



City of New York

OFFICE OF THE COMPTROLLER

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COMPTROLLER



MANAGEMENT AUDIT

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Deputy Comptroller for Audit

Audit Report on the New York City
Housing Authority's Controls Over Its
Inventory of Equipment and Supplies

MD14-105A

May 15, 2015

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
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NEW YORK, NY 10007

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May 15, 2015

To the Residents of the City of New York:

My office has audited the New York City Housing Authority (NYCHA) to determine whether it had adequate controls in place to manage its inventory of equipment and supplies. We perform audits such as this as a means of ensuring that resources are used effectively, efficiently, and in the best interest of the public.

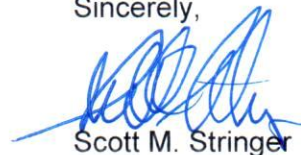
The audit found that NYCHA's internal procedures at the satellite warehouses and the development storerooms have serious flaws and place at risk well over \$100 million of reported inventory. We conducted limited counts at two satellites and identified numerous problems including missing inventory, inaccurate values listed for items, a failure to update records after items were moved, and a lack of consistency in the way inventory was organized among the satellites. At the developments we sampled we similarly found a lack of adequate and consistent procedures, inadequate record keeping, apparent unaccounted for items, and insufficient security, among other things. Overall, we note that NYCHA's senior management has not established an adequate monitoring structure to enable them to determine the extent to which applicable policies and procedures are being followed, and that accountability for managing and correcting inventory deficiencies was limited. Consequently, there is limited assurance that the inventory at the satellite warehouses and the development storerooms is adequately protected against misappropriation or theft.

Because the management and operational problems are so pervasive throughout the agency's inventory control system at the satellite warehouses and developments, the audit recommends an overhaul of the entire system. Given the scope of work that needs to be done to correct the management and operational problems identified, the audit recommends that NYCHA create an inventory project team whose function would be to overhaul and redesign NYCHA's inventory system at the satellite warehouses and development storerooms and shops.

The results of the audit have been discussed with NYCHA 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.

Sincerely,



Scott M. Stringer

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER MANAGEMENT AUDIT

Audit Report on the New York City Housing Authority's Controls Over Its Inventory of Equipment and Supplies

MD14-105A

EXECUTIVE SUMMARY

The objective of this audit was to determine whether the New York City Housing Authority (NYCHA) had adequate controls in place to manage its inventory of equipment and supplies.

NYCHA's inventory is stored in a main warehouse located in Long Island City (LIC) and in storerooms and skilled trades' shops located at its 334 developments throughout New York City (the City). All items maintained at the LIC warehouse are inventoried on arrival and expensed in NYCHA's financial records at the time they are distributed to the developments. The inventory maintained at the developments also includes fixed assets. NYCHA designates all furniture, fixtures and equipment items with a purchase price greater than \$1,000 as fixed assets and requires that these items be tagged and tracked.

In 2012, NYCHA completed a process of counting materials and supplies in the development storerooms. Excess inventory (defined by NYCHA as anything more than a 90-day supply) was transferred to satellite warehouses for safekeeping and eventual transfer back to the LIC warehouse to assess whether it should be returned to inventory or liquidated. While initially, there were eight satellite warehouses, as of May 2014, NYCHA had six remaining: two in the Bronx—Betances A and B—and four in Brooklyn—Armstrong A, TRAM, and Unity Plaza A and B.

During the audit's scope period, the supplies stored at the LIC warehouse were valued at \$5.3 million, the total dollar amount of the orders from LIC for 173 developments was approximately \$9.4 million and the total dollar amount of drop shipment purchases¹ was approximately \$49.5 million (covering 221 developments).² The total reported value of the inventory at the six satellites warehouses was \$20.5 million. For the same period, the reported value of fixed assets at the developments was close to \$33 million.

¹ Drop shipments are supplies that go directly to the developments and not to the LIC warehouse.

² Some developments are consolidated and have only one delivery point.

Audit Findings and Conclusion

The audit found significant deficiencies in NYCHA's internal procedures that result from management's failure to institute adequate controls over inventory operations. Consequently, there is limited assurance that the inventory at the satellite warehouses and the development storerooms is adequately protected against misappropriation or theft. Limited testing at the LIC warehouse did not identify the same issues.

The audit found that NYCHA staff failed to maintain accurate inventory records, properly safeguard inventory items and submit reports to NYCHA management in a timely manner, if at all. We found that NYCHA's senior management has not established an adequate monitoring structure to enable them to determine the extent to which applicable policies and procedures are being followed. We also found that accountability for managing and correcting inventory deficiencies was limited. NYCHA's deficient controls place at risk well over \$100 million of reported inventory.

Audit Recommendation

Because the management and operational problems are so pervasive throughout the agency's inventory control system at the satellite warehouses and developments that they cannot be readily addressed by fine-tuning the system, the audit recommends an overhaul of the entire system. Given the scope of work that needs to be done, we recommend that NYCHA create an inventory project team, reporting to the General Manager or a high-level Vice President, whose function would be to redesign NYCHA's inventory system at the satellite warehouses and the development storerooms and shops.

Agency Response

NYCHA officials agreed with the audit's primary recommendation that it overhaul its entire inventory system. The full text of NYCHA's response is included as an addendum to this report.

AUDIT REPORT

Background

NYCHA is the largest public housing authority in the United States. It provides affordable housing to over 400,000 tenants in 334 developments located throughout the City's five boroughs and is the largest single landlord in New York City, with five percent of the city's population living in NYCHA housing developments. NYCHA's mission is to increase opportunities for low- and moderate-income New Yorkers by providing safe, affordable housing and by facilitating access to social and community services. To accomplish this mission, NYCHA must ensure that its buildings and apartments are well maintained and properly repaired. NYCHA maintains a vast inventory of equipment and supplies required for the repair and service of its buildings. NYCHA is governed by a board comprised of seven members appointed by the Mayor, including three resident members and a Chair. The board votes on contracts, resolutions, policies, motions, rules and regulations at no fewer than 10 regularly scheduled meetings per year.

NYCHA's inventory is stored in its main warehouse located in LIC and in storerooms and skilled trades' shops located at its 334 developments throughout the City. According to NYCHA, 20 percent of the agency's inventory supply is maintained at the LIC warehouse and 80 percent is shipped directly to the developments (drop shipments) or other NYCHA locations (e.g., borough office) that placed specific orders. The supplies stored at the LIC warehouse were valued at \$5.3 million as of May 2014. The inventory maintained at the developments includes fixed assets. NYCHA designates all furniture, fixtures and equipment items with a purchase price greater than \$1,000 as fixed assets and requires that these items be tagged and tracked.³ As of December 31, 2014, the reported value of fixed assets at the developments was close to \$33 million. The developments are required to track closed kit inventory items.⁴ However, the value of the remaining items stored at the developments, which include light bulbs, washers, nuts, screws, mops, brooms, caulking, etc. is not tracked. (NYCHA considers these items to be working stock.)

All items maintained at the LIC warehouse are inventoried on arrival and expensed in NYCHA's financial records at the time they are distributed to the developments. During the period from January 1, 2014, through July 31, 2014, the total dollar amount of the orders from LIC for 173 developments was approximately \$9.4 million and the total dollar amount of drop shipment purchases was approximately \$49.5 million (covering 221 developments).⁵ NYCHA uses a customized Oracle database for its overall inventory management. In addition, to manage work orders and inventory at some development storerooms, NYCHA also uses Maximo to create and track work orders.⁶

Pursuant to NYCHA's procedures governing the operation of the development storerooms, it aims to keep no more than a 90-day supply of items on hand at the developments. Inventory lists are only maintained for fixed assets in the Accounting and Fiscal Services Department, General Ledger Division, Fixed Assets Section and should be updated when purchases are made. The

³ Refrigerators and ranges are considered fixed assets, but are not required to be tagged.

⁴ Closed kit items include faucets, toilet bowls, air conditioners, ladders, tools, and generators. These items are required to be kept in a separate secured area of the storeroom.

⁵ Some developments are consolidated and have only one delivery point.

⁶ Originally, NYCHA planned to use Maximo in all of the development storerooms to record and track inventory. However, according to a NYCHA official, NYCHA abandoned this plan because the cost of tracking this material far exceeded the benefits to be gained. However, one of the developments included in our sample was still using Maximo.

fixed asset process is governed by NYCHA's Standard Procedure *Control of Office Furniture, Fixtures and Equipment*.

Approximately every two years, staff from NYCHA's Fixed Assets Section forwards to each development a copy of its fixed assets inventory report and requires the development to conduct a physical count of items on hand. The results of the count, along with the required supporting documentation forms, are due back to the Fixed Assets Section within 30 days. Per NYCHA's procedures, any inventory shortages greater than \$1,000 are to be investigated by the Central Office. In addition, a report is submitted to the Fixed Asset Section by the department that investigates the shortage so the inventory can be appropriately adjusted.

In March 2011, NYCHA hired the Boston Consulting Group (BCG) to analyze and reshape its Central Office support functions in order to achieve greater efficiency and effectiveness. NYCHA further sought to realign resources to enable it to allocate a higher proportion of funds in the "front-line" services of NYCHA, such as maintenance and repair at the property level. In August 2012, BCG issued its report and cited NYCHA's inventory management and procurement methods as a major area that needed to be addressed in order to increase agency savings.

In 2011, NYCHA's Board requested that the developments identify their excess inventory. Thereafter, in 2012, NYCHA completed the process of counting materials and supplies in the development storerooms and transferred the excess inventory (more than a 90-day supply) to eight satellite warehouses housed in renovated NYCHA underground parking facilities for safekeeping.⁷ The plan adopted by NYCHA was to systematically transfer all excess items moved to the satellite warehouses to the LIC warehouse, one satellite at a time. After the items had been transferred to LIC, they were to be assessed and a determination was to be made as to whether the items could be re-used and returned to inventory or whether they should be liquidated. As of May 2014, NYCHA had six remaining satellites; two in the Bronx—Betances A and B—and four in Brooklyn—Armstrong A, TRAM, and Unity Plaza A and B, with a total reported value of \$20.5 million.⁸

Objective

To determine whether NYCHA has adequate controls in place to manage its inventory of equipment and supplies.

