



City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



FINANCIAL AUDIT

Marjorie Landa

Deputy Comptroller for Audit

Audit Report on the Financial and
Operating Practices of the Brooklyn
Public Library

FM14-111A

June 9, 2015

<http://comptroller.nyc.gov>



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

SCOTT M. STRINGER
COMPTROLLER

June 9, 2015

To the Residents of the City of New York:

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

The audit found that the Brooklyn Public Library's policies and procedures were adequate and appropriately addressed the operations of the library. Specifically, the audit found that the BPL appropriately authorized and recorded expenditures, complied with the applicable law, rules, and regulations governing the use of the BPL's funds, and ensured those expenditures were necessary for the operation of the library. The audit also found that City, State, and federal funds received by the BPL, as well as fines and fees collected and sampled private donations, were properly recorded in the general ledger. Finally, we found that expenditures were properly supported and charged to the appropriate fiscal year, appeared to be for appropriate business purposes, and contained the required approvals. Our audit, however, found a minor control weakness related to the BPL's tracking of certain gift cards issued to students.

The results of our audit have been discussed with Brooklyn Public Library 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 FINANCIAL AUDIT

Audit Report on the Financial and Operating Practices of the Brooklyn Public Library

FM14-111A

EXECUTIVE SUMMARY

The audit examined whether the Brooklyn Public Library (BPL) appropriately authorized and recorded expenditures, complied with the applicable law, rules, and regulations governing the use of the BPL's funds, and ensured those expenditures were necessary for the operation of the library. The BPL was established in 1896 and is one of three separate library systems serving the City of New York. The BPL is the fifth largest library system in the nation, serving over two and one-half million Brooklyn residents. The Central Branch is located at Grand Army Plaza and another 58 branches are located throughout the borough. There is also a business library in Brooklyn Heights. The BPL, like the two other New York City library systems, is a tax-exempt independent not-for-profit corporation governed by a board of trustees consisting of 38 members serving in non-salaried positions.

The BPL's operations are primarily funded by City tax levy funds, which are designated for the general administration and maintenance of the library (e.g., employee payroll, fringe benefits, book purchases, supplies, and equipment). The BPL also receives New York State funding, federal grants, private donations, revenue from book sales, fines, and library fees. In Fiscal Year 2013, the BPL received \$136.7 million in funds and additional revenue, of which \$422,233 was temporarily restricted in the way it could be used. Of the total revenue, \$85.7 million was received from the City. In addition, the BPL occupies City-owned buildings including the central library and a majority of its branches, under a rent-free arrangement with the City. The estimated value of those premises including utilities is \$32.7 million. In total the City provided the BPL \$118.4 million or 87 percent of its total revenue.

Audit Findings and Conclusions

The audit found that the BPL appropriately authorized and recorded expenditures, complied with the applicable law, rules, and regulations governing the use of the BPL's funds, and ensured those expenditures were necessary for the operation of the library. Our audit, however, found a minor control weakness related to the BPL's tracking of certain gift cards issued to students.

Audit Recommendation

This report recommends that the BPL should institute a policy to keep track of the distribution of all gift cards' recipients in the various incentive programs within the BPL.

BPL Response

BPL officials agreed with the audit's findings and have acted to address our recommendation to track the distribution of all gift cards. The full text of BPL's response is included as an addendum to this report.

AUDIT REPORT

Background

The BPL, one of three separate library systems serving the City of New York, was established in 1896.¹ It is the fifth largest library system in the nation, serving over two and one-half million Brooklyn residents. The Central Branch is located at Grand Army Plaza and another 58 branches are located throughout the borough. There is also a business library in Brooklyn Heights. The BPL, like the two other New York City library systems, is a tax-exempt independent not-for-profit corporation governed by a board of trustees consisting of 38 members serving in non-salaried positions. The Mayor and the Brooklyn Borough President each appoint eleven of the trustees. Twelve additional members are elected to serve on the Board. The remaining four positions are assigned to The Mayor, the New York City Comptroller, the Speaker of the City Council, and the Brooklyn Borough President, who are ex officio members of the Board.² All non-ex officio members of the Board serve three-year terms.

