

AUDIT REPORT

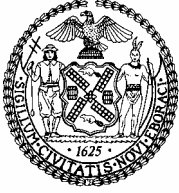


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Financial Controls of The Queens Borough Public Library

MG05-095A

June 30, 2005



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 Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has audited the Queens Borough Public Library (the Library), to determine whether Library expenditures funded by City appropriations were valid and accurate.

The results of our audit, which are presented in this report, have been discussed with Library officials, and their comments were considered in the preparation of this report.

Audits such as this provide a means of ensuring that City funds are used appropriately, efficiently, and in the best interest of the public.

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: MG05-095A
Filed: June 30, 2005

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

**Audit Report on the Financial Controls of
The Queens Borough Public Library**

MG05-095A

AUDIT REPORT IN BRIEF

This audit determined whether the Queens Borough Public Library (Library) expenditures funded by City appropriations were valid and accurate. The Library uses funds from City appropriations for general operating expenditures such as payroll, fringe benefits, book purchases, supplies, and equipment. For Fiscal Year 2004, Library expenditures from City appropriations were \$48,943,000 for Personal Services (PS) and \$27,330,000 for Other Than Personal Services (OTPS).

Audit Findings and Conclusions

In general, the Queens Borough Public Library expenditures funded by City appropriations were valid and accurate. Specifically,

- OTPS expenditures were reasonable and necessary for Library operations.
- Bidding procedures were followed.
- Vendor invoices were in the system to substantiate payments, and payments were valid and accurate.
- Fines and fees collected at the Library branches were accurately reported to the Finance Department and deposited in the bank.

Further, the Library maintained adequate personnel files that contained all required and appropriate documentation of employees' work history. The Library also implemented most of the recommendations made in the previous audit.

However, the audit disclosed some internal control deficiencies in the Library purchasing practices, processing of book sales revenue, and record-keeping of computer equipment. Specifically, the Director of the Purchasing Department did not properly approve the purchase orders issued by his department. In addition, there was a lack of segregation of duties in the processing of book sales revenue submitted by the branches. We also found noncompliance with

banking procedures, a lack of controls over inventory of new computer equipment, and inadequate controls for payroll check distribution.

The deficiencies found by the audit were mainly caused by the lack of or inadequacy of procedures and by weaknesses in internal controls.

Audit Recommendations

To address these issues, we make nine recommendations. The major recommendations are that 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.
- 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.
- Segregate the functions of recording receivables and making bank deposits for moneys collected for book sales.
- 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.
- 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.
- Require that the persons picking up checks 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.

INTRODUCTION

Background

The Queen Borough Public Library (the Library) is one of the three separate library systems serving the City of New York (the City). On September 27, 1901, the City, through the Board of Estimate and Apportionment, entered into an agreement with philanthropist Andrew Carnegie. Andrew Carnegie agreed to provide the funds for the construction of a library and branch libraries in the Borough of Queens. The City agreed to furnish the building sites and to maintain the completed library buildings. On April 17, 1907, the libraries were incorporated as the Queens Borough Public Library.

The Library consists of 63 branches throughout Queens including a Central Library in Jamaica and six Adult Learning Centers. The City supports the Library by providing yearly tax-levy appropriations from the City's 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 City Comptroller, the Public Advocate, and the Queens Borough President are ex officio members of the Library's Board of Trustees.

The Library uses funds from City appropriations for general operating expenditures such as payroll, fringe benefits, book purchases, supplies, and equipment. For Fiscal Year 2004, Library expenditures from City appropriations were \$48,943,000 for Personal Services (PS) and \$27,330,000 for Other Than Personal Services (OTPS).

Objectives

The objective of this audit was to determine whether Library expenditures funded by City appropriations were valid and accurate.

Scope and Methodology

The scope period of this audit was Fiscal Year 2004.

To achieve the objectives of our audit, we interviewed Library personnel to gain an understanding of the internal controls and processes over personnel, payroll, timekeeping, purchasing, and fines and fees collected. Based on the interviews and our review of the Library's policy and procedures manual, we documented and made a flowchart of the processes. We also reviewed relevant documentation and conducted audit tests to assess the Library's compliance with its own policies and procedures. We then evaluated the internal controls over personnel and payroll, the collection and recording of fines and fees, purchases, and payments to vendors, to determine whether the controls were adequate.

