

# AUDIT REPORT



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

## **Follow-up Audit Report on the Financial And Operating Practices of the Queens Borough Public Library**

*ME08-067F*

**June 25, 2008**



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

WILLIAM C. THOMPSON, JR.  
COMPTROLLER

**To the Citizens of the City of New York**

Ladies and Gentlemen:

In accordance with the responsibilities of the Comptroller contained in Chapter 5, § 93, of the New York City Charter, my office has audited whether the Queens Borough Public Library (the Library) implemented the nine recommendations made in the *Audit Report on the Financial Controls of the Queens Borough Public Library* (MG05-95A), issued on June 30, 2005.

The Library is one of the three separate library systems serving the City. The Library receives the majority of its operating funds from the City. We audit organizations such as this to ensure that City funds are spent appropriately.

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

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

Very truly yours,

A handwritten signature in black ink, appearing to read "William C. Thompson, Jr.", written over a horizontal line.

William C. Thompson, Jr.

WCT/ec

**Report: ME08-067F**  
**Date: June 25, 2008**

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

**Follow-up Audit Report on the  
Financial and Operating Practices of the  
Queens Borough Public Library**

ME08-067F

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**AUDIT REPORT IN BRIEF**

This audit determined whether the Queens Borough Public Library (the Library) implemented the nine recommendations made in the *Audit Report on the Financial Controls of the Queens Borough Public Library* (MG05-95A), issued on June 30, 2005. The Library is one of the three separate library systems serving the City. It is guided by a 19-member Board of Trustees appointed by the Mayor and the Queens Borough President. The Mayor, the Speaker of the City Council, the Comptroller, the Public Advocate, and the Borough President are ex-officio members of the Board. The Library Director is responsible for the administration of the Library.

The Library receives the majority of its operating funds from the City. In Fiscal Year 2007, the Library spent \$115,188,597—\$71,743,052 for Personal Services (PS) and \$43,445,545 for Other Than Personal Services (OTPS), of which the City provided \$96,060,713—\$66,819,459 for PS expenses and \$29,241,254 for OTPS expenses.

The previous audit report concluded that the Library had weaknesses in its purchasing practices, book sales revenue processing, computer equipment inventory controls, banking procedures, and payroll check distributions.

**Audit Findings and Conclusions**

Of the nine recommendations made in the previous audit, the Library has implemented six, partially implemented two, and did not implement one. The Library implemented the previous audit's recommendations to strengthen the approval process of purchases, to better segregate duties related to book sales revenue, to improve the management of fines and fees, to establish written computer inventory procedures, and to have better controls over the payroll distribution process. However, weaknesses remained in computer inventory management, and new concerns were identified relative to purchasing practices and the accounting of book sales revenue.

### **Audit Recommendations**

To address the issues that still exist, we recommend, among other things, that the Library:

- Regularly update its computer inventory records to ensure that all its computer equipment is in the reported location and that additions and deletions of inventory are properly recorded, to include detailed information on how, when, and to whom computer equipment is relinquished.

To address new issues, we recommend, among other things, that the Library:

- Comply with its existing bid solicitation procedures and consistently solicit the required number of bids.
- Ensure that its bid solicitation procedures cover purchases of supplies costing more than \$5,000 and services other than building services.
- Ensure that all payments made without purchase orders are properly authorized with the required number of approval signatures.
- Establish a procedure to clarify which purchases need purchase orders and which do not.
- Sequentially number its contracts and ensure that they are properly recorded in SAP.
- Establish adequate controls so that book sales revenue and related expenses are properly supported and accounted for.

### **Agency Response**

In its response, the Library agreed with 16 recommendations, disagreed with one, and stated that it would conduct assessments of the remaining three.

## INTRODUCTION

### **Background**

The Queens Borough Public Library (the Library) is one of the three separate library systems serving the City. It is guided by a 19-member Board of Trustees appointed by the Mayor and the Queens Borough President. The Mayor, the Speaker of the City Council, the Comptroller, the Public Advocate, and the Borough President are ex-officio members of the Board. The Library Director is responsible for the administration of the Library.

The Library consists of a Central Library in Jamaica, 61 Community Libraries, and seven Adult Learning Centers. The Library serves a population of 2.2 million.

The Library receives the majority of its operating funds from the City. In Fiscal Year 2007, the Library spent \$115,188,597—\$71,743,052 for Personal Services (PS) and \$43,445,545 for Other Than Personal Services (OTPS), of which the City provided \$96,060,713—\$66,819,459 for PS expenses and \$29,241,254 for OTPS expenses. The Library disbursed about \$18.8 million from City funds for OTPS purchases in Fiscal Year 2007. The remaining \$10.4 million in City funds was related to interagency transfers called Contributed Facilities.

On June 30, 2005, our office issued an *Audit Report on the Financial Controls of the Queens Borough Public Library* (MG05-95A). The audit report concluded that the Library had weaknesses in its purchasing practices, book sales revenue processing, computer equipment inventory controls, banking procedures, and payroll check distributions.

### **Objectives**

The objective of this audit was to determine whether the Library implemented the nine recommendations made in the earlier report, *Audit Report on the Financial Controls of the Queens Borough Public Library* (MG05-95A, issued June 30, 2005).

### **Scope and Methodology**

The scope period of this audit was July 1, 2006 through June 30, 2007 (Fiscal Year 2007).

To determine the implementation status of the prior audit's recommendations, we interviewed Library officials, including the Library Director, the Director of Finance, the Director of Purchasing, and the Director of Information Technology Services (ITS). We also reviewed the Library's policy and procedures manual, its certified financial statements for Fiscal Years 2005 and 2006, and other relevant documentation.