The BPL's operations are primarily funded by City tax levy funds, which are designated for the general administration and maintenance of the library (e.g., employee payroll, fringe benefits, book purchases, supplies, and equipment). The BPL also receives New York State funding, federal grants, private donations, revenue from book sales, fines, and library fees.

In Fiscal Year 2013, the BPL received \$136.7 million in funds and additional revenue, of which \$422,233 was temporarily restricted.³ Of the total revenue, \$85.7 million was received from the City. In addition, the BPL occupies City-owned buildings including the central library and a majority of its branches, under a rent-free arrangement with the City. The estimated value of those premises including utilities is \$32.7 million. In total the City provided the BPL \$118.4 million or 87 percent of its total revenue as reflected in Chart I on the following page.

¹ The 1901 act of the NYS Legislature authorized the City of New York to establish and maintain free public library systems throughout the five boroughs. The three City public libraries systems created are the Brooklyn Public Library, the Queens Public Library, and the New York Public Library, which provides library services in Manhattan, The Bronx, and Staten Island.

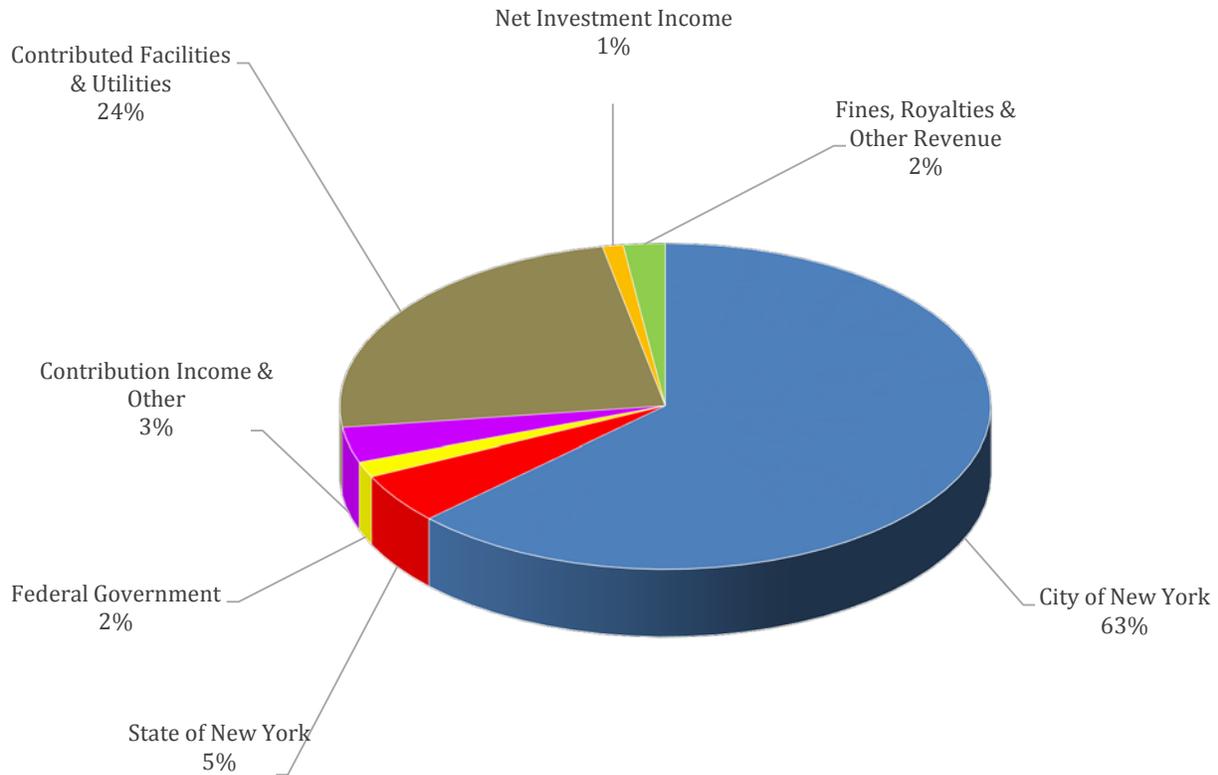
² According to the BPL's by-laws, the Ex-Officio Trustees may designate a representative to serve on behalf of them on the board. The by-laws state that "Each representative designated by an Ex-Officio Trustee shall be counted in the computation of a quorum, may vote on behalf of, and shall otherwise have all the same rights and privileges, of the Ex-Officio Trustee who designated such representative, in each case, except as prohibited by applicable law; provided, however, that in the event that the Ex-Officio Trustee has not designated such representative, the Ex-Officio Trustee shall not be counted in the computation of a quorum unless present at the meeting."