We obtained and reviewed the Library's policies and procedures regarding the processing of OTPS expenditures and fines and fees transactions through the Library computer system, SAP (Systems, Applications, and Products in Data Processing), a paperless environment software.

We reviewed prior audit reports issued by the Office of the New York City Comptroller on the Library's operations: *Audit Report on the Financial Operating Practices of the Queens Borough Public Library* issued on October 7, 1996, and *Follow-up Audit Report of the Financial Operating Practices of the Queens Borough Public Library* issued on June 22, 2001. To determine the current implementation status of the three recommendations made in the 2001 follow-up audit report, we interviewed the Director of Finance. In addition, we reviewed the Library's certified financial statements for Fiscal years 2002, 2003 and 2004.

In Fiscal Year 2004, the Library made 3,220 disbursements totaling \$9,279,416. We stratified the population to identify 972 disbursements with dollar values of \$1,000 or more, which amounted to \$8,823,174. To ascertain whether the Library complied with its own policies and procedures for the purchasing of goods and services, we randomly selected a sample of 50 of the 972 disbursements, totaling \$389,057, to review.

For the 50 disbursements sampled, we reviewed records from the Purchasing and Accounts Payable Departments. We reviewed the purchase orders 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 the required bids, price quotes, or Requests for Proposals were obtained, when applicable.

We examined all the invoices related to our sample of 50 disbursements to determine whether the goods ordered were received or whether services purchased were performed. We compared the amounts on the invoices with 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 canceled checks to determine whether they had been endorsed appropriately.

We judgmentally selected the month of June 2004, the last month of the fiscal year, and one bank where four branches make deposits, to test whether the Library properly recorded the fines and fees collected from four Library branches. 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 submitted by the four branches that make deposits to the same bank to the fines and fees recorded in the Library's accounting system. We also reconciled the bank statements with the deposits slips and the Bank Deposit Reports to determine whether all fines and fees collected for June 2004 were deposited. We examined for proper supporting documentation and authorization the petty cash disbursements made by the four branches from the fines and fees they collected.

To evaluate the accuracy of the Library's equipment inventory records, we selected computer equipment for our review because they constitute the majority of non-supply inventory. We determined whether computer equipment in the stockroom was recorded in the inventory master file. We also determined whether computer equipment that was recorded in the inventory master file for the Finance Department was at the location designated in the inventory master file and was properly tagged and identified. The Finance Department was selected, because it is comprised of several other units such as Accounting, Accounts Payable, Purchasing and Payroll, enabling us to also assess the accuracy of the inventory records of those subdivisions as well.

To determine whether the Library complied with its personnel procedures, we randomly selected the names of 20 employees out of 1,004 from the December 2004 payroll roster. We examined the related files to determine whether they were bona-fide personnel of the Library and whether the files contained required documents, such as the letter of appointment, Immigration and Naturalization Service form I-9, proper identification, and evaluations. We also observed the February 4, 2005 payroll distribution at the Library's Central Branch.

The Library's external auditors rendered unqualified opinions for the financial statements for Fiscal Years 2002, 2003 and 2004 and reported no material weaknesses in their accompanying reports on compliance and internal controls. Therefore, we decided that there was no need to include an evaluation of the reliability and integrity of the Library's electronic data processing system, SAP (which generates the Library's financial data) as part of our audit scope. We did not expand the initial samples we selected because, based on the results of our testing, we concluded that expanding the sample would not substantially change our conclusions. The results of the above tests, while not projectable to the respective populations, provided us a reasonable basis to determine whether the Library expenditures funded by City appropriations were valid and accurate.

Independence Disclosure

The Comptroller is one of four City ex officio trustees of the Queens Public Library. The ex officio trustees together with the appointed trustees comprise the Board of Trustees of the Queens 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 or reviewing the audit report.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the 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 May 13, 2005, and was discussed at an exit conference held on May 26, 2005. On June 1, 2005, we submitted a draft report to Library officials with a request for comments. We received a written response from the Library on June 13, 2005.

