

AUDIT REPORT



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

Audit Report on Other Than Personal Services Expenditures of Schools Within the Department of Education Regional Operations Center for Regions 1 and 2

MH05-079A

May 4, 2005



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

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has audited other than personal services expenditures of schools within the Department of Education (DOE) Regional Operations Center (ROC) for Regions 1 and 2. The audit determined whether the DOE procurement policies and procedures were followed for goods and services purchased by the schools that require ROC approval.

The results of our audit, which are presented in this report, have been discussed with officials from the DOE, and their comments have been considered in preparing this report.

Audits such as this provide a means of ensuring that the ROCs are following DOE guidelines and that City funds are used appropriately and in the best interest of the public.

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

Very truly yours,

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

William C. Thompson, Jr.

WCT/fh

Report: MH05-079A
Filed: May 4, 2005

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

**Audit Report on Other Than Personal Services
Expenditures of Schools within the Department
of Education Regional Operations Center
for Regions 1 and 2**

MH05-079A

AUDIT REPORT IN BRIEF

The audit determined whether the Department of Education's (DOE) procurement policies and procedures were followed for goods and services purchased by schools in Regions 1 and 2 that require Regional Operations Center (ROC) approval.

Audit Findings and Conclusions

Based on the documentation provided, we found that officials of the ROC for Regions 1 and 2 generally did not follow DOE's procurement policies and procedures for purchases that required ROC approval. Specifically:

- ROC officials did not have any documentation on file to support three (11%) of the 28 purchase orders.
- ROC officials did not receive required certification of delivery for 12 (43%) of 28 sampled purchases. In addition, we were unable to confirm that three of the 12 sampled purchases were actually delivered.
- ROC officials did not ensure that there was adequate written justification or Office of Purchasing Management (OPM) approval for the five sole-source purchases in our sample.
- For three (60%) of the five sampled purchases of goods and services for which schools were required to obtain written bids, ROC employees approved the related purchase orders without receiving the bidding documentation to support the purchases.
- ROC files did not have vendor invoices for three (11%) of 28 sampled purchases for goods or services.

- ROC officials approved two purchases for heavy gym equipment and furniture from non-contracted vendors.
- Five (18%) of the 28 purchases for goods or services were made by the schools prior to receiving ROC approval.

Audit Recommendations

Based on our findings, we make 10 recommendations, including the following:

- ROC officials should obtain certification of delivery prior to payment of invoices for purchases of goods and services.
- ROC officials should ensure that school officials provide written justification for all sole-source purchases, in accordance with the *Standard Operating Procedures Manual for Schools and Financial Management Centers*, OTPS Purchases chapter (SOPM) dated November 22, 2002; and the ROC should review this documentation before approving such purchases.
- ROC officials should review solicited written bids to ensure compliance with the bidding guidelines before approving purchase orders.
- ROC officials should maintain copies of bid documentation.

INTRODUCTION

Background

DOE provides primary and secondary education to more than one million New York City students. The school system is organized into 10 regions, each of which includes approximately 130 schools. Six ROCs provide business and administrative services to the schools within their assigned regions. While school purchases are made at the individual school level, ROC officials review and approve: school-generated purchase orders; bidding documents for school purchases above certain monetary limits; and, evidence of receipt of items purchased. ROC officials also process payments for school purchases, except for purchases made on behalf of the schools by the DOE Central Office.

There are several methods by which individual schools can purchase goods and services. Items can be procured through DOE's on-line Fastrack Ordering System for general supplies, textbooks, computer and audio/visual software, athletic supplies, and other items currently available under requirement contracts with DOE's OPM. ROC approval is not required for these purchases. Goods and services that are not available through Fastrack may be obtained by purchase orders prepared under DOE's Financial Accounting Management Information System (FAMIS).¹ Designated users at individual schools can use FAMIS to electronically generate purchase orders. ROC officials must approve purchases greater than \$15,000 that are obtained under DOE contracts and purchases greater than \$5,000 that are not obtained under DOE contracts. Finally, small purchases or emergency purchases can be handled with a procurement card (P-card) or through the Small Item Payment Process (SIPP), formerly known as the imprest fund. ROC officials review all P-card applications and all SIPP purchases greater than \$500.

The ROC for Regions 1 and 2 in the Bronx, the focus of this audit, is responsible for fiscal oversight of the schools within those regions. As of December 31, 2003, there were approximately 191,000 students in 265 schools in Regions 1 and 2. For Fiscal Year 2004, OTPS purchases for these regions that exceeded the monetary limit requiring ROC approval totaled \$21.8 million. The OTPS purchases of \$21.8 million were attributable to 217 of the 265 schools.

This is one of a series of audits conducted in accordance with the intent of Article 52-A, §2590m, of the New York State Education Law, which requires that the Comptroller audit the accounts of the (then) Board of Education and each community school district and report the results of the audits at least once every four years. Due to legal and organizational changes, the (then) Board of Education is now known as the Department of Education, and the ROCs have assumed the administrative and business functions that the community school districts performed previously.

¹ FAMIS links all financial accounting transactions, from budgeting and procurement to payment.

Objective

The objective of this audit was to determine whether DOE's procurement policies and procedures were followed for goods and services purchased by schools in Region 1 and 2 that require ROC approval.

