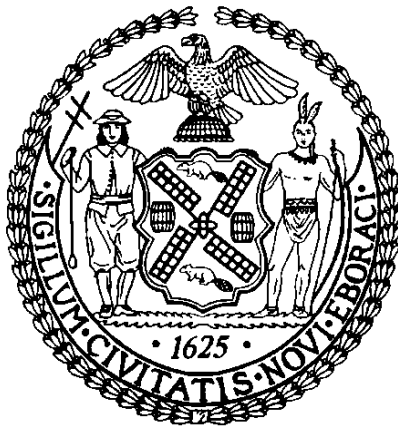


**CITY OF NEW YORK
OFFICE OF THE COMPTROLLER**

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COMPTROLLER**

BUREAU OF FINANCIAL AUDIT

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Deputy Comptroller for Audit**



**Audit Report on the Compliance of
Vanguard High School With
Department of Education Procurement Guidelines
For Small Dollar Purchases**

FM08-113A

March 18, 2010

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
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NEW YORK, N.Y. 10007-2341

John C. Liu
COMPTROLLER

To the Residents of the City of New York:

In accordance with the responsibilities of the Comptroller contained in Chapter 5, §93, of the New York City Charter, my office has audited the compliance of Vanguard High School (Vanguard) with Department of Education (DOE) procurement guidelines for small dollar purchases. We audit City agencies such as DOE as a means of ensuring that they comply with established policies and procedures.

Vanguard is one of 425 public high schools in New York City and serves approximately 380 students in grades 9-12. DOE Standard Operating Procedures (SOP) allow the use of the Small Item Payment Process (SIPP) to facilitate small dollar purchases. SIPP payments can be made directly to vendors or to reimburse employees who have already made small purchases.

The auditors could not determine whether Vanguard complied with DOE SOPs because of Vanguard's inability to provide sufficient documentation for a significant portion of the audit population. However, based on the documents provided, the auditors determined that Vanguard officials circumvented the procedures set forth in the SOPs. Vanguard officials paid a minimum of \$18,431 in questionable expenditures, processed payments without proper authorizations, circumvented the \$500 expenditure threshold, failed to maintain supporting documentation, improperly paid for prior year purchases, and used incorrect object codes to record SIPP expenditures. In addition, Vanguard officials improperly processed SIPPs by using a former school secretary's user ID for the DOE Financial Accounting Management Information System, FAMIS. Lastly, Vanguard's Principal did not safeguard his user ID and passwords for access to FAMIS and approval of SIPP transactions.

The audit made six recommendations, including that DOE investigate the validity of the questionable expenditures and determine whether the school officials misappropriated and misused the school funds, recoup the duplicate payments and any other funds that were misused, require the district's Integrated Service Center review Vanguard's SIPP expenditures to ensure compliance with SOPs, and promptly deactivate the FAMIS user ID for any staff members who have left DOE.

The results of the audit have been discussed with DOE officials, and their comments have been considered in preparing this report. Their complete written responses are attached to this report.

If you have any questions concerning this report, please e-mail my audit bureau at audit@Comptroller.nyc.gov or call my office at 212-669-3747.

Sincerely,

John C. Liu

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

**Audit Report on the Compliance of
Vanguard High School With
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AUDIT REPORT IN BRIEF

This audit determined whether New York City Department of Education (DOE) officials properly administered the small dollar purchases made through SIPP for Vanguard High School (Vanguard) and whether Vanguard made purchases in accordance with DOE rules and regulations.

DOE provides primary and secondary education to more than a million students between pre-kindergarten and the twelfth grade in approximately 1,400 schools. Its Standard Operating Procedures (SOPs) allow the use of the Small Item Payment Process (SIPP) to facilitate small dollar purchases of Other Than Personal Services (OTPS). SIPP payments can be made directly to vendors or to reimburse employees who have already made small purchases.

There are two levels of authorization for SIPP transactions. According to the SOPs for OTPS purchases, revised in March 2006, the maximum amount allowed for a SIPP purchase at the school level is \$500. In emergencies, expenditures that are more than \$500 and below \$2,500 can be processed through SIPP. However, these emergency purchases must be approved by the appropriate Integrated Service Center (ISC), the regional office that provides support services for the public schools within the district.¹

Vanguard is one of 425 high schools in the system and serves approximately 380 students in grades 9-12. Vanguard's Principal is the person authorized to approve all SIPP transactions at the school level. However, reimbursements made to the Principal must be approved by the Superintendent of the district. For Fiscal Year 2007 (July 1, 2006, to June 30, 2007), Vanguard expended \$131,452 through SIPP that consisted of 381 payments.

¹ ISCs were formerly known as Regional Operations Centers.

Audit Findings and Conclusions

We could not determine whether Vanguard complied with DOE SOPs because of Vanguard's inability to provide sufficient documentation for a significant portion of our audit population. However, based on the documents provided, we determined that Vanguard officials circumvented the procedures set forth in the SOPs. Vanguard officials paid a minimum of \$18,431 in questionable expenditures, processed payments without proper authorizations, circumvented the \$500 expenditure threshold, failed to maintain supporting documentation, paid for prior year purchases, and used incorrect object codes to record SIPP expenditures.

In addition, Vanguard officials improperly processed SIPPs by using a former school secretary's user ID for the DOE Financial Accounting Management Information System, FAMIS. Lastly, Vanguard's Principal did not safeguard his user ID and passwords for access to FAMIS and approve SIPP transactions.