Of the nine recommendations made in this report, the Library agreed with eight and disagreed with one. In the response, the Interim Director of the Library stated, "Overall, I am pleased with the Comptroller's audit results."

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

FINDINGS AND RECOMMENDATIONS

In general, the Queens Borough Public Library expenditures funded by City appropriations were valid and accurate.

Specifically,

- OTPS expenditures were reasonable and necessary for Library operations.
- Bidding procedures were followed.
- Vendor invoices were in the system to substantiate payments and payments were valid and accurate.
- Fines and fees collected at the Library branches were accurately reported to the Finance Department and deposited in the bank.

Further, the Library maintained adequate personnel files that contained all required and appropriate documentation of employees' work history. The Library also implemented most of the recommendations made in the previous audit.

However, there were internal control deficiencies in the practices used by the Library. For example, the Library was deficient in its purchasing practices, processing of fines and fees, and record-keeping of computer equipment. Specifically, the Director of the Purchasing Department did not properly approve the purchase orders issued by his department. In addition, there was a lack of segregation of duties in the processing of book sales revenue submitted by the branches. We also found noncompliance with banking procedures, a lack of controls over inventory of new computer equipment, and inadequate controls for payroll check distribution.

The deficiencies found by the audit were mainly caused by the lack of or inadequacy of procedures and by weaknesses in internal controls.

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

Inadequate Internal Controls in the Purchasing Department

Our review did not disclose any inappropriate expenditures. However, we found significant internal control weaknesses in the approval process of purchase orders. The Director of the Purchasing Department does not review or approve the purchase orders processed by the buyers in his department. This is a violation of the Library's procedures. According to the Library procedures,

“The Director of Purchasing shall be responsible for administrating the purchasing program and is the only authorized representative of the Library that may commit the Library to a purchase. Such authorization must be evidenced by the issuance of a Purchase Order form signed by the Director of Purchasing.”

In fact, we found that the staff of the Purchasing Department prepare, review, approve, and issue purchase orders for each of their purchases. The processing of the purchase orders is not properly supervised, and purchasing functions are not segregated. Moreover, purchase orders are issued without proper authorization.

The Library uses SAP, an automated accounting system, to process its documents. The system operates in a paperless environment that has built-in controls that enable designated personnel to authorize transactions through the computer. For example, when a purchase requisition is prepared, the supervisor of the staff member who initiated the purchase must enter a code into SAP before the purchase requisition can be processed by the Purchasing Department and a purchase order can be created.

During our review of the controls in the Purchasing Department, we found that the purchase requisitions are not reviewed by the Director of the Purchasing Department. The staff in the Purchasing Department process purchase requisitions and prepare purchase orders. They are responsible for selecting the vendor and for soliciting bids and price quotes.¹ After the purchase order is created, staff members print the purchase orders from the system and fax them to vendors. The automated system places the Director of the Purchasing Department's signature on the purchase order. Through the use of this electronic signature, purchases can be processed without the personal review and approval of the Director of the Department, which violates the Library's policies and procedures.

Although the signature of the Director of Purchasing appears on each purchase order, it is not an indication that he has reviewed or approved the purchase order since his signature is electronically entered on the purchase order by the computer system. In fact, based on the Director's responses to our questions, he does not review any of the purchase orders prepared by the staff. However, at the exit conference we were told that the Director approves all purchases that exceed \$5,000. However, since the purchase orders are signed electronically, there is no evidence that the Director actually approved and authorized these purchases.

We discussed this Library process with the Directors of both the Purchasing and the Finance Departments. The Director of Purchasing said that incorporating his signature in the computer was not a risk because he trusted his employees. We asked Library officials for a written procedure that allows the Library to use an electronic signature to authorize purchases, but they did not provide us with one. Even though the signature of the Director of Purchasing Department is incorporated in the computer system and is automatically printed on purchase orders, it does not provide evidence of his authorization of a purchase.