Scope and Methodology

The scope period of our audit was Fiscal Year 2004. To obtain an understanding of the policies, procedures, and regulations governing OTPS purchases, we reviewed:

- OPM's *School Purchasing Guide*, Procurement Policy chapter;
- the *Standard Operating Procedures Manual for Schools and Financial Management Centers*, OTPS Purchases chapter (SOPM) dated November 22, 2002; and
- relevant DOE memoranda and newsletters posted on the DOE Web site.

To obtain an overview of the school purchasing process, we reviewed a draft of the School Procurement Process flowchart from the DOE Office of Auditor General. To understand the internal controls and the responsibilities of ROC officials, we interviewed the ROC Director, deputy directors and contract officers and obtained ROC's organization chart depicting the functional units responsible for processing purchases. We also interviewed the Executive Director of DOE's Division of Financial Operations and the administrators of DOE's Fiscal Affairs and Accounts Payables Unit.

In addition, we reviewed relevant prior audit reports issued by the Comptroller's Office on community school district operations (*Audit Report on the Financial and Operating Practices of Community School District 15*, issued June 30, 2003, and *Audit Report on the Financial and Operating Practices of Community School District 5*, issued June 23, 2003). To familiarize ourselves with FAMIS, we reviewed the DOE guide, *Using FAMIS for Purchasing and Payments*.

In accordance with our audit objective our sampled purchases consisted of those contracted and non-contracted purchases that required ROC approval. Other purchases, which included those processed through Fastrack,² P-cards, SIPPs, and those relating to Universal Pre-K contracts were not reviewed since ROC approval is not required for these transactions.

To select our audit sample, we obtained the population database of Fiscal Year 2004 OTPS payments for ROC Regions 1 and 2. During Fiscal Year 2004, there were 454 OTPS purchases totaling \$11.3 million for 64 schools that had five or more purchases for goods and services that exceeded the monetary limit for ROC purchase approval. We randomly selected six out of the 64 schools (three schools were selected from each region). We reviewed all of the 36

² Fastrack purchases are forwarded to OPM, not the ROC, for entry into a production run to produce a machine-generated order.

purchase orders at our six sampled schools. After the exit conference we reduced the sample to 28 purchase orders totaling \$849,547, at our six sampled schools. Based on the information provided by DOE officials at the exit conference, we removed eight of the purchase orders from our sample. It should be noted, however, that seven purchases were actually made from contracted vendors and were miscoded in DOE records. The remaining purchase order was processed by the DOE Central Office and therefore, did not require ROC approval.

We visited the schools from November 12 to December 10, 2004. We documented our understanding of the schools' purchasing practices and determined whether they were in accordance with DOE's SOPM. For each sampled purchase, we reviewed the purchase files at the schools for the following documentation:

- Purchase orders with requisite authorizations and approvals;
- Evidence of competitive bidding (when required);
- Vendor invoices;
- Evidence that appropriate approvals were obtained for sole-source purchases exceeding \$5,000; and
- Documentation showing that professional services paid for were actually received.

We also determined whether equipment items purchased were on hand. Since ROC officials are responsible for reviewing compliance with DOE bidding requirements, confirming receipt of items purchased, and authorizing payments, we reviewed the ROC's files to determine whether they contained: vendor invoices; appropriate bidding documentation; and certifications from school officials that goods and services purchased were actually received.

The results of the above tests, while not projectable to all schools within Regions 1 and 2 whose purchases required ROC approval, provided a reasonable basis to assess compliance with DOE purchasing procedures.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter and Article 52-A, §2590m, of the New York State Education Law.

Discussion of Audit Results

The matters covered in this report were discussed with DOE and ROC officials during and at the conclusion of this audit. A preliminary draft report was sent to DOE and ROC officials and was discussed at an exit conference held on March 15, 2005. On March 23, 2005 we submitted a draft report to DOE officials with a request for comments. We received a written response from DOE officials on April 6, 2005.

In their comments, DOE officials stated that they have already taken steps to implement the audit's recommendations.

DOE officials also stated, "Given that this was a huge transition year for the Department, we are pleased to see that the reports recognize the work that is being done by the ROCs. . . ."

The full text of the DOE responses is included as addenda to this report.

FINDINGS AND RECOMMENDATIONS

Based on the documentation provided, we found that officials of the ROC and schools for Regions 1 and 2 generally did not follow DOE's procurement policies and procedures for purchases that required ROC approval. Specifically:

- ROC officials did not have any documentation on file to support three (11%) of the 28 purchase orders.
- ROC officials did not receive required certification of delivery for 12 (43%) of 28 sampled purchases. In addition, we were unable to confirm that three of the 12 sampled purchases were actually delivered.
- ROC officials did not ensure that there was adequate written justification or OPM approval for all five sole-source purchases in our sample.
- For three (60%) of the five sampled purchases of goods and services for which schools were required to obtain written bids, ROC employees approved the related purchase orders without receiving all bidding documentation to support the purchases.
- ROC files had no vendor invoices for three (11%) of 28 sampled purchases for goods or services.
- ROC officials approved two purchases for heavy gym equipment and furniture from non-contracted vendors.
- Five (18%) of the 28 purchases for goods or services were made by the schools prior to receiving ROC approval.

These issues are discussed in the following sections of the report.

Lack of Documentation

Overall, the files maintained by the ROC were inadequate. For three (11%) of the 28 purchase orders reviewed there was no documentation on file at the ROC to support the purchase or payment of the goods or services. Table I, following, lists these three purchases.