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 objectives. 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.

We had difficulty obtaining timely information in the course of the audit and ultimately issued two subpoenas to NYCHA, one on September 22, 2014, and a second one on February 25, 2015. Among other things, NYCHA failed to inform us in a timely manner of its decision to abandon its

⁷ These satellite warehouses are in addition to the LIC location and the storerooms located in individual developments.

⁸ Two satellites, Fiorentino A and B, were closed in May 2014 and their items were transferred to LIC and a different satellite, known as TRAM.

plan of moving the satellite inventory to LIC for assessment. Thus, without providing timely notice to the auditors, NYCHA undertook efforts to liquidate the inventory stored at the Betances A satellite warehouse prior to and during our audit testing at that satellite warehouse. In response to the subpoenas, we received and reviewed information relating to NYCHA's computer systems, access to satellite warehouses, site visits to developments, physical inventory counts, and fixed assets. In addition, we also requested and received information regarding the liquidation of inventory at the satellite warehouses.

Our difficulty obtaining timely information from NYCHA did not result in audit scope limitations since we ultimately obtained sufficient, appropriate evidence for our findings and conclusions. However, it did affect how the audit was conducted, our relationship with NYCHA during the audit process, and the reliance that we could place on the information received.

The primary audit scope was Fiscal Year 2014 to March 2015.

Discussion of Audit Results with NYCHA

The matters covered in this report were discussed with NYCHA officials during and at the conclusion of this audit. A preliminary draft report was sent to NYCHA officials and discussed at an exit conference held on April 29, 2015. On May 12, 2015, we submitted a draft report to NYCHA officials with a request for comments. We received a written response from NYCHA officials on May 13, 2015. In their response, NYCHA officials stated that the agency “appreciates the work of the Comptroller’s Office in uncovering the deficiencies in our supply chain and inventory management practices” and that “we are in general agreement with this report’s primary recommendation that we need a complete overhaul and redesign of our inventory system.” Officials did not specifically indicate whether they agreed with the remaining recommendations that NYCHA ensure that representations made to its external auditors are complete, accurate, and adequately documented and that it develop procedures to ensure continuity of agency operations when there are changes of personnel.

The full text of NYCHA’s response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

NYCHA's controls for managing its inventory of equipment and supplies at the satellites and developments have serious flaws and place at risk well over \$100 million of reported inventory. This figure is a conservative estimate based on the value of the drop shipments and LIC shipments to the developments during the period of January 1, 2014, through July 31, 2014, the reported value of the fixed assets, excluding computer equipment, stored at the developments, and the value of the inventory stored at the satellite warehouses. We found significant deficiencies in NYCHA's internal procedures that result from management's failure to institute adequate controls over inventory operations. Consequently, there is limited assurance that the inventory at the satellite warehouses and the development storerooms is adequately protected against misappropriation or theft. Limited testing at the LIC warehouse did not identify the same issues.

Inadequate Controls over Inventory at the Satellite Warehouses

Our review found that NYCHA has inadequate controls to ensure that it properly accounted for the inventory stored at its satellite warehouses. NYCHA did not maintain records in a manner that would allow it to identify the specific location of items stored at the satellites and the actual quantities on hand. We conducted limited counts at two satellites on October 30, 2014, November 14, 2014, and November 19, 2014, and identified numerous problems described in detail below, including: missing inventory, inaccurate values listed for items, a failure to update records after items were moved, and a lack of consistency between the way inventory was organized among the satellites.⁹

Further, after we shared the results with NYCHA, officials informed us that a decision had been made by NYCHA to abandon its plan to bring any items deemed useful at the satellites back into active inventory. Instead, NYCHA informed us that it is in the process of liquidating all of the inventory at the satellites without making individualized utility determinations. Our review of the documentation supporting this decision, however, revealed numerous deficiencies.

Inaccurate Inventory Records

We found that the inventories of items transferred from the developments to the satellite warehouses were not accurately recorded in NYCHA's Oracle database. To determine whether inventory records accurately reflect the amounts on hand, as noted above, we conducted physical counts at two locations, Armstrong A and Betances A, on three separate days. We found that at both satellites, we were generally unable to reconcile the quantities recorded in Oracle for sampled items with the quantities we were able to locate.

We counted 19 sampled items with a total recorded value of \$114,648 at Armstrong A. Based on our physical count of items on hand, we identified total gross discrepancies of \$56,265 (49 percent), consisting of \$52,924 in shortages (less inventory on hand than was recorded in the inventory records) and \$3,341 in overages (more inventory on hand than was recorded in the inventory records). The shortages include five items (electric eel motors with a unit cost of \$382, respirators with a unit cost of \$332, Motorola batteries with a unit cost of \$53, oven thermostats with a unit cost of \$51, and copper refrigeration tubing with a unit cost of \$43) valued at \$22,742

⁹ The location of the specific items are not consistently recorded by NYCHA. At Armstrong A, items were stored on pallets by development while at Betances A, items were stored on pallets by commodity group (i.e., plumbing, electrical, etc.).

that neither we nor NYCHA staff could locate at all. Additional missing items include the following: intercoms with a unit cost of \$1,052; toilet tanks with a unit cost of \$120; eye wash stations with a unit cost of \$258; a boiler room alarm with a unit cost of \$612; portable heaters with a unit cost of \$48; and a faucet with a unit cost of \$48.¹⁰ (A list of the total shortages can be found in Appendix I.)

Similarly, our count of 46 sampled items with a total recorded value of \$112,825 at Betances A revealed even greater total gross discrepancies. Specifically, we found \$298,620 (265 percent) worth of discrepancies in the \$112,825 worth of inventory listed in NYCHA's inventory records, consisting of \$84,240 in shortages and \$214,380 in overages. The shortages include 32 items valued at \$63,554 that neither we nor NYCHA staff could locate at all. These items included: Kohler sinks with a unit cost of \$144; air conditioners with a unit cost of \$486; a floor and carpet dryer with a unit cost of \$344; and tile cutters with a unit cost of \$233. (A list of the total shortages can be found in Appendix II.) The overages include one item (a smoke detector) that had a valuation error; we counted 184 smoke detectors maintained at the NYCHA warehouse. However, the quantity identified in NYCHA's records was four, resulting in the item's value being understated in Oracle by \$214,020.¹¹ The results of our counts are shown in Table I below.

Table I
Results of Inventory Counts at Armstrong A and
Betances A Satellites

Satellite	Pre-Count Inventory		Total Shortage		Total Overage		Total Gross Discrepancy		Percent Variance (dollars)
	Value	# of items	Value	# of items	Value	# of items	Value	# of items	
Armstrong A	\$114,648	19	\$52,924	11	\$3,341	3	\$56,265	14	49%
Betances A	\$112,825	46	\$84,240	41	\$214,380	2	\$298,620	43	265%

In addition to the discrepancies between NYCHA's records and our physical inventory counts described above, we were also unable to locate eleven entire pallets of items stored at Armstrong A that were, according to NYCHA's inventory records, supposed to have included some of the items in our sample. The recorded value of the inventory stored on those pallets was \$85,293 and included items such as eye wash stations with a unit cost of \$258; sinks with a unit cost of \$222; faucets with a unit cost of \$124; intercoms with a unit cost \$1,088; and bathroom medicine cabinets with a unit cost of \$186. NYCHA provided no explanation for the missing pallets. (A list of all the items from the missing pallets can be found in Appendix III.)

A review of emails we received from NYCHA regarding the agency's liquidation efforts reflects a number of additional instances where NYCHA could not account for items that its records indicated should have been on hand. In one instance, NYCHA credited the winner of a bid for inventory items NYCHA listed on GovDeals.com¹² with \$1,000 because the item could not be located. In a second instance, a GovDeals.com bidder became so frustrated by NYCHA's inability

¹⁰ Eye wash stations are devices used to irrigate and flush the face and eyes in cases of irritants or chemical splashes and help to prevent eye injuries and permanent damages.

¹¹ The unit price value in NYCHA's Oracle inventory database was \$1,189 per smoke detector. However, we later determined that the unit price reflected in Oracle was incorrect and the actual unit cost was approximately \$65. This error resulted in a difference in valuation of \$4,496 for the four smoke detectors.

¹² GovDeals is a website that provides services to various government agencies to help them to sell surplus items via the Internet.

to produce the items he bid on that he refused material he won in a bid due to NYCHA's inaccurate list of materials.

Further, we found evidence that inventory records were not updated. During our testing at Betances A, NYCHA officials informed us that a number of smoke detectors had been transferred to another location. NYCHA provided documentation to indicate that the smoke alarms were transferred in September 2013, but as of December 2014, Oracle was not updated to reflect the transfer.

Fiscal Impacts From NYCHA's Inventory Control Weaknesses in the Satellite Warehouses

NYCHA's weak inventory controls inhibit its ability to ensure that necessary items are in stock when needed, that wasteful oversupply is minimized and that items purchased do not become obsolete. In addition, the lack of adequate controls increases opportunities for theft and makes it harder to detect theft if it occurs.

In addition, the use of underground garages for warehouse space also has resulted in lost revenue opportunities as well as inconvenience to tenants. NYCHA charges its residents an annual fee of \$430 for discounted reserved indoor parking or \$538 for non-discounted reserved indoor parking. Depending on the number of spaces that exist for these garages, the amount could be significant. NYCHA provided a cost analysis showing foregone annual parking rentals fees of only \$25,000 a year. The analysis simply listed the figure; it did not include any specifics (e.g., number of parking spaces lost) to indicate how the figure was determined. Based on NYCHA's fee schedule, this figure would translate to only 59 (discounted rate) or 47 (non-discounted rate) spaces, which seems like a low figure for the eight underground garages that were used as satellites. (For example, the satellite warehouse at Betances A alone encompassed two entire levels of garage space.) Consequently, in the absence of details supporting its analysis, we are unable to assess whether NYCHA's estimate of potential lost revenue is reasonable.

