

City of New York

OFFICE OF THE COMPTROLLER

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MANAGEMENT AUDIT

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Deputy Comptroller for Audit

Audit Report on the Department of
Education's Controls over the Small
Item Payment Process of Its Schools
within Children First Network 404

MD15-096A

January 28, 2016

<http://comptroller.nyc.gov>



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January 28, 2016

To the Residents of the City of New York:

My office has audited the Department of Education (DOE) to determine whether there were adequate controls over Small Item Payment Process (SIPP) transactions processed by schools within Children First Network (CFN) 404. We perform audits such as this to ensure that City agencies are operating in accordance with their internal procedures and in the best interest of the public.

The audit found that DOE has not implemented adequate controls over SIPP transactions processed by the five sampled schools within CFN 404 to ensure that SIPP payments were adequately supported and that the SIPP transactions were allowable SIPP expenditures. The weaknesses found affected approximately \$79,200 (26 percent) of the \$304,597 in SIPP expenditures at the five sampled schools during the audit period. The audit found insufficient reviews at the school and CFN level to ensure that applicable procedures were followed. These weaknesses contributed to the multiple deficiencies identified in the audit, including unsupported SIPP payments, the inappropriate use of SIPPs, and lack of evidence that required bidding procedures were consistently followed.

To address these issues, the audit made 13 recommendations. DOE should, among other things, ensure that: the oversight unit reviews SIPP transactions prior to approval; the oversight unit conducts periodic reviews of the schools' SIPP transactions and generates necessary reports to identify possible deficiencies; the schools obtain and maintain adequate supporting documentation on file prior to processing and approving SIPP requests; bidding requirements are adhered to for all purchases meeting the dollar value thresholds and that appropriate bidding documentation is maintained on file; and split transactions are not processed and approved.

The results of the audit 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.

If you have any questions concerning this report, please e-mail my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER MANAGEMENT AUDIT

Audit Report on the Department of Education's Controls over the Small Item Payment Process of Its Schools within Children First Network 404

MD15-096A

EXECUTIVE SUMMARY

The objective of this audit was to determine whether the New York City Department of Education (DOE) has adequate controls over Small Item Payment Process (SIPP) transactions processed by schools within Children First Network (CFN) 404 to ensure that payments were supported and represented allowable SIPP expenditures.

DOE provides primary and secondary education to over one million students, from prekindergarten to grade 12, in 32 school districts with over 1,800 schools, and employs approximately 75,000 teachers. In addition, DOE employs non-pedagogical employees who assist in all aspects of maintaining, administering and operating the schools. Prior to May 2015, DOE operated approximately 60 CFNs designed to provide schools throughout the City with instructional and operational support, including support regarding SIPPs.

DOE has established SIPPs to facilitate the purchase and payment of non-recurring Other Than Personal Service (OTPS) items of up to \$5,000 for small incidental purchases or for the procurement of goods and services when either the purchase order (PO) or requisition method of purchase is not practical.¹ It can also be used to reimburse a DOE employee for the purchase of small over-the-counter items (emergency purchases) and any other business-related expense (e.g., travel).

During the period covered by this audit, the oversight entity for the sampled schools was CFN 404.² Starting in May 2015, CFNs were replaced by DOE Borough Field Support Centers (BFSCs), which officially began operations in July 2015. Much like the CFNs, BFSCs provide integrated support to schools across areas of instruction and operations, including finance (which include SIPPs) and human resource support.

¹ The City generally categorizes its Expense Budget items into Personal Services (PS), which includes costs related to salaries and Other Than Personal Services (OTPS), which includes routine operating expenses related to goods and services. Purchase Orders (POs) are used in connection with OTPS to order contracted or non-contracted items directly from vendors, while requisitions are used for non-contracted, non-listed items with a cost of more than \$15,000.

² CFN 404 provided support to 32 schools throughout four boroughs.

During Fiscal Year 2014, DOE's schools spent approximately \$24 million using SIPP transactions, of which \$754,623 was spent by the 32 schools supported by CFN 404. Of this amount, the five schools in the audit sample spent a total of \$304,597 (40 percent) in SIPPs.

Audit Findings and Conclusion

This audit found that DOE has not implemented adequate controls over SIPP transactions processed by the five schools we sampled within CFN 404 to ensure that payments were adequately supported and that they were allowable SIPP expenditures. The weaknesses we found affected approximately \$79,200 (26 percent) of the \$304,597 in SIPP expenditures at the five schools we sampled during the audit period. We found insufficient reviews at the school and CFN levels to ensure that applicable procedures were followed. We believe that these weaknesses contributed to the multiple deficiencies we identified, including unsupported SIPP payments; the inappropriate use of SIPPs; and lack of evidence that required bidding procedures were consistently followed.

While the amounts of the expenditures made on any one occasion are small (\$5,000 or less), the aggregate amounts expended through SIPPs system-wide throughout DOE was approximately \$24 million. Accordingly, weak controls and enforcement by DOE could potentially result in significant amounts of DOE funds being misspent. Further, the weaknesses we found increase the risk that fraudulent or disallowed purchases may be made through SIPPs.

Audit Recommendations

Based on the audit we make 13 recommendations, including:

- DOE should ensure that the BFSCs review SIPP transactions prior to approval to confirm that SIPPs were appropriately used, that the transactions are adequately supported, and that they comply with DOE's purchasing policies and procedures.
- DOE should ensure that the BFSCs conduct periodic reviews of the schools' SIPP transactions and generate necessary reports to identify possible deficiencies, such as questionable patterns, trends, or excessive use of non-contracted vendors.
- DOE should ensure that the schools obtain and maintain adequate supporting documentation on file, including travel-related documentation, prior to processing and approving SIPP requests.
- DOE should ensure that bidding requirements are adhered to for all purchases meeting the dollar value thresholds, and that appropriate bidding documentation is maintained on file to evidence the bidding.
- DOE should ensure that split transactions are not processed and approved.

Agency Response

In its response, DOE generally agreed with the audit's findings and agreed with eight of the audit's thirteen recommendations. DOE partially agreed with the remaining five recommendations pertaining to updating its School Leadership Team (SLT) regulations, using correct object codes, recouping payments for unsupported and disallowed SIPPs, using contracted vendors and adhering to DOE's petty cash policy.

AUDIT REPORT

Background

DOE provides primary and secondary education to over one million students, from prekindergarten to grade 12, in 32 school districts with over 1,800 schools, and employs approximately 75,000 teachers. In addition, DOE employs non-pedagogical employees who assist in all aspects of maintaining, administering and operating the schools.

DOE has established SIPPs to facilitate the purchase and payment of non-recurring OTPS items of up to \$5,000. So long as a payment is within the established dollar limit, SIPPs can be used to pay a vendor for small incidental purchases or for the procurement of goods and services when either the PO or requisition method of purchase is not practical. It is also a mechanism which provides reimbursement to a DOE employee for the purchase of small over-the-counter items (emergency purchases) as well as any other business-related expense (e.g., travel). Frequent uses of SIPPs include:

- Emergency purchases;
- Admission and conference registration fees;
- Postage;
- MetroCards for public transportation;
- Reimbursements to DOE employees for “business related” expenses, including travel and conference expenditures for staff attending a non-DOE conference or meeting;; and
- Reimbursements to parents, students, or other non-DOE employees for out-of-pocket expenses, anticipated out-of-pocket expenses, or for school/office based work.