Table I

Purchase Orders with No Documentation on File at the ROC

School	Purchase Order #	Dollar Amount	Item Purchased
PS 170	WO0408685	\$ 7,115	Library books
PS 170	WR0404704	\$17,759	Professional Services
MS/HS 368	WR0409006	\$15,000	Professional Services
TOTAL		\$39,874	

In addition to the three purchase orders mentioned above, we found other purchase orders that were not fully supported by all the necessary documentation. The following sections of the report detail the specific types of documents missing from the ROC files.

Lack of Certification of Delivery for Goods or Services

ROC officials did not receive the required certification of delivery for 12 (43%) of 28 sampled purchases for goods or services before processing the payments.

Based on our school visits, we determined the following for the 12 purchase orders that lacked certification of delivery at the ROC:

- For three purchases, the schools provided the certification of delivery.
- For six purchases of goods, the schools did not provide the certification of delivery; however, they were able to show us that the items purchased were on hand at the schools.
- For one purchase, the school did not have any documentation so we were not able to look for the items.
- Since two purchases were for services, we could not confirm that these services were provided without the certification of delivery.

The SOPM states, “Adequate supporting documentation should be on file prior to paying for goods/services.” In addition, it states that certification that goods or services have been delivered in satisfactory condition should be indicated by the signature of the receiver.

ROC officials stated that they review evidence of receipt for school purchases when processing payments. This review is also cited as a step in the DOE Office of Auditor General’s draft flowchart of the School Procurement Process.

The schools should inform ROC officials when goods or services have been received. Without documented certification of delivery, it is possible that the ROC will pay for goods or services that have not been delivered.

At the exit conference, ROC officials provided us additional documentation for certification of delivery. However, we did not accept most of these documents. The documentation we received at the exit conference was not in the files of the ROC during the course of our audit work. Thus, we questioned whether officials had reviewed this documentation prior to approving the payment of the purchase orders. Of more concern, we question the validity of some of the documentation. For example,

- For three of the purchases, we were provided a sheet on ROC letterhead that contained signatures affirming that all goods were received; however, they were dated March 14, 2005—after the preliminary draft report was issued.
- For one of the purchases, we were provided a copy of the invoice that had a signature affirming that all goods were received, but the signatures appearing on the copies of this document that were provided to us as well as to officials from the DOE Office of Auditor General were original signatures. It appears that copies of the invoice were made, and then these copies were each signed for distribution at the exit conference.
- For one of the purchases, we were provided a copy of a purchase order printed by the computer system with a notation on it that said, “All Good Received Please Process Payment.” The date next to the signature on the purchase order is February 13, 2004; however, the date that the purchase order was printed is March 9, 2005. We question how something can be signed more than a year before it was printed.

Recommendation

1. ROC officials should obtain certification of delivery for purchases of goods and services prior to payment of invoices.

DOE Response: DOE officials agreed, stating, “ROC officials have instructed ROC staff not to make payments until certification of delivery has been documented by the school. This certification of delivery can be in the form of a signed bill of lading, packing slip, etc. This recommendation was reviewed with ROC staff on March, 2005.

“Because of the acknowledged difficulty of obtaining certificate of delivery from schools, an on-line certification of delivery system is being implemented. It is expected that the FAMIS portal enhancements will be implemented prior to the end of the current fiscal year.”

Lack of Written Justification and OPM Approval for Sole-Source Purchases

ROC officials did not ensure that there was adequate written justification or OPM approval for the five sole-source purchases in our sample. (The preliminary draft of this report stated that there was not adequate written justification or OPM approval for the seven sole-source purchases in our sample. Based on information provided by DOE officials at the exit conference, we removed two of these purchases from this finding. It should be noted, however, that these purchases were actually made from contracted vendors and were miscoded on DOE records.) These findings relate to three of our sampled schools, shown on Table II, as follows:

Table II
Sole-Source Review

School	Number of Sole-Source Purchases	Description of Item	Total Amount of Sole-Source Purchases	Number Lacking Justification	Number Lacking OPM Signature
JHS 118 (Bronx)	0				
Public School 170 (Bronx)	0				
MS/HS 368 (Bronx)	0				
Public School 130 (Bronx)	1	Classroom electronic equipment	\$12,119	1	1
MS 302 (Bronx)	1	Audio-visual training for students	\$8,775	1	1
Public School 196 (Bronx)	3	Classroom equipment and furniture	\$24,336	3	3
TOTAL	5		\$45,230	5	5

The SOPM stipulates that sole-source purchases should be used, “when a vendor for very specific reasons, is identified as the only feasible source, for obtaining certain items.” In that regard, the SOPM requires:

- “Evidence that no other service provides substantially equivalent, or similar benefits and that considering the benefits received, the cost of service is reasonable.
- “Documentable evidence that there is no possibility of competition for the procurement of the item.
- “Vendor is otherwise uniquely qualified in the desired area.”

Moreover, the SOPM states that for sole-source purchases of commodities and purchases above \$5,000, approval from the Administrator of the OPM is required.

ROC officials stated that schools are to forward to them written justification for sole-source purchases; then they receive the final approval from the Administrator of OPM.

There were no written certifications from school officials stating that they made an effort to locate comparable equipment or sources for the purchases, nor did they indicate why the vendor was uniquely qualified in the area. For example, it is unclear as to why a purchase for library furniture was considered a sole-source purchase.

