

AUDIT REPORT

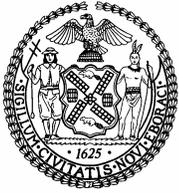


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Follow-up Audit Report on the Financial Controls of the New York Public Library

FS08-115F

September 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 conducted a follow-up audit on the financial controls of the New York Public Library (Library).

The Library is a private, not-for-profit educational corporation serving the residents of the Bronx, Manhattan, and Staten Island. It receives tax-levy support and funding from New York State, the federal government, private donations, book fine revenues, and library fees. We audit organizations such as this as a means of ensuring that they are properly accountable for City funds and use them as intended.

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

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

Very truly yours,

A handwritten signature in cursive script that reads "William C. Thompson, Jr.".

William C. Thompson, Jr.

WCT/fh

Report: FS08-115F
Filed: September 25, 2008

*The City of New York
Office of the Comptroller
Bureau of Financial Audit
Support Services Audit Division*

**Follow-up Audit Report on the
Financial Controls of the
New York Public Library**

FS08-115F

AUDIT REPORT IN BRIEF

This follow-up audit determined whether the New York Public Library (Library) implemented the 12 recommendations made in a previous audit entitled *Audit Report on the Financial Controls of the New York Public Library* (MG05-092A), issued November 22, 2005. This audit also determined the Library's current position on two recommendations that were not implemented in an earlier, 2001 follow-up audit, *Follow-up Audit on the Financial and Operating Practices of the New York Public Library*, (ME01-077F, issued June 29, 2001). In this report, we discuss the current implementation status of the recommendations made in the prior audits.

The 2005 audit disclosed that in general, Library expenditures funded by City appropriations were valid and accurate. However, this previous audit noted concerns in the Library's purchasing practices, inventory management, and record-keeping of computer equipment. The auditors found that the Director of the Purchasing Department did not oversee the purchasing of goods and services by the Facility Department; purchase orders were issued without required competitive bidding or proper approval; some files were incomplete, lacking contractual agreements documenting the justification for purchasing certain goods and services; and some expired contracts were not renewed although vendors continued to be paid and to perform services. In addition, there was a lack of segregation of duties in the management of equipment leases.

Audit Findings and Conclusions

The current follow-up audit disclosed that of the 12 recommendations made in audit MG05-092A, issued November 22, 2005, the Library implemented 10 recommendations and partially implemented 2 recommendations. Regarding the latter: the Library did not segregate all vital functions of negotiating, approving, and managing equipment leases; and although the

inventory is properly tagged and the inventory records are regularly updated, we found discrepancies during our physical inventory at two branch libraries.

The two recommendations made in the earlier, 2001 follow-up audit, which were found not implemented by the 2005 audit and repeated in that audit, were now found to be implemented.

During the current audit, we identified new issues concerning purchase requisitions for computer purchases that lacked the required Information Technology Group (ITG) approvals; and the tracking and recording of external hardware and software user licenses within the ITG inventory database.

Audit Recommendations

To address the issues from the previous audit that still exist, we recommend that the Library:

- Segregate all vital functions of negotiating, approving, and managing equipment leases. The Library should provide increased management oversight of the entire process.
- Correct discrepancies found during our physical inventory count, and regularly verify and update its computer equipment inventory listing.

To address the new issues identified in the current audit, we recommend that the Library:

- Add a statement to the purchase requisition form indicating the need for ITG's approval and add a place for an authorized signature.
- Maintain within the ITG inventory database a list of inventory-related information on external hardware, such as, power supplies, external modems, and external hard drives, as well as software user licenses.

INTRODUCTION

Background

The Library is a private, not-for-profit educational corporation. It is one of the three separate library systems serving the City. The Library serves the residents of the Bronx, Manhattan, and Staten Island through its 85 branches and four research centers. In addition to allowing individuals to borrow books, the branch libraries offer free English classes, computer training, job counseling, and educational guidance. The research centers offer non-circulating collections to the public. The City supports the Library by providing yearly tax-levy appropriations from its annual budget. The Library also receives funding from New York State, the federal government, private donations, book fine revenues, and library fees. The Mayor, the Comptroller, and the Speaker of the City Council are ex officio members of the Library Board of Trustees.