In addition, because from April through the end of every school year, POs cannot be generated due to the end of DOE’s encumbrance period, SIPPs are the primary payment method utilized by schools for purchases of \$5,000 or less.

Prior to May 2015, DOE operated approximately 60 CFNs designed to provide schools throughout the City with instructional and operational support, including support regarding SIPPs. Starting in May 2015, CFNs were replaced by BFSCs, which officially began operations in July 2015. Much like the CFNs, BFSCs provide integrated support to schools across areas of instruction and operations, including finance (which include SIPPs) and human resource support.

SIPPs are entered into the Financial Accounting Management Information System (FAMIS) by a designated initiator.³ Subject to the SIPP dollar amount, the transactions are automatically routed through FAMIS for the required approvals. SIPPs up to and including \$500 are approved at the school level by the school’s designated approver; usually a principal or assistant principal.⁴ SIPPs above \$500 through \$2,500 can only be approved by the principal. These payments are then routed through FAMIS for approval by a designated official at an oversight entity providing instructional and operational support to the school. During the period covered by this audit, the oversight entity for the sampled schools was CFN 404. Transactions above \$2,500 through \$5,000 are approved by the school, and then routed in FAMIS for approval by both the support entity (in the case of our sampled schools, that was CFN 404) and by an official from the Division

³ For reporting purposes, the school secretary will be referenced as the designated initiator of SIPPs into FAMIS.

⁴ For reporting purposes, the school principal will be referenced as the designated approver of SIPPs at the school level.

of Financial Operations (DFO).⁵ Employee reimbursements for travel outside the City are entered into the Travel Reimbursement and Approval Certification system (TRAC – a component within FAMIS) prior to the event. After the event, the transaction details are updated so that the employee is reimbursed using a SIPP for actual expenses incurred.

During Fiscal Year 2014, DOE’s schools spent approximately \$24 million using SIPP transactions, of which \$754,623 was spent by the 32 schools supported by CFN 404. Of this amount, the five schools in the audit sample spent a total of \$304,597 (40 percent) in SIPPs, as shown in Table I below.

Table I

Value of the Fiscal Year 2014 SIPP Transactions of the Five Sampled Schools

School Name	School Code	Borough	Value of SIPPs
Park East High School	M495	Manhattan	\$49,132
Sunset Park High School	K667	Brooklyn	\$84,393
All City Leadership Secondary School	K554	Brooklyn	\$64,984
Bronxdale High School ⁶	X508	Bronx	\$54,465
August Martin High School	Q400	Queens	\$51,623
TOTAL			\$304,597

Objective

The objective of this audit was to determine whether there were adequate controls over SIPP transactions processed by schools within CFN 404 to ensure that payments were supported and represented allowable SIPP expenditures.

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 objectives, except to the extent that school records may have been tainted following apparent interference in the audit process by a CFN 404 official, and also to the extent that CFN 404 lacked records as detailed below.

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.

⁵ DFO’s mission is to support the administrative and instructional needs of DOE by utilizing state of the art technologies and proven financial systems to effectuate accurate financial reporting and simple cost effective operating processes.

⁶ The school is also known as District 11 High School #1.

Interference by a CFN 404 Official

Based on our interviews with numerous DOE school employees, and evidence provided to our office, it appears that CFN 404 personnel interfered with our audit. DOE procedures require that the CFN conduct a review of supporting documentation *prior* to approving SIPP payments greater than \$500. CFN 404's compliance with this requirement was one of the subjects of our audit. However, as is described in more detail below, on January 23, 2015, just prior to our first scheduled meeting with CFN 404 personnel, an official contacted all five of our sampled schools via e-mail and requested copies of the SIPP documentation for *all* transactions \$500 and greater processed in Fiscal Year 2014 and part of Fiscal Year 2015—the exact time period for which we had requested records of SIPP transactions from DOE. In follow-up e-mails between CFN 404 personnel and the five sampled schools, CFN 404 personnel identified additional documents that the schools needed to provide, including bids, agendas and attendance sheets.

As a result of these communications, we have no assurance that the documents we received from DOE supporting the sampled SIPP transactions of more than \$500 were actually reviewed in accordance with DOE policy prior to the approvals having been given. In addition, to the extent that the documents were specifically requested, these follow-up requests could have been seen by the recipients as an indirect request for schools to generate them. Accordingly, as a result of the CFN 404 official's actions, we have no assurance that CFN 404 consistently followed established DOE procedures and conducted reviews of supporting documentation prior to approving SIPP payments greater than \$500.

The audit scope was Fiscal Year 2014 (July 1, 2013, through June 30, 2014). Please refer to the Detailed Scope and Methodology at the end of this report for specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in the audit were discussed with DOE officials during and at the conclusion of this audit. A preliminary draft report was sent to DOE and discussed at an exit conference held on November 12, 2015. On November 24, 2015, we submitted a draft report to DOE officials with a request for comments. We received a written response from DOE officials on December 11, 2015.

In its response, DOE generally agreed with the audit's findings and agreed with eight of the audit's thirteen recommendations. DOE partially agreed with the remaining five recommendations pertaining to updating its SLT regulations, using correct object codes, recouping payments for unsupported and disallowed SIPPs, using contracted vendors and adhering to DOE's petty cash policy. For three of these five recommendations, DOE either did not indicate the portion of the recommendation with which it disagreed or contended that the practice was already in place.

The full text of DOE's response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

This audit found that DOE has not implemented adequate controls over SIPP transactions processed by the five schools we sampled within CFN 404 to ensure that payments were adequately supported and represented allowable SIPP expenditures. The weaknesses we found affected approximately \$79,200 (26 percent) of the \$304,597 in SIPP expenditures at the five schools we sampled during the audit period. We found insufficient reviews at the school and CFN levels to ensure that applicable procedures were followed. We believe that these weaknesses contributed to the multiple deficiencies we identified, including unsupported SIPP payments; the inappropriate use of SIPPs; and lack of evidence that required bidding procedures were consistently followed.

While the amounts of the expenditures made on any one occasion are small (\$5,000 or less), the aggregate amounts expended through SIPPs system-wide throughout DOE was approximately \$24 million. Accordingly, weak controls and enforcement by DOE could potentially result in significant amounts of DOE funds being misspent. Further, the weaknesses we found increase the risk that fraudulent or disallowed purchases may be made through SIPPs.

Table II, below, shows a breakdown of the deficiencies by the sampled schools.

Table II

Breakdown of Deficiencies Identified at the Sampled Schools

Deficiency	Park East High School	Sunset Park High School	All City Leadership Secondary School	Bronxdale High School	August Martin High School	Total
Missing Supporting Documentation	X	X	X	X	X	5
Required Bids Not Always Obtained	X		X	X	X	4
Split Transactions (Payments and Purchases) Identified	X	X	X	X	X	5
Incorrect Object Codes Used	X	X	X	X	X	5
Inappropriate Payment of Sales Taxes	X			X	X	3
Inappropriate Use of SIPPs	X		X		X	3
Total	6	3	5	5	6	

These issues are discussed in more detail in the following sections of this report.

Inadequate Controls over SIPP

Limited Evidence of Reviews

We found limited evidence that the CFN 404 officials performed any reviews of the SIPP transactions prior to approving them. Thus, we have no assurance that as much as \$66,556 in SIPP payments for the five schools we sampled were made in accordance with DOE rules and utilized for approved purposes.

