

AUDIT REPORT



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

Follow-Up Audit Report on Other Than Personal Service Expenditures of Schools within the Department of Education Regional Operations Center for Regions 4 and 5

FS07-118F

October 16, 2007



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 and Article 52-A, §259m, of the New York State Education Law, my office performed a follow-up audit to determine whether the Department of Education (DOE) Regional Operations Center (ROC) for Regions 4 and 5 implemented recommendations made in a previous audit of expenditures.

Until July 2, 2007, ROCs provided operational and financial support to the schools they served. Subsequent to that date, Integrated Service Centers (ISCs) were established to continue providing training to schools in standard operating procedures. ISCs may review reports of school expenditures to identify instances warranting follow-up contact with schools to reinforce procedures, thereby preventing violations of procedures. We audit City agencies such as this to ensure that they operate in a cost-effective, efficient manner and are accountable for the use of public funds.

The results of our follow-up audit, which are presented in this report, have been discussed with DOE officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

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

Very truly yours,

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

William C. Thompson, Jr.

WCT/fh

Report: FS07-118F
Filed: October 16, 2007

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

**Follow-Up Audit Report on
Other Than Personal Service Expenditures of Schools
Within the Department of Education Regional Operations
Center for Regions 4 and 5**

FS07-118F

AUDIT REPORT IN BRIEF

This is a follow-up audit to determine whether the Department of Education (DOE) has implemented the eight recommendations made in a previous audit entitled *Audit Report on Other Than Personal Services Expenditures of School within the Department of Education Regional Operations Center for Regions 4 and 5* (Audit No. MD05-067A, issued May 4, 2005). In this report, we discuss the eight recommendations from the prior audit in detail, as well as the implementation status of each recommendation.

The earlier audit determined whether DOE Other Than Personal Service (OTPS) procurement policies and procedures were followed for purchases of goods and services made by schools in Regions 4 and 5 that required Regional Operations Center (ROC) approval. In that audit, the auditors determined that the officials of the ROC and schools in Regions 4 and 5 generally followed DOE procurement policies and procedures for purchases that require ROC approval. However, there were instances of noncompliance relating to lack of certifications for goods and services, lack of justification and Office of Purchasing Management (OPM) approval for sole-source purchases, and lack of bidding documents. There were instances where payments were made prior to the delivery of goods and services. In addition, the earlier audit cited internal weaknesses such as inadequate segregation of duties.

Audit Findings and Conclusions

The current audit disclosed that DOE implemented six of the eight recommendations and partially implemented one. We could not determine the status of the remaining recommendation because the sampled purchases we reviewed did not exceed the monetary threshold that would require the approval of the OPM Administrator. We also noted a new internal control issue not cited in the previous audit: schools split purchases to avoid the approval requirements for purchases exceeding \$5,000, the monetary threshold for these purchases.

INTRODUCTION

Background

The DOE is organized into 10 regions including more than 1,400 schools that provide primary and secondary education to more than one million New York City students. Each region has a Learning Support Center that houses the instructional leadership team for the region as well as a full service support office. Six of the Learning Support Centers also house Regional Operations Centers (ROCs), which provide operational and financial support to the schools. While school purchases are made at the individual school level, ROC officials review and approve: school-generated purchase orders; bidding documents for school purchases above certain monetary limits; and evidence of receipt of items purchased. ROC officials also process payments for school purchases, except for purchases made on behalf of the schools by the DOE Central Office. The ROC of Regions 4 and 5 is responsible for the fiscal oversight of 213 schools.

There are several methods by which individual schools can purchase goods and services. Purchases can be made through the DOE's on-line Fastrack Ordering Systems for general supplies, textbooks, computer and audio-visual software, athletic supplies, and for other items currently available under requirements contracts with the DOE Office of Purchasing Management (OPM). ROC approval is not required for these purchases. Goods and services that are not available through Fastrack may be obtained by purchase orders prepared under the DOE Financial Accounting Management Information Systems (FAMIS). Designated users at individual schools can use FAMIS to generate purchase orders electronically. ROC officials must approve purchases greater than \$15,000 that are obtained under DOE contracts and purchases greater than \$5,000 that are not obtained under DOE contracts. Finally, small purchases or emergency purchases can be handled with a procurement card (P-card) or through the Small Item Payment Process (SIPP), formerly known as the imprest fund. ROC officials review all P-card applications and all SIPP purchases greater than \$500.