The 2005 audit disclosed that in general, Library expenditures funded by City appropriations were valid and accurate. However, this previous audit noted concerns with the Library's purchasing practices, inventory management, and record-keeping of computer equipment. The auditors noted that the Director of the Purchasing Department did not oversee the purchasing of goods and services by the Facility Department, purchase orders were issued without required competitive bidding or proper approval, some files lacked contractual agreements, which would justify the purchasing of certain goods and services, and some expired contracts were not renewed although vendors continued to be paid and to perform services. In addition, there was a lack of segregation of duties in the management of equipment leases.

Objective

This follow-up audit determined whether the Library implemented the 12 recommendations contained in a previous audit, *Audit Report on the Financial Controls of the New York Public Library (MG05-092A*, issued November 22, 2005), and also determined the Library's current position on two recommendations that were not implemented from an earlier follow-up audit, *Follow-up Audit on the Financial and Operating Practices of the New York Public Library*, (ME01-077F, issued June 29, 2001).

Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards except for organizational independence as disclosed in the following 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.

We are issuing a modified GAGAS compliance statement because of the Comptroller's mandated non-audit responsibility in connection with the Library. The Comptroller is one of three ex officio City trustees of the New York Public Library. The ex officio trustees, together with the appointed trustees, constitute the Board of Trustees of the New York Public Library. The Comptroller participates on the Board through a designated representative. Neither the Comptroller nor his representative was involved in planning or conducting this audit or in writing or reviewing the audit report.

This follow-up audit covered the period December 1, 2007, to May 31, 2008. To address the Library's current position on the recommendations made in the earlier audits issued by our office and to obtain an understanding of the policies and procedures governing the Library's handling of inventory, we reviewed relevant documents, interviewed appropriate Library officials, and used the following sources of information:

- The prior audit reports issued by the Comptroller on the Library's operations: *Follow-Up Audit on the Financial and Operating Practices of the New York Public Library*, issued June 29, 2001, and *Audit Report on the Financial Controls of the New York Public Library*, issued November 22, 2005;
- The Department of Investigation *Standards for Inventory Control and Management* (July 1992, Revised);
- The Library's *Purchasing Policies and Procedures Manual* (effective March 1, 2006);
- The Library's *ITG Inventory Process Using Footprints* (updated March 7, 2007);
- The Library's Audit Implementation Plan (AIP) dated December, 7, 2006; and
- The Library's Web site.

To assess whether the Library had implemented the corrective procedures outlined in its AIP and whether the implementation of those procedures corrected the weaknesses cited in the 2005 report, we reviewed manuals, conducted interviews, and performed a physical observation of the computer equipment at two locations.

To ascertain whether the Library complied with its own policies and procedures for the purchasing of goods and services, we judgmentally selected for review a sample of 20 purchase orders totaling \$1,002,153 from a list of 250 purchase orders totaling \$2,517,210 issued between December 1, 2007, and February 29, 2008, with a value greater than \$2,500 (the minimum dollar threshold requiring a purchase order). For the 20 disbursements sampled, we reviewed records from the Purchasing and the Accounts Payable Departments to determine whether they were complete, authorized, and appropriately used.

We also reviewed the initial procurement records to determine whether the purchase requisitions were properly approved and whether bids, price quotes, or Requests for Proposals were obtained and contracts awarded when required by Library purchasing procedures.

We examined all the invoices and packing/receiving reports related to our sample of 20 disbursements to determine whether the goods ordered were received and whether the services purchased were performed. We compared the amounts on the invoices to the amounts shown on the related purchase orders. We also reviewed the invoices to determine whether they were authorized for payment. In addition, we reviewed the cancelled checks to determine whether they had been endorsed appropriately.