As a consequence of incorporating the Director's signature in the computer system, the Library created an internal control weakness that is further exacerbated by the lack of segregation of duties in the Purchasing Department. Staff members of the Department have the authority of handling all the steps in the processing of purchase orders under \$5,000, such as authorization, review, approval, bidding, and recording of transactions, without any oversight by the Director of the department. The SAP computer system has built-in controls in the system to

¹ According to Library officials, certain specific items are purchased from preselected vendors.

ensure proper approval of purchases and necessary segregation of duties. However, the Library has circumvented controls in its computer system through the use of the electronic signature and improper segregation of duties. By doing so, it has created an environment susceptible to fraud and abuse. Our review did not detect any inappropriate expenditures. However, due to the internal control weaknesses, we cannot be assured that irregularities did not occur.

Recommendations

The Library should:

1. 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.
2. 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.

The Library Response: The Library agreed with these recommendations, stating, "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."

Inadequate Controls over the Processing of Moneys Collected

Lack of Segregation of Duties in the Processing of Revenue Collected

There is a lack of segregation of duties in the processing of book sale revenue collected by the Library branches. The functions of posting receivables in the SAP system, recording book sales transactions, making bank deposits, and reconciling revenue collected to revenue recorded are not segregated. The lack of segregation of duties is an internal control weakness that exposes the Library's accounting of its resources to potential errors and its assets to potential fraud. For Fiscal Year 2004 book sales revenue amounted to \$142,845.

Branches cannot process in the SAP system money collected from book sales. Therefore, all branches forward money orders and book sales information to the Finance Department to be processed in the SAP system. The Assistant Accountant records the transactions for book sales, creates the receivables in the SAP system, and makes bank deposits for the money orders received from all the branches. The bank reconciliations are performed by two persons, one of whom is the Assistant Accountant. However, they do not perform a reconciliation of the book sale receipts to the money collected and deposited in the bank.

Best business practices require that organizations maintain a proper segregation of duties among their staff members. While the Library is not required to follow the Comptroller's Directives, as a guide to best business practices, the Comptroller's Directive # 1, Principles of Internal Control states, "Key duties and responsibilities need to be divided or segregated among

different staff members to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions and handling any related assets.”

The lack of segregation of duties over the recording, accounting, and depositing of moneys in the bank creates the potential for fraud and abuse of the Library’s assets. The same person should not be recording transactions, making bank deposits, and performing bank reconciliations. An adequate system of internal controls over the collection and accounting of book sales is in the best interest of the Library.

Noncompliance with Banking Procedures

The Library procedure relating to its branches states, “No more than \$300 may remain in the Library branch at any time.” Nevertheless, some branches kept fees ranging from \$335 to \$570 that were collected at the branch without depositing the excess in the bank in a timely manner.

The Library’s procedures require each branch to fill out a Bank Deposit Report form reporting each day’s collection and forward it to the Finance Department at least once a week. We reviewed a June 2004 bank statement from one of the banks where four branches made deposits. We reviewed the Bank Deposit Reports and bank deposit slips and found that all four branches kept more than \$300 on hand for two to four days for 16 (50%) of the 32 bank deposits that we reviewed.

To reduce the risk of theft or loss, the branches should comply with the Library procedure and either deposit fees collected or forward them to the Finance Department as soon as they exceed \$300. The Library should closely review the Bank Deposit Report Form submitted by the branches to ensure that all branches comply with this procedure.

Recommendations

The Library should:

3. Segregate the duties of recording transactions for book sales, making bank deposits, and performing bank reconciliations.

The Library Response: Library officials agreed, stating, “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”

4. Ensure that all branches comply with its procedures to maintain no more than \$300 of cash on hand.

The 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.”

Lack of Control over Computer Equipment Inventory

The Library has poor inventory controls over its computer equipment. It has no procedures in place to ensure that all computer equipment that is purchased and received is recorded in its inventory records. Only computer equipment that has already been installed in the various Library departments was included on the inventory records. We also found discrepancies in the inventory records for installed equipment. As a result, the computer equipment inventory maintained by the Library is inaccurate.

While not required, as a guide for the best practices of inventory management, Comptroller’s Directive #1 states:

“An agency must establish physical inventory control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as . . . computers and other equipment, which might be vulnerable to risk of loss or unauthorized use. Periodic counting and comparison to control records for such assets is an important element of control of these assets.”