Objective

This follow-up audit determined whether DOE implemented the eight recommendations contained in a previous audit, *Audit Report on Other Than Personal Services Expenditures of School within the Department of Education Regional Operations Center for Regions 4 and 5* (Audit No. MD05-067A, issued May 4, 2005).

Scope and Methodology

The scope period of this follow-up audit was Fiscal Year 2006. To obtain an understanding of DOE policies and procedures governing school OTPS purchases, we reviewed relevant documents and used the following sources of information:

- The prior audit report issued by the Comptroller’s Office (*Audit Report on Other Than Personal Services Expenditures of School within the Department of Education Regional Operations Center for Regions 4 and 5* (Audit No. MD05-07A, issued May 4, 2005);
- The *Standard Operating Procedures Manual* (SOPM), DOE Division of Financial Operations, revised OTPS purchase chapter, issued March 2006;
- On-line procedure document *Using FAMIS for Purchasing and Payments*;
- The operational flowchart of the school procurement process;
- OPM *School Purchasing Guide*, procurement policy chapter;
- DOE *On-line Guide to Certification of Delivery*;
- DOE Audit Implementation Plan (AIP), dated December 19, 2005; and
- Interviews with Regions 4 and 5 officials.

To assess whether DOE had implemented the corrective procedures outlined in its AIP and whether the implementation of those procedures corrected the weaknesses cited in the previous audit, we conducted tests on OTPS purchases made by Regions 4 and 5 in Fiscal Year 2006.

To determine whether the payments for OTPS goods and services were made in accordance with the SOPM, we obtained the population database of Fiscal Year 2006 OTPS payments for ROC Regions 4 and 5. In consideration of the monetary threshold of OTPS transactions that required ROC’s approval, we limited our audit population to transactions greater than \$5,000. There were 163 purchases exceeding \$5,000, which totaled \$1,493,251. We selected purchases made by the two schools in Region 4 and the two schools in Region 5 that had the greatest number of purchases exceeding \$5,000—for a total of 24 such purchases made by the four schools. We reviewed the 24 purchases totaling \$240,930—12 purchases (\$121,261) from Region 4 and 12 purchases (\$119,669) from Region 5.

During the period between the completion of the previous audit and the beginning of this follow-up audit, DOE added a new feature to FAMIS enabling school officials to certify the delivery of goods and services. The new feature allows personnel to indicate on-line the time of receipt of goods or services and whether the receipt represented partial or full delivery of the purchase. This feature allows the ROC to verify that purchases were certified on-line prior to the issuance of payments to vendors. We reviewed the files of the sample purchases to determine whether these purchases were certified on-line prior to the issuance of payments to the vendors.

Scope Limitation

We could not determine the implementation status of previous Recommendation #3, which recommended that ROC officials should ensure that “sole-source purchases are approved by the OPM administrator when required.” The schools in our sample for this current audit did not make sole-source purchases exceeding \$5,000 for professional services, which would have required this approval. Therefore, we requested from DOE information on all sole-source

purchases exceeding \$5,000 made in Fiscal Year 2006 by any school in Regions 4 and 5. A ROC official provided a list of nine sole-source purchases; however, as of the date of this report, we received no supporting documentation that allowed us to determine whether these purchases were approved by the OPM administrator.

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 City Comptroller's audit responsibilities 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 DOE officials during and at the conclusion of this audit. A preliminary draft report was sent to DOE officials on July 25, 2007, and an exit conference was held on August 7, 2007. We submitted a draft report to DOE officials with a request for comments on August 14, 2007. We received a written response from DOE officials on September 10, 2007. The Department generally agreed with the findings and recommendations of this audit. Their comments are included as an addendum to this report.

