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NEW YORK STATE COMPTROLLER

DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY

NEW YORK STATE BANKING DEPARTMENT

CONTROLS OVER EQUIPMENT AND VEHICLES

Report 2007-S-62

AUDIT OBJECTIVE

Our objective was to determine whether the New York State Banking Department (Department) has established adequate controls over equipment and vehicles.

AUDIT RESULTS - SUMMARY

For the period April 1, 2005 through June 30, 2007, the Department spent about $2 million on equipment and vehicles. Much of this was spent on a major computer system infrastructure upgrade. Our review of sampled equipment items found that the Department was generally able to account for its equipment purchases. However, we found that the Department has purchased more equipment than it needed. As a result, some equipment is rarely, if ever, used.

Most of the Department's equipment items are computers. The Department purchased a total of 835 desktop and laptop computers (at about $1,000 per computer), even though it had only 535 employees. We identified 138 computers that had not been assigned to any employees. In addition, the Department had assigned two computers to 114 of its employees. While the second computer could be justified for 58 of the 114 employees, the other 56 employees (or about 10 percent of the Department's workforce) did not appear to need a second computer.

We estimate the Department could save approximately $150,000 through a more efficient assignment of computer equipment. The Department also purchased other computer equipment costing about $20,000 that it was not using because of a change in plans. The cost of the Department's extra computer equipment is passed on to the banking industry and the public. We recommend the Department purchase only equipment that is actually needed.

More than 50 Department employees are assigned computers that are to be used at their homes, only for work-related purposes. However, the Department does not use available technology to monitor the use of these computers. We recommend the Department perform such monitoring to ensure that the computers are used only for authorized purposes.

The Department maintains inventory records for its computers and other equipment, but we found that these records were not always up-to-date. We recommend certain improvements be made in the Department's inventory controls.

Three of the Department's four vehicles are used in criminal investigations of financial entities. (The fourth vehicle is designated for use by the Superintendent.) Usage logs are maintained for the three vehicles, but we found that the information in these handwritten logs was often incomplete and illegible. As a result, supervisory review of the logs is difficult. We recommend that the Department's vehicle usage information be recorded fully and legibly.

Our report contains eight recommendations to improve controls over the Department's equipment and vehicles. Department officials stated that they accept the findings of the audit as constructive areas for improvement and confirmation of efforts already underway to maximize efficiency and control expenses. They stated that the Department has already begun to address the key areas of inventory control, reviewing the deployment of equipment to ensure assignments of multiple equipment are in the best interest of the Department, and improving procedures related to investigation vehicles.

This report, dated August 27, 2008, is available on our website at: http://www.osc.state.ny.us.
Add or update your mailing list address by contacting us at: (518) 474-3271 or
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Division of State Government Accountability
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BACKGROUND

The New York State Banking Department (Department) is responsible for regulating and supervising approximately 3,600 financial entities. The Department maintains offices in Albany, New York City, and Syracuse. As of September 30, 2007, it had a workforce of about 535 employees.

For the period April 1, 2005 through June 30, 2007, the Department spent about $2 million on equipment and vehicles. In March 2006, the Department terminated its leasing contract for desktop and laptop computers; it had already begun purchasing those items. Most equipment items owned by the Department are computers. The Department owns a total of 835 computers.

AUDIT FINDINGS AND RECOMMENDATIONS

Utilization of Computer Equipment

The New York State Governmental Accountability, Audit and Internal Control Act (Act) requires State agencies to provide accountability for their activities. To comply with the Act, the Department has established a policy requiring that laptop and desktop computers be deployed in the most efficient and cost-effective manner to provide employees with the tools they need to carry out their responsibilities. Its policies further state that computer equipment is to be used only for Department assignments.
The Department owns 428 desktop and 407 laptop computers. We noted that 114 of the Department's 535 employees have both desktop and laptop computers. While the Department was able to substantiate the need for many employees to have more than one computer, we did not find adequate justification for other employees to have both a desktop and laptop computer. We also identified machines that had been purchased but were not in use.

Department officials provided sufficient reasons for assigning both laptop and desktop computers to 58 employees, as follows:

Thirty-six office-based employees play critical roles in the Department's disaster recovery and business continuity program. These employees need to have an additional machine available in their homes to perform essential Department functions if an emergency prevents them from returning to their normal work location.

Twenty-two other employees need more than one computer due to the nature of their job responsibilities or their own physical limitations. According to Department officials, two employees who are disabled sometimes work from home and cannot easily carry a laptop machine between their homes and office. Another three employees work in the Department's Information Technology Unit or are involved with training and need multiple machines to perform their job responsibilities. Seventeen others are high-level employees who need a second machine to perform Department work at home.

Department officials did not justify the need for the 56 remaining employees to be assigned more than one computer, as follows:

- Twenty-four employees normally work in the field with laptop machines. Department officials explained that these employees sometimes do not know their work schedules in advance, so they leave their laptops in the field but have assigned desktop computers for use when they work at one of the Department's offices. Department officials stated that, because they do not have utilization records for these 24 desktop computers, they had no record of how often they are, in fact, used. As a result, there is no assurance the computers are used often enough to justify the arrangement.