³ Temporarily restricted net assets represent those resources that have been restricted by donors or grantors for specific purposes and the unappropriated appreciation on donor-restricted endowment funds.

Source: BPL's Certified Financial Statements for Fiscal Year Ending June 30, 2013

The BPL follows the principle of fund accounting, which requires establishing and classifying funds in accordance with their nature and purposes to ensure they adhere to applicable restrictions and

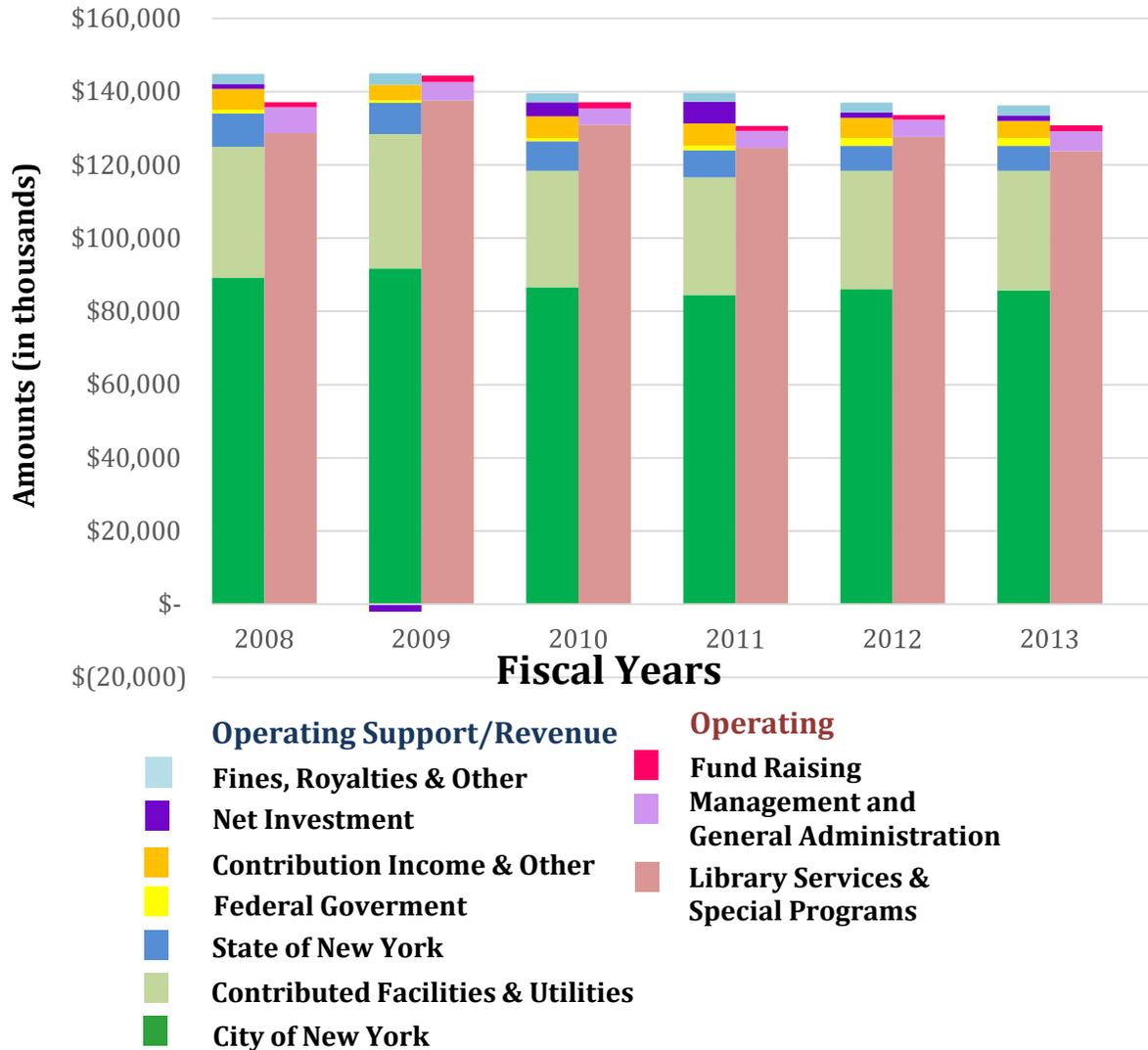
Chart I
BPL Funding Structure
Fiscal Year 2013