To determine whether the Library improved controls in its Purchasing Department to ensure that purchase orders are properly authorized and that there is a proper segregation of

duties, we reviewed the Library's policies and procedures regarding the processing of OTPS expenditures through the Library's financial system known as Systems, Applications, and Products in Data Processing (SAP). We also performed walkthroughs and observations of the purchasing process to ascertain the adequacy of the segregation of duties. Furthermore, to ascertain whether the Library's purchasing controls were effective and whether it complied with its policies and procedures for the purchasing of goods and services, we reviewed a sample of purchases from its OTPS expenditures list for Fiscal Year 2007. In Fiscal Year 2007, the Library made \$6,840,506 in OTPS purchases by issuing purchase orders and \$11,964,958 in OTPS purchases without issuing purchase orders. We stratified the population of purchase-order purchases and identified 625 purchase orders that had a value of \$1,000 or more, totaling \$3,931,850. We randomly selected for review a sample of 28 of these purchase orders, totaling \$91,154. We also stratified the population of purchases made without purchase orders and identified 1,292 such purchases that had a value of \$1,000 or more, totaling \$10,021,953, and randomly selected for review 30 of these purchases, totaling \$284,459.

For the 28 purchase orders sampled, we reviewed records from the Purchasing and Accounts Payable Departments. We reviewed these 28 sampled purchase orders to determine whether they were complete, authorized, and appropriately used. While reviewing these purchases, we observed certain purchasing weaknesses beyond those referred to in the earlier audit report and decided to perform additional audit tests on these purchases. As a result, we also determined whether the required bids, price quotes, or Requests for Proposals were obtained, when applicable, and whether the Library had been intentionally splitting its purchases to circumvent competitive bidding procedures. To check for split purchases, we sorted the entire population of purchases made in Fiscal Year 2007 by types of goods and services purchased. We analyzed and determined whether there were purchases of the same good or service within a six-month period that aggregated to \$5,000 or greater. In addition, we determined whether the goods and services ordered were received, whether the amounts on the invoices were consistent with the amounts shown on the related purchase orders, whether payments were properly authorized, whether proper discounts were taken, whether sales tax was inappropriately paid, and whether the Library paid the invoices on time.

For the 30 purchases in our sample that were made without purchase orders, we determined whether the invoices were properly approved for payment, whether the proper number of approval signatures was obtained, whether proper discounts were taken, whether sales tax was inappropriately paid, and whether the Library paid the invoices on time. To determine whether the Library made such purchases for items for which purchase orders should have been used, we reviewed payments to vendors that received more than \$20,000 in payments from the Library in Fiscal Year 2007.

To determine whether the Library improved its segregation of duties for book sales revenue processing, we reviewed procedures and conducted observations of the process. While reviewing the process, we learned that the used-book sales, which had been conducted by the Library's branches, had been contracted out. As a result, we reviewed book sales revenue collected in Fiscal Years 2006 and 2007 to determine whether the Library had adequate controls over the collection of these revenues since it began in Fiscal Year 2006 to use a contractor to sell used books (and other used Library materials) online.

Furthermore, to determine whether the Library complied with its banking procedures and improved its controls over the processing of revenue transactions, we evaluated its internal controls over the collection and recording of fines and fees. We judgmentally selected the month of June 2007, the last month of the fiscal year, and also judgmentally selected six branches to test whether the Library properly recorded the fines and fees collected and whether the branches made deposits according to established deposit schedules. Deposits are to be made one, two, or three times per week, depending on the size of the branch. We reviewed two branches required to make deposits at least once per week, two that were required to make deposits twice per week, and two that were required to make deposits three times per week. Each Library branch reports each day's collection of fines and fees on a Bank Deposit Report form, which is submitted to the Finance Department at least once a week. We compared the Bank Deposit Report forms submitted by the six branches to the fines and fees recorded in the Library's accounting system. We also reconciled the bank statements with the deposit slips and the Bank Deposit Report forms to determine whether all fines and fees collected for June 2007 were deposited. While reviewing the deposits, we examined the supporting documentation and authorization of petty-cash disbursements made by the six branches from the fines and fees they collected.

To determine whether the Library improved its computer inventory controls, we reviewed inventory records generated by its inventory tracking system, APPLIX, and its written inventory procedures. To evaluate the accuracy of the Library's equipment inventory records, we performed tests to determine whether the computer items listed on the records could be located. We determined whether computer equipment that was recorded in the inventory records for the Finance Department and the ITS Department was at the designated locations and was properly tagged and identified. We also determined whether to-be-relinquished items were at the designated locations. In addition, we determined whether computer equipment in the Purchasing Department was properly recorded in the Library's inventory records. The Purchasing, Finance, and ITS Departments were selected because they are major Central Office units.

To determine whether the Library implemented the recommendations related to payroll check distributions, we observed the September 28, 2007 paycheck distribution at the Central Office. We also obtained its payroll check distribution procedures for review.

The Library's external auditors rendered unqualified opinions for the financial statements for Fiscal Years 2005 and 2006 and reported no material weaknesses in their accompanying reports on compliance and internal controls. Therefore, we chose not to evaluate the reliability and integrity of the Library's computer-processed purchasing and revenue data.

The results of the above tests, while not projectable to the respective populations, provided us a reasonable basis to assess the Library's implementation of the previous audit's recommendations, as well as related financial practices.

### **Independence Disclosure**

The Comptroller is one of five ex-officio trustees of the Queens Public Library. 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 was involved in planning or conducting this audit, or in writing the audit report.

