City of New York

OFFICE OF THE COMPTROLLER

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COMPTROLLER

MANAGEMENT AUDIT

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Audit Report on the Office of Administrative Tax Appeals' Controls over Its Inventory of Computers and Related Equipment

MG16-101A

January 4, 2017

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To the Residents of the City of New York:

My office has audited the New York City Office of Administrative Tax Appeals' (OATA's) controls over its inventory of computer and related equipment. We audit City entities such as OATA as a means to ensure that they properly safeguard assets and are accountable for resources in their charge.

The audit found that OATA's inventory records for its computers and related equipment were incomplete and inaccurate. OATA's master inventory list did not include certain required information, such as purchase date and price, and was not updated in a timely manner. In addition, items were recorded on the list in batches rather than individually and control numbers were not issued sequentially. Auditors also found weaknesses in OATA's relinquishment practices for goods, resulting in the agency being unable to locate 198 computers and related items.

The audit makes seven recommendations to OATA, including that OATA should create written policies and procedures that delineate staff responsibilities within OATA; ensure that key responsibilities for the management of the inventory of computers and related equipment are adequately segregated or that compensating controls are implemented; perform and document annual inventory counts of its entire inventory; and conduct periodic reconciliations between the inventory records and the purchasing records.

The results of the audit have been discussed with OATA 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

TABLE OF CONTENTS

THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
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EXECUTIVE SUMMARY

The Office of Administrative Tax Appeals (OATA) was established by Local Law 59 of 2007 to bring together the New York City (City) agencies that administer appeals of City taxes. OATA maintains a master inventory list of the agency's computers and related equipment in a Microsoft Excel file that is comprised of ten worksheets containing information categorized as:

- PCs and monitors;
- printers;
- scanners;
- storage room;
- servers;
- assigned laptops;
- unassigned items in office;
- unassigned items in server room;
- Voice Over Internet Protocol (VOIP) phones;[1] and
- salvage.

As of May 23, 2016, OATA recorded that it had a total of 411 computers and related equipment items in inventory. In Fiscal Year 2015, OATA had a budget of more than $4.4 million, consisting of $4.2 million for personal services (PS) expenses and $267,000 for other than personal service (OTPS) expenses.

The objective of this audit was to determine whether OATA has adequate controls over its inventory of computers and related equipment.

Audit Findings and Conclusions

OATA management failed to institute proper controls over its inventory of computers and related equipment. Specifically, it has not developed policies and procedures for its staff to follow to

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[1] A VOIP phone is an internet-based phone.

ensure that computers and related equipment are accounted for and are adequately secured. In addition, OATA has not segregated the duties related to maintaining and overseeing inventory among its staff, nor has it established sufficient compensating controls in lieu of segregating those duties. Moreover, OATA does not perform an annual or periodic count of its entire inventory of computers and related equipment.

As a result, we found that OATA's inventory records for its computers and related equipment were incomplete and inaccurate. Specifically, OATA's master inventory list did not include certain required information, such as purchase date and price, and it was not updated in a timely manner. In addition, items were recorded on the list in batches rather than individually, and control numbers were not issued sequentially. We also found weaknesses in OATA's relinquishment practices for goods, resulting in the agency being unable to locate 198 computers and related items.

OATA's failure to institute adequate controls over its inventory operations significantly increases the risk of waste, fraud and mismanagement of inventory, which could impact the agency's ability to meet its operational needs.

Audit Recommendations

To address the issues raised by this audit, we make seven recommendations, including the following:

- OATA should create written policies and procedures that delineate staff responsibilities within OATA to ensure compliance with DOI's Standards while conforming to the specific needs and operations of the agency.

- OATA should ensure that key responsibilities for the management of the inventory of computers and related equipment are adequately segregated or that compensating controls are implemented.

- OATA should perform and document annual inventory counts of its entire inventory and conduct periodic reconciliations between the inventory records and the purchasing records.

- OATA should maintain complete and accurate records of all equipment in accordance with DOI Standards. This includes immediately and accurately updating its inventory records when changes occur.

- OATA should comply with the City's relinquishment policy and ensure that all unused computers and related equipment presently in storage are relinquished in accordance with the requirements.

Agency Response

In its response, OATA stated, "OATA generally does not disagree with the recommendations in the Draft Report." However, regarding our recommendation that it create written policies and procedures governing its inventory function, OATA acknowledges that the finding is correct but states that the agency follows the DOI Standards, implying that those City-wide standards are sufficient. OATA also disagreed with some of the findings of the audit or with the way they are presented. After carefully reviewing OATA's arguments in the response, we find no basis for altering our findings or their presentation therein.

AUDIT REPORT

Background

OATA was established by Local Law 59 of 2007 to bring together the agencies that provide appeals of the taxes administered by the City to enhance the fairness and efficiency of those operations. OATA consists of two divisions: (1) the Tax Appeals Tribunal, which hears appeals of income and excise tax determinations made by the Department of Finance; and (2) the Tax Commission, which hears protests regarding property tax assessments.