To ensure that schools do not circumvent the bidding process, ROC officials need to confirm that schools have written justification and OPM approval for sole-source purchases.

At the exit conference, ROC officials provided us with an e-mail from the Director of the Division of Contracts and Purchasing. The e-mail was apparently intended to inform ROC and school officials about a change in the procedure for obtaining approval from the OPM Administrator for sole-source purchases. Although we acknowledge the e-mail's transmission, we do not, however, consider it adequate substantiation of a policy revision. Adequate substantiation would consist of documentation such as a formal, written policy or procedure, properly contained in the files. Accordingly, we maintain that OPM approval was required for the purchases cited above.

Recommendations

ROC officials should:

2. Ensure school officials provide written justification for all sole-source purchases, in accordance with the SOPM. The ROC should review this documentation before approving such purchases.

DOE Response: DOE officials agreed, stating, "ROC deputies and operations supervisors will approve sole vendor requests in the amount of \$15,000 or less prior to approval of purchases for goods or services. This will take place after a careful and thorough review of all documentation submitted by the school."

3. Ensure sole-source purchases are approved by the OPM Administrator when required.

DOE Response: DOE officials agreed, stating, "Sole source requests exceeding \$15,000 will be sent to the appropriate OPM Administrator for approval. Approval of purchases by ROC officials will not be until sole source approval has been granted by OPM."

Lack of Purchase Bidding Documents

For three (60%) of the five sampled purchases of goods and services for which schools were required to obtain written bids, ROC employees approved the related purchase orders without receiving all bidding documentation to support the purchase. (The preliminary draft of this report stated that 10 of 12 purchases made from non-contracted vendors required bidding.)

Based on the information provided by DOE officials at the exit conference, we removed seven of these purchases from this finding. It should be noted, however, that these purchases were actually made from contracted vendors and were miscoded on DOE records.) The problems found are described below:

- One purchase had only one bid on file at the school and no bids on file at the ROC.
- One purchase had no bids on file at the ROC.
- One purchase had bids, but the purchase was above \$10,000, and there was no evidence that the bids were sealed or read at a public opening.

The SOPM requires that for non-contracted purchases over \$5,000, the schools must solicit three faxed or written bids. In addition, it states that the approving officer's responsibility is "to review all purchasing documents for compliance with purchasing regulations, certify that funds are available for the expenditure and authorize the processing of the transaction into FAMIS." Further, the SOPM requires that for non-contracted purchases above \$10,000, bids received from vendors must be sealed and read at a scheduled public opening.

DOE requires that all non-contracted purchases over \$5,000 and all contracted purchases over \$15,000 receive ROC approval. ROC officials stated that as part of the approval process, the schools submit bidding documentation to them for review.

The SOPM further states, "competitive bidding . . . provides taxpayers with the greatest assurance that goods and services are procured in the most prudent and economical manner and they are of desired quality, are being acquired at the lowest possible price; and favoritism, improvidence, extravagance, fraud or corruption does not influence procurements." ROC procurement team members should be reviewing bid documentation to ensure that all purchases are in compliance with the intent of competitive bidding practices.

Recommendations

ROC officials should:

4. Review solicited written bids to ensure compliance with the bidding guidelines before approving purchase orders.

DOE Response: DOE officials agreed, stating, "ROC officials have instructed ROC staff that prior to approving purchase orders that require bids that all guidelines have been followed as referenced in the SOPM. ROCs will ensure that school officials comply with the SOPM written bids from independent and separate vendors. The steps include, but are not limited to, the ROC approval officers reviewing all written bid documentation prior to FAMIS electronic approval of purchase orders to ensure compliance."

5. Maintain copies of bid documentation.

DOE Response: DOE officials agreed, stating, “ROC officials have instructed ROC staff to maintain copies of all bids and attach to copies of all purchase orders.”

6. Approve non-contracted purchases above \$10,000 only after receiving sufficient evidence that sealed bids were obtained and read at a public opening.

DOE Response: DOE officials agreed, stating, “Public openings of sealed bids for non-contracted purchases above \$10,000 will be conducted in compliance with the SOPM. This process will be monitored by the contract managers. This has been implemented by the ROC officials and will be reiterated at the next training sessions conducted in May 2005.”

Lack of Vendor Invoices

ROC files had no vendor invoices for three (11%) of 28 sampled purchases for goods or services before processing the payments. The SOPM states, “Adequate supporting documentation should be on file prior to paying for goods/services.” In addition it states that in order for payments to be processed, the original dated sales invoice, bill, or cash register receipt is required.

ROC officials stated that invoices are sent directly to the ROC from vendors and are needed in order to process payments. This is also cited as a step in the DOE Office of Auditor General’s draft flowchart of the School Procurement Process.

ROC officials should make payments for purchases only after receiving invoices from the vendor. Without vendor invoices, ROC officials cannot substantiate the amount to pay vendors.

At the exit conference, ROC officials provided us additional documentation for vendor invoices. However, we did not accept these documents. The documentation we received at the exit conference was not in the files of the ROC during the course of our audit work. Thus, we questioned whether officials had reviewed this documentation prior to approving the payment of the purchase orders. For the three purchases that lacked vendor invoices, the ROC officials provided invoices with dates that show they were faxed by the vendor during March 2005, after the preliminary draft report was issued.

