the highest reported fines and fees. These totaled \$239,527 for the month, out of \$2,261,542 total fines and fees received during the year. We reconciled the revenues and expenses as reported by the branches, matched the net revenues to the bank deposits and traced the amounts from the bank deposit slips to the postings in the general ledger.

To assess the NYPL's controls over its payroll and to determine whether the payments were accurately recorded on corresponding documents, we judgmentally selected two bi-weekly pay periods (ending December 13, 2013, and June 27, 2014) for testing. For each period, we reviewed the payroll settlement reports and matched the payroll direct deposits to the postings in the general ledger. Additionally, for the pay period ending December 13, 2013, we reviewed year-end entries relating to employee benefits. We also observed a bi-weekly payroll closing process

<sup>10</sup>Of the Fiscal Year 2014 appropriation, \$9,669,138 was earmarked for NYPL's heat, light and power expenditures and was paid directly by the City to the service providers and \$920,741 had not been received during Fiscal Year 2014. As such, we were only able to trace \$97,791,400 of the \$108,381,279 appropriated.

<sup>11</sup> There were seven categories of Corporate Donors consisting of 131 donors that were listed on NYPL's website. We selected the four categories that had the highest contributors and then selected 29 donors who donated \$25,000 and above during our scope period. We used the NYPL Acknowledgement Letter/Receipt to donor to extract the dollar amounts for tracing purposes to the bank statements and to the general ledger.

and the corresponding posting to the general ledger and the transfer of direct deposit funds to the NYPL's bank account for payroll.

To determine whether the NYPL's purchases were conducted in accordance with its policies and procedures, we randomly selected 25 purchases, totaling \$348,193, that were made during Fiscal Year 2014.<sup>12</sup> Total purchases during the year were \$134,939,929. In addition, to determine whether expenditures charged with the NYPL's AMEX Corporate Purchasing credit cards complied with its policies and did not exceed monthly transaction limits, we reviewed all 24 of the Fiscal Year 2014 AMEX Corporate statements and judgmentally selected the top spenders from each statement, for a total of \$92,866 in expenditures.<sup>13</sup> Total expenditures for the 24 statements were \$376,611. For all of the purchases in our sample, we reviewed the purchase documents for appropriate approvals and for confirmations of goods/services received, and determined whether the purchases were for business purposes. We also reviewed a total of \$3,633 in gift card purchases made by senior NYPL officials to determine the purpose and legitimacy of the purchases.

To determine whether travel & business expenses (T&E) were paid in accordance with NYPL's policies and procedures, we reviewed the following:

- 12 of the Fiscal Year 2014 American Express Corporate Card statements for the President/CEO and judgmentally selected the two highest transactions for each month.
- 350 vouchers/expense reports for the 13 highest ranked officers and judgmentally selected the two vouchers/expense reports with the highest amount per officer, for a total of 26 reports.
- 1,629 vouchers/expense reports from the overall travel expense reports and randomly selected 25 reports relating to 17 officials.

For each of the travel expenses in our sample, totaling \$173,668, we reviewed the supporting documents to ensure that the expenditure was incurred for legitimate business purposes, that there were corresponding invoices, and that there were appropriate approvals.

To determine whether proper controls existed over computers and IT equipment, we obtained a list of all electronic items purchased during Fiscal Year 2014, stratified the population, and based on the location of the items, randomly selected for testing purposes 25 of the 1,410 purchased items. In addition, we also reviewed the master inventory listing of all IT items and the list of obsolete IT items. We randomly selected 30 items from the master IT inventory list and verified the onsite existence of the items. In addition, we randomly selected 30 items that were on the premises and determined whether they were recorded on the master IT inventory list. Furthermore, for the items purchased during Fiscal Year 2014, we judgmentally selected 25 items valued \$16,711 and verified whether the items were listed on the master inventory list.<sup>14</sup> To determine whether obsolete items were disposed of in accordance with NYPL's policy and procedures, we randomly selected 25 items for testing.

To determine whether the NYPL maintained updated employee personnel files, we randomly selected 50 employees for testing from the population of 2,930 employees who received payments during Fiscal Year 2014. We reviewed their personnel files and determined whether

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<sup>12</sup> Vouchers were selected from the PeopleSoft system, and invoices from the Workday module.

<sup>13</sup> The 24 statements include detailed spending information for each cardholder. The statements also identify the top 10 spenders for each month.