OATA maintains a master inventory list of the agency's computers and related equipment in a Microsoft Excel file that is comprised of ten worksheets containing information categorized as: PCs and monitors; printers; scanners; storage room; servers; assigned laptops; unassigned items in office; unassigned items in server room; VOIP phones (internet-based phones); and salvage. As of May 23, 2016, OATA recorded that it had a total of 411 computers and related equipment items in inventory.

In February 2011, the New York City Comptroller's Office issued a report, *Audit Report on the Other Than Personal Service Expenditures of the Office of Administrative Tax Appeals* (FL10-097A), in which OATA was cited for having problems with its management of equipment inventory. Specifically, OATA had no written policies and procedures for recording, reporting, and safeguarding its equipment, and it did not maintain complete and accurate inventory records for its equipment. In response to the audit, OATA stated that it developed inventory practices to ensure that its records are accurate and updated timely, and that it began using the written policies and procedures for inventory prepared by the New York City Department of Investigation (DOI), entitled *Standards for Inventory Control and Management* (DOI Standards).

In Fiscal Year 2015, OATA had a budget of more than $4.4 million, consisting of $4.2 million for PS expenses and $267,000 for OTPS expenses. During Fiscal Years 2014 and 2015, OATA spent a total of $98,466 ($52,751 and $45,715, respectively) on computers and related equipment. OATA did not purchase any computers or related equipment during Fiscal Year 2016.

Objective

To determine whether OATA has adequate controls over its inventory of computers and related equipment.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The audit scope was July 1, 2014 through October 21, 2016. 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 OATA

The matters covered in this report were discussed with OATA officials during and at the conclusion of this audit. A preliminary draft report was sent to OATA and discussed at an exit conference held on November 21, 2016. We submitted a draft report to OATA on December 6, 2016, with a request for comments. We received a written response from OATA on December 19, 2016. In its response, OATA stated that "while we disagree with some of the findings of the audit or with the way they are presented, OATA generally does not disagree with the recommendations in the Draft Report." However, regarding our recommendation that it create written policies and procedures governing its inventory function, OATA acknowledges that the finding is correct but states that the agency follows the DOI Standards, implying that those City-wide standards are sufficient.

OATA's response also includes criticism of some of the language used in the report, specifically as it pertains to areas where the agency did not provide documentary evidence to support claims made by agency officials. However, contrary to OATA's assertion in its response, we do not state or imply that its staff are not being "truthful" or that their statements "do not constitute evidence of any kind." Nevertheless, in instances where supporting evidence should exist—for example, documentation reporting the results of an inventory count to support management's assertion that a count was performed—and none is provided, we must note the absence of such evidence.

After carefully reviewing OATA's arguments, we find no basis to change any of the findings of this report or their presentation therein.

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

FINDINGS AND RECOMMENDATIONS

OATA management failed to institute proper controls over its inventory of computers and related equipment. As a result, we found that OATA's inventory records for that equipment were incomplete and inaccurate. The master inventory list did not include certain required information, such as purchase date and price, nor was it updated in a timely manner. In addition, items were recorded on the list in batches rather than individually, and control numbers were not issued sequentially. Further, we found inadequate segregation of duties related to its computer inventory or alternatively, the establishment of compensating controls. We also found weaknesses in OATA's relinquishment practices for goods, resulting in the agency being unable to locate 198 computers and related items.

OATA's failure to institute adequate controls over its inventory operations significantly increases the risk of waste, fraud and mismanagement of inventory, which could impact the agency's ability to meet its operational needs.

The details of our findings are discussed in the following sections of this report.

Management's Failure to Establish Adequate Internal Controls

OATA's management failed to institute proper controls over its inventory of computers and related equipment.

No Written Policies and Procedures

OATA has not developed policies and procedures for its staff to follow to ensure that computers and related equipment are accounted for and are adequately secured. OATA officials state that they follow the DOI Standards and that no further internal policies and procedures are necessary. However, the DOI Standards do not set forth operationally how individual agencies will implement them. Accordingly, the standards expressly state that agencies should establish their own policies and procedures for implementation. The DOI Standards also state that the scope of an individual's authority for action and decision over inventory should be communicated to supervisors and staff through written policies, procedures and directives, that the procedures should detail the objectives to be achieved, as well as the responsibilities of staff, and that the methods to be used should be distributed to all staff.

OATA's failure to create policies and procedures was cited in the previous audit. In that audit, it was also explained that the DOI Standards are not a replacement for inventory policies and procedures. The absence of clearly written policies and procedures that summarize all processes, define limits of authority, and detail responsibility and accountability can result in confusion, inaction and the staff being allowed excessive discretion, all of which could ultimately provide opportunities for undetected thefts and other dishonest activities.

> ***OATA Response:*** "While we do not dispute that OATA has not developed its own *written* policies and procedures, as stated in response to the 2011 Comptroller's Audit, and as conveyed to the auditors in the current audit, OATA follows the DOI Standards." [Emphasis in the original.]

Auditor Comment: OATA's response that it follows the DOI Standards, while it has not established the written policies and procedures expressly called for by those standards, reflects a fundamental misunderstanding of DOI's requirements. The DOI Standards do not set forth how an agency should implement DOI's inventory standards. Rather, the DOI Standards state that agencies should establish *their own* policies and procedures, tailored to each agency's particular operational structure. We urge OATA to establish written policies and procedures as called for by the DOI Standards.