Audit Recommendations

We recommend that DOE:

- Investigate the validity of the questionable expenditures mentioned in this report and determine whether the school officials misappropriated and misused the school funds.
- Recoup the duplicate payments and any other funds that were misused.
- Provide additional training to ensure that school officials follow DOE SOPs including,
 - obtaining proper authorizations.
 - complying with the \$500 expenditure threshold.
 - maintaining supporting payment documents for six years.
 - properly recording the expenses in each fiscal year.
 - using the correct object codes to record SIPP expenditures.
- Require the ISC to perform periodic reviews of Vanguard's SIPP expenditures to ensure compliance with SOPs.
- Promptly deactivate the FAMIS user ID for any staff members who have left DOE.
- Notify staff members on ways of properly safeguarding user IDs, passwords, and approval codes.

INTRODUCTION

Background

DOE provides primary and secondary education to more than a million students between pre-kindergarten and the twelfth grade in approximately 1,400 schools.

DOE's Standard Operating Procedures (SOPs) allow the use of the Small Item Payment Process (SIPP), formerly called an Imprest Fund, to facilitate small dollar purchases of Other Than Personal Services (OTPS). SIPP payments can be made directly to vendors or to reimburse employees who have already made small purchases.

A SIPP is processed through the DOE Financial Accounting Management Information System (FAMIS). There are two levels of authorization for SIPP transactions. According to the SOPs for OTPS purchases, revised in March 2006, the maximum amount allowed for a SIPP purchase at the school level is \$500. In emergencies, expenditures that are more than \$500 and below \$2,500 can be processed through SIPP. However, these emergency purchases must be approved by the appropriate Integrated Service Center (ISC), the regional office that provides support services for the public schools within the district.

Vanguard located at 67th Street and 2nd Avenue in Manhattan, is one of 425 high schools in the system and serves approximately 380 students in grades 9-12. Vanguard's Principal is the person authorized to approve all SIPP transactions at the school level. However, reimbursements made to the Principal must be approved by the Superintendent of the district. For Fiscal Year 2007 (July 1, 2006, to June 30, 2007), Vanguard expended \$131,452 through SIPP that consisted of 381 payments.

Objectives

The audit's objectives were to determine whether:

- DOE officials properly administered the small dollar purchases made through SIPP for Vanguard High School, and
- Vanguard made purchases in accordance with DOE rules and regulations.

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 our inability to obtain sufficient appropriate evidence for a significant part of our audit population. We therefore could

not determine for that part of the audit population whether Vanguard made small dollar purchases in accordance with DOE rules and regulations. This issue is more fully disclosed in the subsequent paragraph. 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.

We requested specific information to ascertain whether Vanguard's SIPP purchases were supported by adequate documentation, were related to legitimate educational purposes, and had the required authorizations and approvals. These requests included but were not limited to invoices, travel approvals, and procurement records. A substantial portion of the documentation remained outstanding at the close of the audit. As a result, we were unable to determine whether \$26,591 of the \$131,452 in SIPP payments was made in accordance with DOE rules and regulations and whether DOE officials properly administered these purchases.

The scope of this audit was Fiscal Year 2007. To achieve our audit objectives, we reviewed the SOPs related to OTPS expenditures, the DOE FAMIS manual and booklet entitled "Reimbursement of Business Expenses," and Section 6 of "Other Than Personal Service (OTPS) Object Codes" for Galaxy (a computer system) and Non-Galaxy school districts.²

To obtain an understanding of Vanguard's operations, we conducted a walkthrough of the purchasing process. We interviewed appropriate Vanguard personnel and documented our understanding of the process through flowcharts and memoranda.

To determine the total SIPP payments made by Vanguard for Fiscal Year 2007, we reconciled the list of SIPP transactions and OTPS transactions obtained from the staff of the DOE Division of Financial Operations.

To ascertain whether Vanguard officials complied with DOE procurement guidelines, we selected all SIPP payments made in Fiscal Year 2007 totaling \$131,452 (which included a total of 90 vendors or individuals). Our test was targeted for the following attributes: the appearance of possible split purchases, multiple payments for purchases over \$500, lack of invoices, food consumption, expenses for phone or Internet services, and out-of-town travel.

We examined the relevant supporting documentation for each transaction to determine whether expenditures were permissible, properly authorized, and supported, and whether duplicate payments existed. We also determined whether expenses were correctly entered in FAMIS and charged to the appropriate object codes.

Finally, we reviewed the SIPP processing records to identify the staff who initiated and approved the SIPP transactions and to determine whether they were properly authorized to process the SIPP transactions at Vanguard.

² Galaxy is a school-based computer budgeting system.

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 and discussed at an exit conference held on November 2, 2009. On November 19, 2009, we submitted a draft report to DOE officials with a request for comments. We received a written response from DOE on December 4, 2009.

In their response, DOE officials generally agreed with the findings and recommendations. However, although our report states that Vanguard's Principal regularly violated SIPP procedures and circumvented DOE internal controls, DOE officials simply excused the Principal's actions and accepted the Principal's verbal explanations as sufficient, despite the lack of any evidence to support his assertions. The Principal's actions, along with the internal controls weaknesses and a lack of records are red flags and may indicate that fraud has occurred. We believe that DOE is responsible to perform its own due diligence and determine the veracity of the Principal's assertions. Furthermore, when a responsible public authority reports its findings to DOE, it is poor public policy for DOE to simply accept the word of those involved without first looking into the facts. We hope that upon a closer reading of the report, DOE will reevaluate its response and consider the seriousness of the audit's findings.

The full text of the response received from DOE is included as addendum to this report.