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

### **Discussion of Audit Results**

The matters covered in this report were discussed with Library officials during and at the conclusion of this audit. A preliminary draft report was sent to Library officials on March 17, 2008, and was discussed at an exit conference held on April 24, 2008. A draft report was sent to Library officials on May 13, 2008, with a request for written comments. We received a written response dated May 28, 2008, from Library officials.

In its response, the Library agreed with 16 recommendations, disagreed with one, and stated that it would conduct assessments of the remaining three. The Library stated: “We appreciate the audit work done by the Comptroller and his staff. The work performed was comprehensive, completed on schedule, and in a professional manner.”

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

## RESULTS OF FOLLOW-UP AUDIT

Of the nine recommendations made in the previous audit, the Library has implemented six, partially implemented two, and did not implement one. The Library implemented the previous audit's recommendations to strengthen the approval process of purchases, to better segregate duties related to book sales revenue, to improve the management of fines and fees, to establish written computer inventory procedures, and to have better controls over the payroll distribution process. However, weaknesses remained in computer inventory management, and new concerns were identified relative to purchasing practices and the accounting of book sales revenue.

### **Previous Finding:** "Inadequate Internal Controls in the Purchasing Department"

The previous audit found the Library had significant internal control weaknesses in the approval process of purchase orders. The Director of the Purchasing Department did not review or approve purchase orders. The processing of the purchase orders was not properly supervised, and purchasing functions were not adequately segregated. The staff at the Purchasing Department prepared purchase orders, printed the purchase orders with the electronic signature of the Director of the Purchasing Department, and faxed them to the vendors without the personal review and approval of the Director of the Department.

In the previous audit we made the following two recommendations:

***Previous Recommendation #1:*** "The Library should ensure that there are proper controls over the Director of the Purchasing Department's signature in the SAP computer system so that purchase orders are properly authorized personally, either by the Director or, in his absence, a designated official."

***Previous Recommendation #2:*** "The Library should ensure that adequate segregation of duties is implemented in the Purchasing Department so that the buyer who creates purchase orders and selects vendors based on solicited bids and quotations does not also approve purchase orders."

***Previous Library Response:*** "New release strategies will be implemented in SAP that will require the Director of Purchasing to release all PO's upon review of the purchasing backup."

### **Current Status of Recommendations #1 and #2:** IMPLEMENTED

Since the previous audit, the Library has built controls in its SAP system that require the Director of the Purchasing Department to personally log into the system and review the purchase orders. After reviewing the purchase orders, he approves them and his signature is automatically posted on the purchase orders. Only then are the buyers able to print them and fax them to the vendors. We confirmed that to approve and sign a purchase order, the Director's password is required.

**Previous Finding:** “Lack of Segregation of Duties in the Processing of Book Sale Revenue Collected by the Library Branches”

The previous audit found that the functions of posting receivables in SAP, recording book sales transactions, making bank deposits, and reconciling revenue collected to revenue recorded were not segregated. Branches could not process money collected from book sales in SAP. Therefore, all branches forwarded money orders and book sales information to the Finance Department to be processed in SAP. The Assistant Accountant recorded the transactions for book sales, created the receivables in SAP, and made bank deposits for the money orders received from the branches. Bank reconciliations were performed by two persons, one of whom was the Assistant Accountant.

In the previous audit we made the following recommendation:

***Previous Recommendation #3:*** “The Library should segregate the duties of recording transactions for book sales, making bank deposits, and performing bank reconciliations.”

***Previous Library Response:*** “The segregation of duties for book sales will be implemented by the Library as follows:

Assistant Accountant:	Make bank deposit
Budget/Grants Manager:	Post Accounts Receivable Invoice
Accounting Manager:	Posts cash payments
Accountant:	Bank reconciliations”

**Current Status:** IMPLEMENTED

Since the previous audit, the Library has implemented a proper segregation of duties among the staff processing book sales revenue. The responsibilities for processing book sales revenue have been assigned to the four individuals identified in the “Previous Library Response” quoted directly above.

**Previous Finding:** “Non-compliance with Banking Procedures”

The previous audit found that, contrary to Library procedures requiring that no more than \$300 in cash be maintained at a branch at any time, all four sampled branches kept more than \$300 in cash (ranging from \$335 to \$570) for two to four days for 16 (50%) of the 32 bank deposits reviewed.

In the previous audit we made the following recommendation:

***Previous Recommendation #4:*** “The Library should ensure that all branches comply with its procedures to maintain no more than \$300 of cash on hand.”

***Previous Library Response:*** “The Library accepts this recommendation and will implement revised procedures for branches to make cash deposits between 1-3 times per week depending on the size of the branch, instead of a \$300 limit.”

**Current Status:** PARTIALLY IMPLEMENTED

Library officials told us that since the previous audit they had established a deposit schedule requiring branches to make cash deposits between one to three times per week, depending on the size of the branch. The \$300 limit is no longer enforced. However, the Library did not revise its procedures to include the new deposit schedule or to remove the \$300 limit on the cash a branch is allowed to maintain on hand. When we brought this matter to the attention of Library officials, they agreed to revise their procedures.

We judgmentally selected six branches and tested the bank deposits made by those six branches in the month of June 2007. We found that two of the six branches did not comply with the deposit schedules. Four of the 63 deposits made by our sample of six branches were not made according to the schedule. For those deposits, the branches either made the deposits once a week instead of twice a week or allowed ten or more days to lapse between weekly deposits.