Inadequate Segregation of Duties

OATA has not segregated the duties of maintaining and overseeing inventory among its staff, nor has it established sufficient compensating controls in lieu of segregating those duties. However, Comptroller's Directive #1*, Internal Controls and Accountability Directives*, 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 DOI Standards also discuss the need for establishing a separation of duties between those who handle the inventory and those who record inventory transactions.

However, OATA has assigned several key tasks—such as receiving and tagging the items, recording the items in the inventory records, updating the inventory records as needed, and compiling and maintaining the list of salvage items—to one individual.

The DOI Standards recognize that in small organizations, full segregation of duties may not always be possible. In such instances, the DOI Standards call for the establishment of compensating controls, such as establishing or increasing reviews at the managerial/supervisory level. However, OATA has not established any such controls. The lack of segregation of duties or compensating controls creates an environment in which several of the key processes that aid in the identification of errors and fraud are under the control of one individual. Such a structure thereby increases the risk that misappropriation or loss of items may occur without detection.

> ***OATA Response:*** "OATA is a small agency tasked with reviewing and determining over 50,000 applications for review of assessments each year, in addition to its many other responsibilities. We do not have staff solely dedicated to managing inventories; our limited IT and Administrative staff have multiple responsibilities. Nevertheless, as compensating controls, all purchases are ultimately approved by the agency head and purchase orders for computer equipment are prepared by non-IT Administrative staff after approval by the agency head and processed by non-IT Administrative staff. Finally, payment of all invoices is handled by non-IT Administrative staff. As explained during the audit, the intake of computer equipment, tagging and recording such equipment in the inventory records and recording items for salvage are done by one or more of three IT staff members as available and as needed."

> ***Auditor Comment:*** We appreciate the efforts taken by OATA to implement compensating controls over its purchasing of computers and related equipment. However, the audit report focuses on OATA's controls related to the maintenance and oversight of the inventory after the goods have been acquired. Throughout the audit, OATA officials consistently cited one individual as being the primary person responsible for receiving and tagging the items, recording the items in the inventory records, updating the inventory

records as needed, and compiling and maintaining the list of salvage items. After OATA received the Preliminary Draft Report, agency officials stated that, in addition to what they said earlier, other IT staff members were also available "as needed." However, this modified response does not negate the fact that OATA has granted a single individual the authority to both handle inventory and record transactions related to that inventory.

OATA Response: "While we do not disagree with the recommendation regarding segregation of duties, we disagree with the finding that "one individual" has sole responsibility for the inventory tasks listed. We note, further, that the Comptroller's Directive #1 states 'No one individual should control *all key* aspects of a transaction or event.' [Emphasis added.] Under OATA's current practices, no one individual controls *all key* aspects of our purchase and handling of computer related inventory." [Emphasis in the original.]

Auditor Comment: OATA places significant emphasis on the fact that no one individual is responsible for "all" key aspects of an inventory-related transaction, implying that this is an indication that OATA's inventory duties are adequately segregated. However, this is an inappropriately narrow interpretation of what is meant by an adequate segregation of duties and is an interpretation that is not supported by either the DOI Standards or the remaining sections of Comptroller's Directive #1.

No Annual Inventory Count

OATA does not perform an annual or periodic count of its entire inventory of computers and related equipment. Instead, OATA claims that it performs a "sample check" of its inventory at least annually. However, OATA did not produce any evidence to reflect that such a review actually took place in the audit scope period (e.g., the date of the review, the name of the individual performing the review, a list of items that were sampled, or a report of the findings of the review). Moreover, even if such a sample review took place, it is not a formal count of OATA's inventory and, thus, does not ensure that all of its equipment is accounted for.

According to the DOI Standards, a count of all stored goods should be conducted at least once a year to ensure the accuracy of the perpetual inventory records, and the physical inventory count totals should be compared with regularly updated ("perpetual") inventory records. The DOI Standards also state that auditors or individuals independent of the inventory operation should investigate discrepancies before submitting reconciliation adjustments to management for approval. Performing inventory counts is an essential control in ensuring that variances are identified, that accurate needs of an operation are met and fulfilled, and that obsolete items are removed.

Moreover, the establishment of internal controls is essential to the protection of agency assets and allows management to detect the possibility of fraud and mismanagement of those assets. In the case of inventory, the controls should include, at a minimum: the creation of written policies and procedures; the segregation of duties or compensating controls; and annual or periodic counts of inventory. Management's failure to ensure that key controls were in place may have contributed to the issues that we found with OATA's inventory practices, such as discrepancies in its inventory records. As a result, these failures have increased the agency's vulnerability to risks of undetected loss and theft.

Recommendations

1. OATA should create written policies and procedures that delineate staff responsibilities within OATA to ensure compliance with DOI's Standards while conforming to the specific needs and operations of the agency.

   OATA Response: OATA did not directly address this recommendation. However, based on its response to the related finding, it appears that OATA believes that the recommendation is not needed, stating, "OATA follows the DOI Standards."