When new computer equipment is received from vendors, it is not recorded in the Library’s inventory records until it is installed at a workstation. If the equipment does not get installed after it is purchased and received, it remains unaccounted for because it is not added to the Library’s inventory records. Our inventory count and review of the Library’s inventory records disclosed that computer equipment was kept in the storeroom for a long period of time without being accounted for in the Library’s inventory records. When we performed an inventory count on November 16, 2004, we found uninstalled computer equipment in the storeroom that had been purchased five to 35 months earlier that had not been accounted for in the Library’s inventory records. Of the computer equipment in the storeroom, 67 (27%) of the 244 pieces of equipment were purchased with operating funds received from City appropriations; the remaining equipment was purchased with City capital funds.

In addition, the inventory manager responsible for inventory maintenance did not have a document to show the reconciliation between equipment received, equipment installed, and equipment still remaining in the storeroom. Without an adequate tracking system for its computer equipment purchases, the Library runs the risk of making this equipment susceptible to theft and to obsolescence. In fact, the Library’s inventory manager told us that some of the uninstalled computer equipment in the storeroom will not be used because it is obsolete.

Based on the inventory records, we selected the 20 items of computer equipment that were assigned to the Finance Department. We then determined whether computer equipment listed on the inventory records was in the indicated location in the Finance Department and was properly tagged. We found that:

- Five computers (five CPUs and five monitors) were not in the Finance Department.
- The serial number shown on the inventory records for 11 monitors did not match the serial numbers on the monitors.

We also observed 10 computers with monitors in the Finance Department that were not listed on the inventory records.

On February 17, 2005, we received updated inventory records from the Director of Finance. However, we found these records also contained errors and omissions.

The lack of internal controls over installed and uninstalled computer equipment is the result of poor inventory management. We found no written procedures for the management of computer inventory. There was no tracking system to account for computer equipment purchased. Moreover, there was no reconciliation between equipment received from vendors, equipment installed, and equipment still remaining in the storeroom. Without such controls and procedures, the Library runs the risk of making its computer equipment susceptible to theft and to obsolescence.

Recommendations

The Library should:

5. 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.

The 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."

6. 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.

The 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."

Lack of Procedures for Payroll Check Distribution

The Library does not have written procedures for payroll check distribution and accountability. When each department's designee picks-up payroll checks from the Payroll unit at the Central Library, we observed that they do not sign any document as evidence that they received the checks. Also, we found no evidence that employees sign a document certifying they received their payroll checks or stubs. Therefore, there is no control in place to ensure that appropriate employees are receiving their payroll checks.

As a guide, the Comptroller's Directive #13 states "Every transfer of payroll checks, whether to an employee, a messenger, a supervisor or designee, must be evidenced by the recipient's signature."

On February 4, 2005, we observed the payroll check distribution at the Central Library. When department managers or designees picked up checks and stubs for their staff from the Payroll unit, they were not required to sign any document as evidence of receipt. We later observed that when employees received their checks or stubs, they also were not required to sign any document as proof of receipt. While we were present, we also observed that payroll checks that were not distributed were kept in an unlocked cabinet and were not properly safeguarded.

The Payroll Department does not provide a roster of employees to each department manager or designee during check distribution for each employee to sign, to affirm receipt of their checks or stubs. Sound internal controls over payroll management dictate that an entity as large as the Library should require employees to sign a roster as proof of receipt. This control helps to ensure that all payroll checks and stubs are accounted for and issued to bona fide employees of the Library.

Recommendations

The Library should:

7. 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.

The 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's banking institution will reimburse the Library."

Auditor Comment: This response indicates that the Library abdicates responsibility for maintaining sound internal controls over its payroll management. Such controls would ensure that the Library has carried out its fiduciary responsibility to its employees—and the City—by following certain basic procedures to make sure that all payroll checks and stubs are accounted for and issued to correct and bona fide employees. Most internal control procedures result in the prevention of problems, which is always in the best interest of the institution as opposed to detection and resolution of problems after the fact, which consumes time, effort, and institutional integrity.

8. Establish written procedures for payroll check distribution.

The Library Response: "The Library accepts this recommendation and written procedures will be implemented for payroll check distribution."