To evaluate the accuracy of the Library's equipment inventory records, we selected computer equipment for our review because of its value and because it constitutes the majority of the inventory owned by the Library. ITG is responsible for maintaining controls over the Library's computer equipment, including maintaining the records as well as installing computer equipment in various locations

We reviewed the Library's software application known as Footprints, a product from Numara Software, and sampled two of three purchase orders that were let during the scope period to determine whether the items appearing on these purchases orders were accurately entered in the master inventory database.

Finally, on May 15 and 16, 2008, we performed an inventory count of the computer equipment at two judgmentally selected Library branches (St. George Center in Staten Island and Jefferson Market in Manhattan) where we compared the computer equipment recorded on the Library's inventory listing to the physical inventory present at each site. We ascertained whether computer equipment was at the designated sites and was tagged and identified as property of the Library. We selected the two branches based on their location and the quantity of computer equipment reported for each branch.

The results of our samples were not projected to their respective populations.

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 and discussed at an exit conference held on August 6, 2008. On August 14, 2008, we submitted a draft report to Library officials with a request for comments. We received a written response from Library officials on August 25, 2008. In their response, Library officials stated, "The Library has taken the observations and recommendations contained in the City's draft Follow-up Audit Report on the Financial Controls of the New York Public Library, dated August 14, 2008, very seriously." However, Library officials agreed with one recommendation and disagreed with the other three recommendations.

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

RESULTS OF FOLLOW-UP AUDIT

The current follow-up audit disclosed that of the 12 recommendations made in audit MG05-092A, issued November 22, 2005, the Library implemented 10 recommendations and partially implemented 2 recommendations. Regarding the latter: the Library did not segregate all vital functions of negotiating, approving, and managing equipment leases; and although the inventory is properly tagged and the inventory records are regularly updated, we found discrepancies during our physical inventory at two branch libraries.

The two recommendations made in the earlier 2001 follow-up audit that were not implemented as of 2005, were now found to be implemented.

During the current audit, we identified new issues concerning purchase requisitions for computer purchases that lacked the required ITG approvals; and the tracking and recording of external hardware and software user licenses within the ITG inventory database.

Previous Finding: “Inadequate Internal Controls in the Purchasing Department”

“Our review of 50 disbursements totaling \$312,699 disclosed that there were seven (14%) disbursements totaling \$93,065 related to purchase orders whose purchase-order amounts were changed without proper authorization, approval, or justification. All seven of these disbursements were for services received by the Facility Department.”

Previous Recommendation #1: “Ensure that all purchase orders are properly approved and authorized by the appropriate personnel in the Purchasing Department.”

Previous Library Response: The Library agreed with this recommendation, stating, “The Library recognizes that its policies and practices need to be revised and updated. As a result, the Library is currently undergoing a review of its procurement practices. . . . Policies and procedures will ensure that purchase orders are properly approved and authorized by appropriate personnel.”

Current Status: IMPLEMENTED

Our review of 20 disbursements found that all related purchase orders were properly approved and authorized by the appropriate personnel in the Purchasing Department. Therefore, we consider this recommendation to be implemented.

Previous Recommendation #2: “Ensure that any changes to purchase-order amounts are appropriately authorized, approved, justified, and properly documented.”

Previous Library Response: The Library agreed with this recommendation, stating, “The revised policies referred to previously will include a process for changes to purchase orders. Purchasing Department documentation will include appropriate authorization and justification for changes.”

Current Status: IMPLEMENTED

Of the five purchase orders reviewed with changes, all five had been appropriately authorized, approved, justified, and properly documented. Therefore, we consider this recommendation to be implemented.