FINDINGS

We could not determine whether Vanguard complied with DOE SOPs because of Vanguard's inability to provide sufficient documentation for a significant portion of our audit population. However, based on the documents provided, we determined that Vanguard officials circumvented the procedures set forth in the SOPs. Vanguard officials paid a minimum of \$18,431 in questionable expenditures, processed payments without proper authorizations, circumvented the \$500 expenditure threshold, failed to maintain supporting documentation, paid for prior year purchases, and used incorrect object codes to record SIPP expenditures.

In addition, Vanguard officials improperly process SIPPs by using a former school secretary's FAMIS user ID. Lastly, Vanguard's Principal did not safeguard his user ID and passwords for access to FAMIS and approve SIPP transactions.

Questionable Expenditures

Vanguard officials processed \$18,431 in questionable SIPP payments in Fiscal Year 2007. Most of these payments did not have sufficient documents to show that the expenses were related to school business. In addition, several of the payments were made to the employees who were involved in the processing and approval of SIPPs.

Personal Cellular Phone, Residential Phone, and Internet Services

Vanguard made 12 questionable payments, totaling \$4,001, to three staff members (the Principal, the attendance teacher, and a school secretary—all three involved in processing or authorizing SIPPs) and a cellular phone company for the staff members' personal cellular phone, residential phone, and Internet services. According to DOE procurement guidelines, SIPP can be used to reimburse "business related" expenses incurred by staff. However, we found no evidence that these expenses were related to school business, and no adjustments were made to differentiate personal and business expenses.

Vanguard made five questionable payments, totaling \$1,761, to the Principal and the cellular phone company for the Principal's personal cellular phone expenses. On October 5, October 10, and November 20, 2006, the Principal approved three SIPP payments totaling \$1,122 to the cellular phone company to cover his cellular phone service from July 24 to October 23, 2006. However, the phone bills indicated only \$624 was charged during this period. The remaining \$498 was overpaid to his account. On June 6 and 19, 2007, the Principal reimbursed himself with two SIPP checks totaling \$639 for his cellular phone expenses. Again, the phone bills only showed \$189 was charged to his account. Thus, the remaining \$450 may have been improperly reimbursed.

DOE Response: "According to the principal, at the time covered by this audit, the principal had a Nextel phone, which he chose because of the 'walkie-talkie' feature it included as part of its plan. He used this feature to communicate in real time with several

members of his staff. As he spent every lunch-period monitoring activity in front of the school building, this feature was in constant use for those minutes every day. In addition, he used the phone to call teachers on class trips, to call parents on a daily basis and urge them to get their kids out the door, to call students at night and over the weekend to check-in with them, particularly if they seemed to be in some sort of danger. His use of the phone was an integral part of the education process at Vanguard; he was trying to increase attendance, intervene when necessary, and follow up with students and their families.

“The average monthly cost for this plan was roughly \$200. Approximately 5% of the calls made or received on this cell phone were personal; at the time, he thought it was unnecessary to carry two separate phones, particularly given how few personal calls he made and received. Overall, the principal spent approximately \$2,400 on the cell phone service and was reimbursed \$1,761 or 73%. As of November 2008, the principal obtained a business Blackberry and keeps a second phone to ensure that personal calls are kept separate from work calls.”

Auditor Comment: DOE officials are disingenuous in their attempt to justify the Principal’s inappropriate reimbursement and misuse of SIPP payments without addressing his use of a personal cellular phone for school-related business. Moreover, DOE did not provide evidence to justify the \$2,400 incurred in cellular phone expense, nor did DOE state why the Principal would need to reimburse himself in excess of any amount actually due.

The attendance teacher received \$1,026 in questionable reimbursements. On June 26 and June 29, 2007, the Principal approved three SIPP payments to reimburse the attendance teacher. The first SIPP payment included an invoice for June 2007 to July 2007. The name on the account was a driving school, not the name of the attendance teacher. The total amount due was \$406.80 for the driving school’s use of Internet and telephone services, which also included a past due balance of \$239.82. Another SIPP payment, in the amount of \$239.45, was to cover the following month’s (July 2007 to August 2007) bill for the driving school. This time the reimbursement was only for Internet service. However, a circle and the notation “x 9” were written on the bill, which presumably referred to nine months’ worth of service. We were unable to determine how the sum paid was calculated since another note on the bill stated “no tax,” but did not show an amount of taxes deducted. In addition to being reimbursed for expenses incurred at a driving school, the employee was reimbursed twice for the same month’s Internet service bill. Finally, the attendance teacher was reimbursed \$380.00 for previously paid personal cellular phone expenditure. The cellular phone invoice indicated only the amount and dates of previous payments. Consequently, we could not determine what services were actually provided and whether these services were related to school business.

DOE Response: “According to the principal, these payments were to cover expenses incurred in closing out ‘407 cases,’ which are cases where students are excessively absent, and the school is responsible for ascertaining why. The school must then take appropriate action (removing the student from the register, notifying the Administration for Children’s Services, etc.) In May and June of 2007, Vanguard had a backlog of these

cases to clear up. In order to investigate these cases, the attendance teacher worked several hours a day after school for roughly six weeks, making calls (from her after-school job, which was with the driving school referenced in the Report, to which two of the payments were made, as well as from home) and traveling to the addresses listed on the school's registry when those calls failed to reach anyone. The attendance teacher travelled by subway, but also by cabs and car-service, as many of these trips were after hours to not-so-great neighborhoods. As the attendance teacher was using the driving school's phones and internet to make the calls necessary to close out the 407 cases, the principal did not perceive a problem in paying the driving school directly. However, he now understands that the better practice would have been to reimburse the attendance teacher and have her reimburse the driving school."