### **Recommendations**

To address the issues that still exist, the Library should:

1. Revise its procedures to include the new deposit schedule and to remove the \$300 limit on the cash that a branch can have on hand.
2. Ensure that all branches comply with the new deposit schedule.

***Agency Response:*** “The Library accepts these recommendations. We will review and update procedures and ensure compliance by branch staff.”

**Previous Finding:** “Lack of Controls over Computer Equipment Inventory”

The previous audit found that the Library had poor inventory controls over its computer equipment and lacked written procedures for the management of its computer inventory. New computer equipment was kept in the storeroom for a long time without being accounted for in the Library’s inventory records. The inventory count showed that equipment purchased 5 to 35 months earlier was still uninstalled and not accounted for in the Library’s inventory records. Moreover, no reconciliation was done between equipment received, equipment installed and equipment still remaining in the storeroom. The previous audit also found that five computers (CPUs and monitors) were not located in the Finance Department even though the computer inventory list stated that they were assigned to that office.

In the previous audit we made the following two recommendations:

***Previous Recommendation #5:*** “The Library should establish written procedures for the inventory of all equipment. The procedures should ensure that all equipment, installed and uninstalled, is accounted for in the Library’s inventory records.”

***Previous Library Response:*** “The Library accepts this recommendation and will implement inventory procedures. This will include establishing an accurate inventory and maintaining inventory changes in a software database.”

**Current Status:** IMPLEMENTED

Since the previous audit, the Library established written procedures to manage its computer equipment inventory.

***Previous Recommendation #6:*** “The Library should regularly update its inventory records: verify that equipment is properly tagged, ensure that the equipment is in the reported location, and ensure that additions and deletions of inventory are properly recorded.”

***Previous Library Response:*** “The Library accepts this recommendation and will implement inventory procedures. This will include establishing an accurate inventory and maintaining inventory changes in a software database.”

**Current Status:** NOT IMPLEMENTED

Since the previous audit, the Library has established written inventory procedures and implemented a computer inventory tracking system called APPLIX. However, the Library does not regularly update its computer inventory records nor does it properly record additions and deletions of computer equipment. In addition, the tracking method used by the ITS Department does not adequately identify the computer items listed on the inventory records. As a result, the Library inventory records are incomplete and inaccurate.

To determine whether the Library implemented the recommendations related to its computer inventory management, we tested whether computer items listed on the inventory records could be located and whether computer items used by the Library were listed on the inventory records. We randomly selected 30 of the 958 computer items listed on the inventory records as being located in the ITS Department and 10 of the 73 computer items listed on the inventory records as being located in the Finance Department. We were unable to locate the 30 computer items in the ITS Department because there were no specific locations or users assigned to each item on the inventory records. However, we were able to locate the ten computer items in the Finance Department.

Furthermore, we checked whether the computer items physically located at the Purchasing Department were listed on the Library’s inventory records. There were 16 computer items physically located in the Purchasing Department, but only 13 computer items were listed on the Library inventory records for this department. Our test of the Purchasing Department disclosed the following:

- Three computer items were not assigned a user on the inventory list.
- Five computer items had an incorrect serial number on the list.
- One computer item on the inventory list was not the Library's property.
- Four computer items were not on the list.
- One item that was on the list was not located in the Purchasing Department.
- There were no tags on the items to indicate that they were property of the Library.

We also determined that the Library did not have adequate controls over computer items that were to be or had been relinquished. The ITS Department, which is responsible for the management of the computer inventory, did not have procedures in place to account for relinquished inventory. The Library did not maintain adequate records on which items designated for relinquishment were still in its possession, on how and when relinquished items had been disposed of, or to whom relinquished items had been given.

We randomly selected 25 items from an August 17, 2007, list of 236 to-be-relinquished computer items and tried to locate them. We were able to find only 10 of the 25 items. An ITS official told us that the remaining 15 items may have been picked up by a vendor or destroyed. He did not have detailed information on what happened to these 15 items. On December 4, 2007, we received a new inventory list. Eight of the 15 items on the first list that could not be located and for which the Library had no relinquishment information were still on the second list. The second list provided no new information on the disposal of these eight items.

As a result of inadequate inventory practices, the Library does not have effective control over its computer equipment inventory. To reduce the significant risk of theft of its computer equipment and improve its accountability for City funding, the Library needs to maintain accurate records and establish sound inventory controls to adequately account for all its computer equipment.

### **Recommendations**

To address the issues that still exist, the Library should:

3. Regularly update its computer inventory records to ensure that all its computer equipment is in the reported location and that additions and deletions of inventory are properly recorded, to include detailed information on how, when, and to whom computer equipment is relinquished.
4. Establish procedures to ensure better inventory controls over to-be-relinquished computer inventory items.

**Agency Response:** “The Library accepts these recommendations. We will improve upon inventory procedures, including additional subcategories for inventory locations and relinquishment procedures.”

**Previous Finding:** “Lack of Procedures for Payroll Distribution”

The previous audit found that the Library did not have written procedures for payroll check distribution and accountability. Department managers or designees were not required to sign any document as evidence of receipt of payroll checks and stubs nor were the employees who received their checks or stubs required to sign any document as proof of receipt. In addition, payroll checks that were not distributed were observed as having been left in unlocked cabinets.

In the previous audit we made the following three recommendations:

***Previous Recommendation #7:*** “The Library should require that the persons picking up check and stubs for distribution to Library employees as well as the Library employees receiving checks or stubs sign an official document as proof of receipt.”

***Previous Library Response:*** “The Library will not implement this recommendation. There is no risk to the Library if a paycheck is cashed by someone other than the employee since banks are responsible for fraudulent endorsements and it is our experience that the Library banking institution will reimburse the Library.”