limitations on the use of resources available and the accounts of the library. As noted above, the funds received by the BPL derive from different sources. They also include restricted and unrestricted purposes. The BPL has established individual accounts to record and classify each fund's detailed activity and the type of restriction.

Chart II on the following page shows the BPL's revenue and support and the various categories of expenditures during Fiscal Years 2008 to 2013.

Chart II
BPL Support/Revenue and Expenses
for Fiscal Years 2008 to 2013



Objectives

The objectives of this audit were to determine whether the BPL:

- Appropriately authorized and recorded the library's expenditures, and whether those expenditures were necessary for the operation of the library; and
- Complied with the applicable law, rules and regulation governing the use of the BPL's funds.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS) except for organizational independence as disclosed in the subsequent paragraph. 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 objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The Comptroller is one of four City ex officio trustees of the BPL, who, in conjunction with the other 34 trustees comprise the Board of Trustees of the library. The Comptroller sits on the Board through a representative. Neither the Comptroller nor his representative was involved in planning or conducting this audit, or in writing the audit report. The scope of this audit covered the BPL's operating and financial practices during Fiscal Year 2013, except where noted otherwise. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results with BPL

The matters covered in this report were discussed with BPL officials during and at the conclusion of this audit. A preliminary draft report was provided to BPL officials and discussed at an exit conference held on May 19, 2015. On May 21, 2015, we submitted a draft report to BPL officials with a request for comments. We received a written response from BPL officials on June 1, 2015. In their response, BPL officials stated that “[w]e are in agreement with your findings and have acted upon your recommendation regarding the issuance of gift cards.”

The full text of the BPL's response is included as an addendum to this report.

FINDINGS

The audit found that the BPL appropriately authorized and recorded expenditures, complied with the applicable law, rules, and regulations governing the use of the BPL's funds, and ensured those expenditures were necessary for the operation of the library. We reviewed invoices for payments totaling \$6,657,016 (5 percent of total operating expenses of \$130,816,028 reported in the BPL's Statement of Functional Expenses) in FY 2013 and are reasonably assured that:

- Payments were made in accordance with the BPL's policies and procedures;
- Payments were appropriate in relation to the Library's operations;
- Credit Card expenditures were properly approved and supported; and
- Travel expenses were also properly approved and supported; and

Further, our audit also found that:

- The BPL's policies and procedures were adequate and appropriately addressed the operations of the library;
- The BPL has a conflict of interest policy which is signed annually by the trustees and senior members of the management team;
- The BPL correctly reported contributions, grants, and government funds received during the year in its FY 2013 financial statements;
- The public funding received by the BPL was properly recorded in its general ledger and traced to the bank statements for the BPL's main account. Sampled private donations were also properly recorded in the general ledger and traced to the bank statements;
- Fines and fees collected by the branch libraries were properly deposited and recorded in the general ledger;
- Expenses were properly classified and reported in the BPL's financial statements;
- The BPL maintained proper personnel records, employees' raises were properly authorized and justified, and the compensation received by the BPL's President/CEO was in accordance with the BPL's Employment Agreement which covers Fiscal Years 2012 through 2014;and
- Field testing confirmed bona-fide employment status for the employees sampled.

Our audit, however, found a minor control weakness related to the BPL's tracking of certain gift cards issued to students.