   Auditor Comment: As stated in the report, the DOI Standards state that agencies should create their own policies and procedures. Consequently, we urge OATA to truly follow the DOI Standards and implement this recommendation.

2. OATA should ensure that key responsibilities for the management of the inventory of computers and related equipment are adequately segregated or that compensating controls are implemented.

   OATA Response: "OATA generally does not disagree with the recommendations in the Draft Report."

3. OATA should perform and document annual inventory counts of its entire inventory and conduct periodic reconciliations between the inventory records and the purchasing records.

   OATA Response: "OATA does not dispute the factual finding that no annual count of the *entire* inventory was done during the audit period or that we were unable to produce a contemporaneous, written record of the 'sample checks'. Nor do we disagree with the recommendation that a full count be conducted and documented at least annually."

Incomplete and Inaccurate Inventory Records

OATA does not maintain complete and accurate inventory records of its electronic equipment. A perpetual inventory system is intended to allow an agency to maintain an up-to-date count of all items in its inventory. The DOI Standards also require that "[p]ermanent records are maintained, centrally, to track all non-consumable goods issued to each agency unit, including type of equipment, manufacturer, serial number, agency control number, condition, location, date issued."

Our review of OATA's master inventory list as of May 2016 found the following areas of concern:

- The master inventory list did not include the condition of the item, the date that the item was purchased, the date it was assigned, or the purchase price.

- OATA included eight items multiple times on its list.

OATA's master inventory list was not updated. We compared the results of our physical count and observation with the information that was recorded in OATA's master inventory list and found the following discrepancies:

- We counted 431 items during our physical observation; however, OATA had only recorded 411 items on its master inventory list. The 20 items that were not recorded on the inventory list included equipment related to servers, such as batteries, switches and routers.

- Tag control numbers affixed to seven items did not match the tag control numbers recorded on the master list.[2] The serial numbers for three of those items were also incorrectly recorded.

- The locations of six items were recorded incorrectly on the master list. Three of those items were listed as assigned to individuals but were instead in the storage room.[3]

- One item—a VOIP phone—was recorded on the list as being assigned to an employee who had left OATA more than two years earlier. We found that the phone was actually assigned to a different current OATA employee.

OATA's failure to maintain complete and accurate inventory records, also cited in the previous audit, increases the risk that the agency may not be able to maintain inventory levels that match its needs.

> *OATA Response:* "We note at the outset that the DOI Standards, issued in 1992, do not require purchase dates or purchase price to be included. Nor did the 2011 Audit recommend including such information in OATA's inventory records. However, we will include such information in our inventory in the future. We note that we were able to produce that information for almost all of the current inventory and much of the salvage inventory for the auditors, when requested to do so."

> *Auditor Comment:* The DOI Standards require an agency to maintain a complete set of accounting records that are then reconciled to perpetual and physical inventory records. Data is to be maintained for, among other things, current levels, reorder amounts, and unit prices. In addition, the DOI Standards also require agencies to develop aging reports, which necessitate that dates be maintained. It should be noted that after we asked OATA for all records pertaining to inventory, we were only provided with its master inventory list, which as indicated in the report, did not include several details required by the DOI Standards. OATA's response disregards key information that should have been included in an inventory list but that was not updated on OATA's list consistently, such as the item's manufacturer, serial number, agency control number, condition, location, and date issued. Moreover, we note that although OATA officials claim that they were able to produce the information when requested to do so, they did not do so in a timely manner. It took OATA two months to produce the purchase dates and prices for the current inventory and nearly three months for the salvage inventory.

Further, unused computers and related equipment tend to become obsolete in a relatively short time span; procuring and maintaining excessive quantities of such items can lead to waste. We saw evidence of this when we found that OATA had 23 computers and laptops (total purchase value of $24,158) that were purchased during the period 2007 through 2012 and were not assigned to OATA staff at the time of our review (September 30, 2016). Nevertheless, in May 2015, OATA purchased six Toshiba laptops at a total cost of $11,982 and 18 OptiPlex Dell mini-tower personal computers (PCs) at a total cost of $9,592. As of May 2016 (one year later), however, only three of the laptops and one of the PCs had been assigned to agency personnel. OATA officials stated that they planned on assigning the rest of this equipment in June 2016—and did not do so "to avoid complicating the audit." Nevertheless, the fact that this equipment remained in storage more than one year after being purchased is an indication that OATA is having some difficulty ensuring that its inventory on hand corresponds with the needs of the agency.

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[2] The seven items were PCs and monitors.
[3] Five of these were VOIP phones and one was a printer.

OATA Response: "Of the currently unassigned PCs and laptops in storage . . . [m]ost of these items were acquired for use by outside consultants under a contract approved for a project to adopt electronic filing of applications that was later discontinued. The others were purchased and assigned for other uses that also were later discontinued. Thus, it is not correct that these items were in storage having never been assigned. Despite their age, these items have not been designated for salvage because we still view them as useful. We make every effort to make maximum use of all available computer equipment."

Auditor Comment: We are not questioning the reason for the purchase of these PCs and laptops nor do we state that the items in storage were "never" used, as indicated in OATA's response. We are, however, questioning the need to purchase additional computer inventory when OATA already had items in storage that were not being used. It is noteworthy that officials state that the aforementioned computer equipment in storage was still viewed as useful, further reinforcing our question as to why OATA made substantial computer purchases in 2014 and 2015.