**Current Status:** PARTIALLY IMPLEMENTED

Since the previous audit, the Payroll Department has implemented a list of designated personnel who sign that they have been given checks and stubs for subsequent distribution in their specific Library units. We observed that when designated persons pick up checks and stubs, they review a payroll distribution list of checks and stubs to ensure that all the checks and stubs are in the envelope. The person then signs the list as proof that the checks and stubs were provided. The lists are maintained at the Payroll Department along with the checks and stubs belonging to Central Office employees who were absent that day. The Payroll Department keeps the undistributed checks and stubs in a locked safe and the employees have until the following Wednesday to pick up their checks or stubs. If the checks or stubs are not picked up by then, they are mailed to the employees.

Even though designated personnel sign payroll distribution lists, individual employees are still not required to sign a document indicating that they have received their check and stub. Only those employees who pick up their checks and stubs after payday must sign for them. Having all employees sign for their checks and stubs would help the Library ensure that all payroll checks and stubs are provided to the correct employees, are properly accounted for, and are only issued to bona fide employees of the Library.

***Previous Recommendation #8:*** “The Library should establish written procedures for payroll check distribution.”

***Previous Library Response:*** “The Library accepts this recommendation and written procedures will be implemented for payroll check distribution.”

**Current Status:      IMPLEMENTED**

The Library has established written payroll check distribution procedures.

***Previous Recommendation #9:*** “The Library should ensure that undistributed payroll checks are kept in a secure place until they are distributed.”

***Previous Library Response:*** “The Library accepts this recommendation and although the payroll checks/stubs are currently kept in an unlocked cabinet when the payroll staff is present, the cabinet is locked when staff is not present. However, this recommendation will be implemented and paychecks/stubs will be kept in a safe.”

**Current Status:      IMPLEMENTED**

After designated personnel pick up checks and stubs and sign the payroll distribution list, the Payroll Department maintains the list along with the checks and stubs for the Central Office employees who are absent that day. Payroll keeps the undistributed checks and stubs in a locked safe and employees have until the following Wednesday to pick up their checks or stubs. Only three Payroll employees have the combination to the safe.

**New Issues**

While examining the implementation status of the recommendations presented in the previous audit, we found some weaknesses in related areas that need to be addressed to improve the Library’s purchasing and revenue processing practices. The Library did not have written procedures for certain types of purchases. In addition, the Library did not consistently solicit a sufficient number of bids, properly approve invoices for payment, maintain adequate supporting documentation of its purchases, or pay vendor invoices on time. The Library also did not adequately track its contracts or account for its book sales revenue.

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

**Lack of Controls over Purchasing Process**

**Inadequate Procedures for Certain Purchases of Goods and Services**

According to Library procedures:

“Written price quotations shall be solicited from at least three vendors for all supply, equipment, and furniture expenditures in excess of \$1,000 (and below the \$5,000 bid threshold). The Director of Purchasing shall maintain detailed records of such solicitation.”

Library procedures also state that a formal competitive sealed bid process should be followed for purchases of equipment, furniture, and building maintenance and repair services in excess of \$5,000. However, the procedures generally do not provide guidance on the bidding process that should be followed for purchasing supplies costing more than \$5,000 or for services other than building maintenance and repair services.<sup>1</sup> The only guidance in the procedures on purchasing other services is a statement that “competitive bidding is not required” for professional services contracts with an annual service cost in excess of \$7,000. The Library should address these omissions in its bid solicitation procedures by including purchases of supplies costing more than \$5,000 and services other than building maintenance and repair services. Maintaining clear bid solicitation procedures for all types of purchases is important to help ensure that the Library is paying competitive prices for all the goods and services it buys.

### **Competitive Bidding Procedures Not Consistently Followed**

For purchases between \$1,000 and \$5,000, the Purchasing Department does not always solicit three quotes before placing an order with a vendor. Of the 24 purchases that were in this price range (in our sample of 28 purchase orders), written price quotations were supposed to be solicited for 12 purchase orders (valued at \$24,176);<sup>2</sup> however, there was no evidence that the Library solicited the required number of written quotes for two of these purchase orders (valued at \$3,353). Of the four purchases exceeding \$5,000 in our sample of 28 purchase orders, one was for supplies for which there was no evidence that three written quotes were solicited before using a government requirement contract.

Not consistently soliciting the required number of quotes can result in making purchases at prices that are not competitive.

### **Recommendations**

To address these new issues, the Library should:

5. Comply with its existing bid solicitation procedures and consistently solicit the required number of bids.

**Agency Response:** “The Library accepts this recommendation and will comply with its bid solicitation procedures and consistently solicit required number of bids. Library records show that Library Purchasing Policy was followed for each item and documentation was provided to the Comptroller.”

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<sup>1</sup> The only reference in Library procedures to purchasing supplies costing more than \$5,000 is a provision stating that price quotations must be solicited from at least three vendors before using a government requirement contract.

<sup>2</sup> For the remaining 12 purchase orders, five were for purchases made through vendors with whom the Library had already negotiated set prices and did not require additional solicitations; five were for newspaper notices targeted to particular communities; one was for library books for which solicitations are generally not sought; and one was for a service other than building services and was not covered by the Library’s procedures.

**Auditor Comment:** The Library did not follow its procedures for the three cited purchases. The documents that the Library provided did not demonstrate that the required number of bids was obtained for each of these purchases.

6. Ensure that its bid solicitation procedures cover purchases of supplies costing more than \$5,000 and services other than building services.

