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AUDIT

BUREAU OF AUDIT

October 23, 2017

By Electronic Mail

Mr. James Patchett
President
New York City Economic Development Corporation
110 William Street
New York, NY 10038

**Re: Final Letter Report on the New York City Economic Development Corporation's
Controls over Its Computer and Other Computer-Related Equipment
(Audit Number SR17-105AL)**

Dear Mr. Patchett:

I am sending this Final Letter Report to provide you with results of the audit of the New York City Economic Development Corporation's (EDC's) controls over its computer and computer-related equipment. The objective of this audit was to determine whether EDC is in compliance with certain inventory procedures as set forth in the Department of Investigation's (DOI's) *Standards for Inventory Control and Management* and whether it is maintaining internal control systems as required by the New York City Comptroller's Directive #1.

Background

EDC is a not-for-profit corporation operating under contract with the City of New York (the City) to promote economic development and business growth. Its mandate is to encourage investment and attract, retain, and create jobs in New York City.

Audit Findings

The audit found that EDC has segregated the duties for purchasing, receiving, and maintaining the inventory of computer and computer-related equipment among different staff members, in accordance with Comptroller's Directive #1. That Directive states that key duties and responsibilities need to be divided or segregated among different staff members to reduce the risk of error or fraud.¹ However, the audit also found some discrepancies on EDC's inventory list, although we found no instances of missing equipment. Specifically, during our observations at EDC's offices we found that 22 of the 997 computer and other computer-related equipment items tested had incorrect serial numbers on the inventory list. At the exit conference, EDC explained that for 8 of the 22 items the

¹ Computer-related equipment includes monitors, printers, cell phones, tablets, televisions, and scanners.

correct serial numbers were recorded in a secondary field in its inventory system. EDC provided evidence to that effect. However, although the correct serial numbers were recorded in the secondary field in EDC's inventory system, the incorrect serial numbers were recorded in the field designated for the item's *Serial Number*. Having two serial numbers for one item is inappropriate and can lead to confusion for the agency as well as auditors. DOI's *Standards for Inventory Control and Management* requires that "[p]ermanent records [be] 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, and the person(s) responsible for maintenance."² The purpose of these inventory controls is to safeguard all assets against possible theft and misuse.

Recommendation

EDC should correct its inventory list to ensure that the serial numbers for the 22 computer and other computer-related equipment items are properly and consistently listed.

EDC Response: "Based on the Comptroller's Office recommendation, EDC has corrected the inventory list to ensure the serial numbers for the 22 computer related items are properly listed."

Audit 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 objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The audit covered the period July 1, 2014 to June 30, 2017.

To obtain an understanding of the inventory procedures and regulations that EDC is required to follow, we reviewed and used as criteria DOI's *Standards for Inventory Control and Management*, and Comptroller's Directive #1: *Principles of Internal Control*. We requested and reviewed EDC's internal policies and procedures, and interviewed EDC officials to obtain an understanding of the inventory procedures in use and to determine how physical assets are safeguarded.

We observed a total of 997 of 2,970 computer and other computer-related equipment items. To determine whether the items listed on EDC's inventory records were physically present, we reviewed the inventory records dated May 25, 2017, randomly selected 724 of the 2,970 computer and other computer-related equipment items present on the inventory list and physically observed that these 724 items were in EDC's offices. During our observations, we also selected a random sample of an additional 273 computers and other computer-related equipment items on site to

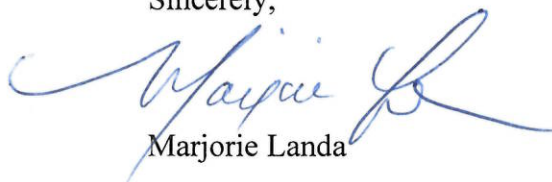
² An agency control number is a unique sequential number affixed to equipment and used on the inventory list that aids in the taking of physical inventory and provides an accurate method of identifying individual assets, current user, and location.

determine whether these items were reported on EDC's inventory records. We conducted physical observations of EDC's inventory on May 31, 2017 and June 1, 2017 to determine whether office equipment items listed on EDC's inventory records were located in its offices. We also determined whether EDC's inventory records included required information such as type of equipment, serial number, agency control number and location.

To obtain reasonable assurance that the Fiscal Year 2016 purchases provided by EDC were complete, we reconciled EDC's trial balance (which is a supporting schedule to the financial statements) to a list of purchases and invoices provided for that period. Also, we reviewed EDC's purchase documents for Fiscal Year 2015 through Fiscal Year 2017 to determine whether the purchased computer and other computer-related equipment items were present at EDC's offices and properly recorded on the inventory lists. We then determined whether all 711 computer and computer-related equipment items purchased during the above period were properly recorded on the inventory list.

The matters covered in this letter report were discussed with EDC officials during and at the conclusion of this audit. The preliminary letter report was sent to EDC officials and was discussed at an exit conference held on September 27, 2017. Discussions with EDC officials were considered in preparation of the draft letter report. On October 3, 2017, we submitted a draft letter report with a request for comments. We received a written response from EDC on October 19, 2017. In its response, EDC stated, "(w)e are pleased that the Comptroller's examination which included 997 IT-related items, found that all equipment was accounted for through physical observance as well as with supporting documentation." The full text of its response is included as an addendum to this letter report.

Sincerely,



Marjorie Landa

c: Spencer Hobson, Executive Vice President
Emily Newman, Acting Director, Mayor's Office of Operations
George Davis III, Deputy Director, Mayor's Office of Operations

October 19th, 2017

Marjorie Landa
Deputy Comptroller for Audit
Municipal Building
1 Centre Street, Room 1100
New York, NY 10007

We are pleased that the Comptroller's examination which included 997 IT-related items, found that all equipment was accounted for through physical observance and with supporting documentation.

EDC has made the corrections for the 14 incorrect serial numbers.

With regard to the eight (8) items that are cited for having the serial number in the wrong field, it was explained to the auditors that these items were procured over 10 years ago and have serial numbers in the secondary field because they were brought over from the previous system. We reiterate that there are no other items in the inventory system that have any entries in the secondary serial number field. This is part of our normal inventory process and not a mistake to be corrected.

If you would also please correct the sample size noted on page 2: it was 997 items not 977.

Based on the Comptroller's Office recommendation, EDC has corrected the inventory list to ensure the serial numbers for the 22 computer related items are properly listed.

Best regards,



Raafat Osman, CPA
Deputy Controller

cc:

Kim Vaccari, NYCEDC
Spencer Hobson, NYCEDC
Fred D'Ascoli, NYCEDC
Chetan Badiani, NYCEDC
Yadira Vasquez, Office of the New York City Comptroller
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