RESULTS OF FOLLOW-UP AUDIT

The current audit disclosed that DOE implemented six of the eight recommendations and partially implemented one recommendation made in the previous audit. We could not determine whether the remaining recommendation was implemented because the sample we reviewed did not contain purchases that exceeded the thresholds that would require the approval of OPM administrator. We requested additional information on the sole-source purchases made in Fiscal Year 2006 that exceeded the threshold that would require OPM Administrator's approval for all schools in Regions 4 and 5; however, as of the date of this report, we received no supporting documentation that allowed us to determine whether these purchases were approved by the OPM administrator.

Our review found that all 24 purchases in our sample had been properly reviewed and that the associated schools had maintained all necessary documentation. We examined payment records and found that goods and services were rendered prior to the issuance of payment. In addition, based on the samples that we reviewed, we found no errors in the invoice data. However, there was one problem regarding segregation of duties: in one of the 24 purchase orders reviewed, we found that the ROC official who approved the purchase was also the person who issued the payment.

We also noted a new internal control issue not cited in the previous audit: schools split purchases to avoid the approval requirements for purchases exceeding \$5,000, the monetary threshold for these purchases.

Previous Finding: "Lack of Certification of Delivery for Goods or Services"

"ROC officials did not receive the require certification of delivery for three (8%) of 37 sampled purchases for goods before processing their payments"

Previous Recommendation #1: "ROC officials should obtain certification of delivery for purchases of goods and services prior to payment of invoices."

Previous DOE Response: "Our office will reemphasize these rules to both our staff and school officials throughout our ongoing trainings. Additionally, the department is implementing an automated system to certify delivery which will be implemented in May 2005"

Current Status (Recommendation #1): IMPLEMENTED

Of the 24 purchase orders that we reviewed, all were certified. However, one purchase order (a school trip) was paid before the trip took place. The purchase order was for a college tour trip, ROC official stated that "this was a tour trip that covered the cost of hotel, travel and meals for the students and accompanying staff. In all trips of this nature vendors require payment up front as they have to pay the hotel and food for the students. These companies don't have the capital to lay out the funds. This is typical." After reviewing the documentation provided by ROC for this

purchase order, we found the explanation acceptable. Therefore, we considered this recommendation to be implemented.

Previous Finding: “Lack of Written Justification and OPM Approval for Sole-Source Purchases”

“ROC officials did not ensure that there was adequate written justification or approval from the Administrator of OPM for two of the nine sole-source purchases in our sample”

Previous Recommendation #2: ROC officials should ensure that “school officials provide written justification for all sole-source purchases not approved by OPM, in accordance with the SOPM. The ROC should review this documentation before approving such purchases.”

Previous Recommendation #3: ROC officials should ensure that “Sole-source purchases are approved by the OPM Administrator when required.”

Previous DOE Response: “The ROC Contract Officers and staff have been reminded to follow the procedures identified in SOPM relating to sole-source services.

“To resolve the issue of whether the ROC’s have sole-source approval power between \$5,000-\$15,000, the SOPM has been officially changed indicating this on February 2005 for commodities. We will ensure strict compliance with the procedures requiring approval of proposed sole source professional service orders, above \$5,000, by the OPM Administrator.”

Current Status (Recommendation #2): IMPLEMENTED

There were three sole-source purchases in our sample. We reviewed the files of these three purchases and found justification letters in each of the files. Therefore, we considered this recommendation to be implemented.

Current Status (Recommendation #3): COULD NOT BE DETERMINED

We could not determine the status of this recommendation because the sole-source purchases in our sample did not exceed the \$5,000 threshold for professional services that would require the approval of the OPM Administrator. We requested a list of sole-source purchases made in Fiscal Year 2006 by schools in Regions 4 and 5 that exceeded \$5,000 and the information required for these sole-source purchases. A ROC official provided a list of nine sole-source purchases made in Fiscal Year 2006 that exceeded \$5,000; however, as of the date of this report, we received no documentation that would allow us to ascertain the status of previous Recommendation #3, i.e., whether those purchases had in fact been approved by the OPM Administrator.