The BPL Did Not Properly Track Distribution of Student Gift Cards

Our audit found that although the BPL generally maintained proper controls over its financial operations, our review of American Express credit card purchases found that the BPL did not have a system to track the distribution of certain retail store gift cards to student recipients of the Young Adult Literacy Service Program. Based on an agreement between the BPL and the City of New York's Department of Youth and Community Development, the BPL provides pre-GED instruction services through the program. The agreement states that in order to support regular attendance and sustained participation, participants will be provided with modest incentives (e.g. nutritious meals, MetroCards, and prizes for good attendance). Specifically, we found that the BPL purchased and distributed 38 gift cards from various stores, valued at \$1,909, but did not record the names of those program participants who received the cards.

RECOMMENDATION

The BPL should institute a policy to keep track of the distribution of all gift cards recipients in the various incentive programs within the BPL.

BPL's Response: "We have created a log of every gift card in our possession, and each is now signed out by a staff member prior to distribution. Additionally, all recipients must now sign a form acknowledging their receipt of the cards."

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards except for organizational independence as disclosed in the subsequent paragraph. 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 objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93 of the New York City Charter.

The Comptroller is one of four City ex officio trustees of the Brooklyn Public Library. The ex officio trustees in conjunction with the other 34 trustees comprise the Board of Trustees of the Brooklyn Public Library. The Comptroller sits on the Board through a representative. Neither the Comptroller nor his representative was involved in planning or conducting this audit, or in writing the audit report.

The scope of this audit covers the BPL's Fiscal Year 2013, the period from July 1, 2012, through June 30, 2013, except where noted otherwise.

To gain an understanding of the policies, procedures, and regulations governing the Library's operations, we reviewed the BPL's Financial Procedures Manual (Revised July 2011), Procurement Manual (dated April 2010), Employee Handbook, and Policy and Procedure on Travel and Expense (dated June 30, 2013). To obtain an overview of the Library's revenue and expenditure transactions, we interviewed the Vice President of Finance, the Assistant Controller, the Operating Budget Manager, and the Payroll Specialist. In addition, we obtained the Finance Department's organization chart which shows the various departments and the separation of duties among the budget, procurement, receiving, and payroll units.

To gain an understanding of the City's role and responsibilities for the operation of public libraries in Brooklyn, we reviewed the Carnegie Agreement of 1901 and the Agreements of 1903 and 1937 between the City of New York through the Board of Estimate and Apportionment and the Brooklyn Public Library.

To determine whether the funds were properly recorded in the BPL's general ledger and deposited in the appropriate BPL bank accounts, we traced the funds received from the City, the State, and the federal government to the BPL's bank statements and general ledger. In addition, for funds received from New York City, we reviewed the BPL's disbursement information for FY 2013 listed in the New York City Financial Management System. To determine whether the money derived from contributions was deposited in the BPL's main bank account, we reviewed contributions made with cash, checks, and credit cards totaling \$3,117,094.26 for FY 2013 and traced the contributions from the BPL's contributions database to the BPL's main bank account statements. We also traced contributions from monthly merchant credit card statements to the BPL's contribution database to verify that the amounts matched. To obtain reasonable assurance that contributions were properly reported in the BPL's financial statements, we matched the names of donors on the BPL's FY 2013 Annual Report who contributed \$5,000 or more to the BPL's Contribution List for FY 2013.

To obtain reasonable assurance that there were no funds from unknown sources deposited in the BPL's main bank account, we traced the cash and credit card deposits from source documents

related to the BPL's funding sources to the BPL's July 2012 bank statement for the main bank account.

To determine whether employees were bona fide employees, we randomly selected 50 BPL employees and visited the branches to which those employees were assigned during the period August 26, 2014 through August 28, 2014. We met with the selected employees that were present. We requested documentation to justify the absence of any sampled employees.

To determine whether salary increases were properly authorized and justified, we reviewed the personnel files for the BPL's President/CEO and the highest paid union employee. To gain an understanding of the President's compensation plan including base salary and bonuses, we reviewed the Employment Agreement for the period of July 1, 2011 through June 30, 2014. We also reviewed the personnel files and the salary histories for the 10 employees who in FY 2014 had greater than four percent increases since the prior fiscal year. For all employees selected, we reviewed resumes, job descriptions, and other publicly available information to determine whether the employees were qualified for the positions held.