- Twenty other employees normally work in one of the Department's offices. According to Department officials, these employees need a second machine because they make field visits, travel, or are involved in special projects. These explanations do not justify providing each employee with two machines. The agency should explore other, less-costly options to give these employees the resources they need to carry out their job responsibilities. For instance, these employees could simply use one laptop both in and outside the office, or the Department could make a pool of laptops available for use as needed.

- Department officials stated that some employees need an extra machine for emergency or disaster preparedness. However, seven of these employees who were provided a second machine were not on the agency's list of employees who participate in its disaster recovery and business continuity program.

- The Department indicated that five employees are former field employees who have already turned in, or will return their laptops.

In their response to our audit findings, Department officials stated that they will determine whether new technologies can help reduce their computer costs. For example, instead of assigning both desktop and laptop computers to certain employees, they may consider assigning only laptops to these employees. To take advantage of the laptops' portability feature and the availability of a connection to an office network, the Department may also want to consider the purchase of docking stations for its laptops. This arrangement is less costly than maintaining a separate desktop unit.

We identified another 138 Department computers that have not been assigned to any employee. Department officials stated that the hiring of several new employees contributed to reducing the number of unassigned machines to about 99 as of February 2008. However, they agreed that the Department still has too many machines; they agreed to reduce the computer inventory when machines need to be replaced.

We also found that the Department had purchased other computer equipment, costing about $20,000, for the Albany office; but it is not in use. According to Department officials, the Department planned to mirror its New York City computer system in its Albany office. However, after a change in management, the Department decided not to go forward with the project. It returned most of the equipment to the vendor, except for these items, which the Department plans to use as replacement parts.

While the Department requires that computers in employee homes be used only for work-

related purposes, we found that it does not regularly monitor Internet or other usage of this equipment. Certain software can be used to monitor the use of these Department machines, determining whether they are being used to access inappropriate Internet sites. Department officials stated that they would consider the purchase of software programs for monitoring Internet usage on such machines.

We conclude that the Department is not always deploying laptop and desktop computers in the most efficient and cost-effective manner. Most of the employees who are assigned two computers use just one computer at a time, while the second machine remains idle. With average costs of $1,085 per laptop computer and $944 per desktop computer, we estimate the Department could save approximately $150,000 through a more efficient assignment of computer equipment. The cost of the Department's extra machines is passed on to the banking industry and the public. Furthermore, because the use of Department machines in employee homes is not monitored, there is a risk that these machines could be used for unauthorized purposes.

Recommendations

1. Require adequate justification for assigning more than one Department computer to a single employee.

2. Establish controls for monitoring the utilization of Department computers kept in employee homes.

3. Ensure that purchased equipment is actually needed.

Accounting for Equipment and Vehicles

The Act requires State agencies to promote and practice good internal controls and provide accountability for their activities. The New York State Accounting System User Procedures Manual (Manual) assists agencies in achieving those objectives by providing guidelines for establishing and maintaining control over agency equipment. The Manual states that, to meet its specific needs, an agency may establish its own particular type of control system. However, it is expected that the agency will comply with the basic standard requirements set forth in the Manual.

The Department's policy is to record all equipment purchases, except for furniture, on one of its inventory listings. These listings include a line for each item showing the model number, serial number, name of the employee to whom the item is assigned, tag number, and other information. While we did not find that equipment was missing, some equipment control procedures need to be strengthened.

The Department requires that usage logs be maintained for agency vehicles. Its vehicle guidelines state that the Department's Criminal Investigations Bureau and Budget and Finance Office will review these logs for mileage, costs, and use. We found that controls over the vehicle usage logs need to be improved.

Equipment Records

The Department owns desktop computers, laptop computers, monitors, printers, BlackBerries, cell phones, and other office equipment. To determine whether it could account for the items on its equipment listings, we compared the actual equipment with the corresponding listings.

According to Department records, it owns 428 desktop computers. We selected a random sample of 50 desktop computers assigned to New York City-based employees and the 27 desktop computers assigned to Albany-based employees. We found all 77 machines; however, the equipment listing did not accurately identify the employees who had been assigned three of the machines. These machines had been transferred and the listing had not been updated to reflect the changes in assignment.

The Department owns 407 laptop computers. We selected a random sample of 50 machines assigned to the New York City employees and found all 50.

To determine whether equipment items on the agency's premises were recorded on the equipment listings, we selected a judgmental sample of 75 items that we observed on July 23, 2007 and July 24, 2007 at the Department's New York City headquarters. We identified five items – a printer, a VCR, a television, and two dual monitors – that were not on any inventory listing. Three of these items were also not tagged with a decal showing that they were Department property.

During the 27-month period ended June 30, 2007, the Department spent $2.1 million on equipment and furniture. Department officials explained that a significant portion of this cost was spent on a major computer system infrastructure upgrade. We selected a judgmental sample of equipment purchases totaling $1.7 million to determine if they were recorded on one of the agency's equipment listings. We determined that the desktop and laptop computers and the monitors were all recorded on an equipment listing. However, we found that other equipment totaling about $858,000 was not recorded in the Department's inventory records. These items included network servers costing almost $728,000 and a folder/inserter machine used for mailings costing about $30,000.