9. Ensure that undistributed payroll checks are kept in a secure place until they are distributed.

The 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.”

Status of Follow-up Audit Recommendations

Of the three recommendations made in the previous follow-up audit, two were implemented, and one was not implemented as follows:

The Transfer of Library Funds

The Library made a policy decision not to implement the recommendation to transfer \$647,292 from the Corporate Fund to the Fines and Fees Fund and \$2,684 from the Corporate Fund to the City Fund. It cited the control of the Library’s Trustees over all the Library’s moneys by stating that the Trustees had the authority to pay for expenses from Fines and Fees funds and/or City funds at their discretion.

Fund-Raising Expenditures

The Library agreed to the recommendation that fund-raising expenditures should not be paid from the Fines and Fees Fund as of July 1, 2001. It stated that neither City funds nor fines and fees funds would be used to underwrite staff costs in raising private and non-City public funds. As stated above, the Library’s fines and fees funds, though unrestricted, are currently used only to purchase books and book materials.

Recording of Revenues and Expenses on Financial Statements

The Library stated that it accepted and implemented the third recommendation to ensure that revenues and expenses are recorded on its financial statements. During this audit we did not come across any unrecorded expenses or revenues.

Queens Library

**The Queens Borough
Public Library**

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**Office of the
Director**

June 13, 2005

Greg Brooks
Deputy Comptroller
Policy, Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

Thomas W. Galante
Interim Director

Re: Financial Control Audit
Audit # MG05-095A

Dear Mr. Brooks:

Enclosed please find the requested Audit Implementation Plan in response to the Financial Control Audit referenced above. Overall, I am pleased with the Comptroller's audit results. The fact that the audit resulted in the Comptroller's statement that the Library's expenditures funded by City appropriations were valid and accurate confirms the sound internal controls that are currently set up. On the other hand, good internal controls can always be strengthened and the Library is in agreement with most of the Comptroller's recommendations as outlined below and on the Audit Implementation Plan:

Recommendations

Comptroller's Recommendation #1:

"Ensure that there are proper controls over the Director of 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."

The Library accepts this recommendation and 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. This will ensure that all purchase orders are properly authorized by the Director of Purchasing.



Comptroller's Recommendation #2:

"Ensure that adequate segregation of duties is implemented in the Purchasing Department so that the buyer who creates purchase orders and select vendors based on solicited bids and quotations does not also approve purchase orders."

The Library accepts this recommendation and 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. This will ensure that all purchase orders are properly authorized by the Director of Purchasing.

Comptroller's Recommendation #3:

"Segregate the duties of recording transactions for book sales, making bank deposits, and performing bank reconciliations."

The Library accepts this recommendation and 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 |

Comptroller's Recommendation #4:

"Ensure that all branches comply with its procedures to maintain no more than \$300 of cash on hand."

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. This will limit risk by making cash deposits often but not enough to increase risk of theft by having staff go to the bank too often.



Comptroller's Recommendation #5:

"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."

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.

Comptroller's Recommendation #6:

"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."

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.

Comptroller's Recommendation #7:

"Require that the persons picking up checks and stubs for distribution to Library employees as well as the Library employees receiving checks or stubs sign an official document of proof of receipt."

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's banking institution will reimburse the Library. If a check is lost, or reported missing, a stop payment is placed on the original check and a replacement given to the employee.

An annual audit is completed once a year to ensure that all employees being paid are active. The audit requires a signature by each employee and a visual inspection that their Library ID matches the employee's name on record with Human Resources. Employees not present during the audit require 3 other employees to verify that the employee is currently active.

Implementation of this recommendation would require a tremendous amount of productivity cost by our staff to monitor and collect 1,600 signatures at 63 locations on a bi-weekly basis with no financial benefit to the Library.



Comptroller's Recommendation #8:

Establish written procedures for payroll check distribution.

The Library accepts this recommendation and written procedures will be implemented for payroll check distribution.

Comptroller's Recommendation #9:

Ensure that undistributed payroll checks are kept in a secure place until they are distributed.

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.

If you have any further questions or require additional information, please contact Tracy Yogman, Director of Finance at (718) 990-0864 or via email at tracy.yogman@queenslibrary.org.