Recommendation

7. ROC officials should obtain and maintain invoices for purchases of goods and services.

DOE Response: DOE officials agreed, stating, “ROC officials have instructed ROC staff responsible for vouchering that they are responsible for obtaining invoices prior to

making payments. Contracts managers have conducted training sessions around this recommendation. Invoices will be maintained at the ROC site.”

Heavy Gym Equipment and Furniture Purchased From Non-contracted Vendors

Two purchases were approved by ROC officials from non-contracted vendors, contrary to SOPM requirements. The SOPM states, “There are items that **cannot be ordered directly from a vendor by a purchase order regardless of price.** They have been restricted, for safety reasons, from direct purchasing.” [Emphasis in original.] Examples of such items include all heavy gymnasium equipment and athletic field equipment, all classroom furniture, and all equipment and furniture that requires fastening to floors and walls.

The school purchased and the ROC approved these purchases despite the regulation for heavy gymnasium equipment and classroom furniture. These purchases were made at two different schools in Region 2 and included the following:

- A scoreboard and two backboards for a gymnasium
- Desks and chairs for classrooms

For safety reasons, these purchases should not have been made from non-contracted vendors. All of the above items are for long term use by the school. The safety of the students may be compromised by not purchasing the items from approved vendors. The desks, chairs, and the library furniture are used by students and should be purchased from contracted vendors that meet DOE safety standards. When purchases are made from non-contracted vendors, it is possible that the items may be lower quality than those purchased from a contracted vendor.

Recommendation

8. ROC officials should not approve any purchases of heavy gym equipment or furniture from non-contracted vendors.

DOE Response: DOE officials agreed, stating, “ROC officials have instructed ROC staff that they are not to approve the purchases of heavy gym equipment or furniture from non-contracted vendors. This will satisfy the safety requirements as detailed in the SOPM.”

Purchases Are Made Prior to Obtaining ROC Approval

Although the ROC approved all 28 purchases in our sample, we found five (18%) instances in which the schools purchased goods or services prior to receiving ROC approval. DOE requires that school purchases above \$5,000 obtained from a non-contracted vendor or purchases above \$15,000 obtained from a contracted vendor must be approved by the principal or authorized DOE official and by the ROC prior to the purchase being made. The SOPM states, “review and approval by two parties for expenditures . . . and all other regulations are designed

to safeguard the use of public funds and to provide accountability.” The invoices for those five purchases were dated prior to the ROC approval date. Table IV, below, lists the five purchases.

Table IV

Purchases Made Prior to Obtaining ROC Approval

School	Description of Item Purchased	Invoice Date	ROC Approval Date	Purchase Amount
M.S. 118	Professional Development Services	11/19/03	11/21/03	\$25,800
M.S. 118	Professional Development Services	04/22/04	05/7/04	\$65,411
MS/HS 368	Professional Development Services	12/10/03	1/28/04	\$110,079
P.S. 130	Consultant training	02/05/04	03/11/04	\$39,600
M.S. 302	Installation of closed circuit television system	08/05/03	09/17/03	\$26,300
TOTAL				\$267,190

FAMIS does not allow the schools to print out purchase orders that require ROC approval until the approval is made at the ROC level. Therefore, the schools made these purchases from the vendors prior to sending the vendor the purchase order.

By initiating the purchases prior to receiving ROC approval, the schools are circumventing the control of obtaining ROC approval and are not complying with the SOPM. In addition, when the ROC approves purchases it is also certifying that funds are available for the expenditure. If the schools do not wait to obtain ROC approval prior to making purchases, it is possible that funds may not be available for the school to make the purchase.

Recommendation

9. ROC officials should notify all schools that purchases requiring ROC approval must not be made until the ROC has approved the purchase.

DOE Response: DOE officials agreed, stating, “Schools have already been made aware and will be reminded at future ROC training sessions held for school personnel as well as school visits by ROC staff, emphasis will be placed upon school staff that ROC approval must be obtained prior to making commitments in those instances where ROC approval is required for the purchase of goods and services.”

Other Matter

For one of the 28 purchase orders in our sample, the school had no record of ordering or receiving the items purchased. This purchase order indicated that the ROC had initiated the

purchase of library books on behalf of five different schools, including one of the schools in our sample—Middle School 118. The total purchase order amounted to \$56,285, of which \$21,500 was ordered for our sampled school. The payment of \$21,500 came from the school’s budget, but there was no record of whether the school had ever received the books.

In addition, the invoice for this purchase order had no mention of any books ordered or delivered to our sampled school. The school official was unfamiliar with this purchase and had no documentation in the school files because the purchase was made by the ROC. This is of concern, since it is possible that Middle School 118 paid for books that were actually received by other schools.

As of March 15, 2005, the ROC has been unable to supply invoices to show that Middle School 118 in fact received the items ordered.

Recommendation

10. ROC officials should look into purchase order number WR0430700 and determine whether Middle School 118 received these books.

DOE Response: “10x118’s [Middle School 118] did not receive any textbooks but rather a portion of funds were used to purchase classroom libraries for other schools. The Learning Support Center wanted to ensure constant support was given across the networks of schools.”

Auditor’s Comment: Although DOE responded that Middle School 118 did not receive any textbooks, it did not, however, explain why Middle School 118 funds were used to purchase goods for other schools and whether or not this was allowable or appropriate.