**Agency Response:** “The Library accepts this recommendation; we will evaluate and update the written Purchasing Policy.”

### **Non-compliance with Procedures for Payments Made without Purchase Orders**

The Library does not consistently follow its procedures regarding the payments made without purchase orders. Consequently, many of the sampled payments made without purchase orders were processed without proper approval.

Library procedures require that when purchases orders are not used, payments of \$500 or more must be approved by two Library officials in the department making the purchase (the requester and the department head). However, of the invoices (valued at \$120,359) relating to 24 payments made without purchase orders,<sup>3</sup> the Library did not obtain required signatures on 12 invoices (including three rental payments), valued at \$42,750 (36%). (Library procedures do not specifically exclude rental payments from this requirement.) In addition, the signatures on those invoices that were signed were often undated. For example, a payment of \$23,000 to one vendor had two undated signatures.

Unlike purchases made with purchase orders, purchases made without purchase orders do not go through the approval process of the Purchasing Department, which requires the Director of Purchasing to approve each purchase order. Once invoices for purchases made without purchase orders are approved by two officials in the department making the purchase, they are sent to the Accounts Payable unit of the Finance Department. However, no official in the Finance Department reviews the validity of these purchases. Therefore, for purchases made without purchase orders, there is no approval outside of the department making the purchase. The Library should consider requiring a senior Library official outside of the department making the purchase to review and approve payments made without a purchase order that exceed a certain threshold amount. The Library must ensure that all payments to be made without purchase orders are properly approved to avoid the misuse or misappropriation of City funds and to ensure that funds are only committed when necessary for the operation of the Library.

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<sup>3</sup> Of the remaining six “purchases” that did not have invoices associated with them, four were journal entries and two were expense reclassifications.

## **Recommendations**

To address these new issues, the Library should:

7. Ensure that all payments made without purchase orders are properly authorized.
8. Consider requiring a senior Library official outside of the department making the purchase to review and approve all payments made without a purchase order that exceed a certain threshold amount.

*Agency Response:* “The Library accepts [these recommendations]. We will review written procedures and update the written procedures to reflect current business processes. This will include updated written procedures that reflect and enforce a signoff by appropriate managers with a threshold amount being approved outside the department for payments not requiring purchase orders.”

## **Many Payments Made without Purchase Orders**

The Library paid many invoices without purchase orders having been issued. Library procedures do not specify which purchases can be made without purchase orders.

The Library made Fiscal Year 2007 payments of more than \$20,000 to each of 49 vendors without using purchase orders. The total value of these payments to the 49 vendors was \$9,688,926. The majority of these payments (\$6,011,167) was for books and book-related materials. In addition, the Library, without using purchase orders, paid about \$24,000 for food (43 purchases), \$35,916 for truck repairs, \$116,466 for copy machine maintenance, \$407,770 for insurance, \$448,262 for legal services, and \$1,167,794 for rent and related property expenses. According to the Library officials, purchase orders are not required for many types of payments, including payments relating to contracts and leases. However, to enhance budgetary controls, it would be beneficial if the Library prepared general purchase orders by which funds for an anticipated series of expenses (relating, for example, to a contract or lease) could be encumbered and tracked in SAP over a period of time. For the same reason, it would be also beneficial if the Library clarified its procedures concerning the types of purchases for which a specific purchase order should be issued. The earlier that funds are encumbered for expected expenses, the better position the Library is in to determine the budgeted funds that remain for other purposes.

## **Recommendations**

To address this new issue, the Library should:

9. Consider preparing general purchase orders by which funds for contract and lease expenses can be encumbered and tracked in SAP.
10. Establish a procedure to clarify which purchases need purchase orders and which do not.

**Agency Response:** “The Library accepts these recommendations. We will consider preparing general purchase orders for contracts and lease expenses, for encumbrance and tracking purposes, and we will establish written procedures to document the business processes implemented. At present, the Library has written legal contracts that are executed for the purchase of services, and purchase orders are issued to order goods. We will review existing policies and procedures to assess if the issuance of purchase orders in SAP for services is desirable, in addition to negotiating and executing detailed contracts for services.”

### **Lack of Supporting Documentation in SAP**

Our review of the Library’s financial transactions disclosed that it does not consistently scan supporting documentation into the imaging system (known as iXOS) that supports SAP, as required by its procedures. Consequently, there were some instances where there were no justifications for the entries made in SAP.

According to Library procedures:

“At least once a day, all supporting documentation (invoices, check requests, etc.) for SAP documents posted that day must be scanned and properly updated in the iXOS document imaging system so that the scanned invoice is properly indexed to the SAP posting document number.”

Contrary to this procedure, the Library sometimes did not scan required documentation in its imaging system. We reviewed 58 Fiscal Year 2007 purchases (28 purchase orders and 30 payments made without purchase orders) of \$1,000 or more and found that four of the 28 purchase orders had at least one document, such as a price quote request, a price quotation, or a purchase order, missing from the system, and that two of the 30 payments made without purchase orders did not have any documentation in SAP. The two “purchases” without any supporting documentation in SAP were expense reclassifications. The Library did not provide any justification or explanation in SAP for the two expense reclassifications. It should be noted that for journal entries, we found hand-written explanations on documents that were scanned into SAP. The same process could be followed for expense reclassifications.

It is important for the Library to consistently follow its procedure for scanning supporting documentation in SAP in order to facilitate the review of financial transactions.