Department officials agreed that certain items were not on the listings originally provided. They have since provided comprehensive listings for most of the items we identified. They stated that there is no risk of theft or misuse for the folder/inserter due to its location in the office.

We also saw no evidence that the Department conducts periodic physical equipment counts. Department officials stated that counts for some equipment are done every three years. However, to control the equipment inventory, it is important that counts be taken more frequently. Had such counts been done, the officials could have identified any equipment items not recorded, as well as those that had been moved without an updating of the inventory records.

While agencies may design control systems to meet their particular needs, they are still expected to meet basic standard requirements to, for example, maintain control records and take periodic physical counts. We reviewed the Department's written procedures relating to equipment controls and found several opportunities for improvement. For example, there was no written procedure describing the specific information that should be recorded on the equipment control listings, such as equipment location, model number, or serial number; or where, how, and when to record equipment control information. There was also no written policy describing when and how to perform physical equipment counts.

Vehicle Records

The Department's Criminal Investigations Bureau (Bureau) conducts investigations into criminal activity involving State-chartered financial institutions and licensed entities,

such as check cashers, money transmitters, and finance agencies. Three Department vehicles are used to conduct these investigations, to perform surveillance, and to handle other Bureau-related activities.

The Department requires that usage logs be maintained for agency vehicles. Its handwritten vehicle log form provides spaces where employees are to enter the purpose of their travel, the case number, their destination, odometer readings, and other information. When we reviewed the logs for vehicles used by Bureau investigators between April 1, 2005 and August 31, 2007, we found they did not contain information that would confirm the vehicles were used only for work-related purposes.

For example, we found that Bureau employees often did not adequately indicate a reason for using a Department vehicle. Usage logs should describe the need for an agency vehicle, or at least the case number for which the vehicle was being used. This information is important in monitoring investigation costs.

We also found many examples in which dates were missing from the logs, entries were illegible, and vehicle travel locations were not specific. For example, investigators listed general locations, such as a New York City borough, Long Island, New Jersey, or Suffolk County, as their travel destinations rather than a more-specific location. In the absence of specific and legible information, it is difficult to determine whether the vehicles were used only for work-related purposes. As a result, the agency risks incurring unnecessary vehicle costs. Department officials maintain that this risk is minimized because the Director of the Bureau is directly involved with cases being investigated and has sufficient knowledge to monitor investigators' use of the vehicles.

In response to our audit findings, Department officials acknowledged that some vehicle entries were difficult to read. As a result of our audit, the Department is taking steps to make the vehicle logs easier to understand. Effective November 1, 2007, a new log with a revised format, requiring the entry of more information about vehicle mileage, the purpose of the travel, and fuel costs, was to be maintained for each agency vehicle.

Recommendations

4. Ensure that all Department-owned equipment is accounted for and recorded properly.

5. Tag all equipment with Department decals.

6. Establish written Department-specific equipment control procedures covering control records and physical counts.

7. Perform an independent annual physical equipment inventory count and retain documentation of the reconciliation process.

8. Ensure that vehicle usage logs contain the information that will document business use and provide a basis for review.

AUDIT SCOPE AND METHODOLOGY

We conducted our performance audit in accordance with generally accepted government auditing standards. We audited the Department's controls over equipment and vehicles for the period April 1, 2005 through August 31, 2007. To accomplish our objective, we reviewed Department and State written policies and procedures relating to equipment and vehicles. We also examined Department equipment listings, invoices, vehicle logs, and equipment purchases from

the State accounting system. We also physically observed equipment and vehicles and interviewed Department officials.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

We performed this audit pursuant to the State Comptroller's authority as set forth in Article V, Section 1, of the State Constitution and Article II, Section 8, of the State Finance Law.

REPORTING REQUIREMENTS

Draft copies of this report were provided to Department officials for their review and comment. Their comments were considered in preparing this report, and are included as Appendix A.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Superintendent of the New York State Banking Department shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include Frank Houston, Cindi Frieder, Gene Brenenson, Alina Mattie, Katrina Lau, Margarita Ledezma, and Paul Bachman.

APPENDIX A – AUDITEE RESPONSE

STATE OF NEW YORK
BANKING DEPARTMENT
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July 22, 2008

Cindi Frieder
Audit Manager
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123 William Street – 21st Floor
New York, NY 10038

Dear Ms. Frieder:

The Banking Department has received the findings of the Office of the State Comptroller, Division of State Government Accountability on audit 2007-S-62, Controls over Equipment and Vehicles.

Department management accepts the findings of the audit as constructive areas for improvement and confirmation of efforts already underway to maximize efficiency and control expenses. The Department has already begun to address the key areas of inventory control, reviewing the deployment of equipment to ensure assignments of multiple equipment are in the best interest of the Department, and improving procedures related to investigation vehicles.

The Banking Department acknowledges and appreciates the efforts of the Office of the State Comptroller in this matter.

Sincerely,

Diana S. Rulon
Chief Operating Officer

Cc: Richard H. Neiman, Superintendent of Banks
Amy Hutner, Director of Internal Audit