OATA Response: "With regard to the newer equipment, OATA was advised of the impending audit in February 2016. As noted above, OATA is a small agency tasked with an extremely large volume of work most of which must be processed between March 1 and December 31. That processing includes a substantial devotion of time by our IT staff. As a result, assigning and replacing computer equipment can only be undertaken when the IT staff has the time to do so. That function is more than merely plugging in a new PC; it includes set-up, testing, installing software, adding user profiles, etc. We further note that on the inventory list provided to the auditors, of the over 60 PCs currently assigned, more than half are over five years old and eight are over eight years old. Therefore, the PCs purchased in 2014 and 2015 are necessary to replace computers past the five-year life span. . . ."

Auditor Comment: OATA does not adequately explain why, despite maintaining an inventory of unassigned laptops and PCs in storage that it contends are still useful, OATA nevertheless purchased 24 computers for which it had no immediate plans to assign to staff.

Missing and Unaccounted Inventory Tags

OATA does not issue tag numbers in sequence on a consistent basis. DOI Standards require that "[r]eadable, sturdy property identification tags . . . with a sequential internal control number are assigned and affixed to valuable items. An inventory log containing the internal control number assignments, updated to account for relocation, is maintained." However, we found that this was not consistently done. For example, an item with the assigned tag number of 10000 was purchased on July 25, 2014. The following three items on the list, with tag numbers 10215, 10216 and 10217, were purchased in May 2011, three years prior to the first item. The following two items, tagged with numbers 10219 and 10220, were purchased even earlier, in June 2009, and April 2008, respectively.

We also identified gaps in the tag numbers recorded in the master inventory list and hundreds of tag numbers that appeared to have been skipped and were unaccounted for. For example, tag numbers 10215 through 10712 had 30 gaps in the numbering sequence, totaling 258 tag numbers unaccounted for, and tag numbers 20134 through 20506 had 37 gaps in the numbering sequence, totaling 282 tag numbers that were unaccounted for. OATA officials acknowledged that they do not assign tag numbers sequentially, or even within the same series, for related equipment.

Officials also stated that they use the same series of tag numbers for any other types of items purchased, such as furniture, and not exclusively for electronic equipment. They claimed that all assigned tags were tracked as part of the inventory list. However, although requested, OATA officials were unable to provide evidence supporting their claim, stating that "OATA does not have an inventory list that includes all the tags that have been assigned." In the absence of an accounting for the missing numbers, we were unable to ascertain whether they had not been assigned or whether they had been assigned to equipment that could not be located.

Further, our physical count revealed that 74 (18 percent) of the 411 items on the inventory list, including personal computers, laptops, laser jet printers, and monitors, did not have tag numbers. The 74 items included 60 that were not listed individually, but rather were instead listed in nine entries, grouped by category and date of purchase.[4] In addition, one item with a tag number recorded on the inventory list did not have a tag affixed to the item.

Failure to properly assign and track tag numbers nullifies their function as a control mechanism. In the absence of sequential tag numbers, it is difficult to monitor, track, and account for all computers and related equipment, especially those that are sent to salvage or disposed of. Also, the risk that computers and related equipment could be stolen or lost without detection is increased. Overall, because of the deficiencies identified above, we do not have reasonable assurance that the inventory list provided by OATA is complete and accurate.

Equipment Serial Numbers Are Not Tracked

Our examination of the inventory listing found that the serial numbers were not consistently recorded. The DOI Standards require that equipment inventory records include serial numbers. The serial numbers are important to positively identify the items that are or should be in OATA's custody and to allow for reconciliation with the purchasing records. However, we found that no serial numbers were recorded for 65 (16 percent) of the 411 items on OATA's inventory list, including PCs, laptops, monitors and laser jet printers. Without the serial numbers, computers and related equipment that are purchased cannot be positively identified in the inventory records. Consequently, the risk that purchased items may be replaced in inventory with older or inferior models, and that such replacements may go undetected, is increased.

Recommendations

4. OATA should maintain complete and accurate records of all equipment in accordance with DOI Standards. This includes immediately and accurately updating its inventory records when changes occur.

   OATA Response: "OATA generally does not disagree with the recommendations in the Draft Report."

5. OATA should ensure that tag numbers are assigned sequentially and that they are recorded and affixed on all equipment.

   OATA Response: "OATA generally does not disagree with the recommendations in the Draft Report."

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[4] For example, 17 Dell computers purchased on June 7, 2015 were recorded as one entry on the inventory list rather than as 17 individual items; 7 HP monitors purchased on May 15, 2015 were recorded as one entry on the list rather than as 7 individual entries, etc.

6. OATA should review its inventory of computers and related equipment and ensure that items already in stock are distributed before making additional purchases for the same items.

   OATA Response: "OATA generally does not disagree with the recommendations in the Draft Report."