Previous Finding: “Services Procured without Formal Contracts and without Following the Library’s Purchasing Procedures”

“Of the 50 disbursements that we reviewed, nine totaling \$143,552 were related to contracts. Of those nine disbursements, two were related to contracts that had expired and had not been renewed, even though the vendors still provided the services. Three other disbursements were related to purchase orders containing a reference to a contract number for which there was no corresponding contract. Nevertheless, the Library continued to place orders with these vendors, although there were no valid contracts. We also found that the Library purchasing procedures, including provisions for competitive bidding, were not always followed as required.”

Previous Recommendation #3: “Ensure that the Purchasing Department follows the Library’s policies and procedures for procurement of all goods and services. This would include purchases incurred for all Library departments such as Facility and ITG.”

Previous Library Response: The Library agreed with this recommendation, stating, “The Purchasing Department has continuously requested that all departments, including Facilities and ITG, adhere to the Library’s Purchasing policies. . . . The Library recognizes that compliance is lacking in this area. The Purchasing Department will work with senior management to ensure that all departments covered under the revised policy adhere to such policies and procedures.”

Current Status: IMPLEMENTED

Of the 20 disbursements tested, 7 were for purchases incurred by the Facility (4 purchases) and the ITG (3 purchases) Departments. All 7 purchases were executed through the Purchasing Department and followed the Library’s policies and procedures for procurement of goods and services. Further, requisitions and purchase orders were complete and approved, required bidding was obtained, and checks had the proper signatories. Therefore, we consider this recommendation to be implemented.

Previous Recommendation #4: “Ensure that all expired contracts are renewed through competitive bidding before additional purchases are made on those contracts, and that purchase orders are not issued against expired contracts.”

Previous Library Response: The Library agreed with this recommendation, stating, “As part of the Library’s review and update of its procurement policies and procedures, the

Library is committed to developing procedures for competitive bidding and will monitor timing of contract renewals, as appropriate.”

Current Status: IMPLEMENTED

We examined two expired contracts selected for our sample from the list of ten expired contracts, as of December 2007, and found that the two contracts contained renewal clauses that allowed the Library to extend the agreements. We then examined the other eight expired contracts and found that no additional purchases orders had been issued against them. Therefore, we consider this recommendation to be implemented.

Previous Finding: “Failure to Follow Competitive Bidding Procedures”

“The Purchasing Department failed to solicit bids when required by Library purchasing procedures and did not maintain complete bidding records. We found that there were no controls to ensure that competitive bidding procedures were followed. The failure to solicit bids includes that of the Facility Department when making purchases.”

Previous Recommendation #5: “Comply with its bidding procedures to ensure that the required number of solicited bids is obtained and the selection and award process is documented.”

Previous Library Response: The Library agreed with this recommendation, stating, “With the support of senior management, the Purchasing Department will enforce compliance with competitive bidding policies and procedures, and that the selection and award process is appropriately documented.”

Current Status: IMPLEMENTED

Of the eight purchases tested for compliance with bidding procedures, we found all complied with the Library’s policies and procedures and the selection and award process was documented. Therefore, we consider this recommendation to be implemented.

Previous Finding: “Inappropriate Tracking of Contracts”

“The Library does not have an adequate tracking system that can link the contract numbers appearing on purchase orders to actual contracts. Although contract numbers appear on purchase orders that were issued against a contract, the contract numbers affixed to the purchase orders had no relationship to actual contracts.”

Previous Recommendation #6: “Ensure that all purchase orders related to contracts correctly identify those contracts.”

Previous Library Response: The Library agreed with this recommendation, stating, “The Purchasing Department will ensure that purchase orders related to contracts will correctly identify those contracts.”

Current Status: IMPLEMENTED

Of the eight purchase orders tested, we found all had sufficient information to correctly identify the actual contract related to that purchase order. Therefore, we consider this recommendation to be implemented.

Previous Finding: “Purchase Orders Not Issued When Required”

“The Library procedures require that purchase orders be issued for all purchases in excess of \$1,000 that are not made online, even if a contract already exists with the vendor. However, of 24 sampled disbursements exceeding \$1,000 and requiring purchase orders, the Library did not issue purchase orders for five purchases totaling \$87,606.”