According to DOE's procedures, all equipment, supplies and services purchased with DOE funds must serve DOE's educational and/or administrative programs, while complying with legal bidding and administrative contractual requirements. To ensure that funds are spent responsibly, all OTPS purchase documents must be authorized by at least one and sometimes more than one DOE official, who is required to certify that a school needs the goods and services being ordered to conduct the educational or administrative program, and that they have been purchased in accordance with all DOE rules and regulations, including bidding and contracts. In a school, the authorizing official is usually the principal or his/her designee.

According to DOE's OTPS Purchases Standard Operating Procedures (SOP), adequate supporting documentation should be on file prior to paying for goods and services. CFN 404 officials informed us that each SIPP transaction over \$500 is reviewed by their office prior to approval in FAMIS, and that all supporting documentation is requested from the school and maintained on file for six years. CFN officials stated that they also generate reports of SIPP transactions and use those to perform periodic reviews. However, they provided us with no evidence that such reviews were actually performed.

Based on the CFN 404's failure to produce evidence of reviews and on the requests referred to above by a CFN 404 official at the outset of this audit for copies of the documentation that the CFN was required to review *prior* to approving the purchases being audited, we cannot be reasonably assured that the CFN routinely requested documentation from schools before approving SIPPs. Specifically, as noted above, on January 23, 2015, prior to our initial walkthrough with CFN 404 officials on January 29, 2015, a CFN 404 Operation's Manager contacted all five of our sampled schools and requested the supporting documentation for all SIPP transactions processed in Fiscal Years 2014 and the beginning of 2015 valued at \$500 and above. In follow-up e-mails to the schools, the Operations Manager informed them that more documents were needed, including bids, agendas and attendance sheets.

The CFN 404 official who sent these emails informed us that she contacted the schools to make sure that they had all their files in order and ensure that schools were in compliance with DOE procedures. However, if the requisite reviews had been conducted at the time that the SIPP transactions were originally approved, the documents she was now requesting should have been on file at the CFN and there would have been no need to request them, in some instances, a year after the approvals were given.

Moreover, the deficiencies we identified during this audit suggests that in those instances when the CFN 404 *did* obtain such documents, it generally did not conduct an adequate review. For example, we obtained e-mails dated January 28, 2015, detailing communications between a CFN 404 official and All City Leadership Secondary School (ACLS) in which CFN 404 requested additional information and an explanation justifying a split payment created in September 2013. The e-mail stated that "the auditors will certainly question this expenditure and I do not have a valid reason/justification." The school replied that documentation was faxed to CFN 404 in

September 2013, and ultimately approved by the CFN. ACLS essentially stated that if there were any questions regarding the SIPP, the CFN officials should have posed them back in September 2013. The fact that the CFN 404 official was just now for the first time questioning the justification for the purchase suggests that no review or an inadequate review was conducted by CFN 404 prior to the approval.

As a result of the CFN official's request for supporting documentation *after* we engaged the audit and the deficiencies discussed later in this report, we have no assurance that the CFN performed an adequate pre-approval review of supporting documentation when it approved SIPP payments. In the absence of adequate monitoring and oversight by the CFN (or succeeding designated oversight entity), there is an increased risk that schools may be using SIPPs in an improper manner and that such use may go undetected.

Starting in May 2015, CFNs began transitioning these responsibilities to the BFSCs, which officially began operations in July 2015. Our recommendations concerning these issues therefore relate to the BFSCs.

Recommendations

1. DOE should ensure that the BFSCs review SIPP transactions prior to approval to confirm that SIPPs were appropriately used, that the transactions are adequately supported, and that they comply with DOE's purchasing policies and procedures.

DOE Response: "The DOE agrees with this recommendation. The new BFSC procurement support staff are being reminded that any school SIPP transaction requiring BFSC approval are to only be approved when in compliance with DOE purchasing policies and supported by sufficient and appropriate back-up documentation."

2. DOE should ensure that the BFSCs conduct periodic reviews of the schools' SIPP transactions and generate necessary reports to identify possible deficiencies, such as questionable patterns, trends, or excessive use of non-contracted vendors.

DOE Response: "The DOE agrees with this recommendation. The Office of Field Support (OFS) will work with the Division of Financial Operations (DFO) to create reports identifying schools whose SIPP transactions indicate potential non-compliance with purchasing policies and procedures. The BFSC staff will utilize these reports to guide school outreach and trainings of purchasing staff on the proper utilization of SIPPs."

3. DOE should ensure that the BFSCs provide real-time support to schools and provide feedback regarding any deficiencies identified when reviewing SIPP transactions.

DOE Response: "The DOE agrees with this recommendation. Where improper use of SIPPs are identified, BFSC will remind school staff of the proper procedure to be followed. Additionally, as stated in the response to recommendation two, BFSC staff will also work collaboratively with schools to train purchasing staff. As necessary, they will also follow up with schools as a result of reviewing SIPP reports designed by the DOE."

Schools Did Not Consistently Follow Rules Governing SIPPs

Inadequate Supporting Documentation

Our review of the 233 sampled SIPP transactions⁷ found that 129 (55 percent) transactions totaling \$53,564 (43 percent of total sampled value of \$124,426) lacked supporting documentation (e.g., receipts/invoices, proof of payment, and for food purchases related to meetings, agendas and attendance sheets) at the schools.

According to DOE's OTPS policy, adequate supporting documentation should be on file prior to paying for goods and services. This includes all purchase-related documentation, such as invoices, packing slips or similar records used to verify delivery and/or receipt of materials and services, and bid documentation. DOE rules require that these be maintained on file for at least six years. It is the principal's responsibility to ensure that the SIPP purchases and payments are adequately supported, and that records are properly maintained and safeguarded.

Of the 129 SIPP transactions lacking supporting documentation, two schools were unable to locate any documentation for 40 (31 percent) SIPP transactions totaling \$12,953—30 from Park East High School (Park East) and 10 from August Martin High School (August Martin). Without the supporting documentation, we were unable to verify what was actually purchased, that it was for school-related purposes, that the payment amount and object codes charged were correct, and that sales tax was not paid. According to Park East officials, Fiscal Year 2014 documents, which fell within this audit's scope, were not properly maintained and filed by the former secretary. At August Martin, we were informed by the school's principal that a leak in a school office had damaged and destroyed many of the school's documents and inferred that any missing records were most likely among the items destroyed.

The remaining 89 SIPP transactions, totaling \$40,611, lacked sufficient supporting documentation, such as proof of payment (i.e., credit/debit card statements), original receipts/invoices, completed remuneration request forms,⁸ attendance sheets and agendas. Because of the insufficient documentation, we were not able to determine whether the SIPP payments were always justified and in some instances, determine whether the money reimbursed to individuals was warranted.

Examples of unsupported payments we found include:

- Unsupported SLT payments for a total of 18 SLT members at Park East, Sunset Park High School (Sunset Park), and Bronxdale High School (Bronxdale) amounting to \$1,980.⁹ The amounts received by 15 SLT members did not adhere to DOE's rate policy; all 15 members were paid the full \$300 without serving the required 30-hour minimum. The remaining three SLT members did not record the number of hours for the service dates

⁷ Our sample selection consisted of 255 SIPP transactions. However, during our sample testing, we identified split transactions, which are apparently single transactions that were broken down into multiple payments of \$5,000 or less or multiple individual purchases from the same vendor on a single day or several days close together of under \$5,000, each paid with a separate SIPP. In addition, we found transactions that were processed with multiple lines to account for different funding sources. As a result, we are reducing the number of individual transactions for reporting purposes from 255 to 233 to avoid duplicate counting of identified issues.