Weaknesses in OATA's Relinquishment Practices

OATA's relinquishment practices for obsolete equipment are affected by several weaknesses. According to the DOI Standards, agencies are required to develop a relinquishment policy for the evaluation and disposal of obsolete inventory, applicable to central storage areas and end-users. The DOI Standards also calls for an agency salvage officer to be designated to inspect and certify the obsolescence of goods presented for relinquishment. In addition, the type, condition and quantity of all items presented for relinquishment is to be recorded in accordance with City-wide requirements and relinquished items are required to be deleted from the inventory log.

OATA provided us with a list of 223 computers and related equipment items that the agency purportedly set aside for salvage during the period covering Calendar Years 2012 through 2015. However, the list contained a number of errors: 17 items were listed twice; one item was listed three times; and six items still in active inventory were erroneously included. As a result, the list should have included only 198 items.

Of greater concern than those errors, however, is that OATA officials do not know what ultimately happened to the 198 items. OATA officials stated that when the agency vacated a previous space in 2012, it left behind 198 items that it had deemed as not usable in the unsecured premises.[5] OATA failed to track the whereabouts of the items, including 69 personal computers and 9 laptops with possibly sensitive information on the hard drives. It was not until March 2, 2016—after we started this audit—that OATA learned that the equipment had been moved, when a member of its IT staff went to the agency's former space intending to remove a part from an old printer that had been left there and substitute it for a faulty part in a new printer. The OATA staff member found the door unlocked and found that all of the equipment that OATA had left on the premises had been removed. OATA officials had no knowledge of who had removed the items or when they were removed.

Regarding sensitive information that may be stored on salvaged computer equipment, the *Information Security Directive* issued by the City's Department of Information Technology & Telecommunications states that "City agencies must document the fact of destruction so that the agency can later demonstrate that the records were destroyed in accordance with standard procedures and that all legal requirements were met." In addition, according to federal guidelines[6], following sanitization, an entity should include, at a minimum, the following details pertaining to the items that were sanitized or destroyed: manufacturer; model; serial number; method and tool that were used; and name and title of person performing the sanitization process as well as the date and location. OATA officials claimed that they erased all data and then physically damaged the disks and hard drives with a hammer. However, since OATA did not maintain the required records, we are unable to confirm the agency's claim.

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[5] In addition to computers, the equipment consisted of servers, hubs, switches, printers, scanners, monitors, and back-up batteries (APC).
[6] *Guidelines for Media Sanitization*, issued by the United States Department of Commerce, National Institute of Standards and Technology.

According to a December 7, 2010 memorandum issued by the Department of Citywide Administrative Services (DCAS), City agencies are required to use Veolia Environmental Services Technical Solutions, LLC (Veolia)—a vendor contracted by the Department of Sanitation—for the recycling and disposal of electronic waste. Between 2012 and 2014, OATA made two unsuccessful attempts to utilize the services of Veolia and none since then.[7] As of October 20, 2016, OATA had nine items on its inventory list that were identified as ready for salvage.

Recommendation

7. OATA should comply with the City's relinquishment policy and ensure that all unused computers and related equipment presently in storage are relinquished in accordance with the requirements.

   OATA Response: "We do not disagree with the recommendation (#7) that we comply with City-wide relinquishment policy for equipment designated for salvage and will follow it subject only to budgetary constraints."

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[7] In an attempt to use the services of Veolia, OATA encumbered funds through a purchase order. OATA officials stated that the first purchase order was cancelled after a determination that the dollar amount was too low for the quantity of salvage and the second purchase order was cancelled after budget cuts to the agency.

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The audit scope was July 1, 2014 through October 21, 2016.

To obtain an understanding of OATA's internal control structure over its computers and related inventory, we conducted walkthrough meetings and interviewed relevant agency personnel and officials, and performed a walkthrough of the agency inventory layout.

We reviewed and used as criteria DOI's *Standards for Inventory Control and Management*; Comptroller's Directive #1, *Principles of Internal Control*; Comptroller's Directive #18, *Guidelines for the Management, Protection & Control of Agency Information & Information Processing Systems*; US. Department of Commerce, National Institute of Standards and Technology, *Guidelines for Media Sanitization;* DCAS' Guide for Relinquishment and Disposition for Surplus Property; NYC DOITT Information Directive, Disposal of Information Assets; and the Incident Reporting memorandum issued by the OATA's IT Director.

We reviewed a prior audit report issued by the NYC Comptroller on February 28, 2011, *Audit Report on the Other Than Personal Service Expenditures of the Office of Administrative Tax Appeals* (FL10-097A). For those deficiencies identified, we determined whether the recommendations were implemented to address the findings.

In addition, we reviewed the master inventory list, consisting only of computers and related equipment as of May 2016. We sorted the list according to the tag numbers to determine whether the numbers were issued sequentially and are accounted for in the master inventory list. To assess the accuracy and completeness of the master inventory list, we conducted a physical inventory count to locate all of the items in OATA offices and in storage and compared critical information, such as serial numbers, tag numbers, and location to the information on the master inventory list, including the recording of duplicate numbers. We also checked the master inventory list to ensure that all items we found during our observation were recorded on the list as part of the agency's inventory.

To determine whether OATA updated the master inventory list when employees separated from the agency, we obtained the *Separation Details* report for the period July 1, 2013 through October 16, and compared the names to those on the master inventory list to ensure that they were removed from the list.