Previous Finding: “Lack of Purchase Bidding Documents”

“For two (33%) of the six sampled purchases of goods and services for which schools were required to obtain written bids, ROC employees approved the related purchase orders without receiving the bidding documentation to support the purchases.”

“One of our cited purchases showed that one of its three written bids was solicited by a school designee after he submitted the purchase order, including the selected vendor’s name, to the ROC for approval. Clearly solicitation of bids after a vendor has been selected is not in compliance with the intent of competitive bidding practices.”

Previous Recommendation #4: ROC officials should “Review solicited written bids to ensure compliance with the bidding guidelines before approving purchase orders.”

Previous Recommendation #5: ROC officials should “Maintain copies of bid documentation.”

Previous DOE Response: “Staff have been reminded that approval of any non-contracted purchase greater than \$5,000 must have proper bid documents prior to the approval of the aforementioned PO’s and that these documents must be maintained in the file.

“Proper bidding procedures have been reinforced during the training sessions conducted at ROC and will be reinforced again at future training sessions.”

Current Status (Recommendation #4): IMPLEMENTED

Of the 24 sample purchases reviewed, 13 purchase orders required the solicitation of three bids. We found proper bid documentation in the files of all 13 bids purchases. Therefore, we consider the recommendation implemented.

Current Status (Recommendation #5): IMPLEMENTED

We reviewed the files of the 13 purchase orders that required the solicitation of three bids and found that the ROC maintains copies of bid documentation in each of the of the purchase file. Therefore, we consider this recommendation implemented.

Previous Finding: “Services Not Rendered Prior to Payment of Invoices”

“The ROC processed two payments for services, totaling \$25,500, before the services were rendered.”

“The two cited purchases were for workshops held on August 30 and 31, 2004. The principal certified that services were delivered by signing the purchase order on June 28, 2004,

and submitting them to the ROC. A ROC official, upon receipt of the invoices and the signed purchase orders certifying delivery, processed the payment on July 15, 2004, six weeks before the services were actually rendered.”

Previous Recommendation #6: “ROC officials should ensure that services are rendered prior to payment of invoices.”

Previous DOE Response: “It was reinforced with all ROC procurement staff during training and was reinforced with school staff that no payments are to be issued prior to rendering of services.”

Current Status (Recommendation #6): IMPLEMENTED

Based on the review of our sample, we found that ROC officials for Regions 4 and 5 have followed the payment procedure and issued payments after the goods and services were received. Therefore, we consider this recommendation implemented.

Previous Finding: “Inadequate Segregation of Duties”

“For six (17%) of the 37 sampled payments, the same ROC official approved the purchase orders and processed the invoices for payment. In addition, there was no supervision over the ROC invoice processing function.

“In addition, without supervisory review over the invoice processing function, accurate data entry is not assured. For instance, the ROC incorrectly posted in FAMIS four payments for services, totaling \$20,712, to Public School 78 instead of Public School 111, which received the services.”

Previous Recommendation #7: ROC officials should ensure that “The responsibilities for approving purchase orders and processing invoices for payment are segregated among different employees.”

Previous DOE Response: “We have reinforced with ROC staff that those approving non-contracted purchases greater than \$5,000 and contracted purchases greater than \$15,000 should not approve the payments.”

Current Status (Recommendation #7): PARTIALLY IMPLEMENTED

Our review of 24 sampled purchases found one purchase order that was approved by the same ROC official who issued the invoice payment. Therefore, we consider this recommendation partially implemented.

Previous Recommendation #8: ROC officials should ensure that “Supervision exists over the invoice processing function.”

Previous DOE Response: “We will continue monitoring the process to ensure proper supervision of the ROC invoicing process.”

Current Status (Recommendation #8): IMPLEMENTED

Our review of the samples found no errors in the invoice data. Therefore, we consider this recommendation implemented.