Finally, it should be noted that according to NYCHA, the agency spent approximately \$5 million to move the materials from the development storerooms to the satellite warehouses. As stated previously, the intent behind moving the excess inventory to the satellites was for safekeeping purposes until the inventory could be transferred to LIC, assessed, and the reusable materials returned to inventory and the obsolete materials liquidated. Based on the significant deficiencies at the satellites with regard to accounting for the inventory stored there, however, we found that NYCHA failed to adequately protect the investment of the funds expended in establishing the satellites.

Limited Evidence Provided to Support NYCHA's Decision to Liquidate All Inventory in the Satellites

We shared the results of our inventory counts at Armstrong A and Betances A with NYCHA officials in November 2014. We subsequently requested a meeting with the Senior Vice President and Chief Supply Officer to discuss our concerns regarding the deficiencies we identified at the satellites and to learn of NYCHA's plans for the satellites going forward. After repeated requests, the meeting took place on January 12, 2015, at which time we were informed that NYCHA had abandoned its plans to forward items at the remaining satellites to the LIC warehouse where a determination would be made to either return the items to active inventory or liquidate them. According to NYCHA officials, the agency had decided that it would now liquidate all of the inventory at the satellites. NYCHA officials stated that following their analysis of the results of the first satellite closings (Fiorentino A and B, completed by May 2014), it was determined that most

of the items at the remaining satellites were not likely to be of use and it was more cost effective to simply liquidate the remaining satellite inventory.

To obtain a better understanding of the basis for this decision, which appeared to have been made while our audit was being conducted, and the analyses supporting it, we requested minutes of any meetings relating to the liquidation of satellite warehouse inventory; all reports, studies, analyses, or other documents relating to the costs and benefits of retaining and /or disposing of existing inventory; and all reports, studies, analyses, or other documents relating to the decision to liquidate existing inventory, among other things. According to NYCHA, the decision to liquidate was primarily based on there being little demand for the inventory at the satellites and the high cost of maintaining it.

A review of the materials provided by NYCHA, however, shows insufficient evidence that the agency adequately assessed the demand for, and value of, the inventory that had been stored at the closed satellites. From the documentation provided by NYCHA, it was unclear whether any analysis was conducted to identify the value of the items returned to active inventory and the value of the items liquidated.

Preliminarily, we note that, in making their decision to liquidate all of the inventory remaining in the satellites, NYCHA officials informed us that they relied on the inventories in the Oracle database to determine what items exist and their value. However, as noted above, we found the information in Oracle to be unreliable and thus question whether NYCHA had an adequate basis for its decision to abandon the original plan and liquidate all the assets remaining in the satellites.

Moreover, in response to our request for documentation supporting the basis for NYCHA's decision to abandon its original plan for disposal of the items in the satellites, NYCHA provided us with liquidation disposition forms for the Betances A and Betances B satellites, two of the locations where inventory had not yet been assessed and disposed of. These forms report the satellite warehouses' inventory balances as of December 2014. We compared the balances on the forms with the May 2014 balances reported in the Summary Activity Warehouse Report and found that the December 2014 balances showed a decrease of more than \$1.5 million in only a seven month period, as shown in Table II below.

Table II

Reported Inventory Balances from
May 2014 – December 2014

Satellite	Reported Balance - May 2014	Reported Balance - December 2014	Difference	% decrease
Betances A	\$2,829,599	\$2,148,965	\$680,634	24%
Betances B	\$3,777,042	\$2,931,827	\$845,215	22%
Totals	\$6,606,641	\$5,080,792	\$1,525,849	23%

During the course of the audit, NYCHA officials stated that the inventory at the satellites was generally not in demand; in fact, as noted above, that was one of the primary reasons cited by NYCHA behind the decision to liquidate the satellites. However, according to NYCHA's records, in just over seven months, the inventory balances at these two satellites decreased by almost a quarter.

We asked NYCHA officials for a written explanation regarding the significant reduction in inventory and received a response from NYCHA on March 23, 2015. While NYCHA did not provide a written explanation as requested, NYCHA did provide spreadsheets showing write-offs, issuances, and liquidations from the inventory in these satellite warehouses. Table III below contains a summary of the information provided.

Table III

Reduction in Reported Inventory at Betances A and Betances B covering the period May 2014 through December 2014 (in dollars)

	Betances A	Betances B	Combined
Reported Balance May 2014	2,829,599	3,777,042	6,606,641
Reductions:			
Issuances	30,481	193,890	224,371
Write-offs	103,353	83,398	186,751
Liquidations:			
June 2014	63,146	94,517	157,663
August 2014	122	297	419
November 2014	440,998	339,771	780,769
December 2014	121,648	134,016	255,664
Total Liquidations	625,914	568,601	1,194,515
Total Reductions	759,748	845,889	1,605,637
Balance December 2014 (calculated)	2,069,851	2,931,153	5,001,004
Reported Balance December 2014	2,148,965	2,931,827	5,080,792
Difference	79,114	674	79,788

The documentation provided by NYCHA does not contain complete information necessary to ensure that transactions reflected in the spreadsheets provided by NYCHA were accurately accounted for. For example, in the case of 904 items that NYCHA identifies as issuances (items distributed to the developments), no dates are included.

In addition, the information that was provided about the items that NYCHA wrote off raise questions about the appropriateness of these transactions. To begin with, NYCHA stated that the agency wrote off inventory that was removed to prepare for NYCHA's annual U.S. Department of Housing and Urban Development (HUD) inspections, or used to address conditions caused by Hurricane Sandy. NYCHA did not indicate why these removals were not more appropriately identified as issuances nor did the agency provide evidence indicating the units that received these items. Finally, there were a significant number of instances in which items were written off simply because they "were not present on the listed pallet" with no indication that staff attempted to locate them, a further indication that NYCHA is not properly accounting for the items.

Additional information received from NYCHA suggests that the agency failed to adequately examine all items prior to embarking on the liquidation as officials originally asserted they were going to do during the audit. For example, a NYCHA email states that certain items valued at \$1.7 million were liquidated from Fiorentino A because the task to determine whether they could be returned to active inventory was "cumbersome" and "time consuming." In another example, NYCHA purchased 71 double-bowl stainless steel sinks valued at almost \$19,000 (no record of the date of purchase was provided). In October 2013, NYCHA determined that the sinks could not be used at the developments. Rather than return the sinks to the supplier for a refund or credit, NYCHA kept them in inventory for seven more months, until May 2014, when NYCHA

authorized the sinks for liquidation. We believe it likely that this liquidation was at a fraction of the original cost to the agency, based on liquidation records we reviewed. For example, documentation provided by NYCHA indicated that hundreds of elevator parts were marked down by 90 percent for liquidation, including relay switches, starter fuses, and timers.

NYCHA's Resistance to Independent Review and Transparency Over Its Inventory Accounting and Liquidations

NYCHA's failure to let us know that the agency was in the midst of liquidating \$625,914 worth of inventory stored at Betances A at the time we conducted our counts at this satellite is of particular concern. The failure to communicate material matters during an ongoing audit evidences a lack of cooperation with the audit and resistance to transparency and accountability. As shown in Table III, for June 2014 through November 2014 NYCHA reportedly liquidated more than half a million dollars worth of inventory at Betances A. We performed our counts at Betances A on November 14 and 19, 2014; at no time during our counts, however, did NYCHA personnel state that liquidation was ongoing. In fact, it was not until March 23, 2015 that we learned of the liquidations that reportedly occurred from June 2014 through December 2014.

Had officials informed us of the liquidations during the audit fieldwork, we would have modified our audit plan so as to assess whether NYCHA had reasonable controls in place to ensure that the agency's liquidation efforts did not unnecessarily place NYCHA's limited resources at risk. By failing to do so, our ability to notify NYCHA of risk areas in a timely manner so as to allow NYCHA to take corrective actions and minimize such risk was compromised.

Auditing is critical to government accountability to the public. Both government managers and auditors have a responsibility within this process. As stated in generally accepted government auditing standards (GAGAS), "Government managers are responsible for providing reliable, useful, and timely information for accountability of government programs and their operations" while auditors "must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions." By not disclosing the liquidations in a more timely manner, we feel that NYCHA failed to meet its responsibilities and undermined our ability to conduct our audit in accordance with GAGAS.

Inadequate Controls over Inventory at the Development Storerooms

Our review of the operations at a sample of three development storerooms found an overall lack of compliance with Comptroller's Directive #1 (Principles of Internal Controls) and NYCHA's internal inventory procedures. The deficiencies involved the areas of recordkeeping, segregation of duties, and physical control of inventory.

NYCHA has developed storeroom operating procedures that are intended to guide staff in ensuring that inventory is accounted for and adequately secured. They include the policies and procedures necessary for the operation and oversight of the development storeroom, and clearly define the duties and responsibilities of borough management and development staff in the operation of the storeroom. The Property Managers and Superintendents, who are responsible for the day to day operations at the development storerooms, are required to follow these guidelines. However, we found that the staff responsible for the operations had failed to ensure that many key inventory controls were in place.

Comptroller’s Directive #1 defines inventory as items used by an agency for its operations, including: 1) items stored by the agency for disbursement to its branches or other agencies; and 2) confiscated or obsolete goods that are being held for sale. It requires items be kept under strict control, detailed records be maintained, segregation of duties, and that physical inventories be conducted. The results of our analysis of the three storerooms’ compliance is shown in Table IV.