⁸ The remuneration request forms are used by the School Leadership Team (SLT) members to request compensation for their hours of service. The SLTs function in a collaborative manner and assist in the evaluation and assessment of a school's educational programs and their effect on student achievement, and consist of school employees, parents, students and community leaders.

⁹ According to Chancellor's Regulation A-655, each school year SLT members are entitled to the full remuneration amount of \$300 when they perform at least 30 hours of service, or a remuneration on a pro-rata basis if the minimum of 30 hours are not fulfilled. To request the remuneration, members must complete an Annual SLT Remuneration Request Form, indicating their service dates and the hours served.

indicated on their request forms, and therefore we have no support in the records for the hours claimed, or the actual amounts that they were entitled to receive. In addition, we found that one school, Sunset Park, used an incorrect rate supplied by a CFN 404 official, resulting in two SLT members being underpaid a total of \$123.

- Sixteen unsupported reimbursements to six employees at August Martin totaling \$6,031, as follows:
 - Six reimbursement payments, totaling \$2,327, to two employees for multiple purchases of food and groceries for the school's culinary arts program made with a credit/debit card; there was no credit/debit card statement on file documenting that the employee made the purchase and was owed the reimbursement.
 - Seven reimbursement payments, totaling \$3,056, to a third employee for the purchase of sports equipment, uniforms and banners; there were no proofs of delivery or proofs of payment on file.
 - Three travel-related reimbursements, totaling \$648, to three other employees, for expenses incurred at a January 2014 School Reform Initiative Conference held in Boston, MA; there were no proofs of payment on file.
- Partial tuition reimbursement¹⁰ to a Sunset Park employee totaling \$2,499; we were unable to confirm whether the tuition was for classes taken and paid for by the employee because there was no name indicated on the provided school transcript or on the bank statement in the file that showed a payment to the school.

Further, regarding the 2014 conference held in Boston and attended by August Martin employees, we identified an additional \$1,471 in receipts that were submitted by three of the four sampled employees. In the absence of supporting documentation, we could not determine whether these expenses had already been paid by DOE or whether duplicate payments were possibly made using other payment methods.

Lack of Evidence of Bidding

Our review determined that the sampled schools did not always adhere to DOE's bidding requirements. When bidding requirements are circumvented, schools may not obtain the most competitive price for the purchased goods and services.

DOE's procedures require that schools solicit multiple bids for commodities (i.e., school supplies and food) and document the bidding process for all purchases over \$250. The bids must either be solicited in writing or verbally over the telephone from the vendor and documented by using DOE's *Telephone Bid Summary Form* or some other comparable document. Further, DOE's procedures state that "when the aggregate amount, within the same fiscal year with the same vendor exceeds \$2,500 bids are required."

Of the 193 sampled SIPP transactions reviewed that had supporting documentation,¹¹ 31 transactions (from all five sampled schools) totaling \$23,368 met the dollar value threshold for which bids should have been obtained. Of these, there was no evidence that the bidding requirements were followed at four of the five sampled schools for 23 (74 percent) transactions valued at \$17,495 (75 percent).

¹⁰ To comply with DOE's professional development requirement for highly qualified teachers, Sunset Park set aside funds to pay portions of its teachers' tuition.

¹¹ As discussed above, 40 transactions we sampled had no supporting documentation.

Also, while reviewing the Fiscal Year 2014 SIPP transactions of all CFN 404 schools, we identified a sixth school that was not in our sample—Academy of Urban Planning High School (Urban Planning)—that processed a large number of recurring SIPP payments, totaling \$14,850, to a vendor without any contract reportedly for weekly African and Caribbean drum workshops. In addition, we learned that Urban Planning paid this vendor an additional \$14,725 in Fiscal Year 2015. Based on the amount of money paid to a single vendor for these weekly workshops, Urban Planning should have solicited competitive bids for the services. Although requested, DOE officials have provided no evidence that the schools conducted any bidding for these services or entered into any agreements/contracts with this vendor.

Split Transactions Identified

Split purchases are expressly prohibited by DOE rules because they can be used to circumvent DOE’s bidding requirements, which are intended to help ensure that schools are obtaining the lowest possible price for goods and services. In addition, split transactions may circumvent the FAMIS approval policies, which require that all transactions over \$500 be approved by the school’s oversight body (which was CFN 404 during the audit period reviewed), and that those over \$2,500 also be approved by the DFO. These additional levels of approval are intended to help ensure that purchases are for an educational need and conform to purchasing regulations and procedures. By splitting transactions, these controls are negated, increasing the risk that inappropriate and unauthorized purchases could occur.

Our review identified 12 split transactions among the five sampled schools totaling \$27,737—seven split payments (billing) totaling \$17,681,¹² and five split purchases totaling \$10,056. We identified a split payment (billing) where we found a single purchase of goods or services with one invoice that was paid using multiple SIPPs. We identified a split purchase where we found two or more purchases of the same goods or services from the same vendor on the same day or over several days, and each paid using a separate SIPP.

DOE’s OTPS policy clearly sets out the prohibition on split purchases. DOE’s OTPS Purchases SOP states that, “it is impermissible to attempt to circumvent the purchasing thresholds by making multiple awards [purchases] to the same vendor within the same fiscal year.” In addition, in reference to “split billing,” the procedure requires that employees “complete the purchase with one vendor in one transaction [and should not make] multiple payments for one purchase.”

Incorrect Object Codes Charged

Schools did not ensure that the appropriate object code was charged to accurately reflect the nature of the goods or services being purchased. Object codes are established as part of the City’s and DOE’s accounting system to identify the category of each OTPS expenditure. Our review found that one quarter of the SIPP payments sampled were charged to the wrong object codes.

Comptroller’s Directive #24, §6.0 states, in part: “Payment voucher approvers must ensure that the appropriate accounting and budget codes are being charged. This includes charging the correct unit of appropriation¹³ and correct object code within that unit of appropriation.” The use

¹² The \$17,681 includes five payments each of \$2,240 for one August Martin invoice totaling \$11,200. These five payments were created on June 30, 2014; however, four of the five payments were approved by the CFN in Fiscal Year 2015, beyond our audit scope period.

¹³ A unit of appropriation is the amount of money allocated to an agency’s operating budget representing the amount that can be spent for a particular program, purpose, activity or institution.

of the correct object code allows the agency to categorize the type and amount of a particular expense item within a fiscal year. Among other things, this information can be used to generate the year-end reports that identify expenditure patterns. The use of incorrect object codes can compromise management's ability to assess expenditure patterns and to properly plan future budgets. In addition, there is an increased risk that incorrect object codes may be used by schools to hide spending that is excessive, or for items not typically allowed to be purchased using SIPPs.

Our review of 193 sampled SIPP transactions revealed that 48 (25 percent), totaling \$17,978, were charged to the incorrect object codes. School officials informed us that there are times during the school year that they must use an incorrect object code if goods or services are needed and sufficient funds are not available in the appropriate object codes. During the audit, we learned that in March of every school year, the schools' budgets are frozen and cannot be modified by the schools, including transferring funds between object codes. Thirty of the 48 SIPP transactions, totaling \$11,005, that were charged to the incorrect object codes were processed after budgets were frozen in March 2014.