THE NEW YORK CITY DEPARTMENT OF EDUCATION

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April 05, 2005

Greg Brooks
Deputy Comptroller for Policy, Audits, Accountancy & Contracts
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Office of the Comptroller
1 Centre Street
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Re: Draft Audit Reports Entitled: Other Than Personal
Services Expenditures of Schools within the
Department of Education's Regional Operation
Centers

Dear Mr. Brooks:

This letter, with attachments, reflects the New York City Department of Education's ("Department") response to the findings and recommendations made in the above-referenced Draft Audit Reports ("Draft Reports") of the New York City Office of the Comptroller for Fiscal Year 2003- 04.

The audit period covers the first year of operation for the Department's newly created Regional Operations Centers (ROCs). Given that this was a huge transition year for the Department, we are pleased to see that the reports recognize the work that is being done by the ROCs and the reports' acknowledgement that the ROCs are generally following the procedures in the SOPM.

Throughout this first year, the ROCs management team worked closely with the Office of the Auditor General (OAG) and the Division of Financial Operations (DFO) to review and revise procurement protocols to bring them inline with the new philosophy for giving principals increased discretion while maintaining efficiencies in processes and proper fiscal controls. Many of the findings cited were a result of these changes. Though the changes were implemented in real time throughout the Regions, actually updating the SOPM lagged these decisions. In the instances where changes occurred in real time, it may not have been clear to the auditors that the ROCs were following newly adopted procedures. In many cases the ROC Director or Deputy was not consulted during the audit; therefore these changes were discussed at the exit conference. The opportunity to review and explain in detail the elements of findings was critical to demonstrating that the ROCs have implemented sound financial controls and good procurement practices, and did so in consultation with the OAG and DFO. It also gave the ROC staff an opportunity to understand questions that the auditors had and to clarify for the auditors changes in procedures that were in operation. Each ROC office presented back-up documentation to further substantiate practice that was in line with changes made to the system. During the exit conference, the auditors indicated a clear understanding of the impact of the transition year and the need for the level of clarification experienced during the conference; as a result much of the documentation presented as evidence that controls were established and in operation was accepted.

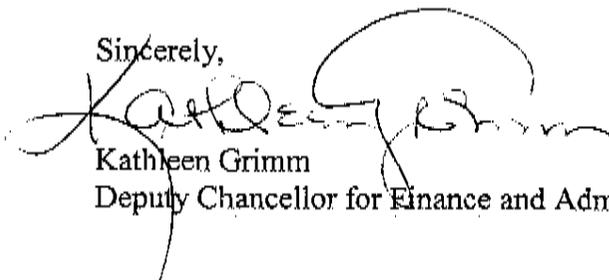
Several of the recommendations in the audit reflect areas where the ROCs, OAG, and DFO identified and have made provisions for needed change. The internal recommendations and changes were identified as a result of a review of the procurement processes conducted by the OAG in the fall '03. This review included a full process mapping, assessment of potential risk in audit standings and recommendations for change that would achieve proper controls and acceptable operating procedures. As a result, immediate implementation of recommendations was achieved where possible, and action plans were identified for other agreed upon changes. Please find additional information attached as follows:

Attachment I: Highlights the Departments' alignment with audit recommendations.

Attachment II: Summary of Management Implementation Strategies.

Attachment III: ROCs responses to individual findings.

Sincerely,



Kathleen Grimm

Deputy Chancellor for Finance and Administration

KG:

Enclosures

C:	Joel I. Klein	Maureen Hayes	Carmen Farina	LaVerne Srinivasan
	Michael Best	Irwin Kroot	Bruce E. Feig	Vincent A. Giordano
	Donna Rey	Sandy Brawer	Marlene Siegel	Robert Wilson
	Espi Semetis	Vincent Clark	David Ross	Alan Friedman
	Brian Fleischer	Marlene Malamy	Mary Coffey	Nader Francis
	Maria Conklin	Arnold Ali	John Wall	Richard Carlo

Attachment I

This section highlights those Audit Recommendations that are aligned with changes already made or that are planned.

Finding #1: Purchases made prior to ROC/Principal approval

Audit Recommendation: ROC/Principal approval required before purchases are made

Action Implemented: Automated Approval Process:

ROCs recognized early on the need to prioritize this issue and proactively implemented an automated approval process.

Edits were made to the FAMIS Portal (purchasing system) that provide proof of principal and ROC approval (for items >5,000). This proof is captured by the indication of the name of the authorizing individual and date of the authorization.

The on-line approval of requisitions by principals is available through Fastrack as well (no other approval required).

For both of these instances, auditors were not aware that on line documentation was available and did not ask for it, resulting in a finding that indicated lack of documentation. ROC staff did not realize this documentation was needed by the auditors. Once clarified on both sides, documentation was printed from the system and provided at and in some cases post the exit conference.

Finding #2: Lack of purchase bidding documents

Audit Recommendation: ROC officials should ensure proper bidding documents is obtained within the SOPM guidelines. Documentation should be maintained on file.

Actions Implemented:

Change in levels of Purchasing Authority

- a. **Bids:** Principals were given the authority to acquire phone bids for purchases up to 5,000 (previously \$2,500) and written bids for items between \$5,001 and \$10,000. [Documentation of written bids for purchases over \$5,000 was not always located in ROC files; however, auditors were able to substantiate documentation maintained at the schools].
- b. **SIPP changes in effect for Fiscal Year 2004:** All schools were authorized to enter payments for up to \$2,500 (previously not available to elementary and middle schools). Payments of \$500 or less are now posted directly to FAMIS at the site. Payments from \$501 to \$2,500 are electronically sent to the ROC for approval. ROC approval is also submitted electronically.