Auditor Comment: DOE officials once again appear to be dismissive of the seriousness of the findings. We cannot understand how a school of 382 students with an annual attendance rate of 84 percent would have a large backlog of "407 cases" that required the attendance teacher to work beyond her normal school schedule in May and June 2007. Furthermore, DOE did not attempt to explain why it would directly pay for the driving school's Internet and telephone charges for nine months and not expect to be reimbursed. Good public policy would require DOE to seek reimbursement from the attendance teacher or driving school for expenses unrelated to school business.

The school secretary received \$1,214 in questionable reimbursements. Four SIPPs were approved by the Principal, one on June 20, 2007, and the other three on June 29, 2007, all payable to the school secretary. These SIPPs were for a variety of services including home and cellular phone and Internet use. Although all reimbursements were made at the end of the year, the services started in September 2006 and ended in July 2007. Included in the phone charges were long distance calls to Italy. For the cellular phone expenses that were reimbursed (for the period from February 16, 2007, to May 15, 2007), the bills contained charges for three additional cellular phone lines.

DOE Response: "According to the principal, the school secretary also assisted in closing some of the 407 cases, and incurred expenses in connection with that effort. In addition, she was calling vendors on OTPS transactions – negotiating prices, placing orders and paying bills. As with the attendance teacher, all of this work was occurring after school hours, from her home.

"The principal has agreed that staff will only be conducting attendance work from Vanguard offices and that he and the ISC will strictly monitor all payments/reimbursements to ensure that all payments are for well-documented, school-related purposes."

Auditor Comment: It is disturbing that DOE officials believe that it was appropriate for the Principal to use public funds to reimburse the school secretary for \$1,214 in questionable reimbursements for services that included use of her own home telephone, her personal cellular phone, and the Internet. We question why DOE would accept the Principal's decision to reimburse the school secretary the full amount listed on her

residential and personal cellular phone bills (i.e., without discriminating between personal use and business use) despite the fact that these bills included several long distance calls to Italy and three additional personal cellular phone lines that clearly had no relationship with school business. We believe that DOE should seek reimbursement from the school secretary for expenses unrelated to school business.

Food Expenses

During Fiscal Year 2007, Vanguard processed 30 SIPPs (26 payable to Mini Deli and 4 payable to the Principal totaling \$11,133) for food purchased from Mini Deli.³ The DOE “Reimbursement of Business Expenses” handbook states, “Food is not ordinarily served at meetings, however, permission may be granted for ‘light refreshments’ . . . if appropriate documentation is provided showing that the meeting requires such an expense.” After reviewing Vanguard’s supporting documents, the most we were able to justify was \$1,241. We question whether the remaining \$9,892, which included daily charges of food purchases of approximately \$7.95 or greater, were related to “Business of Education” as required by the SOPs. It appears that the Mini Deli account may have been used to pay for employee meals regardless of whether a business meeting took place.

DOE Response: “According to the principal, he provided food at staff meetings (forty teachers), at workshops on professional development days, at meetings for staff and students to plan events like graduation, during conflict resolution sessions, and for informal sit-downs that he conducted, almost daily, with students. The principal believed that all of the food purchased met the SOP definition that any food purchased be related to the ‘business of education.’

“The principal has now ended the school’s account with the Mini Deli, and is using the Office of School Food (OSF) to cater large staff meetings or events, which will guarantee that there are no unauthorized or inappropriate expenditures on food for those events. For small expenditures, he will ensure that food expenses adhere to the per-person spending limits in the SOPs. And for student breakfast meetings he will either use the food supplied by the Department breakfast program or pay for it all himself.”

Auditor Comment: Although the Principal claims that the food-related expenses met the SOPs’ criteria, he failed to follow the SOPs since he did not maintain documentation justifying each food purchase as relating to the business of education. Nonetheless, the corrective action proposed by the Principal should alleviate the situation. However, if the Principal decides to pay for food provided at student meetings, he should not seek reimbursement without providing the required documentation and seeking ISC approval.

³ Mini Deli maintains a house account for Vanguard and issues periodic statements for Vanguard officials to process payments.

Duplicate Payments

Vanguard made duplicate payments to seven vendors and two employees totaling \$3,297. Duplicate payments to vendors can result in customer credits, which may indirectly lead to misuse or unauthorized purchases from the vendor or unauthorized reimbursement to the employee. For example, one duplicate reimbursement in the amount of \$65 was for four gift cards to Borders bookstore. This individual was reimbursed again the following month for the same expenditure. School funds should not be used to purchase gift cards since the nature of the gift card purchases would remain unknown, making it difficult to determine whether the purchases were for legitimate school business.

DOE Response: “The only specific item mentioned in this finding is a duplicate payment for \$65 for four gift certificates at Borders bookstore. The principal recalls that the college counselor, in an attempt to inspire greater turnout at parents’ meeting, offered ‘prizes,’ which included the Borders gift certificates. He recalled there were two such meetings, which might explain the duplicate payments. But, due to the lack of supporting documentation, he acknowledged that it is also possible there was an error and the sum was paid twice. If so, the principal regrets the errors(s) and hopes it is possible to recoup the money. The new procedures in place for procurements at Vanguard should prevent duplicate payments in the future.”

Auditor Comment: DOE’s response is misleading. Had the Principal or a DOE official had any intention of investigating whether duplicate payments were actually made to these vendors and individuals, they should have contacted our office and inquired about the details surrounding these payments and then taken the appropriate actions to recoup the misspent funds. We believe that DOE has a responsibility to seek reimbursement from those vendors and school employees and should take such action.