Principals can request a budget modification to transfer available funds between object codes after the March freeze date so that purchases can be correctly categorized with the appropriate object codes. According to DOE officials, a "school can propose a budget modification need with their budget liaison, who in turn will raise issue with Office of School Support for possible exception processing. If the action is deemed absolutely necessary and the delay was beyond school control, permission for a modification can be made if there is a programmatic or instructional need." However, according to school officials, this can be a lengthy process without any guarantee that the request will be approved. The significant percentage of transactions that were charged to incorrect codes may be an indication that the schools' budgets do not accurately reflect the schools' operational needs. By using incorrect object codes, a school's true budget spending patterns will not be accurately reflected and future budgeting will more likely not be accurate as a result.

Sales Taxes Incorrectly Paid

The City of New York is exempt from sales tax. This exemption applies to purchases made by DOE officials during the performance of their duties for sanctioned school purposes. According to DOE's procedures, to claim sales tax exemption, schools must present their tax-exempt certificates to vendors when purchases are made.

Of the 233 sampled SIPP transactions, we were able to verify that taxes were correctly omitted for only 175 (75 percent) of them. The remaining 58 transactions were made at three sampled schools—Bronxdale, August Martin, and Park East. Of these 58 transactions, school officials were unable to provide any supporting documents for 49 of them. Accordingly, we are unable to confirm that the schools properly utilized their tax-exempt status and did not pay sales tax. Of the remaining nine transactions, we determined that taxes totaling \$159 were incorrectly paid.

Paying sales tax is an unnecessary expense which reduces the amount of money available for other necessary purchases.

Inappropriate Use of SIPPs

Athletic Equipment Purchases

Our review found instances where athletic equipment and uniforms were incorrectly purchased using SIPPs. According to DOE procedures, “all athletic equipment MUST be purchased through the contracted vendor [and] all orders are to be placed through FAMIS portal.” Further, DOE officials informed us that SIPPs should not be used for the purchase of team and club uniforms.

However, we found four employee reimbursements totaling \$1,426—three at August Martin and one at Park East—for the purchase of sports equipment and uniforms that occurred prior to April 2014, the end of the encumbrance period. Thus, these purchases could have been made using approved DOE procedures. Specifically, these items should have and could have been purchased using POs and from one of DOE’s contracted vendors, where the prices and sales conditions have already been negotiated. In addition, we identified another two employee reimbursements at August Martin to the same employee for additional sports uniform purchases from non-contracted vendors totaling \$1,175. Although SIPPs could be used, because the purchases were made in May 2014 (after the encumbrance period ended), contracted vendors should have been used. There were ten DOE requirements contracts for the purchase of athletic supplies and equipment, and five for the purchase of sports uniforms that possibly could have been used.¹⁴ The schools should have used one of the contracted vendors instead, unless it could be shown that they were able to obtain the items at a lower cost. The schools provided no evidence indicating this was the case for these purchases.

Replenish Petty Cash Fund

We also identified a \$500 SIPP transaction incorrectly used at ACLS to replenish its Petty Cash Fund. According to DOE officials, a SIPP cannot be used to fund a school’s Petty Cash Fund. Although the money appeared to have been used to eventually purchase stamps, which is an allowable SIPP expenditure, the \$500 SIPP payment was processed in the school secretary’s name. The SIPP was processed on June 3, 2014, to cover three stamp purchases made on three separate days--\$231 on May 29, 2014, \$27 on August 21, 2014, and \$255 on September 17, 2014. Therefore, at a minimum, \$269 (\$500 SIPP payment less the \$231 stamp purchase) was maintained in the school’s Petty Cash Fund for over three months until the additional stamps were purchased in August and September 2014. However, as is discussed in the Other Matters section of this report, we were unable to properly follow the trail of the funds as the school did not maintain adequate documentation of its petty cash transactions.

Recurring Payments

We identified seven reimbursement payments totaling \$3,500 (including \$2,000 from four sampled transactions) paid to two ACLS assistant principals for monthly payments they each made to a website management company (a vendor that does not have a contract with DOE) that manages the school’s website. However, according to DOE’s procedures, SIPPs are not to be used for recurring purchases and should only be used when encumbering a PO is not feasible or practical. The procedure also states that SIPPs must not be used as the method to pay individuals for professional or other services. Rather than reimbursing employees for payments to this vendor, the school should have created a purchase document in FAMIS to encumber the funds, and allocated the money from the school’s budget to pay the vendor directly. Because DOE had a requirements contract in place for “Creative Web Design and Support Services,” the school

¹⁴ We were unable to determine whether the prices paid for the items purchased were higher than the contracted vendors’ prices.

should have used this contracted vendor instead, unless it could be shown that they were able to obtain the services at a lower cost. The school provided us with no such evidence that this was the case.

Further, as discussed above, Urban Planning (a sixth school) processed a large number of recurring SIPP payments to a non-contracted vendor for weekly African and Caribbean drum workshops. During Fiscal Year 2014, Urban Planning generated 39 SIPP transactions to this vendor for a total of \$14,850. This expenditure constitutes 38 percent of the \$38,800 in total SIPP payments processed by the school during the entire fiscal year. The school continued to use the consultant in Fiscal Year 2015, and paid him an additional \$14,725: \$1,375 using a PO and \$13,350 using SIPPs. Although Urban Planning processed a PO in Fiscal Year 2015 for a small portion of the services provided, the school should have processed a PO in Fiscal Years 2014 and 2015 to encumber the funds for the total amount of the yearly estimated payments.

Reimbursement for Alcohol Purchases

Our review of the 193 SIPP transactions identified four August Martin personnel that were reimbursed for their alcohol purchases, totaling \$195, while attending an overnight educational conference in Boston.

According to DOE's SOP on Travel and Conferences, any costs incurred for alcoholic beverages are not to be paid using DOE funds. While the conference may support professional development for improved school services, the purchase of alcoholic beverages should never be reimbursed. It is important that school personnel be reminded of this policy and ensure that principals do not approve the payment or reimbursement of alcoholic purchases. The reimbursement of alcoholic purchases may not have been limited to only these four employees; there were other employees who attended this educational conference, but their purchases were not part of our sampled transactions. DOE officials should review the reimbursement payments for travel expenditures and recoup any monies paid for alcoholic beverages.

Overall Conclusion

A failure to provide adequate training may account for the failures we identified in this audit of school personnel to follow DOE's procurement policies and procedures. School staff were unable to answer basic questions regarding SIPP-related procedures and also appeared unaware of certain FAMIS features. School staff generally did not appear to be aware that SIPPs over \$500 and up to \$5,000 could be processed. Additionally, some school personnel were unaware that multiple line items could be processed within one SIPP to differentiate between different object codes within the one transaction, or that split transactions were not allowed. Furthermore, some personnel seemed unaware that supporting documents could be scanned into FAMIS.

Recommendations

4. DOE should ensure that the schools obtain and maintain adequate supporting documentation on file, including travel-related documentation, prior to processing and approving SIPP requests.

DOE Response: "The DOE agrees with this recommendation. In addition to the aforementioned trainings, schools will be reminded via the DOE's Principal Weekly publication and Purchasing Press (a publication sent to all procurement staff in schools) of the requirement to obtain and maintain supporting documentation prior to any SIPPs being entered for processing and approval. This will include a reminder on travel-related

documentation needing to be provided and reviewed prior to SIPP approval being requested.”

5. DOE should update its SLT regulation to clearly state the pro-rata basis of \$10 per hour and ensure that the schools adhere to this regulation.