Table IV
Review of NYCHA Development
Storeroom Inventory Controls

NYCHA Standard Operating Procedure Requirements	Frederick Douglass	Pomonok Houses	Webster Houses
Inventory Records maintained	No	Partial*	No
Report of Closed Kit Inspections ¹³	No	No	No
Development Survey Report	No	No	No
All visitors sign in Visitor’s Log	No	No	No
Master Key & Tool Records maintained and completed	No	Partial*	Partial*
Stock Withdrawal Slips completed and maintained	Partial*	Partial*	Partial*
Refrigerator Inventory and Record Card maintained	No	No	No
Mechanical Equipment Records completed and maintained	Partial*	No	No
Motorized Equipment Records maintained	No	Partial*	No
Inventory Log -Supply Room maintained (NYCHA 060.279)	No	No	Partial*
Requisition Log Book maintained	N/A	N/A	N/A

*While these records were maintained they were incomplete because they were not updated, were not consistently used, and/or were not approved.

As shown in Table IV, we found that none of the three developments fully complied with any of the NYCHA procedures we assessed. Of the 11 procedures we tested, four of them—report of closed kit inspections, development survey report, maintenance of visitor’s log, and maintenance of refrigerator inventory—were not followed at any of the three sampled developments. (A description of the different requirements is shown in Appendix IV.)

Accurate inventory records are necessary to enable an entity to control the amount of inventory it keeps on hand, to control costs by preventing over- or under-supply, and to reduce the potential for theft. Minimum/maximum stock levels, inventory turnover rates,¹⁴ and reorder points for stock items are important tools to ensure that an entity does not maintain an excessive amount of inventory yet maintains enough to meet its operational needs.

NYCHA procedures require that the storerooms have accurate inventory records for the closed kit items. However, we found that none of the three sampled developments we visited—Frederick

¹³ Closed kit items include faucets, toilet bowls, air conditioners, ladders, tools, and generators. These items are required to be kept in a separate secured area of the storeroom.

¹⁴ Inventory turnover rate is the rate at which inventory is used over a measurement period. A low rate implies that an entity may have a flawed purchasing system that results in having too many goods on hand.

Douglass, Webster, and Pomonok—had accurate inventory records. We found that Frederick Douglass and Webster had no inventory records at all. In addition, we found that while Pomonok did have records, the records were not updated in a timely way and were inaccurate. Our count of 23 sampled items on October 2, 2014, including refrigerators, carbon monoxide/smoke detectors, and kitchen faucets revealed that the amounts recorded in Maximo did not match the inventory on hand for any of them. For example, there were 28 refrigerators reflected in Maximo, but the actual number on-hand was eight. In another example, there were three flashlights reflected in Maximo, but the actual number on-hand was 27. At the exit conference, a NYCHA official stated that Maximo is not used for inventory purposes, therefore the quantities would not necessarily match. This, however, conflicts with what we were told by both the housing manager and superintendent during the audit. Both stated that Maximo is their official record used to track inventory ordered, received and dispersed; accordingly, based on information supplied by the development, the quantities should have matched.

Because accurate inventory records do not exist, the storeroom personnel at each of the three sampled developments stated that they reorder materials and supplies based on visual inspection of what is on hand and input from staff. However, none of them had any process to verify that the ordered items were actually needed. In the absence of reliable records, management's ability to adequately manage inventory, prevent overstocking and shortages, and protect against waste and abuse is severely limited.

The risk of errors and fraud from the failure to maintain accurate inventories is increased by NYCHA's failure to adequately segregate duties related to ordering, receiving and distributing goods. Segregation of duties, as required by Comptroller's Directive #1, prevents one individual from controlling all key aspects of a transaction, which can increase the risk of error or fraud. At all three of the sampled developments, the storeroom keeper is responsible for requisitioning, receiving, distributing, and maintaining custody of all materials and supplies delivered via drop shipment or from the main LIC warehouse. In addition, the storekeeper on occasion requisitions and receives materials for the skilled trades. In the absence of an adequate segregation of duties, the risk of fraud and misuse of supplies is increased.

Controls over the distribution of inventory are necessary to reduce the risk that items may be misappropriated or stolen. NYCHA's procedures require that the storerooms maintain inventory records documenting receipts and disbursements for certain desirable inventory items. However, our review at the sampled storerooms found that these procedures were not followed. The storerooms did not maintain logs for items received or distributed. Additionally, disbursements to other storerooms were not consistently documented, and those that were did not properly identify the receiving party. For example, a review of the records at the Webster storeroom revealed that an employee from the neighboring Claremont Houses storeroom reportedly received materials on multiple occasions and signed the form as "X-men." At all three sampled developments, we identified instances where there was no indication of who received the item. In the absence of adequate controls to ensure that all distributions are authorized and the recipients properly identified, the risk that items may be stolen is significantly increased.

Further, we found that the physical security over the inventory in main and skilled trade storerooms was poor. During our visits at the three sampled developments, we found that none of the storerooms had cameras. In addition, we observed instances where the storerooms were unattended. Furthermore, we found that access to many of the skilled trade shops was not restricted and doors were left open or were unlocked and none of the closed kit items, which are considered more desirable, were properly secured. In such an environment, the risk that items may be stolen is significantly increased. Physical security over inventory is important to prevent

unauthorized access and reduce the risk of theft. NYCHA procedures require that the storeroom be properly secured and that access is limited to authorized personnel only.

A primary cause for the conditions identified in this audit report has been the failure of NYCHA management to provide adequate instruction and oversight to ensure that staff follow the agency's inventory procedures. During the audit, we learned that NYCHA had delegated only two persons from the procurement unit to monitor all 334 developments throughout the City to ensure that inventory levels were kept at reasonable levels to both avoid overstocking and ensure that adequate inventory is on hand to meet operational needs. When we spoke to one of them, however, she was apparently unaware that this was one of her responsibilities. In fact, at Frederick Douglass we observed a substantial inventory of door frames, doors, and wood countertops. In addition, there were hundreds, if not thousands, of kitchen cabinets stored in three carpentry shops and the janitorial supply room. We could not confirm the justification for what appeared to be an excessive number of cabinets.

It appears that NYCHA management was not aware that staff were not complying with the agency's inventory procedures. In the portion of its 2013 Comptroller's Directive #1 Financial Integrity Statement submission that related to inventory controls, NYCHA responded "yes" to the questions of whether 1) inventory levels have been established in such a manner as to prevent excess accumulations, 2) detailed records are maintained for supplies and non-capital assets, 3) responsibility for supervising the use of physical inventories of supplies/non-capital assets are segregated from that for the maintenance of detailed records and 4) supplies/non-capital assets are kept under the strict control of designated employees. However, this is inconsistent with the conditions we found during this audit. At the exit conference, NYCHA officials claimed that its Directive #1 submission only refers to warehouse inventory, not inventory at the development storerooms because they consider this to be working stock. However, Directive #1 would also apply to the inventory at the satellite warehouses and, at a minimum, the closed kit inventory items at the development storerooms, which officials acknowledge they consider to be inventory as well.

Inadequate Controls over Inventory of Fixed Assets

We found that NYCHA staff did not properly tag and account for fixed assets, bringing the reliability of the bi-annual inventory count results into question. The failure of NYCHA staff to perform these functions is contrary to NYCHA's procedures, which require that all fixed assets at the developments be tagged and accurately reflected in inventory records.¹⁵

According to NYCHA's procedures, property managers at each development are required to conduct a physical inventory count of fixed assets every two years. During our review of fixed assets maintained at the three sampled developments, we identified a number of deficiencies. We were unable to account for the items listed on the fixed assets reports using the tag numbers or serial numbers because most of the items identified as fixed assets did not have the assigned tags attached. The reports were also incomplete; none of the three sampled developments had all of the mechanical and motorized equipment and machinery purchased on their reports. At the Frederick Douglass development we saw a Ford F-250 pick-up truck and two John Deere tractors, and a mechanical sweeper in the garage; none of these items were listed on the development's fixed assets report.

We also found that older fixed assets are not removed from the inventory when fully depreciated. There were items on the report purchased as far back as 1988 whose useful lives have ended;

¹⁵ Tag numbers are assigned to each property item in categories that require tagging control for inventory purposes.

therefore, they should have been removed from the fixed assets report at that time. The fact that these items were still included on the fixed assets reports raises questions about the extent to which NYCHA management reviews these reports and verifies their accuracy.

In addition, the dollar amount of fixed assets written off increased significantly from 2012 to 2014.¹⁶ We reviewed the 2012 and 2014 fixed assets Physical Inventory Adjustment Summaries and determined that the dollar amount of fixed assets written off increased from 8 percent in 2012 to 24 percent in 2014, as shown in Table V below.

Table V
Comparison of the 2012 and 2014
Physical Inventory Adjustments
Summaries

	Dollar Amount of Inventory in Calendar Year 2012	Dollar Amount of Expense Assets Written off in Calendar Year 2012	Percentage of Expense Assets Written Off in Calendar Year 2012	Dollar Amount of Inventory in Calendar Year 2014	Dollar Amount of Expense Assets Written off in Calendar Year 2014	Percentage of Expense Assets Written Off in Calendar Year 2014
Manhattan	\$8,893,712	\$766,518	9%	\$9,290,885	\$2,832,815	30%
Queens	\$4,068,832	\$391,579	10%	\$4,598,282	\$1,295,238	28%
Brooklyn	\$10,116,041	\$768,953	8%	\$10,799,817	\$2,335,382	22%
Bronx	\$7,538,044	\$612,483	8%	\$7,314,457	\$1,389,193	19%
Staten Island	\$1,637,504	\$45,218	3%	\$1,719,274	\$188,408	11%
Totals	\$32,254,133	\$2,584,751	8%	\$33,722,715	\$8,041,036	24%

As shown in Table V, the dollar amount write-off from Calendar Year 2012 to Calendar Year 2014 increased more than three-fold, going from \$2.58 million to \$8.04 million in Calendar Year 2014, a 311 percent increase. The Calendar Year 2014 count was conducted while this audit was ongoing. According to NYCHA, items are written off because they cannot be located, are obsolete or were stolen. According to NYCHA officials, the increase in the gross value of the assets written-off during the 2014 inventory was due to the retirement of aging vehicles and vehicles damaged by Hurricane Sandy totaling \$3 million and the retirement of obsolete computer equipment totaling \$2.2 million. However, NYCHA officials provided no evidence to support these claims.