To determine whether OATA followed proper relinquishment procedures, we obtained a list of salvaged items and requested documentation indicating that the items were salvaged in the proper manner; however, OATA was not able to provide such documentation. We checked the list for duplicate serial numbers and also determined whether the salvaged items were removed from the master inventory list.

To determine whether the agency performed annual physical inventory, we requested documentation of the agency's recent inventory count. To determine how long OATA maintained unused inventory in stock and to ensure that there were no obsolete inventory items on the master inventory list, we sorted the updated list that we received on September 30, 2016 according to purchase dates and isolated all the items that were six years and over (past the 5-year life span of computers and related items).

To determine whether OATA's latest computer purchases were included in its inventory, we reviewed purchase orders and invoices pertaining to computer purchases made by the agency in May 2015 and checked the master inventory to ensure that the items were recorded.[8]

The results of the above tests, while not projectable to their respective populations, provided a reasonable basis for us to evaluate OATA's controls over the management of computers and related equipment.

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[8] OATA's 2015 purchases included six Toshiba laptops at a total cost of $11,982, and 18 OptiPlex Dell mini-tower personal computers at a total cost of $9,592. No computer equipment was purchased during 2016.

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December 19, 2016

Re: Draft Audit Report on the Office of Administrative Tax Appeals'
Controls Over its Inventory of Computers and Related Equipment MG16-
101A, dated December 6, 2016

Dear Ms. Landa,

Thank you for the opportunity to review and comment on the Draft Audit Report on the Office of Administrative Tax Appeals' Controls Over its Inventory of Computers and Related Equipment MG16-101A, dated December 6, 2016 (Draft Report).

OATA takes very seriously the need for appropriate practices and procedures for tracking and managing inventory of all materials and equipment, including computers and related electronic equipment.

Except as noted below, OATA has no issue with the recommendations in the Draft Report and will proceed promptly to implement them. Our responses to certain of the findings in the Draft Report are as follows:

FINDING:

> "OATA has not developed policies and procedures for its staff to follow
> to ensure that computers and related equipment are accounted for and
> are adequately secured."

RESPONSE:

While we do not dispute that OATA has not developed its own *written* policies and procedures, as stated in response to the 2011 Comptroller's Audit, and as conveyed to the auditors in the current audit, OATA follows the DOI Standards. We do note that the heading for this finding accurately states that OATA has "No Written Policies and Procedures" and ask for consistency in that regard throughout the final Report.

FINDING:

> "OATA has not segregated the duties of maintaining and overseeing
> inventory among its staff, nor has it established sufficient
> compensating controls in lieu of segregating those duties. However,
> Comptroller's Directive #1, *Internal Controls and Accountability
> Directives*, 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 <u>separating the responsibilities for
> authorizing transactions, processing and recording them, reviewing the
> transactions, and handling any related assets</u>.' [Emphasis added.]
> However, OATA has assigned several key tasks – such as receiving
> and tagging the items, recording the items in the inventory records,
> updating the inventory records as needed, and compiling and
> maintaining the list of salvage items – to one individual."

RESPONSE:

OATA is a small agency tasked with reviewing and determining over 50,000
applications for review of assessments each year, in addition to its many other responsibilities.
We do not have staff solely dedicated to managing inventories; our limited IT and
Administrative staff have multiple responsibilities. Nevertheless, as compensating controls,
all purchases are ultimately approved by the agency head and purchase orders for computer
equipment are prepared by non-IT Administrative staff after approval by the agency head and
processed by non-IT Administrative staff. Finally, payment of all invoices is handled by non-
IT Administrative staff. As explained during the audit, the intake of computer equipment,
tagging and recording such equipment in the inventory records and recording items for
salvage are done by one or more of three IT staff members as available and as needed.

While we do not disagree with the recommendation regarding segregation of duties, we
disagree with the finding that "one individual" has sole responsibility for the inventory tasks
listed. We note, further, that the Comptroller's Directive #1 states "No one individual should
control *all key* aspects of a transaction or event. (Emphasis added.)" Under OATA's current
practices, no one individual controls *all key* aspects of our purchase and handling of computer
related inventory.

FINDING:

> "OATA does not perform an annual or periodic count of its entire
> inventory of computers and related equipment. Instead, OATA *claims*
> that it performs a 'sample check' of its inventory at least annually.
> However, OATA did not produce *any evidence* to reflect that such a
> review *actually* took place in the audit scope period . . . . Moreover,
> *even if such a sample review took place,* it is not a formal count of
> OATA's inventory and, thus, does not ensure that all of its equipment
> is accounted for. (Emphasis added.)"

RESPONSE:

OATA does not dispute the factual finding that no annual count of the *entire* inventory was done during the audit period or that we were unable to produce a contemporaneous, written record of the "sample checks". Nor do we disagree with the recommendation that a full count be conducted and documented at least annually. However, we take issue with some of the language used (noted in italics), which suggests that the statements of OATA staff in response to questions from the auditors do not constitute evidence of any kind and that, more troubling, those statements were not credible.[1] At no time during the audit was there any suggestion that any of the OATA staff working with the auditors were conducting themselves in anything but a wholly professional and honest manner.