New Issue

Bidding Procedures Were Not Followed at Two Schools

During the current audit, we noted in Region 4 that Bushwick High School (K480) issued three purchase orders to Getaway Adventure, Ltd. for a student educational retreat, held on November 18, 2005, at Club Getaway, (WO6005174, WO6005038, and WO6005178). The three purchase orders totaled \$11,124.25—\$4,301.00 for WO6005174, \$3,396.25 for WO6005028, and \$3,427.00 for WO6005178. ROC officials must approve purchases greater than \$15,000 that are obtained under DOE contracts and also purchases greater than \$5,000 that are not obtained under contracts. Therefore, it appears that Bushwick High School did not follow the approval process. On December 5, 2005, a Region 4 official noted the problem and sent an e-mail to the school. The school replied and acknowledged that it had not followed the approval process.

The second school was The Henry David Thoreau School (PS17). The school issued two purchase orders, WO6017271 and WO6017295, to the Booksource, Incorporated, on March 30, 2006, for various books. The two purchase orders totaled \$8,026.75—\$4,041.60 for WO6017271 and \$3,985.15 for WO6017295. According to the school, Booksource, Incorporated, is a DOE-contracted vendor. However, the items that the school ordered were not covered under the contract.

Recommendation

To address this issue, we recommend that DOE officials, in conjunction with the district representatives ensure that schools do not avoid the approval process by splitting the value of purchases.

DOE Response: “One school had three purchase orders totaling \$11,124.25 (\$4,301.00, \$3,396.25 and \$3,427.00 respectively). The audit included the fact that the school did not follow the approval process but it also noted that not long after the purchase (approximately two weeks) a Regional Operation Center (ROC) Official noted the problem and sent an e-mail to the school. The report also indicated that the school replied and acknowledged that it had not followed the approval process.

“The second school had two purchases order totaling \$8,026.75 (\$4,041.60 and \$3,985.15 respectively). The vendor was a contracted vendor but the items ordered were not covered under the contract. The items however were all cheaper than the contractual vendor’s contracted price and had the school done a bid process this purchase would have been valid. The report did not mention that the school also responded to a ROC inquiry and acknowledged that they will ensure that all purchases will be made in accordance with the Standard Operating Procedures.

“Of all the purchase orders reviewed by the auditors this finding of split orders represented only two occurrences. The ROC has conducted training for principals and school staff throughout the past three years and has also conducted staff visits with a focus on standard procurement procedures, including the prohibition against split orders. As indicated in the audit report as incidences are discovered schools are written to in an effort to ensure that they acknowledge that the proper process was not followed and that they will adhere to the policy in the future.

“Effective July 2, 2007, the Regional Operation Centers were closed and Integrated Service Centers (ISC) were established. The ISCs are continuing to provide training to schools in standard operating procedures. Additionally, reports of school expenditures may be reviewed to identify instances where follow-up contact with schools is warranted to reinforce procedures and thereby prevent violations.”

**THE NEW YORK CITY DEPARTMENT OF EDUCATION**
JOEL I. KLEIN, *Chancellor*

Kathleen Grimm, Deputy Chancellor for Finance and Administration

September 10, 2007

Honorable John Graham
Deputy Comptroller for Policy, Audits, Accountability and Contracts
The City of New York
Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

**Re: Follow-up Audit Report on Other Than Personal Services
Expenditures of Schools within the Department of Education
Regional Operations Center for Regions 4 and 5
FS07-118F**

Dear Mr. Graham:

This letter, with attachment, reflects the New York City Department of Education's (DOE) response to the findings and recommendations made in the above-referenced Follow-up Audit Report of the New York City Office of the Comptroller.

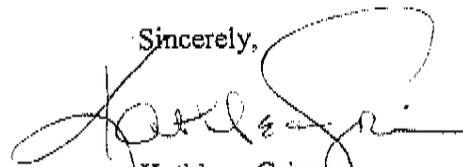
The follow-up audit determined whether the DOE has implemented the eight recommendations made in a previous audit entitled "Audit Report on Other Than Personal Services Expenditures of Schools within the Department of Education Regional Operations Center for Regions 4 and 5 (Audit No. MD05-067A, issued May 4, 2005). We are pleased with the positive findings:

- The DOE implemented six of the seven recommendations and partially implemented one recommendation made in the previous audit. We question whether this recommendation should have also been considered implemented as only one of twenty-four sampled purchases was identified to be not in compliance with stated policy.
- It could not be determined whether one of the seven recommendations was implemented, because the purchases reviewed did not exceed the monetary threshold that would require the approval of the Administrator of the Office of Purchasing Management.