We found little evidence that anyone is held accountable when fixed assets cannot be located or that any evaluation is done of procedures to prevent future loss of assets. One of the developments in our sample, Pomonok, was unable to locate 190 items totaling \$205,422 on its fixed assets report, over 50 percent of the total reported value of its fixed assets. We found no evidence that an investigation regarding the missing 190 items was ever conducted or that a referral was made to NYCHA's Internal Audit Department or the NYCHA Inspector General. We also found no evidence that 184 of these items were located when the earlier 2012 fixed assets review was conducted either. Our review of Pomonok's 2012 fixed assets submission revealed that the information submitted was incomplete in that the disposition was left blank for all 184 items. We found no evidence of follow-up or corrective actions taken by NYCHA to address the deficiencies, which increases the risk that misuse and theft of NYCHA equipment may occur and

¹⁶ Items are removed from a development's inventory (written off) if they cannot be located, are stolen, or are deemed condemned or worthless.

remain undetected. NYCHA officials stated that all of these items were fully depreciated and had no book value; therefore the missing items did not warrant referral to NYCHA's Internal Audit Department or the NYCHA Inspector General. However, of greater concern is that the items could not be located. Regardless of whether these items had been fully depreciated, there was no evidence that the items had been disposed of and it is possible that the items were still in working condition.

In a report circulated to NYCHA management on June 19, 2014, NYCHA's own Internal Audit Department identified major deficiencies in the asset tagging process and noncompliance with NYCHA procedures, resulting in the possibility of unauthorized use or theft of NYCHA equipment. The report stated that the current control structure is unacceptable with major key control issues requiring management's immediate attention, oversight, and monitoring, such as items not tagged, not located, and stolen.

Notably, NYCHA did not provide us with complete and accurate information about its oversight activities in response to repeated inquiries about the inventory process. In particular, in response to an information request in our subpoena dated September 22, 2014, NYCHA's Audit Department Director responded in a September 29, 2014, email that, "the Audit Department does not participate in the physical inventory examinations of fixed assets at the development." (Emphasis original.) However, on February 9, 2015, we were informed that the Audit Department had conducted an audit of fixed assets. After our audit findings meeting with NYCHA's Senior Vice-President of Operations, on February 13, 2015, we were provided with a copy of their audit report dated June 19, 2014. This date is three months prior to the date the subpoena was issued that prompted the Audit Department's denial that it participated in physical inventory examinations of fixed assets. After the exit conference, NYCHA officials stated that the Audit Department's denial regarding participation in physical inventory examinations of fixed assets was prompted by the fact that the Internal Audit Department does not participate in the bi-annual physical inventory process. Whatever the reason, the representation was misleading and factually incorrect. Because of the weaknesses we found at the developments, we are unable to place any reliance on the figures reported by NYCHA regarding the amount and value of inventory and fixed assets maintained at the developments. Further, in such an environment, we seriously question NYCHA's ability to identify instances of theft or misappropriation if such should occur.

Management's Failure to Adequately Oversee Inventory Operations

NYCHA management failed to institute proper controls over its inventory operations at the development storerooms and satellite warehouses. As a result, it is unable to ensure that waste and mismanagement of inventory are minimized and that inventory is effectively protected against theft. The goal of effective inventory management is to ensure that an adequate amount of goods is on hand to meet operational needs, that inventory costs are appropriate, and that materials are not overstocked. We found that NYCHA's lax practices have compromised its ability to meet these goals.

As stated previously, NYCHA staff failed to maintain accurate inventory records, properly safeguard inventory items, and submit reports to NYCHA management in a timely manner, if at all. These shortcomings appear to stem from NYCHA's failure to provide clear direction and oversight to its staff. We found that NYCHA's senior management has not established an adequate monitoring structure to enable them to determine the extent to which applicable policies and procedures are being followed. We also found that accountability for managing and correcting inventory deficiencies was limited. During our discussions with NYCHA personnel

regarding the issues we identified, many of them, from line staff to upper management, stated that they had only been in their positions for a relatively short time and did not accept responsibility for the problems identified, with a number of them claiming it was “before my time.” However, we found that multiple control weaknesses persist under the current administration and that there is no evidence that senior management has made a concerted effort to identify and follow up on deficiencies. Further, we found no evidence that senior management has taken steps to foster improved compliance with NYCHA’s existing procedures.

NYCHA’s failure to institute adequate controls over its inventory operations significantly increases the risk of waste, fraud, and misappropriation. In addition, the ability to meet operational needs at the developments is severely impacted.

Discrepancies between NYCHA Response in Ernst & Young Management Report and NYCHA Practices

HUD requires that NYCHA have its financial statements audited annually by certified public accountants. For Calendar Years 2012 and 2013, NYCHA contracted with the accounting firm of Ernst & Young to conduct these audits. Auditors are required to issue separate management letters to management when conducting financial statement audits. These management letters generally report internal control weaknesses noted during the audit and include management’s response to addressing the given weaknesses.

In a management letter to NYCHA for the year ending December 31, 2013, Ernst & Young identified some control weaknesses regarding inventory management. In response, NYCHA made certain statements regarding five actions that the agency represented that it had taken to address the weaknesses identified in the letter. We followed up with NYCHA regarding the status of these steps. However, we found that none were fully implemented: three were partially implemented and two were not implemented at all. A detailed breakdown is shown in Table VI below.

Table VI

Implementation Status of NYCHA
Responses to Management Letter

NYCHA Response to Management Letter Control Weaknesses	Implementation Status	Comment
All inventory at the satellite warehouse locations is recorded and tracked in Oracle	Partially implemented	Our audit tests confirmed that the removal of inventory was not always recorded in Oracle
At the present time, the premises [satellite warehouses] are locked with cyber keys and only staff from the Materials Management Department have access	Partially implemented	Our observations conducted at two satellite warehouses identified that cyber keys were not used
Internal Audit coordinates with Materials Management in the performance of test counts throughout the year. At year-end, a full inventory count will be conducted again, in the presence of Internal Audit	Not implemented	NYCHA stated that test counts and full counts are not conducted at the satellite warehouses
Materials Management has designated customer service personnel to 1) discuss with staff of each development at the monthly Borough meetings to confirm their needs as reported on open Maximo work tickets, 2) work with property managers to ensure that requisitions reflect only current needs, and 3) inspect the development warehouses to ensure that excess supplies are not accumulating	Not implemented	According to one of the only two NYCHA customer service personnel for the 334 developments, she was never instructed to visit development storerooms to look for excess supplies.
Internal Audit Department also performed site visits on a sample basis throughout the year, to assess the organization, security and level of inventory at the development store rooms. No significant issues were noted	Partially implemented	NYCHA stated “We do not perform site visits per se, but, we did look at some development storerooms to determine whether they appeared to be well organized and items that were in excess of a six month need had been transferred to the satellite warehouses for sorting and/or disposal.”

As shown in Table VI, many of the steps that NYCHA represented had been or would be undertaken, in fact never were. When questioned, NYCHA was unable to provide an explanation for why management made these five representations to their external auditors when responding to the management letter weaknesses.

An important aspect of governance is management’s representations concerning the finances of NYCHA. When conducting an external audit, auditors rely on the completeness and accuracy of information presented by management. Consequently, by not ensuring that statements made to external auditors on NYCHA’s behalf are accurate and adequately supported, NYCHA undermines the ability of outside parties to rely on management representations of actions taken by the agency to correct deficiencies.

Recommendations

Normally, we would recommend a series of actions to NYCHA designed to address the problems we identified. However, the management and operational problems are so pervasive throughout the agency's inventory control system at the satellite warehouses and developments that they cannot be readily addressed by fine-tuning the system. The entire system must be overhauled.

1. Given the scope of work that needs to be done, we recommend that NYCHA create an inventory project team, reporting to the General Manager or a high-level Vice President, whose function would be to overhaul and redesign NYCHA's inventory system at the satellite warehouses and development storerooms and shops. Such an overhaul should include, but not be limited, to the following steps:
 - NYCHA senior management must assume increased accountability for the operation of development storerooms at the borough/development level;
 - NYCHA must ensure that it has established appropriate controls over inventory including written procedures for maintaining, counting, tracking, distributing and securing inventory;
 - NYCHA must provide adequate training to storeroom staff and/or other personnel in inventory operations to ensure, among other things, accurate accounting for items on hand, accurate tracking of items that are used or relocated, and security of items that are stored at the developments;
 - NYCHA must maintain adequate staff to properly oversee and monitor compliance with controls over inventory maintained at the developments and, until they are liquidated, satellite warehouses; and
 - NYCHA must institute adequate procedures to ensure that all fixed assets are tagged and accurately accounted for.

NYCHA Response: NYCHA generally agreed with this recommendation.

2. NYCHA management should ensure that representations made to its external auditors are complete, accurate, and adequately documented.
3. Procedures must be developed and implemented to ensure continuity of agency operations throughout all of NYCHA and at every level of operations when there are changes of personnel. These should include sufficient documentation of decisions and operational guidelines and procedures to enable new personnel to understand operations and decisions made before the new personnel arrived and to continue those actions necessary as deemed appropriate.

NYCHA Response: NYCHA did not specifically address recommendations #2 and #3 in its response.

Auditor Comment: While no direct response was made by NYCHA to our recommendations #2 and #3, we hope that the commitment articulated by NYCHA in response to our audit to both fundamental changes and transparency indicates an intention to follow our additional recommendations.