Previous Recommendation #7: “Ensure that purchase orders are issued for all purchases that are not made online and that are valued at more than \$1,000, as required.”

Previous Library Response: The Library agreed with this recommendation, stating, “As previously mentioned, the Library is currently undergoing a review of its procurement practices and will modify policies and procedures, where necessary, to ensure that they reflect appropriate procedures for purchases, whether conducted online or not, and that documented policies and procedures are followed.”

Current Status: IMPLEMENTED

The current Library policy governing the required dollar level for issuing purchase orders for transactions increased to \$2,500 and above. The policy also lists several types of goods and services not requiring a purchase order that may be solicited outside the Purchasing Department. We reviewed 9 of the last 20 disbursements that exceeded \$2,500 (as of February 29, 2008), and found that 4 of the 9 had the required purchase orders, and the remaining 5 were exempt, according to the Library policy. Therefore, we consider this recommendation to be implemented.

Previous Finding: “Lack of Segregation of Duty in Equipment Leasing”

“Although, the Director of Purchasing is required to approve contracts and agreements, the Associate Purchasing Manager is solely responsible for managing equipment leases. She approves the purchase requisitions, negotiates the equipment leases, approves the purchase orders, records lease-payment information, and tracks the lease payments.”

Previous Recommendation #8: “The Library should segregate the functions of negotiating equipment leases, approving and tracking of lease payments, and provide management oversight.”

Previous Library Response: The Library agreed with this recommendation, stating, “The Purchasing Department has already developed revised procedures to ensure that the responsibilities for approving purchase requisitions, negotiating equipment leases, approving the purchase orders, recording lease payment information, and tracking lease payments are appropriately segregated.”

Current Status: PARTIALLY IMPLEMENTED

The Associate Purchasing Manager still has the central role in managing equipment leases, i.e., approving purchase requisitions and purchase orders and negotiating equipment leases; however, the recording and tracking of lease payments is now handled by the Accounts Payable Department. Therefore, we consider this recommendation to be partially implemented.

Previous Finding: “Lack of Inventory Controls”

“The Library does not have effective inventory controls in place to ensure that its computer equipment is accounted for in its warehouse and when it is transferred from the warehouse for use in Library operations. The warehouse clerk does not always document and record when equipment is received and when it is transferred from the warehouse; and the ITG Department does not always ensure that when computer equipment is installed at workstations, it is tagged as property of the Library and recorded in the Library’s master inventory database.”

Previous Recommendation #9: “Establish written procedures for the inventory of all computer equipment. The procedures should ensure that all equipment, whether in the warehouse or installed in the Library, is accurately accounted for in the Library’s inventory records.”

Previous Library Response: The Library agreed with this recommendation, stating, “The Library’s Information Technology Group has already started to implement much of the auditors’ recommendations. . . . ITG is working on written policies and procedures for tagging, tracking, and updating equipment, where the department has specific responsibility.”

Current Status: IMPLEMENTED

We found that the Library has created written procedures for the inventory of all computer equipment that ensures that all equipment, whether in the warehouse or installed in the Library, is accurately accounted for in the Library’s inventory records. Therefore, we consider this recommendation to be implemented.

Previous Recommendation #10: “Ensure that when new computer equipment, including computer laptops, is received it is recorded in the Library’s master inventory database.”

Previous Library Response: The Library agreed with this recommendation, stating, “The entire computer equipment procurement process is currently being reviewed for efficiency gains. . . . ITG is working with the relevant department(s) to ensure that the inventory is accurately updated to include all new equipment, including laptops.”

Current Status: IMPLEMENTED

We found that the Library has created a software application known as Footprints, a product from Numara Software, which is a comprehensive system. Of the two purchases orders reviewed, we found that the equipment that appeared on these purchase orders were accurately entered in the master inventory database. Therefore, we consider this recommendation to be implemented.