Processed SIPPs without Proper Authorizations

Reimbursements to the Principal

Vanguard officials did not obtain proper approvals to process the reimbursements made to the Principal. In Fiscal Year 2007, the Principal approved 22 out of 23 payments made to him, totaling \$6,930. The Principal also approved SIPP payments made to his personal credit card accounts. According to the DOE Director of Financial Management & Reporting, the district Superintendent should approve the reimbursements made to the Principal. Bypassing the proper procedures may result in improper use of public funds.

DOE Response: “The principal has agreed that any reimbursements will be evaluated by the school’s business services manager to ensure compliance with applicable regulations. The P-Card has also made the need for reimbursement much less frequent, and also clarifies the guidelines and purchasing protocols, while ensuring that receipts are entered promptly.”

Out-of-Town Travel Expenses

Vanguard officials did not ensure that employees obtained the required out-of-town travel authorizations prior to paying out-of-town conference expenses. Of the 20 cases that we reviewed, only 8 authorizations were obtained. Without proper approvals, we cannot determine whether these conferences were necessary for the employees to attend and whether the monies used for staff to attend the conferences could be used for other educational purposes.

DOE Response: “The staff at Vanguard is receiving guidelines in completing the OP-221 form for travel and conferences and will be trained in using the TRAC system. The principal has also instituted procedures notifying all staff members that they will be required to save and submit receipts in order to receive reimbursement for travel expenses, and only appropriate expenses will be reimbursed.”

Vanguard Officials Circumvent The \$500 Expenditure Threshold for SIPPs

Vanguard officials circumvented the approval threshold to expend \$55,150 using SIPP. The SOPs state, “Where appropriate, a transaction above \$500, not to exceed \$2,500 may be processed (i.e., emergencies), but must be approved by the [ISC].” Approvals are necessary to ensure that OTPS expenditures are related to school functions and support educational priorities. The SOPs also explicitly prohibit the practice of splitting purchases, stating, “It is impermissible to attempt to circumvent the purchasing thresholds by making multiple awards to the same vendor within the same fiscal year.”

Split Purchases

Vanguard officials made split purchases to 7 (8 percent) of the 90 payees, totaling \$20,085. According to §1.2.3 and §3.6.4 of the SOPs regarding OTPS purchases, “The maximum amount allowed for a SIPP purchase at the school level is \$500” and “SIPP may not be used to avoid procurement regulations and other limitations on expenditures.” Although the individual invoice did not exceed \$500, as shown in Table I, following, the aggregate payments for each of the seven payees totaled more than \$500.

Table I
Split Purchases Made by Vanguard High School

Vendor	Description	Invoice Date	# of Invoices	Total Payment Amount
1	Gym Equipment	10/14/06 & 10/23/06	2	\$ 980
2	Registration Fees for three employees	06/07/07	3	1,200
3	Printer, installation, and printing supplies*	07/18/06	9	4,021
4	Graduation Gowns for Class of 2006	06/16/06	3	1,045
4	Graduation Gowns for Class of 2007	04/19/07	4	1,970
5	Books	06/13/06	4	6,165
6	Office Supplies	04/05/06	2	998
6	Office Supplies	02/08/07	3	1,206
7	Registration Fees for five employees	05/30/06	5	2,500
Total			35	\$20,085

* Originally, the vendor issued one \$4,021 invoice dated June 27, 2006, for the equipment and service provided to Vanguard. However, the vendor later issued nine separate invoices on July 18, 2006, all under \$500, totaling the original amount of \$4,021.

By making multiple orders to these seven vendors, Vanguard officials were able to circumvent the \$500 expenditure limits set by DOE, thereby avoiding the need to obtain approval from ISC.

Multiple SIPP Checks Issued for Purchases in Excess of \$500

Similar to making split purchases, Vanguard officials also issued multiple SIPP checks for 32 invoices that were each over \$500, totaling \$35,065. For example, on November 9, 2006, Vanguard purchased 24 folding chairs for \$993.12, including a shipping cost of \$274.32. On December 11, 2006, two payments of \$500 and \$493.12 were approved by the Principal to pay for the purchase. Furthermore, the invoice date for the \$493.12 payment was entered in FAMIS as November 15, 2006, a date different from the actual invoice date of November 9, 2006. According to the SOPs, only emergency purchases that are over \$500 can be processed through SIPP and should be approved by ISC officials. However, we believe that none of the \$35,065 should be considered emergency purchases. Again, Vanguard officials circumvented the purchasing procedures set by DOE. Therefore, these purchases were not properly overseen by ISC officials.

DOE Response: “According to the principal, there are new systems in place at Vanguard to ensure compliance with SIPP regulations. The school is now using a P-card for some of these expenditures, which will guarantee much better documentation (as credit-card receipts include the name of the vendor, the specific time, date and amount of a purchase, and can be stored and saved electronically to provide easy access). In addition,

Vanguard’s administrative procurement officers have already received training (November 3, 2009) in the proper procurement process. There are now procedures in place to ensure that competitive bids will be solicited, when required.”

Undocumented Expenses

Vanguard officials did not provide sufficient documents (i.e., invoices) to support the SIPP expenditures. According to §7.2.2 of the SOPs, supporting documentation should be maintained for six years. However, 93 (24 percent) of 381 SIPP payments in Fiscal Year 2007 were not fully supported by invoices. For example, Vanguard reimbursed \$613 to a teacher for a trip that was split into two SIPPs, with only a credit card statement to support the expenditure. The credit card statement, provided by the teacher, did not indicate the time and date of the flight or the purpose of the trip. In another example, Vanguard made eight SIPP payments to FedEx, totaling \$3,610. However, we were able to find only one invoice amounting to \$495.⁴ We were unable to determine the validity of the remaining \$3,115 paid.