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 objectives. 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 audit scope was Fiscal Year 2014 to March 2015.

During the course of the audit, our office issued two subpoenas to NYCHA, one on September 22, 2014, because we were not receiving timely information from NYCHA and a second one on February 25, 2015, because the information provided by NYCHA up to that point appeared to have not fully disclosed all material facts. For example, NYCHA failed to inform us in a timely manner of its efforts to liquidate the inventory stored at the Betances A satellite warehouse prior to and during our audit testing at that satellite. In response to the subpoenas, we received and reviewed information relating to NYCHA's computer systems, access to satellite warehouses, site visits to developments, physical inventory counts, and fixed assets. In addition, we also requested and received information regarding the liquidation of inventory at the satellite warehouses.

While these issues were not necessarily scope limitations (since we ultimately obtained sufficient, appropriate evidence for our findings and conclusions) they affected how the audit was conducted, our relationship with NYCHA during the audit process, and the reliance that we could place on the information received.

To obtain an understanding of NYCHA's operations regarding the maintenance and safeguarding of inventory we reviewed the following standard procedures: *Supply Chain Operation Warehouse Division Handbook*; *Operation of Development Storerooms*; *Control of Office Furniture, Fixtures, and Equipment*; and *Capitalization and Liquidation* policies.

To assess NYCHA's internal control structure over its inventory we reviewed their 2013 Financial Integrity Statement response to Comptroller's Directive #1—*Principles of Internal Controls*.

We reviewed the Ernst & Young Management Letters for Calendar Years 2012 and 2013 to determine whether the external auditors identified any internal control deficiencies with regard to inventory management. For those deficiencies identified, we determined the status of the corrective measures that NYCHA indicated it would take to address them.

To obtain an understanding of NYCHA's controls over its inventory we had walkthrough meetings with the Senior Vice President of Operations, Senior Vice President and Chief Supply Officer, Director of Materials Management Division, and Deputy Director for Satellite and Liquidation Operations.

To obtain an understanding of the operations at the warehouses, we had a walkthrough meeting at the LIC warehouse with the Director of Materials Management Division on June 4, 2014 and performed an inventory cycle count on June 17, 2014 to determine the adequacy of the internal controls over inventory at the LIC warehouse.

To understand the general responsibilities of development officials regarding the management of development storerooms, we had a walkthrough with one of NYCHA's Deputy Directors.

To obtain an understanding of NYCHA's procurement process we had a walkthrough meeting with the Director of Procurement. We then met with a Supervisor of Procurement to obtain an understanding of the iProcurement System in Oracle, the computer system used to initiate purchases. We also met with a Material Management Customer Service Personnel person to obtain an understanding of their function as it relates to storeroom inventory.

To understand the management of inventory designated as fixed assets, we had a walkthrough meeting with NYCHA's Deputy Director of the General Ledger Division and the Assistant Director of the Fixed Assets Section.

To obtain an understanding of operations at the six satellite warehouses, we judgmentally selected and visited Betances A and B in the Bronx on August 1, 2014. Following our visit, we sent a letter to NYCHA management expressing our concerns with the conditions identified at these locations. To determine whether the conditions at Betances A and B were present at other satellite warehouses, we judgmentally selected another warehouse in Brooklyn, Unity Plaza B and visited on August 26, 2014.

Based on our initial observations at the satellites, we decided to conduct inventory counts. We judgmentally selected Armstrong A, because we had not visited this satellite yet. We judgmentally selected 19 common (non-technical) items from the satellite warehouse inventory based on the items' desirability and cost. Using NYCHA's Data Warehouse Report (which reflects the NYCHA assigned item number, pallet location and number of items) and the warehouse map to locate the pallet, we attempted to identify the items in the audit sample. At the conclusion of our review we informed NYCHA officials of the inventory count results we conducted in October and November 2014.

In addition, we decided to revisit Betances A on November 14 and 19, 2014 to perform counts. We judgmentally selected a total of 46 common items, totaling \$112,825, to be counted based on the items' desirability and cost.

To obtain an understanding of NYCHA's use of data analytics for procurement, we had a walk-through meeting with the Deputy Director of NYCHA's Planning Team.

To select the developments for our sample, we obtained a listing of the total dollar amount in "drop-shipments" (vendor ships items directly to development) made by each development between January 1, 2014 and July 2014 (the month of our request). Our selection of developments was based on "drop shipments" since more than eighty percent of inventory purchased and received by the developments are delivered directly to the developments. We also wanted to ensure that our sample selection of the developments were from different boroughs. We selected the top three developments with the highest dollar amounts of drop shipments, from different boroughs. Based on this criteria, our selection of sampled developments were Pomonok Houses in Queens with 2,071 units and \$977,359 in drop shipments, Frederick Douglass Houses in Manhattan with 2,193 units and \$974,001 in drop shipments, and John Mitchell in the Bronx with 1,732 units and \$587,605 in drop shipments. We later replaced John Mitchell with Webster Houses.¹⁷

¹⁷ Since we identified major internal control deficiencies in our first two sampled developments (Frederick Douglass and Pomonok Houses), which are very large developments, we wanted to substitute the location in the Bronx with a smaller sized development to ascertain whether the major internal control deficiencies cited in the larger developments were also prevalent in the smaller developments. Based on our revised criteria, we judgmentally selected Daniel Webster Houses in the Bronx with 606 units and \$295,330 in drop shipments.

We met with the housing managers from Frederick Douglass (on September 23 and 26, 2014 and January 29, 2015) and Pomonok Houses (on October 1 and 2, 2014) and the superintendent from Webster Houses (on October 10, 2014) to understand their responsibilities and functions with regard to the management of the inventory and storerooms. We also met with the storekeepers and the supervisors of grounds to understand their roles regarding the safeguarding of the developments' inventory. In addition, we visited all of the developments' storerooms and skilled trade shops to determine whether there was any overstocking.

To determine the adequacy of the internal controls over inventory in the storerooms for our sampled developments, we reviewed the following required documents, as per NYCHA's procedures, for completeness and accuracy: *Development Survey Report – Summary*; *Storeroom Visitors Log*; *Inventory Record*; *Master Key and Tool Control Record*; *Stock Withdrawal Slip*; *Refrigerator Inventory and Record Card*; *Mechanical Equipment Record*; *Motorized Equipment Record*; *Report of Closed Kit Inspection*; *Inventory Log – Supply Room*; and *Requisition Log Book*. In addition, we attempted to perform counts of closed kit inventory items. We also analyzed the six reviews performed by NYCHA's Internal Audit Department entitled, *Review of Materials in Development Storerooms* conducted in December 2013.

We met with the Borough Deputy Directors for Manhattan, Queens, and the Bronx to obtain an understanding of their roles and functions with regard to the developments. In addition, we met with the Manhattan Borough Deputy Director for Skilled Trades and a Supervisor to obtain an understanding of their functions and responsibilities when purchasing their supplies, equipment, and materials.

To determine whether fixed asset purchases were reflected on the developments' fixed asset inventory reports, we reviewed all equipment purchases of automotive, machinery, grounds and tool categories made between January 1, 2009 through December 2014 for all NYCHA developments.

To determine whether the fixed asset inventory reports were complete and accurate, we reviewed and analyzed the 2012 and 2014 fixed assets inventory reports and the supporting documentation (forms) submitted by the sampled developments, such as: *Transfer of Furniture and Equipment*; *Certificate of Unusable or Worthless Authority Property*; and *Property Inventory Adjustment*. We attempted to verify the physical location of the sampled developments' fixed assets based on the disposition of said items, as reflected on the 2014 fixed asset inventory report. We reviewed and analyzed the 2014 fixed asset inventory reports that were submitted to NYCHA's Fixed Assets Section, and the required forms, such as: NYCHA form 060.026, *Property Inventory Adjustment*; NYCHA form 128.024, *Occurrence Report*; NYCHA form 105.035, *Transfer of Furniture, Equipment and Other Property*; and NYCHA form 135.016, *Certificate of Worthless Authority Property*. For those items that were identified as "Not Located" by development personnel, as per the 2014 fixed asset inventory report, we identified the disposition of those same items as reflected on the 2012 fixed asset inventory report to determine whether those items should have been written-off during previous fixed asset verification audits. We also reviewed a June 19, 2014 audit performed by NYCHA's Internal Audit Unit regarding development managements' asset tagging and verification process of fixed assets.

To determine the dollar amount and percentage of inventory written off in 2012 and 2014, for each borough by NYCHA's Accounting and Fiscal Services Department, we reviewed the 2012 and 2014 Developments Physical Inventory Adjustments Summary.