- c. **Purchasing-card:** Limits were increased to \$2,500 for single transactions (previously \$1,500). These cards are primarily used with contracted vendors. However, bidding requirements are required for purchases exceeding \$250.

Finding #3: Lack of written justification for sole source purchases; lack of OPM approval for sole source purchases.

Recommendation: ROC should obtain written justification for sole source purchase

Action Implemented:

A. Systems Enhancement

- i. Identification of vendors named in grants – Enhancement made to system to indicate vendors named as part of a grant. [Many items cited in the audit report did not require the approval of the OPM Administrator because they were named in a competitive grant. The SOPM states that “when a competitive grant is written and specifically mentions the name of vendor...further solicitation is not required.” System proof made available as documentation.]

B. Changes in ROC approval level

SOPM approval levels officially changed to reflect Fall 2004 decision to permit ROC approval of sole-source purchases between \$5,000.01 and \$15,000.00 for commodities and up to 5,000.01 for professional services without OPM involvement.

Finding # 4: Lack of certification before payment of invoices

Recommendation: ROCs should ensure certification before payment of invoices.

Action Implemented: Automated Certification of Delivery- Portal Enhancement

DFO has long recognized the challenges associated with obtaining signed documentation on delivery of goods from schools and offices; an automated system to certify delivery has been developed. (While the system is not available until May, 05, some offices accepted packing slips from the school as proof of delivery in order to pay bills before the June deadlines. Auditors wanted signed documentation from the principal.) DFO advises (September 2000 Policy Memo) that payments could be made to contracted vendors upon receipt of invoices without certification of delivery from principals in advance.

Attachment II

ROC Management Action Plan:

- Automated Certification of Delivery – in response to the recognized difficulty in getting physical documentation from schools, principals will certify directly on line. Anticipated date: Spring/Summer '05
- ROC Academy Training - All procurement and contracts staff will attend training on revised protocols and procedures. The training is being developed and will be conducted by a team of OAG, DFO, and ROC staff as a part of the ROC Academy: Spring, '05
- Site Visits - As part of the ROC staff visits to schools, staff will conduct site reviews of the records that are kept at the school. Protocol of items to review will be developed and implemented following '05 ROC Academy training.
- OAG currently and will continue to provide individual support to schools, particularly to new principals and principals with new schools in setting up appropriate protocols, controls, and filing systems. Ongoing training for School-based staff will be provided.
- OAG, DFO, and ROC staff will work together to develop internal reports that identify areas where follow up is required. These reports will be used by ROC staff and will reflect what is needed to demonstrate best practices: Spring/Summer '05

Department-wide Initiative

Review and changes to the Contract process and procedures will serve to strengthen controls within the system.

Attachment III

Regional Operations Centers' Response to Audit Findings (See Attached)

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OFFICE OF AUDITOR GENERAL
External Audit Services

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AUDIT TITLE: OTPS Expenditures of Schools within the DOE Regions 1 and 2
AUDITING AGENCY: Office of the Comptroller
DIVISION: Bureau of Management Audit
DRAFT REPORT DATE: March 23, 2005
AUDIT NUMBER: MH05-79A

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

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

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

ROC officials have instructed ROC staff not to make payments until certification of delivery has been documented by the school. This certification of delivery can be in the form of a signed bill of lading, packing slip, etc. This recommendation was reviewed with ROC staff on March, 2005.

In instances where timely payments were required, ROC staff contacted schools to confirm receipt of delivery of goods. Documentation provided at the exit conference was meant to attest to principal affirmation of receipt of delivery.

Because of the acknowledged difficulty of obtaining certificate of delivery from schools, an on-line certification of delivery system is being implemented. It is expected that the FAMIS portal enhancements will be implemented prior to the end of the current fiscal year.

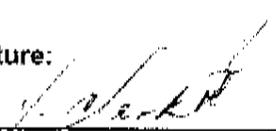
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March, 2005

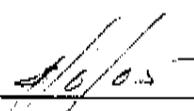
RESPONSIBILITY CENTER

Bronx Regional Operations Center

Signature:



Print Name: Vincent Clark



Date

Print Title: Director, Bronx Regional Operations Center (ROC)

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

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

Recommendation #2: ROC officials should ensure school officials provide written justification for all sole-source purchases, in accordance with the SOPM. The ROC should review this documentation before approving such purchases.

Recommendation #3: ROC officials should ensure sole-source purchases are approved by the OPM Administrator when required.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

Sole source requests exceeding \$15,000 will be sent to the appropriate OPM Administrator for approval. Approval of purchases by ROC officials will not be until sole source approval has been granted by OPM. Also, it should be noted that ROCs were following regulations communicated from the Office of Purchasing which stipulated that all sole-source purchases between \$5,000.01 and \$15,000.00, were to be decided upon by the ROC's without the necessity of OPM involvement.

ROC deputies and operations supervisors will approve sole source vendor requests in the amount of \$15,000 or less prior to approval of purchases for goods or services. This will take place after a careful and thorough review of all documentation submitted by the school.