DOE Response: “The DOE partially agrees with this recommendation. Chancellor’s Regulation A-655 clearly states that the annual remuneration is \$300 for the completion of 30 hours of service and that team members who serve less than 30 hours may request remuneration on a pro-rata basis. The DOE will meet to discuss if changes to the Standard Operating Procedures (SOP) language are warranted to provide additional clarity. Additionally, the DOE will modify the School Leadership Team (SLT) stipend form to include the guidelines for paying SLT members for the full 30 hours, or for those who serve less than 30 hours.”

Auditor Comment: We found that there was some confusion among the schools sampled as to the correct reimbursement amounts. As stated previously, 15 SLT members were each paid \$300 although they did not serve the full 30 hours and one school (Sunset Park) used an incorrect rate—reportedly supplied by a CFN 404 official—that resulted in two SLT members being underpaid. Accordingly, we urge DOE to adopt this recommendation as stated.

6. DOE should ensure that bidding requirements are adhered to for all purchases meeting the dollar value thresholds, and that appropriate bidding documentation is maintained on file to evidence the bidding.

DOE Response: “The DOE agrees with this recommendation. As stated in the response to recommendations one and two, BFSC procurement staff are being reminded not to approve transactions which do not adhere to DOE purchasing policies and procedures – this includes DOE bidding requirements. The mandating of scanned supporting documentation will also allow the BFSC to quickly ascertain if a bidding form was provided, or if follow up is needed with the school to attain the missing documentation. Audits and reviews will also take into account bidding thresholds when selecting items to test.”

7. DOE should ensure that split transactions are not processed and approved.

DOE Response: “The DOE agrees with this recommendation. The DOE’s trainings for BFSC will include a discussion on inappropriate split transactions. If discovered during the BFSC review, staff will follow up with schools who may have processed transactions which are not in accordance with DOE purchasing policies.”

8. DOE should ensure that the correct object codes are used when generating a SIPP transaction.

DOE Response: “The DOE partially agrees with this recommendation. As stated in recommendations one and two, BFSC procurement staff are being reminded to consider which object codes are being utilized when reviewing SIPP payment submissions. Training will include object code definitions (available on the DOE website) and how to process a budget modification if necessary. Post audit and reviews of SIPPs will include an analysis of object codes. The DOE will also reevaluate which codes should be included for use with SIPPs.”

Auditor Comment: It is unclear from DOE’s response the portion of the recommendation with which it does not agree. Nevertheless, we are pleased that officials

agree to take steps to ensure that the appropriate object codes are used for SIPP transactions.

9. DOE should ensure that schools immediately stop the practice of paying and reimbursing for the payment of sales taxes, and that the appropriate tax-exempt certificates are used when making applicable purchases.

DOE Response: “The DOE agrees with this recommendation. When BFSC’s reviews uncover sales taxes paid, they will follow up with schools to discuss the finding and implement corrective actions. The DOE’s tax exempt status will also be discussed during the aforementioned trainings.”

10. DOE should recoup payments identified in this report for 1) reimbursements it deems disallowable and 2) unsupported SIPP transactions for which it is unable to verify that the goods or services were provided.

DOE Response: “The DOE partially agrees with this recommendation and will conduct a review of the more egregious cases of misuse identified by the Comptroller to consider recoupment. The DOE will also review the Comptroller’s findings to identify which schools would benefit from onsite BFSC training and which could benefit from internal audit.”

Auditor Comment: We believe that in those cases where reimbursements were made inappropriately or where DOE is unable to verify that goods or services were provided, recoupment should be made. Accordingly, we urge DOE to implement this recommendation in its entirety.

11. DOE should ensure that its contracted vendors are used by its schools, unless it can be documented by the schools that the needed goods and services could be purchased from another vendor at a lower cost.

DOE Response: “The DOE partially agrees with this recommendation. After the April purchase order deadline, schools’ means to purchase items is limited. However, with the end of the school year being two months away from the purchase order deadline, purchasing needs continue to exist. For these reasons the DOE has to carefully gauge what controls to put in place to ensure the minimization of administrative burden and disruption to student programs. Nonetheless, for items requiring use of a contracted vendor (*i.e.*, gym equipment), BFSC procurement staff will be reminded to question, for restricted items, why a contracted vendor was not used and request that reason. Additionally, BFSC staff will be advised that proof of the purchaser identifying a lesser price needs to be evident.”

Auditor Comment: It is unclear from DOE’s response the portion of the recommendation with which it does not agree. Nevertheless, we are pleased that DOE intends to remind its procurement staff that schools are to use contracted vendors unless it can be documented that the needed goods or services are available from another vendor at a lower cost.

12. DOE should provide a refresher training class on DOE’s procurement process to all appropriate DOE school personnel responsible for processing purchases and payments in FAMIS, including SIPP transactions.

DOE Response: “The DOE agrees with this recommendation. As stated in recommendation four, schools will be reminded via newsletter publications and training sessions of the purchasing and payment policies as well as the procedures including SIPP requests.”

Other Matters

Non-adherence to DOE's Petty Cash Policy

ACLS did not adhere to DOE's Petty Cash Policy. As is mentioned above, although the school processed a SIPP payment on June 3, 2014 in the amount of \$500 in the school secretary's name with the intent to purchase stamps, there was over \$200 maintained in the school's Petty Cash Fund for at least three months, until the \$255 stamp purchase made on September 17, 2014. This was in violation of DOE's Petty Cash Policy, which states that cash on hand should not exceed \$200.

In addition, we found that the school did not maintain a Cash Disbursement Journal tracking the disbursements; instead, the school used the face of the envelope that held the money to track the petty cash use. Therefore, we were unable to properly follow the trail of the funds as the school did not maintain adequate documentation of its petty cash transactions. If a Petty Cash Fund is maintained by the schools, school principals should ensure that DOE's procedures governing petty cash are followed, and ensure that adequate records are maintained and that excessive petty cash is not kept on hand, which could be subject to misuse and theft.

Recommendation

13. DOE should ensure that its schools adhere to its Petty Cash Policy and that they maintain an adequate log (journal) of the cash receipts and disbursements.

DOE Response: "The DOE partially agrees with this recommendation. The DOE agrees to continue to ensure that schools adhere to its Petty Cash Policy, however, the DOE feels that this is adequately done already. We do not believe that the one instance cited by the Comptroller is indicative of a systematic behavior at DOE schools."

Auditor Comment: DOE fails to acknowledge that the instance cited—a school exceeding the Petty Cash fund limit for at least three months—comes from a very small sample size of only five schools. Furthermore, this audit did not include a formal assessment of schools' compliance with DOE's Petty Cash Policy; this instance only came to our notice because one of the sampled schools used a SIPP to replenish the Petty Cash Fund. Had this audit included an assessment of petty cash use, and if the sample size had been larger, it is possible that we would have identified more schools that did not consistently comply with DOE's Petty Cash Policy.

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 objectives, except for the possible tainting of school records because of CFN 404 interference, as well as the lack of CFN 404 records. This issue is detailed in the following paragraphs. 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.