Previous Recommendation #11: “Ensure that distribution of computer equipment from the warehouse is appropriately documented and recorded in the master inventory database.”

Previous Library Response: The Library agreed with this recommendation, stating, “ITG is working with the Shipping Department to address this requirement. . . . With the series of meetings that include Accounts Payable, Purchasing, ITG, and Shipping, it was discovered that each group has different requirements. Addressing all the different requirements is one of the objectives of these meetings while making the process simple.”

Current Status: IMPLEMENTED

We found that there is a history log in Footprints that indicates changes made to the asset record. The technician also updates the information regarding the designated branch where the equipment is installed. In addition, the Library conducts periodic audits to verify that the equipment is present at the appropriate site. As a result of these audits, any equipment missing or stolen is reported to the appropriate legal authorities with the required documentation and is also noted in the master database. Further, each library in the network sends reports to the central Library office informing it of any missing or stolen equipment. Therefore, we consider this recommendation to be implemented.

Previous Recommendation #12: “Regularly update its computer equipment 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 agreed with this recommendation, stating, “The current ITG master inventory database is regularly updated and verified. Items such as the conversion to new labels (discussed below) came about through our stringent monitoring of the database. This item is also directly correlated to a lack of personnel with the time to verify and check equipment against what is recorded in the inventory

database. Once staffing levels are more in line with inventory management, ITG will be better prepared to resume more frequent verifications.”

Current Status: PARTIALLY IMPLEMENTED

We conducted field visits to two branch libraries at St. George Center in Staten Island and Jefferson Market in Manhattan with the following results: at the St. George Center, of 241 items, 19 items could not be found, and 9 items were found that did not appear on the list; while at Jefferson Market, of 107 items, 5 items could not be found and 4 items were found that did not appear on the list. Therefore, we consider this recommendation partially implemented.

Status of Recommendations Found Not Implemented in Follow-up Audit ME01-077F, Issued June 29, 2001

The two recommendations from the June 29, 2001 follow-up audit that were found not implemented by the November 22, 2005 audit dealt with the Library’s monitoring of purchasing policies; and ensuring that its payment files contained all documentation supporting purchases. These recommendations were repeated in the recommendations of the 2005 audit reviewed in this report and were now found to be implemented.

New Issues

Technology Purchases Lack ITG Approval

Library policy states, “All technology purchases must also be approved by an authorized ITG (Information Technology Group) representative. This applies to hardware, software, services and IT consultants for any and all units of the Library.” We found that several purchase requisitions were initialed by the Operational Engineering Manager of ITG; however, there were three instances of purchase requisitions that showed no approval. To document the approval by ITG of all technology purchases, purchase requisition forms should indicate the need for ITG’s approval and should include a place for an authorized signature.

The Library Does Not Record Inventory-Related Information for External Hardware and Software Licenses

The Library does not keep a list of inventory-related information on external hardware such as power supplies, external modems, and external hard drives. In addition, software user licenses are not kept within the ITG inventory database; however, warranties that apply to the workstation (CPU and monitor) are kept once the equipment arrives at the Library site.

RECOMMENDATIONS

To address the issues from the previous audit that still exist, we recommend that the Library:

1. Segregate all vital functions of negotiating, approving, and managing equipment leases. The Library should provide increased management oversight of the entire process.

Library Response: “It should be noted that for leases of individual pieces of equipment and vehicles, the Library does have an appropriate segregation of the vital functions cited by the auditors. . . . The Associate Purchasing Managers reported to the auditor that she single-handedly managed the copier replacement and lease negotiation. Our review of the entire package shows that there were other staffs in the department involved in the strategy and approving the implementation of the new lease. In this case, the then Assistant Vice President for Finance reviewed the analysis and approved the lease, which was negotiated by the Director of Procurement.”