In addition to review of the prior recommendations, the auditors made a notation in regard to two singular occurrences of splitting purchases by two schools. Please find attached our response to this finding, which delineates the action plan implemented in relation to

accomplishing the auditor's recommendation. It should be noted that in both instances the Regional Operations Center reached out to the schools about these issues and received letters from both Principals stating that they will ensure that all purchases will be made in accordance with the Standard Operating Procedures. This was noted in the report for one of the schools but inconspicuously missing for the other.

Sincerely,



Kathleen Grimm
Deputy Chancellor

Attachment

cc: Brian Fleischer	Vincent Clark	Vincent Giordano	Angel Namnum
Mary Coffey	Espi Semetis	Susan Olds	Nader Francis
Mariano Guzman	David Ross	Sandy Brawer	Yvonne Torres
Robert Wilson			

**NEW YORK CITY DEPARTMENT OF EDUCATION
OFFICE OF AUDITOR GENERAL
External Audit Services**

Audit Implementation Plan Form A

PAGE 1 OF 1

RESPONSE DATE: September 10, 2007

AUDIT TITLE: Follow-up Audit Report on the Other Than Personal Services Expenditures of Schools Within the Department of Education Regional Operation Center for Regions 4 and 5

AUDITING AGENCY: NYC Office of the Comptroller

DIVISION: Audits Accountancy and Contracts

DRAFT REPORT DATE: August 14, 2007

AUDIT NUMBER: FS07-118F

**A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED**

New Recommendation #1: Ensure that schools do not avoid the approval process by splitting the value of purchases.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

This recommendation pertains to two schools:

One school had three purchase orders totaling \$11,124.25 (\$4,301.00, \$3,396.25 and \$3,427.00 respectively). The audit included the fact that the school did not follow the approval process but it also noted that not long after the purchase (approximately two weeks) a Regional Operation Center (ROC) Official noted the problem and sent an e-mail to the school. The report also indicated that the school replied and acknowledged that it had not followed the approval process.

The second school had two purchase orders totaling \$8,026.75 (\$4,041.60 and \$3,985.15 respectively). The vendor was a contracted vendor but the items ordered were not covered under the contract. The items however were all cheaper than the contractual vendor's contracted price and had the school done a bid process this purchase would have been valid. The report did not mention that the school also responded to a ROC inquiry and acknowledged that they will ensure that all purchases will be made in accordance with the Standard Operating Procedures

Of all the purchase orders reviewed by the auditors this finding of split orders represented only two occurrences. The ROC has conducted training for principals and school staff throughout the past three years and has also conducted staff visits with a focus on standard procurement procedures, including the prohibition against split orders. As indicated in the audit report as incidences are discovered schools are written to in an effort to ensure that they acknowledge that the proper process was not followed and that they will adhere to the policy in the future.

Effective July 2, 2007, the Regional Operation Centers were closed and Integrated Service Centers (ISC) were established. The ISCs are continuing to provide training to schools in standard operating procedures. Additionally, reports of school expenditures may be reviewed to identify instances where follow-up contact with schools is warranted to reinforce procedures and thereby prevent violations.

**NEW YORK CITY DEPARTMENT OF EDUCATION
OFFICE OF AUDITOR GENERAL
External Audit Services**

IMPLEMENTATION DATE

Ongoing

RESPONSIBILITY CENTER

ROC D, as of DOE restructuring, is now incorporated into the new Queens Integrated Service Center

Signature:



Print Name: Sandy Brawer

September 10, 2007
Date

Print Title: Deputy Executive Director for Business
Queens Integrated Service Center