### **Recommendations**

To address these new issues, the Library should:

11. Ensure that all supporting documentation for transactions processed in SAP is scanned into the system daily.

**Agency Response:** “This section is titled as ‘Lack of Supporting Documentation’; that title could mislead the reader. First, the Library procedure quoted is a procedure in the Finance Department for accounting records but it was applied by the auditors to Purchasing Department records on same day scanning. Secondly, the Library retains all original paper documentation in storage – there are no missing records or lack of documentation for the expense classifications. The lack of online copies noted by the Comptroller only impacts on convenience, not internal controls, in accessing copies of the records.”

**Auditor Comment:** Since the Library stores its supporting documentation in an off-site facility, it is important that the Library consistently follow its procedure for scanning supporting documentation in SAP in order to facilitate the review of financial transactions.

12. Ensure that expense reclassifications are properly justified or explained in SAP.

**Agency Response:** “The Library accepts this recommendation, and although all expense reclassifications did have written documentation, we will ensure that all written documentation will clearly reflect the integrity of the financial transaction.”

### **Delays in Processing Invoices**

According to Library procedures:

“All invoices and check requests must be posted into the SAP system within five (5) business days of receipt of the invoice in Accounts Payable. . . . Unless otherwise specified, payment terms are Net 30.”<sup>4</sup>

The Library’s procedures do not identify the starting point for the “Net 30” payment term. However, library officials told us that the Library pays invoices based on the goods receipt date for purchases made with a purchase order and on the invoice approval date for purchases made without a purchase order. The goods receipt date is entered into SAP but the invoice approval date is written on the invoice.

Of the 77 invoices related to our sample of 58 purchases (28 made with purchase orders and 30 made without purchase orders), 6 were paid more than 30 days after the goods receipt or invoice approval date. The delays in payment ranged from 1 to 61 days. Of the 30 purchases made without purchase orders, 12 invoices had undated approvals and one was not approved. Without the approval date being written on such invoices, it is difficult for the Library to track the timeliness of payments.

As a result of late payments, vendors may cancel needed services, include late charges on invoices, or contact collection agencies for payment.

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<sup>4</sup> “Net 30” means that an invoice should be paid within 30 days.

## **Recommendations**

To address these new issues, the Library should:

13. Revise its procedures to specify the starting point of the “Net 30” payment term.
14. Ensure that vendors’ invoices are paid on time.
15. Ensure that vendors’ invoices are dated when approved for payment in order to track due dates and avoid delays in payment.

**Agency Response:** “The Library accepts the recommendation to evaluate procedures and we will consider the Comptroller’s recommendation when updating procedures.”

## **Inadequate Tracking of Contracts**

The Library did not have an effective system for tracking its contracts. The Library did not maintain a contract log nor did it record its contracts in SAP. The Library only filed copies of award letters, bid documents and Request for Proposals (RFP) forms. Maintaining a sequential numbering system for the contracts would help the Library track its contracts, and recording the contracts in SAP would help the Library track the purchase orders issued and the payments made against these contracts. By numbering its contracts and tracking them in SAP, the Library would be in a better position to estimate its contractual costs and encumber sufficient funds to meet those costs.

According to Library officials, formal contracts are not signed with vendors for items that are bid on. For those contracts, the signed bid documents or RFPs become the legal contract. When a contract is to be awarded to a vendor, a bid document or RFP signed and dated by the vendor is submitted to the Board of Trustees for approval. The bid document or RFP becomes the contract in that it includes the specifications of the services or the goods to be provided. It also states the length of the contract and the renewal terms. However, it generally does not indicate an effective date. The renewal option stipulates that “renewal will be exercised by the issuance of a Purchase Order on the contract anniversary date.” However, we could not determine the contract anniversary dates on five judgmentally selected contracts because the effective dates of the contracts were not clearly indicated. To better track contract expirations, the Library needs to specify the effective date of the agreement and the contract anniversary date. Recording the effective dates of contracts and tracking contract expiration dates would help ensure that vendors do not provide services under expired contracts. In addition, as expiration dates approach, such actions would help ensure that the continued need for a good or service is reviewed and that the appropriateness of renewing the contract or seeking new bids is determined.

## **Recommendations**

To address these new issues, the Library should:

16. Sequentially number its contracts and ensure that they are properly recorded and tracked in SAP.

17. For each contract, specify the effective date of the agreement and the contract expiration date.

**Agency Response:** “The Library accepts these recommendations and will establish software and procedures in the future to use SAP for contract lists. The effective dates of contracts will be noted on the associated purchase orders and copies of the contract will be scanned in as backup for the purchase order while the Library works toward implementing a contract procedure in SAP.”

### **Inadequate Accounting of Book Sales Revenue**

Before Fiscal Year 2006, used-book sales were handled by the Library branches. Since then a contractor located in Denver has sold used Library materials online, deducted selling fees, deducted 50 percent of the freight costs involved in shipping the materials from Queens to Denver, and provided 50 percent of net sales revenue to the Library. However, the Library has not had adequate controls in place to ensure that book sales revenue and expenses were properly accounted for. It did not perform reconciliations between the books delivered to the contractor and the books sold by the contractor. In addition, it did not have supporting documentation on selling fees. Furthermore, it did not reconcile the amount received from the contractor to the amount due to the Library based on freight costs, selling fees, and gross sales revenue. Consequently, we could not verify that the Library received all of the revenue that it was due.

Good business practices require that reliable records be maintained to ensure the accuracy and integrity of financial information. Better supporting documentation and information relating to selling fees and book sales revenue, as well as periodic reconciliations of the amounts due from the contractor and the amounts received, would help ensure that the Library is receiving the book sales revenue to which it is entitled.