APPENDIX I

Shortages at Armstrong A

Description of Item	Quantity Short	Unit Cost	Items Could Not Be Located	Recorded Amount Less Than Physical Amount	Extended Value
Electric Eel	8	\$382.01	x		\$3,056.08
Respirator	48	\$331.68	x		\$15,920.64
Motorola Battery	5	\$52.92	x		\$264.60
Gas Oven Thermostat	58	\$51.45	x		\$2,984.10
Copper Refrigeration Tubing	12	\$43.08	x		\$516.96
Toilet Tank	2	\$120.00		x	\$240.00
Two-way Intercom	21	\$1,052.08		x	\$22,093.68
Boiler Room Controller Alarm	5	\$611.86		x	\$3,059.30
Eye Wash Station	3	\$257.61		x	\$772.83
Portable Heaters	36	\$48.13		x	\$1,732.68
Faucet Handle	48	\$47.56		x	\$2,282.88
11	246		5	6	\$52,923.75

APPENDIX II

Shortages at Betances A

Description of Item	Quantity Short	Unit Cost	Items Could Not Be Located	Recorded Amount Less Than Physical Amount	Extended Value
Air Conditioner	4	\$486.39	x		\$1,945.56
Blower - Floor and Carpet Dryer	1	\$344.25	x		\$344.25
Heater	4	\$318.50	x		\$1,274.00
Tile Cutter	2	\$232.78	x		\$465.56
Light Fixture	28	\$214.20	x		\$5,997.60
Magic Chef Compressor Kit	5	\$171.46	x		\$857.30
Cordless Caulking Gun	2	\$163.48	x		\$326.96
Hard Wired Smoke Alarm	12	\$151.97	x		\$1,823.64
Electronic Workbench	45	\$138.95	x		\$6,252.75
Folding Table	9	\$129.99	x		\$1,169.91
Mortise Slam Lock	7	\$128.50	x		\$899.50
Faucet	45	\$121.63	x		\$5,473.35
Smoke and Carbon Monoxide Detector	24	\$46.33	x		\$1,111.92
Right Sink and Tray	4	\$215.26	x		\$861.04
Left Sink and Tray	5	\$208.61	x		\$1,043.05
Lavatory Sink	10	\$144.48	x		\$1,444.80
Two-Handle Faucet	1	\$111.50	x		\$111.50
Double Faucet	7	\$98.05	x		\$686.35
Garbage Can	2	\$84.62	x		\$169.24
Eye Wash Retainer Bowl	4	\$81.87	x		\$327.48
Copper Refrigeration Tubing	1	\$64.62	x		\$64.62
Lavatory Faucet	12	\$57.85	x		\$694.20
Power Supply Unit	12	\$690.51	x		\$8,286.12
Lamp Fixture	3	\$549.78	x		\$1,649.34
Cabinet	2	\$350.00	x		\$700.00
Door	15	\$323.80	x		\$4,857.00
Air Dryer	1	\$288.57	x		\$288.57
Gas Valve	12	\$278.20	x		\$3,338.40
Grass Trimmer	1	\$252.00	x		\$252.00
Compound Saw	25	\$249.00	x		\$6,225.00
Ink Cartridge	15	\$177.66	x		\$2,664.90
Shower Body	24	\$81.19	x		\$1,948.56
Hot Water Pilot	4	\$692.29		x	\$2,769.16
Service Sink	11	\$357.69		x	\$3,934.59
Electrical-Magnetic Lock	11	\$311.26		x	\$3,423.86
Circulating Pump	5	\$247.37		x	\$1,236.85
Lavatory Sink	21	\$199.63		x	\$4,192.23
Elongated Bowl	6	\$118.02		x	\$708.12
Stainless Steel Sink	3	\$166.00		x	\$498.00
Carbon Monoxide Detector/Alarm	1	\$119.86		x	\$119.86
Faucet Sink	39	\$97.50		x	\$3,802.50
41	445		32	9	\$84,239.64

Items from Missing Pallets at Armstrong A

Item Description	Quantity	Oracle Unit Price	Extended Value
REGULATOR,PRESSURE OLD #07721300, & #02029701,WELBILT # 77001246.	5	\$ -	\$ -
HANDLE, WET MOP, CLAMP TYPE, IBNYS # 225H	7	\$ 65.81	\$ 460.67
SHOE WINDOW BALANCE SPIRAL TYPE, BARRY SUPPLY MFR# BSC WB402	2000	\$ 2.88	\$ 5,760.00
SHOE FOR WINDOW,LUPTON #LM-295-H	465	\$ 0.67	\$ 311.55
HINGE, SPRING TYPE, 6" FULL MORTISE, STEEL, PRIMED GRAY, WITH SCREWS, (24) PER PACKAGE, APR*USA #2029-6 USP FM	10	\$ 8.44	\$ 84.40
STOP 3 HIGH, ANGLE TYPE ENTERANCE DOOR, 628 FINISH	5	\$ 22.80	\$ 114.00
BRACKET, PIVOT, FOR BI-FOLD DOORS, AZA SALES COMPANY #7-200	989	\$ 1.43	\$ 1,414.27
LOCKSET 2-3/8 BS, POLISHED BRASS,MARKS #110L/3	12	\$ 7.17	\$ 86.04
BRACKET, SPRING LOADED TYPE, RIGHT HAND ONLY, FOR BI-FOLD DOOR, AZA SALES COMPANY #2-66 RH	64	\$ 2.17	\$ 138.88
STEM SHOWER BODY, FOR HOT AND COLD,AMERICAN STAND #NY0041	1286	\$ 7.31	\$ 9,400.66
SHOWER ARM, POLISHED CHROME, DELTA #RP6023	51	\$ 7.35	\$ 374.85
SPOUT BATH TUB,AMERICAN STAND #206-2200	35	\$ 16.55	\$ 579.25
LEVER, FOR TOILET, UNIVERSAL FIT, CP HANDLE W/DIE-CAST NUT & BRASS ARM, KISSLER #60-1000	48	\$ 7.70	\$ 369.60
FLAPPER BALL, TOILET TANK FITS AMERICAN STANDARD, DELL'S SUPPLY #40-4714	15	\$ 2.70	\$ 40.50
HOLDER SHOWER ROD,SEXAUER #176172	48	\$ -	\$ -
ROLLER TISSUE, PLASTIC BODY WITH SPRING	7	\$ 1.07	\$ 7.49
FIXTURE, EXIT, WALL MOUNTED, 8" UNIVERSAL, ATLITE #ISA-8RU	2	\$ 42.46	\$ 84.92
LAMPHOLDER, WATERTIGHT WITH PIGTAIL LEADS, 125 VOLT, 60 HZ, EAGLE RUBBER #KIC	7	\$ 1.33	\$ 9.31
BALLAST, FOR (2) F96T12, 120 VOLT, 60 HZ, MARK III, ADVANCE #R-2E75-F-3-TP	13	\$ 23.73	\$ 308.49
STRAP 1 ONE HOLE THIN WALL, STAMPED STEEL, EMT,STEEL ELECTRIC #4161	50	\$ 0.08	\$ 4.00
BRACKET, OVEN, ANTI-TIP, ROPER #4364088	350	\$ -	\$ -
STATION, WALL MOUNT EYE WASH STATION, GRAINGER # 4T009 Mfr. # S19-220B	1	\$ 257.61	\$ 257.61
STATION, WALL MOUNT EYE WASH STATION, GRAINGER # 4T009 Mfr. # S19-220B	4	\$ 257.61	\$ 1,030.44
KNOB, SURFACE BURNER, GEN ELEC. #WB03K10007, LIQUIDATION PRICE:0.00	202	\$ 2.65	\$ 535.30
THERMOSTAT, OVEN GAS, 2-OUTLET, FRIGIDAIRE #5303326546	86	\$ 37.21	\$ 3,200.06

APPENDIX III

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Item Description	Quantity	Oracle Unit Price	Extended Value
VALVE, GAS, FRONT BURNER , WELBILT #07596400	95	\$ 16.15	\$ 1,534.25
LIMIT SWITCH, OVEN, PEERLESS-PREM. #2150. LIQUIDATION PRICE : \$0.12	100	\$ 5.00	\$ 500.00
BURNER REAR, LINCOLN BRASS, NO SUBS., WB24X5194, GEN. ELEC. #WB28X40	37	\$ 12.00	\$ 444.00
CONTROL, COLD, OLD #WR9X337, GEN. ELEC. #WR9X208, LIQUIDATED PRICE: \$0.37	25	\$ 2.27	\$ 56.75
TAILPIECE 1-1/4 X 12, CHROME EXTENSION PLATED WITH NUT	10	\$ 3.01	\$ 30.10
TAILPIECE 1-1/4" X 12", 17 GA THREADED ONE END, CHROME	49	\$ 8.30	\$ 406.70
OPENER, ELECTRIC STRIKE FOR DOOR, FOR 1/2" THROW IN, WOOD OR METAL JAMBS, NEW OR REPL. INSTALLATIONS, CRAFTMASTER TN/001, TRINE #TN-001	8	\$ 28.06	\$ 224.48
STATION, WALL MOUNT EYE WASH STATION, GRAINGER # 4T009 Mfr. # S19-220B	1	\$ 257.61	\$ 257.61
SINK, LAVATORY, WHITE HUDSON, 20" X 18", WITH 4" DRILLING, KOHLER #K-2849	3	\$ 199.63	\$ 598.89
SINK, LAUNDRY TRAY, SELF RIMMING, STAINLESS STEEL,33" X 22",ELKAY #STCR3322-R DOUBLE BOWL, DEEPER BOWL ON RIGHT SIDE, 20 GAUGE, TYPE #302 (18-8) NICKLE BEARINGS S.S.	1	\$ 166.00	\$ 166.00
BIN STORAGE 5-3/4X13-7/8X5, BLUE,DURALUX #64046WL	1	\$ 115.68	\$ 115.68
WOOL STEEL #3	28	\$ 18.32	\$ 512.96
CHECK 8" HYDRAULIC TYPE "W", FOR WILKINSON MODEL W1215 REFUSE CHUTE HOPPER DOOR, HW101	15	\$ 55.47	\$ 832.05
CHECK 10" HYDRAULIC, FOR WILKINSON MODEL W1518 REFUSE CHUTE HOPPER DOOR, HW201	6	\$ 56.00	\$ 336.00
CYLINDER RIM TYPE, 5-PIN, K/D, 4 KEYS, K9 K/W, US3,4,10, SEGAL # 7050	32	\$ 11.71	\$ 374.72
FAUCET, WITH GOOSENECK SPOUT & K-16010-5 WRIST HANDLES, KOHLER #K-7305-K	1	\$ -	\$ -
PLUG, 6" CLEANOUT, LEAD FITALL, TAPERED	15	\$ 12.02	\$ 180.30
LAMP, 40 WATT FLUORESCENT, U-SHAPED, GEN. ELEC. #F40SCW/U/6	1	\$ 15.79	\$ 15.79
CONDUIT, 1/2", STEEL, FLEXIBLE, POLY VINYL COATED, 100 FT PER ROLL,EASTERN #EF 0500-100.	3	\$ 94.00	\$ 282.00
BALLAST (2) F40T12/RS LAMP, VALMONT #8G1024WF	1	\$ 9.33	\$ 9.33
FIXTURE, 150W HP, SODIUM , WALL PACK, STONCO #WPM150LX - 8	1	\$ 80.90	\$ 80.90
BATTERY NIDC, 1200 MAH, 7. 5V,MOTOROLA #HNN9628	5	\$ 52.92	\$ 264.60
TUBING ALUMINUM, 1/8 IN. X 50 FT. LIQUIDATION PRICE : \$0.20,PDQ #11-191	9	\$ 8.20	\$ 73.80
TUBING REFRIGERATION COPPER, 1/4	12	\$ 43.08	\$ 516.96
BOLT 1/4 X 5" , TOGGLE R.H., W/SPRING WING, 100/BX	8	\$ 11.72	\$ 93.76