DOE Response: “The first of the two examples offered ‘Vanguard reimbursed \$613 to a teacher for a trip . . . with only a credit card statement to support the expenditure. The credit card statement, provided by the teacher, did not indicate the time and date of the flight or the purpose of the trip’ . . . According to the principal, this expenditure was for a staff member’s trip to the Fall Forum for the Coalition for Essential Schools in Denver. The teacher lost his receipts but asked to be reimbursed and offered his credit card bill. The principal authorized payment to this staff member after he confirmed that the expenditure was for a legitimate educational expense, and there was no intention to defraud or deceive. The principal has apprised his staff of the reimbursement policy—only appropriate expenses properly documented by specific receipts will be reimbursed.

“Regarding the second example, payments made to FedEx, which Vanguard used for photocopy services, the Report note, ‘we were able to find only one invoice [for 8 payments] amounting to \$495,’ leaving the other 7 payments, totaling \$3,115 without documentation. According to the principal, Vanguard has greater than average copying bills since teachers use few textbooks and instead create original course packets that must be copied before they can be supplied to students. The principal has instituted trainings and procedures at Vanguard to ensure that documentation is retained for the required six-year retention period.”

Prior Year Purchases

Vanguard officials did not process SIPPs in the proper fiscal year. In Fiscal Year 2007, 34 SIPP payments contained prior year expenditures totaling \$11,716. According to the DOE Director of Financial Management & Reporting, school officials should not use the current year budget to pay for prior year expenditures. Shifting expenditures to a different year not only will

⁴ ISC officials provided several copies of the invoices obtained directly from FedEx. However, these invoices were paid by the DOE central office, not through SIPPs.

conceal the actual amount spent for the period, it will also reduce the resources for the current fiscal year.

DOE Response: “The principal has implemented new procedures to ensure that purchases are paid for in the correct fiscal years.”

Incorrect Object Codes

Vanguard officials used incorrect object codes to record \$36,773 in SIPP expenditures. For example, Vanguard officials used object code 198 as payment for the out-of-town conference registration fees. Object code 198 is a code for the purchase of general office supplies. A more appropriate code would have been object code 454, which is used for out-of-town travel expenditures. In another example, object code 198 was used for purchase of science supplies, instead of object code 130 (instructional supplies). The use of incorrect object codes compromises management’s ability to plan future budgets, can prevent DOE from tracking expenditures by category during the year, and may distort year-end reports.

DOE Response: “The principal has scheduled a training to determine the proper codes and ensure they are utilized.”

Other Issue

Unauthorized Use of FAMIS User ID

DOE did not promptly deactivate the FAMIS user ID of a former school secretary, who resigned in March 2006, and the ID was improperly used subsequently to process 26 SIPPs, totaling \$10,208, during Fiscal Year 2007. These transactions included many of the questionable expenditures mentioned earlier in this report—the four \$250 transactions to reimburse the Principal for food expenses and the four SIPPs, totaling \$1,214, used to pay the current school secretary for personal Internet use and telephone expenses, which included long distance charges to Italy). It should be noted that 39 SIPPs totaling \$7,365 were processed the previous fiscal year, after the employee had resigned.

DOE Response: “The principal has now implemented procedures to keep FAMIS IDs secure, with access provided only to authorized personnel.”

Lack of Safeguards for FAMIS Access Codes And Approval Codes for SIPP Transactions

Vanguard’s Principal did not safeguard his access code and approval code for SIPP transactions. During a meeting with the Principal at the school secretary’s office, we observed that the Principal’s user ID and password to access FAMIS and his approval code for SIPPs were written in a folder on the secretary’s desk. Passwords and approval codes should not be written

down in an insecure place to which other people have access. Such a practice defeats the purpose of preventing unauthorized access to the system through the use of unique IDs and passwords.

DOE Response: “The principal has reviewed the regulations regarding the use of these access codes, and his codes will be kept secure.”

RECOMMENDATIONS

We recommend that DOE should:

1. Investigate the validity of the questionable expenditures mentioned in this report and determine whether the school officials misappropriated and misused the school funds.
2. Recoup the duplicate payments and any other funds that were misused.
3. Provide additional training to ensure that school officials follow DOE SOPs including,
 - obtaining proper authorizations.
 - complying with the \$500 expenditure threshold.
 - maintaining supporting payment documents for six years.
 - properly recording the expenses in each fiscal year.
 - using the correct object codes to record SIPP expenditures.
4. Require the ISC to perform periodic reviews of Vanguard’s SIPP expenditures to ensure compliance with SOPs.
5. Promptly deactivate the FAMIS user ID for any staff members who have left DOE.
6. Notify staff members on ways of properly safeguarding user IDs, passwords, and approval codes.

DOE Response: “The Department agrees with all of the above recommendations. As of the date of this response, the principal and relevant staff have attended three trainings—the first on procurement SOPs, a second on SOPs regarding the SIPP process and record keeping, as well as an internal controls training by the OAG’s internal controls officer for Manhattan schools. The principal has committed to implementing procedures so that expenditures are appropriately approved, documented and retained, as well as to request additional trainings as necessary.”

Auditor Comment: Although DOE officials agree with our recommendations, we are disappointed that DOE officials simply accepted the Principal’s verbal explanations as sufficient, despite the lack of any evidence to support his assertions. We believe that when a responsible public authority reports its findings to DOE, it is poor public policy for DOE to simply accept the word of those involved without first examining the facts.