According to Library officials, there were several reasons that the Library decided to select a contractor to sell the Library’s used books rather than continue to allow the local branches to sell these materials. One reason offered is that the branch sales benefit book dealers who can purchase valuable books at bargain prices and then sell them back to the public for a considerable profit. Library officials state that the contractor is better able than the branches to set appropriate prices for the books. Another reason offered is that it is difficult to control the cash being collected through book sales at the Library’s 61 branches. Still another reason offered is that there are often storage difficulties when a branch maintains a large number of used books in anticipation of an upcoming book sale. Finally, Library officials state that branch book sales involve a considerable amount of branch staff time. While these reasons may be legitimate, we have some concerns about the analysis upon which this decision was made.

The Library provided a written cost/benefit analysis of conducting book sales through a contractor rather than through branch sales. However, the analysis is largely based on an unsubstantiated assumption of there being additional staffing costs associated with branch sales that are avoided when a contractor sells the materials. In the analysis, the Library estimated labor costs of \$151,676 for the time that Library employees would have worked on branch book sales had such sales continued. However, the Library provided no evidence that branch employees' work hours were reduced from previous years because the book sales were contracted out. A well-documented analysis of the costs and benefits of conducting book sales through a contractor rather than through branch sales would better enable the Library to make a sound decision on the future of such sales.

### **Recommendations**

To address these new issues, the Library should:

18. Establish adequate controls so that book sales revenue and related expenses are properly supported and accounted for.

*Agency Response:* "The Library will assess the cost and benefit of implementing additional internal controls."

19. Periodically reconcile the amounts due from the contractor and the amounts received.

*Agency Response:* "The Library will assess the cost and benefit of implementing additional internal controls."

20. Prepare a well-documented analysis of the costs and benefits of conducting book sales through a contractor rather than through branch sales. Consider hiring an outside consultant if the Library believes that an independent perspective on the issue would be beneficial.

*Agency Response:* "The Library did study the cost and benefits and the report was provided to the Comptroller. We will assess if a second study is necessary to further document established processes."



Queens Library

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Thomas W. Galante  
Library Director

May 28, 2008

John Graham  
Deputy Comptroller  
Audits, Accountancy & Contracts  
The City of New York  
Office of the Comptroller  
Executive Offices  
1 Centre Street  
New York, N.Y. 10007-2341

Dear Mr. Graham:

We are in receipt of the draft *Follow-up Audit Report on the Financial and Operating Practices of the Queens Borough Public Library* dated May 13, 2008. As requested in your correspondence dated May 13, 2008, below is the Library's response to specifically address each recommendation made in the draft audit report.

Recommendations 1 and 2: The Library accepts these recommendations. We will review and update procedures and ensure compliance by branch staff.

Recommendations 3 and 4: The Library accepts these recommendations. We will improve upon inventory procedures, including additional subcategories for inventory locations and relinquishment procedures.

Recommendation 5: The Library accepts this recommendation and will comply with its bid solicitation procedures and consistently solicit required number of bids. Library records show that Library Purchasing Policy was followed for each item and documentation was provided to the Comptroller.

Recommendation 6: The Library accepts this recommendation; we will evaluate and update the written Purchasing Policy.

Recommendations 7 and 8: The Library accepts this recommendation. We will review written procedures and update the written procedures to reflect current business processes. This will include updated written procedures that reflect and enforce a signoff by appropriate managers with a threshold amount being approved outside the department for payments not requiring purchase orders.

John Graham  
Deputy Comptroller  
May 28, 2008  
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Recommendations 9 and 10: The Library accepts these recommendations. We will consider preparing general purchase orders for contracts and lease expenses, for encumbrance and tracking purposes, and we will establish written procedures to document the business processes implemented. At present, the Library has written legal contracts that are executed for the purchase of services, and purchase orders are issued to order goods. We will review existing policies and procedures to assess if the issuance of purchase orders in SAP for services is desirable, in addition to negotiating and executing detailed contracts for services.

Recommendation 11: This section is titled as "Lack of Supporting Documentation"; that title could mislead the reader. First, the Library procedure quoted is a procedure in the Finance Department for accounting records but it was applied by the auditors to Purchasing Department records on same day scanning. Secondly, the Library retains all original paper documentation in storage – there are no missing records or lack of documentation for the expense classifications. The lack of online copies noted by the Comptroller only impacts on convenience, not internal controls, in accessing copies of the records.

Recommendation 12: The Library accepts this recommendation, and although all expense reclassifications did have written documentation, we will ensure that all written documentation will clearly reflect the integrity of the financial transaction.

Recommendations 13 – 15: The Library accepts the recommendation to evaluate procedures and we will consider the Comptroller's recommendations when updating procedures.

Recommendations 16 and 17: The Library accepts these recommendations and will establish software and procedures in the future to use SAP for contract lists. The effective dates of contracts will be noted on the associated purchase orders and copies of the contract will be scanned in as backup for the purchase order while the Library works toward implementing a contract procedure in SAP.

Recommendations 18 and 19: The Library will assess the cost and benefit of implementing additional internal controls.

Recommendation 20: The Library did study the cost and benefits and the report was provided to the Comptroller. We will assess if a second study is necessary to further document established processes.

John Graham  
Deputy Comptroller  
May 28, 2008  
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Queens Library

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We appreciate the audit work done by the Comptroller and his staff. The work performed was comprehensive, completed on schedule, and in a professional manner.

Sincerely,

A handwritten signature in black ink, appearing to read 'Thomas W. Galante'.

Thomas W. Galante  
Library Director

cc: Lawrence Veditago, Interim Director of Finance