Interference by a CFN 404 Official

Based on our interviews with numerous DOE school employees, and evidence provided to our office, it appears that CFN 404 personnel interfered with our audit. On January 23, 2015, just prior to our first scheduled meeting with the CFN, an official contacted all five of our sampled schools via e-mail requesting SIPP documentation for *all* transactions \$500 and greater processed in Fiscal Year 2014 and part of Fiscal Year 2015. Coincidentally, this was the same time period as our request to DOE for SIPP transactions. In follow-up e-mails, CFN personnel stated that more documents were needed, including bids, agendas and attendance sheets. These follow-up e-mails could be seen as an indirect request for schools to generate these documents after the SIPPs were processed and approved, which is against DOE policy. Due to the CFN official's actions, we have no assurance that the CFN consistently followed established DOE procedures and conducted a review of supporting documentation prior to approving SIPP payments.

The audit scope was Fiscal Year 2014 (July 1, 2013, through June 30, 2014).

To obtain an understanding of DOE's policies and procedures pertaining to SIPPs, we reviewed and used the following as criteria:

- DOE's OTPS Purchases SOP;
- DFO's SIPP Frequently Asked Questions;
- DOE's SOP, *Employee Travel Expense Reimbursement*;
- DOE's SOP, *Travel and Conferences*;
- DOE's SOP, *General School Funds and Cash Transaction*;
- Chancellor's Regulation A-655, "School and District Leadership Teams;"
- DOE's OTPS Object Codes list;
- "Welcome to FAMIS" printouts; and
- Various information relating to the SIPP process obtained from DOE's website.

To obtain an understanding of the DFO's policies and procedures pertaining to SIPPs at the central level, we interviewed the DFO's Chief Administrator, Senior Director of Operations, Executive Director, and Administrator. To further our understanding of the SIPP process at the CFN level, we interviewed the Chief Operating Officer for Cluster 4, CFN 404 Network Leader, CFN 404 Director of Operations and CFN 404 Operations Manager. In addition, we interviewed school principals and/or assistant principals and support staff responsible for processing and

approving school purchases in FAMIS at the five sampled schools to obtain an understanding of the SIPP process at the school level.

To obtain an understanding of DOE's computer database FAMIS, we conducted a walkthrough with DOE's Financial Systems and Business Operations' Computer Specialist Supervisor and DFO's Chief Administrator, Senior Director of Operations and Administrator.

In December 2014, we received a listing of SIPP transactions processed for Fiscal Year 2014 and a partial listing for Fiscal Year 2015 (up through the FAMIS acceptance date of November 28, 2014). Using the FAMIS acceptance dates, we extracted the SIPP transactions from July 1, 2013, through June 30, 2014. In total, we identified 124,622 SIPP transactions valued at \$23,975,639. To select the CFN to review, we first totaled all SIPP payments by CFN, and then sorted the CFNs by the total payments, and then by the average per school cost within each CFN. We identified two CFNs appearing in the top three of both sorts—CFN 404 and CFN 603. We judgmentally selected CFN 404 to be the focus of this audit. (An audit of DOE's controls over SIPPs at schools within CFN 603 is also being conducted by our office.)

There were 32 schools supported by CFN 404 with a total of \$754,623 in SIPP transactions; of these, we judgmentally selected the top five schools based on the total dollar of SIPP transactions (totaling \$304,597) as our sample:

- Sunset Park with 288 SIPP transactions totaling \$84,393;
- ACLS with 199 SIPP transactions totaling \$64,984;
- Bronxdale with 219 SIPP transactions totaling \$54,465;
- August Martin with 129 SIPP transactions totaling \$51,623; and
- Park East with 219 SIPP transactions totaling \$49,132.

For each of our five sampled schools, we reviewed their Fiscal Year 2014 SIPP transactions and judgmentally selected a total of 255 SIPP transactions, totaling \$124,426, for testing using the following criteria:

- Multiple vendor payments or employee reimbursements within a two-week time frame indicating possible split payments and split purchases;
- SIPP transactions just below the CFN and DFO approval amounts of \$500 and \$2,500, respectively; and
- Other inconsistencies/areas of interest including a high number of year-end payments or payments to a single individual, recurring payments, payments for professional services and payments for parent stipends.

As part of our review, we verified whether: the purchases were adequately justified and for school-related purposes (for educational or administrative purposes); adequate and original supporting documentation was on file; and the purchases and payments were in accordance with all DOE rules and regulations, including bidding and the use of DOE-contracted vendors when applicable.

In addition, while performing our review of SIPP transactions, we identified that the school with the sixth highest dollar value of SIPP transactions in CFN 404, Urban Planning, processed 39 SIPP transactions to a non-contracted vendor (an art consultant) totaling \$14,850, representing 38 percent of its total \$38,800 SIPP spending during Fiscal Year 2014. Because of the amount of recurring SIPP payments to this vendor, we reviewed the school's Fiscal Year 2015 payments to determine whether the school continued to pay the consultant, and whether it continued to use

SIPPs. In total, we identified an additional \$14,725 paid to the consultant in Fiscal Year 2015—\$1,375 using a PO and \$13,350 using SIPPs. We asked DOE officials to explain the reasons that the school used SIPPs to pay the consultant rather than creating a purchase/contract document to encumber the necessary funds, and requested evidence of bidding for these services, as well as a copy of any agreements/contracts that may have been entered into between the school and the consultant.



Raymond J. Orlando
Chief Financial Officer

December 11, 2015

Ms. Marjorie Landa
Deputy Comptroller for Audits
New York City Office of the Comptroller
1 Centre Street, Room 1100
New York, NY 10007-2341

Re: Audit Report on the Department of Education's Controls over the Small Item Payment Process of its Schools within Children First Network 404 (MD15-096A)

Dear Ms. Landa:

This letter will serve as the New York City Department of Education's (DOE) formal response to the New York City Office of the Comptroller's (Comptroller) draft report of the *Department of Education's Controls over the Small Item Payment Process of its Schools within Children First Network 404 (Report)*. The DOE generally agrees with the Comptroller's recommendations, and we offer the following response that lays out the DOE's intentions with regards to Small Item Payment Process (SIPP) management and oversight.

While it's not possible to eliminate a school's need for incidental last minute small purchases, the DOE does plan to review and adjust the parameters set for SIPPs to guide schools to utilize proper purchasing mechanisms when acquiring goods and services. Our long term goal is to return SIPPs to their intended purpose: emergency purchases, non-contractual purchases (*e.g.*, carfare, admission, trips, parent involvement and snacks), conferences, and personal reimbursement of expenses which fall within the confines of the DOE's policies for such. Guided by technological capability, the DOE strategies will include the following:

1. Train Borough Field Support Center (BFSC) staff to raise awareness around the process, controls, and permissible expenses. The BFSCs will then train and support schools to minimize incorrect uses of SIPP;

2. The DOE is working towards a financial system that will not allow a SIPP to be submitted for approval without scanned backup documentation. This increased transparency will facilitate offsite review of backup documentation;
3. Create reports geared to SIPP oversight at both the school level and across multiple schools to guide outreach, monitoring, and training;
4. Adjust the SIPP approval levels at schools to increase the level of BFSC approvals and, correspondingly, oversight;
5. Restrict the object codes where a SIPP can be used; and
6. Initiate post audits and reviews to provide assurances that the SIPP process is being used as intended, and if not, provide recommendations for improvement.

The DOE ultimately mandating that schools upload SIPP supporting documentation (e.g., receipts and bidding forms) addresses the Comptroller's audit finding concerning the DOE's inability to provide proof that documentation was available prior to SIPPs being approved. The scanning of supporting documentation will facilitate the provision and review of documentation while additionally expediting retrieval of documentation upon request.