Auditor Comment: The Library did not provide documentation that it has properly segregated the vital functions relating to leasing equipment. There was no written indication that the Assistant Vice President reviewed and approved leases or that the Director of Procurement negotiated these leases. Therefore, we reiterate our recommendation that the Library segregate all vital functions of negotiating, approving, and managing equipment leases.

2. Correct discrepancies found during our physical inventory count, and regularly verify and update its computer equipment inventory listing.

Library Response: “The Library’s Information Technology Group (ITG) was able to reconcile all the discrepancies found during the City’s physical count and has accounted for all missing and new items. The Library also uncovered that the report provided to the auditor as the basis for the count did not show all the items it should have. ITG is reviewing its procedures and retaining its staff to ensure that all moves of equipment are properly reflected in the inventory management database.”

To address the new issues identified in the current audit, we recommend that the Library:

3. Add a statement to the purchase requisitions form indicating the need for ITG’s approval and add a place for an authorized signature.

Library Response: “The Purchasing Department has added a signature block for ITG authorization of ITG-related purposes [purchases]. Because the requisition form is used for more than just IT equipment and because Purchasing has accepted responsibility to ensure that requisitions for IT equipment are properly authorized by

ITG, we will not add wording indicating that this is required at this time. After six (6) months of using the new form, we will review to ensure that IT approval is received where required.”

Auditor Comment: In response the Library states that “the Purchasing Department has added a signature block for ITG authorization,” which indicates that the Library will implement this recommendation and comply with its own policy requiring that all technology purchases be approved by an authorized ITG representative. However, the Library’s response further states that it will “not add wording indicating that this is required at this time.” The Library, by not stating on the purchase requisition form that an ITG representative signature is required to show approval, cannot be ensured that all IT-related purchases are appropriately authorized.

4. Maintain within the ITG inventory database a list of inventory-related information on external hardware, such as power supplies, external modems, and external hard drives, as well as software user licenses.

Library Response: “While we agree with the idea presented, the Library believes that the cost of tracking all power supplies, external modems, and external hard drives outweighs the nominal benefit received from implementing such controls. . . . Tracking would be difficult to enforce and not deemed cost and/or time effective.

“Regarding the inventorying of software, the Library is reviewing the feasibility of adding such to its inventory database. . . It is the Library’s belief that, with many of our desktops technically locked (i.e., most individuals cannot add software without ITG permission), this recommendation may cause undue administrative burden to the ITG department to implement and administer on an ongoing basis.”

Auditor Comment: Maintaining ITG inventory database of external hardware and software user licenses will ensure that assets are available when needed and will help prevent theft and fraud. However, the Library should also be aware that the Department of Investigation’s *Standards for Inventory Control and Management*, standard #28 states, “An inventory of durable goods must be maintained by each end-user.” It continues, stating, “Permanent records are maintained, centrally, to track all non-consumable goods issued to each agency unit.” A non-consumable good is a commodity with a life expectancy of more than one year, which characterizes such equipment as power supplies, external modems, and external hard drives.

The New York Public Library

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Accounting and Finance • 212.592.7403 • fax 212.592.7440 • shwatkins@nypl.org

August 20, 2008

Mr. John Graham
The City of New York
Office of the Comptroller
Executive Offices
1 Centre Street
New York, NY 10007-2341

Re: Response and Implementation Plan to Follow-up Audit Report on the Financial Controls
of the New York Public Library
Audit Number: FS08-115F

Dear Mr. Graham:

Enclosed, please find the Library's response to and implementation plan for the above-referenced audit. Should you have any questions, please feel free to contact me at (212) 592-7403, or Joseph Brucia, Director of Procurement and Audit Coordinator at (212) 592-7601.

Sincerely,



Sharon Hewitt Watkins
Vice President for Finance & Controller

Encl.