APPENDIX III

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Item Description	Quantity	Oracle Unit Price	Extended Value
BOLT 5/16 X 4" , TOGGLE R.H., W/SPRING WING, 100/BX	3	\$ 28.64	\$ 85.92
SELF DRILLING SCREW, HEX WASHER HEAD, #10 X 1-1/2", ZINC PLATED STEEL, (430) PER BOX ,GRAINGER #2XA53	3	\$ 13.52	\$ 40.56
SIGN EMERGENCY EXIT ONLY, SIZE: 10" X 14" - VA,EMED #44332	4	\$ 9.89	\$ 39.56
TAILPIECE, 1-1/2" X 12", FLANGED	20	\$ 2.35	\$ 47.00
TAILPIECE OFFSET, DOUBLE SLIP JOINT, BRASS, 1-1/4 X 10	50	\$ 5.69	\$ 284.50
PLATE, WALL, FOR (2) TOGGLE SWITCHES, WHITE PLASTIC, LEVITON #88009	19	\$ 0.52	\$ 9.88
PLATE, WALL, 3-GANG TOGGLE, EAGLE #141	6	\$ 0.88	\$ 5.28
ELBOW, INTERNAL, 2-1/2", TWISTED LEG, WIREMOLD #V5711 LH	10	\$ 2.93	\$ 29.30
SPREADER FLAME, USED WITH BURNER#0311865,WELBILT #06497102	19	\$ 1.00	\$ 19.00
HINGE, 1-1/2" X 2" X 3/8", OFFSET TYPE FOR KITCHEN CABINET, HARRIS OR LIBERTY HARDWARE MANUFACTURER #1P105-ABM	200	\$ 1.99	\$ 398.00
FAUCET SINGLE HANDLE,DELTA #501WF	48	\$ 47.56	\$ 2,282.88
AERATOR FOR R4000-1 FAUCET,AMERICAN STAND #56135-0200	60	\$ 2.00	\$ 120.00
STRAINER, BASKET TYPE, AMERICAN STAND #63530-02	70	\$ 6.93	\$ 485.10
FAUCET, WITH PAIL HOOK & THREADED SPOUT END, KOHLER #K-8924-RP	9	\$ 121.63	\$ 1,094.67
STOPPER 1-1/8 ", TYPE #4 MIN.DELIVERY: 50 EACH,WILMAR #0061549	216	\$ 0.29	\$ 62.64
STOPPER 1-5/8 ", TYPE #4 MIN. DELIVERY: 50 EACH,WILMAR #0061598	342	\$ 0.38	\$ 129.96
HOLDER TOOTHBRUSH & TUMBER.,SEACHROME #15610 LIQUIDATION PRICE: \$1.33	53	\$ -	\$ -
ROLLER TISSUE, PLASTIC BODY WITH SPRING	50	\$ 1.07	\$ 53.50
DISH SOAP, DIE CAST, CHROME PL.,FRANKLIN 1406, 100/BX,LH INDUSTRIES #228	100	\$ 1.47	\$ 147.00
SWITCH, SINGLE POLE TOGGLE, COOPER #AH1201B	165	\$ 2.55	\$ 420.75
SWITCH, WITH NON-GROUNDED RECEPTACLE, COMMON FEED TYPE,EAGLE #798-B	10	\$ -	\$ -
SWITCH & RECEPTACLE COMBO 120-277V, SEPERATE FEEDS,EAGLE #274-B	226	\$ 3.44	\$ 777.44
CONNECTOR EXTN.CORD,15A,125V TYPE #B1 2-POLE 3-WIRE,FEMALE,LEVITON #5269N	54	\$ 2.37	\$ 127.98
PLATE, TOGGLE SWITCH 1 GANG, BROWN WRINKLE, MULBERRY #98071	200	\$ 0.33	\$ 66.00
RECEPTACLE SINGLE OUTLET,EAGLE #5441B	85	\$ 3.58	\$ 304.30
SWITCH 15A, 3-WAY QUIET, SING.POLE, 120/277VAC, W/GROUND,EAGLE #275-B	82	\$ 8.36	\$ 685.52

APPENDIX III

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Item Description	Quantity	Oracle Unit Price	Extended Value
PLUG QUICK , BROWN,LEVITON #123-P	90	\$ 4.90	\$ 441.00
PLUG 2 POLE 3 WIRE 15A/125V .230-690 CO DIA ,5-15P.,SEXAUER #J115006	41	\$ 5.91	\$ 242.31
CONNECTOR 3/8 45 DEG. WITH NYLON INSULATED THROAT, LIQUIDATION PRICE: \$ 0.11,TOPAZ #230SI.	150	\$ 2.21	\$ 331.50
TANK, TOILET, WHITE, KOHLER #K-4620	12	\$ 120.00	\$ 1,440.00
MIRROR 18" X 24", FOR BATHROOM WALL WITH STAINLESS STEEL FRAME AND FIVE INCH DEEP SHELF	3	\$ 186.00	\$ 558.00
INTERCOM TWO WAY TALK-THRU COUNTER TOP TYPE,NORCON #TTU-3	40	\$ 1,052.08	\$ 42,083.20
82	8669	\$	85,292.67

NYCHA Required Development Storeroom
Inventory Controls

NYCHA Standard Operating Procedure Requirements	Description
Inventory Records Maintained	Complete and accurate closed kit inventory records should be maintained.
Report of Closed Kit Inspections	100% of the closed kit inventory should be counted each year.
Development Survey Report	All findings on inventory imbalances must be reported on the Development Survey Report.
All visitors sign in Visitor's Log	All persons entering the storeroom must sign and indicate time of arrival and departure.
Master Key & Tool Records maintained and completed	Used to document whether all keys and power tools issued by the storeroom person are returned.
Stock Withdrawal Slips completed and maintained	Closed kit inventory items cannot be issued without a properly completed stock withdrawal slip.
Refrigerator Inventory and Record Card maintained	A record should be maintained for the location of all refrigerators.
Mechanical Equipment Records completed and maintained	Ensure the proper operation and storage of mechanized equipment. These records should be inspected monthly.
Motorized Equipment Records maintained	Maintain records for all power equipment including lawnmowers, generators, etc. These records should be inspected monthly.
Inventory Log -Supply Room maintained (NYCHA 060.279)	Details all janitorial materials received and issued.
Requisition Log Book maintained	A log book should be maintained for requisitions entered into the procurement system.



NEW YORK CITY HOUSING AUTHORITY
250 BROADWAY • NEW YORK, NY 10007
TEL: (212) 306-3000 • <http://nyc.gov/nycha>

SHOLA OLATOYE
CHAIR & CHIEF EXECUTIVE OFFICER

May 13, 2015

Marjorie Landa
Deputy Comptroller for Audit
The City of New York
Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

Re: Audit Report on the New York City Housing Authority's Controls Over Its Inventory Equipment and Supplies (MD14-105A)

Dear Ms. Landa:

NYCHA appreciates the work of the Comptroller's Office in uncovering the deficiencies in our supply chain and inventory management practices. Although we believe there have been improvements to NYCHA's procurement and central warehousing operations over the years and have a few particular details we disagree on, we are in general agreement with this report's primary recommendation that we need a complete overhaul and redesign of our inventory system.

In light of this assessment, NYCHA has taken the following steps:

- Implemented several personnel changes in the Supply Management leadership team;
- Appointed a new interim director to conduct a top to bottom review of all processes and procedures relating to supply chain and inventory management;
- Physically secured all six satellites, with five of the satellites being locked, and the sixth, where it is co-located with other functions, being stationed with a guard;
- Suspended all activities related to liquidation of materials.

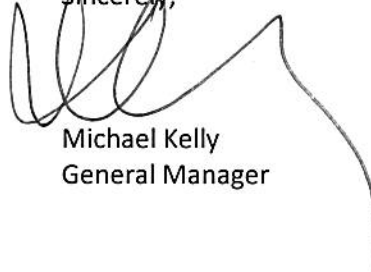
Due to the systemic nature of the problems identified in the audit, NYCHA is in the process of creating a Supply & Inventory Management Working Group that will be made up of outside experts to: 1) assist NYCHA in conducting an assessment of its supply chain and inventory management; 2) make recommendations on how to improve its practices; and 3) oversee implementation of the Working Group's recommendations.

Once again, we thank you for your staff's work and bringing these issues to our attention. We are committed to preserving public housing for the next generation of New Yorkers and know that we will have to fundamentally change the way we operate to ensure that employees have the resources to do

their jobs to the best of their ability and serve our residents better. We now recognize that those changes must include an overhaul of our supply and inventory practices. We must continue to increase transparency as we change how we operate, and do so in a way that reflects the values of this administration, our residents and employees.

We welcome continued collaboration with you on this very important work at NYCHA.

Sincerely,

A handwritten signature in black ink, appearing to read 'Michael Kelly', with a long, sweeping tail extending to the right.

Michael Kelly
General Manager