Response to Recommendations:

To address the issues raised in the Report, the auditors recommend that:

Recommendation 1. *DOE should ensure that the BFSCs review SIPP transactions prior to approval to confirm that SIPPs were appropriately used, that the transactions are adequately supported, and that they comply with DOE's purchasing policies and procedures.*

Response. The DOE agrees with this recommendation. The new BFSC procurement support staff are being reminded that any school SIPP transaction requiring BFSC approval are to only be approved when in compliance with DOE purchasing policies and supported by sufficient and appropriate back-up documentation.

Recommendation 2. *DOE should ensure that the BFSCs conduct periodic reviews of the schools' SIPP transactions and generate necessary reports to identify possible deficiencies, such as, questionable patterns, trends, or excessive use of non-contracted vendors.*

Response. The DOE agrees with this recommendation. The Office of Field Support (OFS) will work with the Division of Financial Operations (DFO) to create reports identifying schools whose SIPP transactions indicate potential non-compliance with purchasing policies and procedures. The BFSC staff will utilize these reports to guide school outreach and trainings of purchasing staff on the proper utilization of SIPPs.

Recommendation 3. *DOE should ensure that the BFSCs provide real-time support to schools and provide feedback regarding any deficiencies identified when reviewing SIPP transactions.*

Response. The DOE agrees with this recommendation. Where improper use of SIPPs are identified, BFSC will remind school staff of the proper procedure to be followed. Additionally, as stated in the response to recommendation two, BFSC staff will also work collaboratively with schools to train purchasing staff. As necessary, they will also follow up with schools as a result of reviewing SIPP reports designed by the DOE.

Recommendation 4. *DOE should ensure that the schools obtain and maintain adequate supporting documentation on file, including travel-related documentation, prior to processing and approving SIPP requests.*

Response. The DOE agrees with this recommendation. In addition to the aforementioned trainings, schools will be reminded via the DOE's Principal Weekly publication and Purchasing Press (a publication sent to all procurement staff in schools) of the requirement to obtain and maintain supporting documentation prior to any SIPPs being entered for processing and approval. This will include a reminder on travel-related documentation needing to be provided and reviewed prior to SIPP approval being requested.

Recommendation 5. *DOE should update its SLT regulation to clearly state the pro-rata basis of \$10 per hour and ensure that the schools adhere to this regulation.*

Response. The DOE partially agrees with this recommendation. Chancellor's Regulation A-655 clearly states that the annual remuneration is \$300 for the completion of 30 hours of service and that team members who serve less than 30 hours may request remuneration on a pro-rata basis. The DOE will meet to discuss if changes to the Standard Operating Procedures (SOP) language are warranted to provide additional clarity. Additionally, the DOE will modify the School Leadership Team (SLT) stipend form to include the guidelines for paying SLT members for the full 30 hours, or for those who serve less than 30 hours.

Recommendation 6. *DOE should ensure that bidding requirements are adhered to for all purchases meeting the dollar value thresholds, and that appropriate bidding documentation is maintained on file to evidence the bidding.*

Response. The DOE agrees with this recommendation. As stated in the response to recommendations one and two, BFSC procurement staff are being reminded not to approve transactions which do not adhere to DOE purchasing policies and procedures – this includes DOE bidding requirements. The mandating of scanned supporting documentation will also allow the BFSC to quickly ascertain if a bidding form was provided, or if follow up is needed with the school to attain the missing documentation. Audits and reviews will also take into account bidding thresholds when selecting items to test.

Recommendation 7. *DOE should ensure that split transactions are not processed and approved.*

Response. The DOE agrees with this recommendation. The DOE's trainings for BFSC will include a discussion on inappropriate split transactions. If discovered during the BFSC review, staff will follow up with schools who may have processed transactions which are not in accordance with DOE purchasing policies.

Recommendation 8. *DOE should ensure that the correct object codes are used when generating a SIPP transaction.*

Response. The DOE partially agrees with this recommendation. As stated in recommendations one and two, BFSC procurement staff are being reminded to consider which object codes are being utilized when reviewing SIPP payment submissions. Training will include object code definitions (available on the DOE website) and how to process a budget modification if necessary. Post audit and reviews of SIPPs will include an analysis of object codes. The DOE will also reevaluate which codes should be included for use with SIPPs.

Recommendation 9. *DOE should ensure that schools immediately stop the practice of paying and reimbursing for the payment of sales taxes, and that the appropriate tax-exempt certificates are used when making applicable purchases.*

Response. The DOE agrees with this recommendation. When BFSC's reviews uncover sales taxes paid, they will follow up with schools to discuss the finding and implement corrective actions. The DOE's tax exempt status will also be discussed during the aforementioned trainings.

Recommendation 10. *DOE should recoup payments identified in this report for (1) reimbursements it deems disallowable and (2) unsupported SIPP transactions for which it is unable to verify that the goods or services were provided.*

Response. The DOE partially agrees with this recommendation and will conduct a review of the more egregious cases of misuse identified by the Comptroller to consider recoupment. The DOE will also review the Comptroller's findings to identify which schools would benefit from onsite BFSC training and which could benefit from internal audit.

Recommendation 11. *DOE should ensure that its contracted vendors are used by its schools, unless it can be documented by the schools that the needed goods and services could be purchased from another vendor at a lower cost.*

Response. The DOE partially agrees with this recommendation. After the April purchase order deadline, schools' means to purchase items is limited. However, with the end of the school year being two months away from the purchase order deadline, purchasing needs continue to exist. For these reasons the DOE has to carefully gauge what controls to put in place to ensure the minimization of administrative burden and disruption to student programs. Nonetheless, for items requiring use of a

contracted vendor (i.e., gym equipment), BFSC procurement staff will be reminded to question, for restricted items, why a contracted vendor was not used and request that reason. Additionally, BFSC staff will be advised that proof of the purchaser identifying a lesser price needs to be evident.

Recommendation 12. *DOE should provide a refresher training class on DOE's procurement process to all appropriate DOE school personnel responsible for processing purchases and payments in FAMIS, including SIPP transactions.*

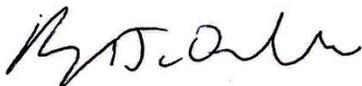
Response. The DOE agrees with this recommendation. As stated in recommendation four, schools will be reminded via newsletter publications and training sessions of the purchasing and payment policies as well as the procedures including SIPP requests.

Recommendation 13. *DOE should ensure that its schools adhere to its Petty Cash Policy and that they maintain an adequate log (journal) of the cash receipts and disbursements.*

Response. The DOE partially agrees with this recommendation. The DOE agrees to continue to ensure that schools adhere to its Petty Cash Policy, however, the DOE feels that this is adequately done already. We do not believe that the one instance cited by the Comptroller is indicative of a systematic behavior at DOE schools.

As a school system serving over 1.1 million students the DOE must carefully manage changes to its goods and services purchasing practices to minimize disruption to student programs and school culminating activities. The changes outlined in this response will require thoughtful and extensive capacity building at the new BFSCs, as well as reminders and support provided to procurement staff in the DOE's 1,800 schools. The DOE will continue to explore options to reduce SIPP use and maximize the use of purchase orders with contracted vendors. However, SIPP purchases do have their place in supporting schools receiving the goods and services needed to provide student services. The DOE is confident that the changes discussed herein will positively impact the way schools make necessary purchases.

Sincerely,



Raymond J. Orlando
Chief Financial Officer