Department of
Education

Joel Klein
Chancellor

Division of School Support

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December 4, 2009

Mr. John Graham
Deputy Comptroller
Audits, Accountancy and Contracts
The City of New York Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

Dear Mr. Graham:

This letter, along with the enclosed Response to Findings and Recommendations, constitutes the New York City Department of Education's (Department's) response to the New York City Office of the Comptroller's (Comptroller) November 19, 2009 draft report (Report) on the Compliance of Vanguard High School with Department of Education Procurement Guidelines for Small Dollar Purchases (FM08-113A).

Sincerely,

Eric Nadelstern
Chief Schools Officer

cc: Joel I. Klein
Brian Fleischer
Mary Coffey

New York City Department of Education's Response to the New York City
Comptroller's Draft Audit Report on the Compliance of Vanguard High School
with Department of Education Procurement Guidelines for Small Dollar Purchases
FM08-113A

This Response, along with the December 4, 2009 cover letter of Eric Nadelstern, constitutes the New York City Department of Education's (Department's) response to the New York City Office of the Comptroller's (Comptroller) November 19, 2009 draft report (Report) on the Compliance of Vanguard High School with Department of Education Procurement Guidelines for Small Dollar Purchases (FM08-113A).

Findings

Questionable Expenditures

1. The Comptroller's Report states that Vanguard made "five questionable payments, totaling \$1,761, to the Principal and the cellular phone company for the Principal's personal cellular phone expenses." (p. 6)

Department's Response:

According to the principal, at the time covered by this audit, the principal had a Nextel phone, which he chose because of the "walkie-talkie" feature it included as part of its plan. He used this feature to communicate in real time with several members of his staff. As he spent every lunch-period monitoring activity in front of the school building, this feature was in constant use for those minutes every day. In addition, he used the phone to call teachers on class trips, to call parents on a daily basis and urge them to get their kids out the door, to call students at night and over the weekend to check-in with them, particularly if they seemed to be in some sort of danger. His use of the phone was an integral part of the education process at Vanguard; he was trying to increase attendance, intervene when necessary, and follow up with students and their families.

The average monthly cost for this plan was roughly \$200. Approximately 5% of the calls made or received on this cell phone were personal; at the time, he thought it was unnecessary to carry two separate phones, particularly given how few personal calls he made and received. Overall, the principal spent approximately \$2,400 on the cell phone service and was reimbursed \$1,761 or 73%. As of November 2008, the principal obtained a business Blackberry and keeps a second phone to ensure that personal calls are kept separate from work calls.

2. The Report states that "the attendance teacher received \$1,026 in questionable reimbursements." (p. 6)

Department's Response:

According to the principal, these payments were to cover expenses incurred in closing out "407 cases", which are cases where students are excessively absent, and the school is responsible for ascertaining why. The school must then take appropriate action (removing

the student from the register, notifying the Administration for Children's Services, etc.). In May and June of 2007, Vanguard had a backlog of these cases to clear up. In order to investigate these cases, the attendance teacher worked several hours a day after school for roughly six weeks, making calls (from her after-school job, which was with the driving school referenced in the Report, to which two of the payments were made, as well as from home) and traveling to the addresses listed on the school's registry when those calls failed to reach anyone. The attendance teacher travelled by subway, but also by cabs and car-service, as many of these trips were after hours to not-so-great neighborhoods. As the attendance teacher was using the driving school's phones and internet to make the calls necessary to close out the 407 cases, the principal did not perceive a problem in paying the driving school directly. However, he now understands that the better practice would have been to reimburse the attendance teacher and have her reimburse the driving school.

3. The Report states that "the school Secretary received \$1,214 in questionable reimbursements." (p. 7)

Department's Response:

According to the principal, the school secretary also assisted in closing some of the 407 cases, and incurred expenses in connection with that effort. In addition, she was calling vendors on OTPS transactions – negotiating prices, placing orders and paying bills. As with the attendance teacher, all of this work was occurring after school hours, from her home.

The principal has agreed that staff will only be conducting attendance work from Vanguard offices and that he and the ISC will strictly monitor all payments/reimbursements to ensure that all payments are for well-documented, school-related purposes.

Food Expenses

4. The Report states that "Vanguard processed 30 SIPPS (26 payable to Mini Deli and 4 payable to the Principal totaling \$11,133) for food purchased from the Mini Deli." (p. 7)

Department's Response:

According to the principal, he provided food at staff meetings (forty teachers), at workshops on professional development days, at meetings for staff and students to plan events like graduation, during conflict resolution sessions, and for informal sit-downs that he conducted, almost daily, with students. The principal believed that all of the food purchased met the SOP definition that any food purchased be related to the "business of education."

The principal has now ended the school's account with the Mini Deli, and is using the Office of School Food (OSF) to cater large staff meetings or events, which will guarantee that there are no unauthorized or inappropriate expenditures on food for those events.

For smaller expenditures, he will ensure that food expenses adhere to the per-person spending limits in the SOPs. And for student breakfast meetings he will either use the food supplied by the Department breakfast program or pay for it all himself.

Duplicate Payments

5. The Report states that “Vanguard made duplicate payments to seven vendors and two employees totaling \$3,297.” (p. 7)

Department’s Response:

The only specific item mentioned in this finding is a duplicate payment for \$65 for four gift certificates at Borders bookstore. The principal recalls that the college counselor, in an attempt to inspire greater turnout at parents’ meeting, offered “prizes”, which included the Borders gift certificates. He recalled there were two such meetings, which might explain the duplicate payments. But, due to the lack of supporting documentation, he acknowledged that it is also possible there was an error and the sum was paid twice. If so, the principal regrets the error(s) and hopes it is possible to recoup the money. The new procedures in place for procurement at Vanguard should prevent duplicate payments in the future.