<sup>14</sup> We first selected five vouchers with the highest totals and from each voucher we then selected the first five items, for a total of 25 items.

certain data, such as employment status (active/inactive), recorded in their manual files reconciled to the information recorded in the HR Workday module. Of these 50 employees, we judgmentally selected a total of 15 employees and visited their work locations to verify that they were bona fide employees.

To determine whether loans were provided to employees in accordance with the NYPL's policy and procedures, we requested and reviewed the NYPL Staff Loan Policy, the loan applications submitted by eight staff, the proof of the emergency situation for these employees, the HR approval of these applications, and the repayment schedules for the employees.

The results of the above tests, while not projectable to the respective populations, provided us with a reasonable basis to assess NYPL's controls over its financial and operating activities.

Chart I below shows NYPL's operating revenue as reported in its financial statements for Fiscal Year 2014.

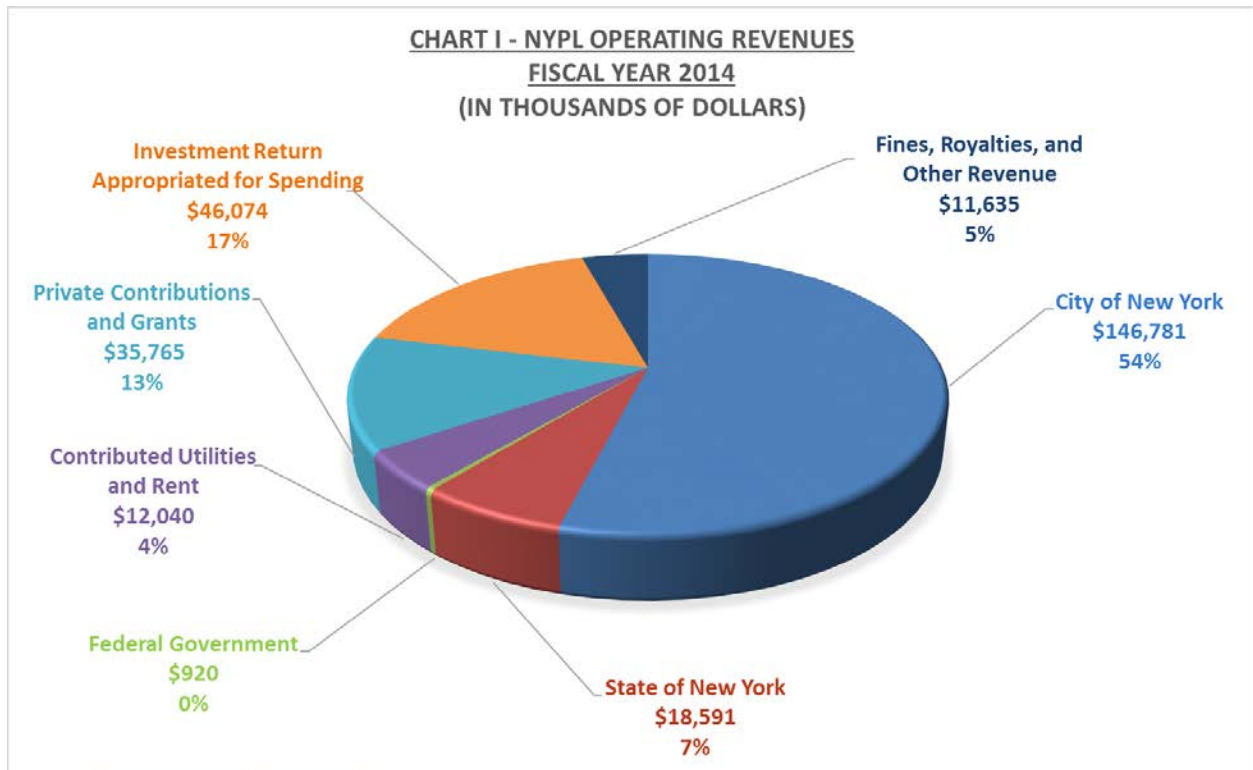
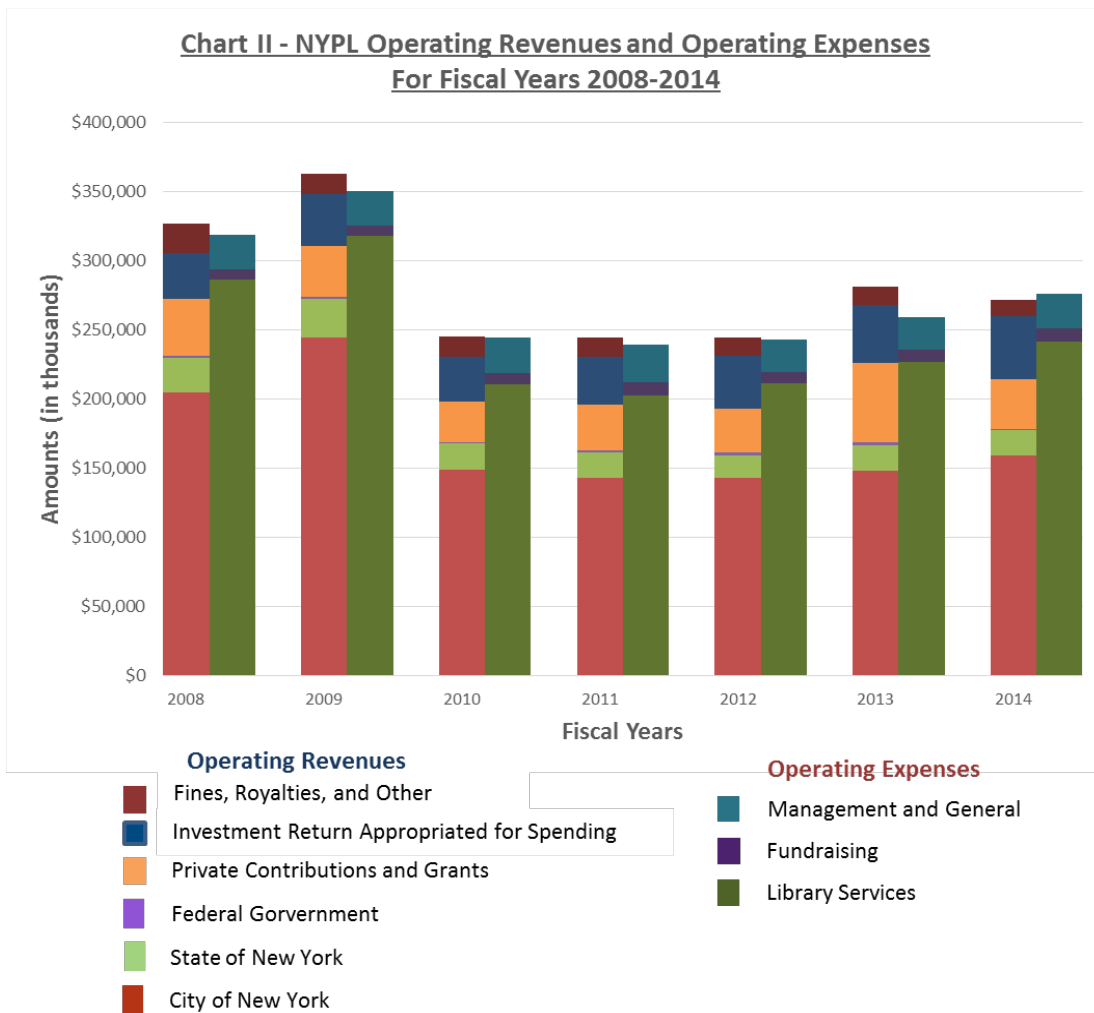


Chart II below shows NYPL’s operating revenues and operating expenses during Fiscal Years 2008 to 2014.





New York  
Public  
**Library**

OFFICE OF FINANCE

May 19, 2015

Marjorie Landa  
Deputy Comptroller for Audit  
City of New York  
Office of the Comptroller  
Municipal Building  
1 Centre Street, Room 1100  
New York, NY 10007

Re: Audit Report on The New York Public Library's Controls over its Financial and Operating Practices (MG14-101A)

Dear Ms. Landa,

We have reviewed the results of the audit report regarding The New York Public Library's (the Library) Controls over its Financial and Operating Practices. We are pleased that the report did not identify any material weaknesses in internal controls over the Library's financial and operating activities and made no recommendations. As such, we have no further information to add to the report before it is released to the public.

Sincerely,

Jeffrey Roth  
Vice President for Finance and Assistant Treasurer