I want to thank you for your excellent work and assistance in strengthening our internal controls.

Sincerely,



Thomas W. Galante
Interim Director

Enclosure: Audit Implementation Plan

cc: Tracy Yogman, Director of Finance



AUDIT IMPLEMENTATION PLAN

AGENCY: Queens Borough Public Library
 Audit Title and Number: Financial Controls Audit; Number MG05-095A
 Date: June 1, 2005

Audit Finding	Audit Recommendation and Agency Response	Corrective Action Plan
Inadequate Controls in the Purchasing Department	<p>1. Recommendation: Ensure that there are proper controls over the Director of 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.</p> <p>Agency Response: Agree</p>	<p>Corrective Action: 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. This will ensure that all purchase orders are properly authorized by the Director of Purchasing.</p> <p>Date Implemented: June 30, 2005</p>
Inadequate Controls in the Purchasing Department	<p>2. Recommendation: Ensure that adequate segregation of duties is implemented in the Purchasing Department so that the buyer who creates purchase orders and select vendors based on solicited bids and quotations does not also approve purchase orders.</p> <p>Agency Response: Agree</p>	<p>Corrective Action: 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. This will ensure that all purchase orders are properly authorized by the Director of Purchasing.</p> <p>Date Implemented: June 30, 2005</p>
Inadequate Controls over the Processing of Moneys Collected	<p>3. Recommendation: Segregate the duties of recording transactions for book sales, making bank deposits and performing bank reconciliations.</p> <p>Agency Response: Agree</p>	<p>Corrective Action: Segregation of duties for book sales will be implemented by the Library as follows: Assistant Accountant: Make bank deposit Budget Manager: Post AR Invoice Accounting Manager: Posts cash payments Accountant: Bank reconciliations</p> <p>Date Implemented: June 30, 2005</p>

AUDIT IMPLEMENTATION PLAN

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<p>inadequate Controls over the Processing of Moneys Collected</p>	<p>4. Recommendation: <i>Ensure that all branches comply with its procedures to maintain no more than \$300 of cash on hand.</i></p> <p>Agency Response: Agree</p>	<p>Corrective Action: 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. This will limit risk by making cash deposits often but not enough to increase risk of theft by having staff go to the bank too often.</p> <p>Date Implemented: June 30, 2005</p>
<p>Lack of Control over Computer Equipment Inventory</p>	<p>5. Recommendation: <i>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.</i></p> <p>Agency Response: Agree</p>	<p>Corrective Action: The Library will implement inventory procedures. This will include establishing an accurate inventory and maintaining inventory changes in an electronic software.</p> <p>Date Implemented: December 31, 2005</p>
<p>Lack of Control over Computer Equipment Inventory</p>	<p>6. Recommendation: <i>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.</i></p> <p>Agency Response: Agree</p>	<p>Corrective Action: The Library will implement inventory procedures. This will include establishing an accurate inventory and maintaining inventory changes in an electronic software.</p> <p>Date Implemented: December 31, 2005</p>
<p>Lack of Procedures for Payroll Check Distribution</p>	<p>7. Recommendation: <i>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 of proof of receipt.</i></p> <p>Agency Response: Disagree</p>	<p>Corrective Action: The Library will not implement this recommendation as there is minimal risk with current procedures.</p> <p>Date Implemented: Will not implement</p>

AUDIT IMPLEMENTATION PLAN

AGENCY: Queens Borough Public Library
Audit Title and Number: Financial Controls Audit; Number MG05-095A
Date: June 1, 2005

<p>Lack of Procedures for Payroll Check Distribution</p>	<p>8. Recommendation: <i>Establish written procedures for payroll check distribution.</i></p> <p>Agency Response: Agree</p>	<p>Corrective Action: The Library will establish and implement written procedures payroll check distribution.</p> <p>Date Implemented: June 30, 2005</p>
<p>Lack of Procedures for Payroll Check Distribution</p>	<p>9. Recommendation: <i>Ensure that undistributed payroll checks are kept in a secure place until they are distributed.</i></p> <p>Agency Response: Agree</p>	<p>Corrective Action: 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.</p> <p>Date Implemented: June 30, 2005</p>