Cc: Dr. Paul LeClerc - President, New York Public Library (NYPL)
David G. Offensend - Chief Operating Officer and CFO, NYPL
Joseph Brucia - Director of Procurement, NYPL
David Sturm - Vice President & Chief Information Officer, NYPL
Judy Johnson - Manager Software Applications, NYPL

**The New York Public Library's Response to the on the Draft
Follow-up Audit Report on the Financial controls of the New York Public Library,
dated, August 14, 2008**

This status report and implementation plan is presented as of August 20, 2008.

Overview

The Library has taken the observations and recommendations contained in the City's draft Follow-up Audit Report on the Financial Controls of the New York Public Library, dated August 14, 2008, very seriously. Below we will address the City's recommendations in two (2) sections. The first section addresses the issues that were found to be partially implemented from the 2005 audit. The second section addresses the City's new recommendations from the current audit.

1. To address the issues from the previous audit that still exist, the City recommended that the Library:

- Segregate all vital functions of negotiation, approving and managing equipment leases. The Library should provide increased management oversight of the entire process.

Library's Response:

In our previous response, we stated that segregation of duties had been implemented. It should be noted that for leases of individual pieces of equipment and vehicles, the Library does have an appropriate segregation of the vital functions cited by the auditors.

The City's current audit recommendation resulted from the review of the lease for 76 administrative copiers located in the various buildings throughout the three (3) boroughs in which the Library operates. In this case, the Library believes that our review process was thorough enough to meet the requirements of duty segregation, while allowing us to achieve savings through centralization of the procurement activity.

In the lease transaction for the 76 administrative copiers, the Associate Purchasing Manager reported to the auditor that she single-handedly managed the copier replacement and lease negotiation. Our review of the entire package shows that there were other staffs in the department involved in the strategy and approving the implementation of the new lease. In this case, the then Assistant Vice President for Finance reviewed the analysis and approved the lease, which was negotiated by the Director of Procurement. We believe that the approval of the purchase order by the Director of Procurement and the subsequent review and approval of the transaction and contract terms by the Assistant Vice President for Finance provides appropriate and sufficient segregation of duties of the vital activities involved with this leasing transaction.

The New York Public Library
Library Responses to City's Audit Recommendations

- Correct discrepancies found during our physical inventory count, and regularly verify and update its computer equipment listing.

Library's Response:

The Library's Information Technology Group (ITG) was able to reconcile all the discrepancies found during the City's physical count and has accounted for all missing and new items. The Library found that the missing items were in locked areas, which were not accessible to the auditors at the time of the physical count. The Library also uncovered that the report provided to the auditor as the basis for the count did not show all the items it should have. ITG is reviewing its procedures and retraining its staff to ensure that all moves of equipment are properly reflected in the inventory management database.

2. To address the new issues identified in the current audit, the City recommends that the Library:

- Add a statement to the purchase requisitions form indicating the need for ITG's approval and add a place for an authorized signature.

Library's Response:

The Purchasing Department has added a signature block for ITG authorization of ITG-related purposes. Because the requisition form is used for more than just IT equipment and because Purchasing has accepted responsibility to ensure that requisitions for IT equipment are properly authorized by ITG, we will not add wording indicating that this is required at this time. After six (6) months of using the new form, we will review to ensure that IT approval is received where required.

- Maintain within the ITG inventory database a list of inventory-related information on external hardware, such as power supplies, external modems, and external hard drives, as well as software user licenses.

Library's Response:

While we agree with the idea presented, the Library believes that the cost of tracking all power supplies, external modems, and external hard drives outweighs the nominal benefit received from implementing such controls. These are relatively inexpensive devices, which are often moved about within the system. Tracking would be difficult to enforce and not deemed cost and/or time effective.

Regarding the inventorying of software, the Library is reviewing the feasibility of adding such to its inventory database. We are also looking at other ways of accomplishing the tracking of software at specific locations via other systems within the Library where the cost of the software is more significant. It is the Library's belief that, with many of our desktops technically locked (i.e., most individuals cannot add software without ITG permission), this recommendation may cause undue administrative burden to the ITG department to implement and administer on an ongoing basis.