To determine whether payments were adequate and properly authorized, we judgmentally selected the three highest purchase orders for FY 2013 totaling \$4,775,148. We tested all 52 of the invoices for two of the purchase orders. However, since the third purchase order had a large amount of invoices, we selected a random sample of 10 of these invoices for testing. We tested a total of \$3,675,968 in invoices out of the \$4,775,148. To determine whether the BPL complied with its procurement policies and procedures related to the three sampled purchase orders, we reviewed all of the supporting documentation.

In addition, for 18 of the 20 categories of Operating Expenses listed on the BPL's FY 2013 Statement of Functional Expenses, we identified three vendors from each category who received the highest payments and judgmentally selected the two highest expenditures for each vendor. We tested a total of \$3,152,672 in operating expenses out of a total of \$21,980,974. We reviewed the applicable invoices to determine whether the necessary authorizations were obtained and whether the invoices relate to the appropriate period. In addition, we determined whether the description of goods and services provided pertain to the BPL's operations. We also traced the expenditures to the BPL's Lawson system (computerized accounting system) and the general ledger to determine whether the transactions were properly recorded. Furthermore, to determine whether the BPL complied with its procurement policies and procedures, we randomly selected 10 purchase orders totaling \$436,549 from the sampled invoices and reviewed all procurement documentation (i.e. price quotes, bids, and RFP's) associated with those purchase orders.

To determine whether the BPL has adequate controls over credit card usage, we reviewed FY 2013 credit card charges for the BPL's President/CEO, employee travel, and purchases made by the Procurement Department.⁴ We reviewed all credit card transactions for the President/CEO, which totaled \$12,000. We judgmentally selected and reviewed \$3,614 for travel charges and \$56,407 for procurement charges. For these charges, we obtained supporting documentation (i.e. procurement reconciliations, invoices, packing slips, and approvals) and in certain instances requested to see the items purchased. For example, the sample included charges for electronic devices (e.g. tablets, iPads, and headsets) purchased with an American Express Card. We conducted a physical inventory count of these items to ensure that they were being used by BPL employees for business purposes.

⁴ The BPL has two American Express credit cards and one American Express account. One card is used by the President/CEO for business expenses. One card is used by the BPL's Procurement Department to purchase items from vendors that do not accept purchase orders, such as Amazon.com. The American Express account is used by the BPL personnel for business travel expenses.

To determine whether the BPL's accrued expenses were properly recorded and reported, we tested 49 journal entries from a total of 219 from the accrued expenses account of the BPL's general ledger. The 49 journal entries selected totaled \$709,400. We randomly selected 20 entries from July 2012 through May 2013 and for June 2013, we reviewed all 29 entries.⁵ We reviewed the supporting documentation (i.e. invoices, estimates, packing slips, and information from the BPL's computerized accounting system) to determine whether each entry was properly supported and whether the amounts were subsequently paid to the vendor

⁵ We reviewed all of the transactions recorded in June 2013 because a higher number of entries are generally recorded in the accrued expenses account at year end.



May 28, 2015

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

Re: DRAFT REPORT
“Audit Report on the Financial and Operating Practices
of the Brooklyn Public Library”
FM14-111A

Dear Ms. Landa,

Thank you for providing Brooklyn Public Library with a copy of the Office of the Comptroller’s “Audit Report on the Financial and Operating Practices of the Brooklyn Public Library,” and for offering us the opportunity to submit our comments before a final version of the report is released to the public.

We are in agreement with your findings and have acted upon your recommendation regarding the issuance of gift cards. We have created a log of every gift card in our possession, and each is now signed out by a staff member prior to distribution. Additionally, all recipients must now sign a form acknowledging their receipt of the cards.

Thank you again for your thorough examination and accurate report. We look forward to its public release.

Very truly,

A handwritten signature in cursive script that reads "Linda E. Johnson".

Linda E. Johnson
President & CEO

c: Nicholas A. Gravante, Jr., Board of Trustees Chairman