FINDING:

> "OATA does not maintain complete and accurate inventory records of its electronic equipment. . . . Our review of OATA's master inventory list as of May 2016 found the following areas of concern: The master inventory list did not include the condition of the item, date that the item was purchased, date it was assigned or the purchaser price."

RESPONSE:

We note at the outset that the DOI Standards, issued in 1992, do not require purchase dates or purchase price to be included. Nor did the 2011 Audit recommend including such information in OATA's inventory records. However, we will include such information in our inventory in the future. We note that we were able to produce that information for almost all of the current inventory and much of the salvage inventory for the auditors, when requested to do so.

While the inventory lists provided to the auditors were not error-free, we feel it is important to note that none of the items on the master list of current inventory were unaccounted for. Of the 20 items not included in the master list, 19 comprised various items associated with servers and were all located in locked rooms within OATA's office space and were either permanently affixed to other equipment, or too large and heavy to be easily removed without proper authorization.

FINDING:

> "[W]e found that OATA had 23 computers and laptops . . . that were purchased during the period 2007 through 2012 and were not assigned to OATA staff at the time of our review. . . . Nevertheless, in May 2015, OATA purchased six Toshiba laptops . . . and 18 . . . minitower personal computers. . . . As of May 2016 (one year later), however, only three of the laptops and one of the PCs had been assigned to agency personnel. OATA officials stated that they planned on assigning the rest of the equipment in June 2016 – and did not do so 'to avoid complicating the audit.' Nevertheless, the fact that this equipment

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[1] Similar objectionable language is used elsewhere as noted below.

remained in storage more than one year after being purchased is an indication that OATA is having some difficulty ensuring that its inventory on hand corresponds with the needs of the agency."

RESPONSE:

Of the currently unassigned PCs and laptops in storage that were purchased between 2007 and 2012 (of which there were 20, not 23), only one was purchased in 2012; the rest were older. Most of these items were acquired for use by outside consultants under a contract approved for a project to adopt electronic filing of applications that was later discontinued. The others were purchased and assigned for other uses that also were later discontinued. Thus, it is not correct that these items were in storage having never been assigned. Despite their age, these items have not been designated for salvage because we still view them as useful. We make every effort to make maximum use of all available computer equipment.

With regard to the newer equipment, OATA was advised of the impending audit in February 2016. As noted above, OATA is a small agency tasked with an extremely large volume of work most of which must be processed between March 1 and December 31. That processing includes a substantial devotion of time by our IT staff. As a result, assigning and replacing computer equipment can only be undertaken when the IT staff has the time to do so. That function is more than merely plugging in a new PC; it includes set-up, testing, installing software, adding user profiles, etc. We further note that on the inventory list provided to the auditors, of the over 60 PCs currently assigned, more than half are over five years old and eight are over eight years old. Therefore, the PCs purchased in 2014 and 2015 are necessary to replace computers past the five-year life span the Draft Report describes at page 12.

Thus, we disagree with the finding that "OATA is having some difficulty ensuring that its inventory on hand corresponds with the needs of the agency."

FINDING:

"OATA's relinquishment practices for obsolete equipment are affected by several weaknesses."

RESPONSE:

We assume that the above finding is based on events surrounding 198 items of computer equipment designated for salvage that had been stored in space on the 9th floor of the Municipal Building previously occupied by the Tax Commission that was vacated in 2012. OATA lacked suitable space elsewhere to store such equipment and it was stored in the 9th floor space with permission of the agency in control of that space. It is important to note that none of the items was less than five years old. In fact, only two items of the salvaged equipment were five years old as of May 2016. The majority of the items were over ten years old and some were as much as 20 years old or possibly older.[2] As noted in the Draft Report at note 7, OATA did explore disposing of this equipment under the Veolia contract but did not complete the contracts due to budgeting considerations.

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[2] Many of the salvage items were purchased for the NYC Tax Appeals Tribunal by the Department of Finance prior to the creation of OATA in 2007.

We do not disagree with the recommendation (#7) that we comply with City-wide relinquishment policy for equipment designated for salvage and will follow it subject only to budgetary constraints.

FINDING:

> "OATA failed to track the whereabouts of the [salvage] items, including 69 personal computers and 9 laptops *with possibly sensitive information on the hard drives. . . .* OATA officials *claimed* that they erased all data and then physically damaged the disks and hard drives with a hammer. (Emphasis added.)"

RESPONSE:

We take issue with this finding insofar as the language (highlighted in italics) suggests that the salvage PCs were not fully sanitized despite having been advised to the contrary by our IT staff. Moreover, again we are troubled by the implication that our staff members were not being truthful. While no contemporaneous documentation of the actions taken to sanitize the equipment was generated, there is no evidence to dispute the verbal statements of OATA staff members.

In summary, while we disagree with some of the findings of the audit or with the way they are presented, OATA generally does not disagree with the recommendations in the Draft Report.

Respectfully,

Ellen E. Hoffman
Director, OATA
President, NYC Tax Commission
President, NYC Tax Appeals Tribunal

cc: George Davis, III