Processed SIPPs without Proper Authorization

6. The Report states that “Vanguard officials did not obtain proper approvals to process the reimbursements made to the Principal.” (p.8)

Department’s Response:

The principal has agreed that any reimbursements will be evaluated by the school’s business services manager to ensure compliance with applicable regulations. The P-Card has also made the need for reimbursement much less frequent, and also clarifies the guidelines and purchasing protocols, while ensuring that receipts are entered promptly.

Out of Town Travel Expenses

7. The Report states that “Vanguard officials did not ensure that employees obtained the required out-of-town authorizations prior to paying out-of-town conference expenses.” (p.8)

Department’s Response:

The staff at Vanguard is receiving guidelines in completing the OP-221 form for travel and conferences and will be trained in using the TRAC system. The principal has also instituted procedures notifying all staff members that they will be required to save and submit receipts in order to receive reimbursement for travel expenses, and only appropriate expenses will be reimbursed.

Vanguard Officials Circumvent the \$500 Expenditure Threshold for SIPPs

8. The Report states that Vanguard officials split purchases to “7 (8 percent) of the 90 payees” (p. 8) and “also issued multiple SIPP checks.” (p. 9)

Department’s Response:

According to the principal, there are new systems in place at Vanguard to ensure compliance with SIPP regulations. The school is now using a P-card for some of these expenditures, which will guarantee much better documentation (as credit-card receipts include the name of the vendor, the specific time, date and amount of a purchase, and can be stored and saved electronically to provide easy access). In addition, Vanguard’s administrative procurement officers have already received training (November 3, 2009) in the proper procurement process. There are now procedures in place to ensure that competitive bids will be solicited, when required.

As with the rest of the Findings, the principal stresses that all of the expenditures cited in this section (see Report - Table 1) were for legitimate, school related expenses. Many were also time sensitive. As noted in the preceding paragraph, the Vanguard administrative staff and the principal have received (and will continue to receive) training in proper procurement practices.

Undocumented Expenses

9. Vanguard officials did not provide sufficient documents (i.e., invoices) to support the SIPP expenditures. (p. 10)

Department’s Response:

The first of the two examples offered “Vanguard reimbursed \$613 to a teacher for a trip . . . with only a credit card statement to support the expenditure. The credit card statement, provided by the teacher, did not indicate the time and date of the flight or the purpose of the trip” (p. 10). According to the principal, this expenditure was for a staff member’s trip to the Fall Forum for the Coalition for Essential Schools in Denver. The teacher lost his receipts but asked to be reimbursed and offered his credit card bill. The principal authorized payment to this staff member after he confirmed that the expenditure was for a legitimate educational expense, and there was no intention to defraud or deceive. The principal has apprised his staff of the reimbursement policy – only appropriate expenses properly documented by specific receipts will be reimbursed.

Regarding the second example, payments made to FedEx, which Vanguard used for photo-copy services, the Report notes, “we were able to find only one invoice [for 8 payments] amounting to \$495,” leaving the other 7 payments, totaling \$3,115 without documentation. According to the principal, Vanguard has greater than average copying bills since teachers use few textbooks and instead create original course packets that must be copied before they can be supplied to students. The principal has instituted trainings and procedures at Vanguard to ensure that documentation is retained for the required six-year retention period.

Prior Year Purchases

10. The Report notes that “Vanguard officials did not process SIPP’s in the proper fiscal year” (p. 10).

Department’s Response:

The principal has implemented new procedures to ensure that purchases are paid for in the correct fiscal years.

Incorrect Object Codes

11. The Report states that “Vanguard officials used incorrect object codes to record \$36,773 in SIPP expenditures.” (p. 10)

Department’s Response:

The principal has scheduled a training to determine the proper codes and ensure they are utilized.

Unauthorized Use of FAMIS User ID

12. The Report states that “DOE did not promptly deactivate the FAMIS user ID of a former school secretary, who resigned in March 2006, and the ID was improperly used subsequently ...” (p. 10)

Department’s Response:

The principal has now implemented procedures to keep FAMIS ID’s secure, with access provided only to authorized personnel.

Lack of Safeguards for FAMIS Access Codes and Approval Codes for SIPP Transactions

13. The Report states that “Vanguard’s principal did not safeguard his access code and approval code for SIPP transactions.” (p. 11)

Department’s Response:

The principal has reviewed the regulations regarding the use of these access codes, and his codes will be kept secure.

Comptroller’s Recommendations

1. Investigate the validity of the questionable expenditures mentioned in this report and determine whether the school officials misappropriated and misused the funds.
2. Recoup the duplicate payments and any other funds that were misused.
3. Provide additional training to ensure that school officials follow DOE SOPs including,
 - i. Obtaining proper authorizations
 - ii. Complying with the \$500 expenditure threshold
 - iii. Maintaining supporting payment documents for six years
 - iv. Properly recording the expenses in each fiscal year
 - v. Using the correct object codes to record SIPP expenditures.
4. Require the ISC to perform periodic reviews of Vanguard’s SIPP expenditures to ensure compliance with SOP.
5. Promptly deactivate the FAMIS user ID for any staff members who have left the DOE.
6. Notify staff members on ways of properly safeguarding user IDs, passwords, and approval codes.

Department’s Response to Recommendations

The Department agrees with all of the above recommendations. As of the date of this response, the principal and relevant staff have attended three trainings – the first on procurement SOPs, a second on SOPs regarding the SIPP process and record keeping, as well as an internal controls training by the OAG’s internal controls officer for Manhattan schools. The principal has committed to implementing procedures so that expenditures are appropriately approved, documented and retained, as well as to request additional trainings as necessary.