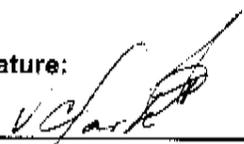
IMPLEMENTATION DATE

March, 2005

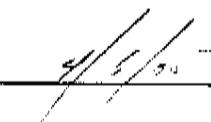
RESPONSIBILITY CENTER

Bronx Regional Operations Center

Signature:



Print Name: Vincent Clark



Date

Print Title: Director, Bronx Regional Operations Center (ROC)

NEW YORK CITY DEPARTMENT OF EDUCATION
OFFICE OF AUDITOR GENERAL
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**A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED**

Recommendation implemented prior to Draft Report.

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

Recommendation #5: ROC officials should maintain copies of bid documentation.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

ROC officials have instructed ROC staff that prior to approving purchase orders that require bids that all guidelines have been followed as referenced in the SOPM. ROCs will ensure that schools officials comply with the SOPM written bids from independent and separate vendors. The steps include, but are not limited to, the ROC approval officers reviewing all written bid documentation prior to FAMIS electronic approval of purchase orders to ensure compliance.

ROC Team members will continue to provide the necessary training to new school staff and monitor this process. The revised SOPM OTPS chapter posted in February 2005 provides the ROC and the field with training curricula. Additionally, we have stressed to schools that contracted vendors should be used wherever possible and that if there is a need to purchase from non-contracted vendors, bids must be obtained. For all purchases exceeding \$5,000, bids must be forwarded to the ROC prior to approval of the purchase order. Any bids received from vendors above \$10,000 must be sealed and read at a public opening. ROC procurement team members have also been made aware of the need to review bid documentation more closely prior to approval to ensure compliance.

ROC officials have instructed ROC staff to maintain copies of all bids and attach to copies of all purchase orders.

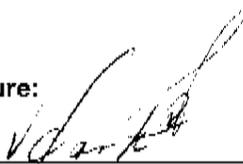
ROCs will ensure that school officials maintain all appropriate bid documentation by effective outreach communication and on-going training of school procurement staff. ROC Team members will include an assessment of school file maintenance systems during routine school visits and will recommend changes where necessary. In instances where inadequate filing systems exist, a follow-up visit to ensure compliance with changes will be conducted.

IMPLEMENTATION DATE

March, 2005

RESPONSIBILITY CENTER

Bronx Regional Operations Center

Signature: 

Print Name: Vincent Clark

4/6/05 Date

Print Title: Director, Bronx Regional Operations Center (ROC)

NEW YORK CITY DEPARTMENT OF EDUCATION
OFFICE OF AUDITOR GENERAL
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**A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED**

Recommendation #6: ROC officials should approve non-contracted purchases above \$10,000 only after receiving sufficient evidence that sealed bids were obtained and read at a public opening.

RESPONSE TO RECOMMENDATION-IMPLEMENTATION PLAN

Public openings of sealed bids for non contracted purchases above \$10,000 will be conducted in compliance with the SOPM. This process will be monitored by the contract managers. This has been implemented by the ROC officials and will be reiterated at the next training sessions conducted in May 2005.

IMPLEMENTATION DATE

Professional development of school staff regarding the bidding process- May 2005

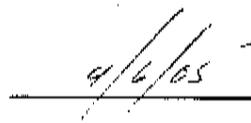
RESPONSIBILITY CENTER

Bronx Regional Operations Center

Signature:



Print Name: Vincent Clark



Date

Print Title: **Director, Bronx Regional Operations Center (ROC)**

NEW YORK CITY DEPARTMENT OF EDUCATION
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**A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED**

Recommendation #7: ROC officials should obtain and maintain invoices for purchases of goods and services.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

ROC officials have instructed ROC staff responsible for vouchering that they are responsible for obtaining invoices prior to making payments. Contracts managers have conducted training sessions around this recommendation. Invoices will be maintained at the ROC site.

IMPLEMENTATION DATE
March, 2005

RESPONSIBILITY CENTER
Bronx Regional Operations Center

Signature: _____

Print Name: Vincent Clark

Print Title: Director, Bronx Regional Operations Center (ROC)

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

Recommendation #8: ROC officials should not approve any purchases of heavy gym equipment or furniture from non-contracted vendors.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

ROC officials have instructed ROC staff that they are not to approve the purchases of heavy gym equipment or furniture from non-contracted vendors. This will satisfy the safety requirements as detailed in the SOPM.

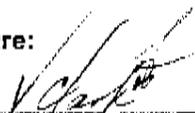
IMPLEMENTATION DATE

March, 2005

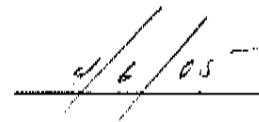
RESPONSIBILITY CENTER

Bronx Regional Operations Center

Signature:



Print Name: Vincent Clark



Date

Print Title: Director, Bronx Regional Operations Center (ROC)

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

Recommendation #9: ROC officials should notify all schools that purchases requiring ROC approval must not be made until the ROC has approved the purchase.

RESPONSE TO RECOMMENDATION

Schools have already been made aware and will be reminded at future ROC training sessions held for school personnel as well as school visits by ROC staff, emphasis will be placed upon school staff that ROC approval must be obtained prior to making commitments in those instances where ROC approval is required for the purchase of goods and services.

IMPLEMENTATION DATE

Ongoing

RESPONSIBILITY CENTER
Bronx Regional Operations Center

Signature: _____

Print Name: Vincent Clark

Date

Print Title: Director, Bronx Regional Operations Center (ROC)

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

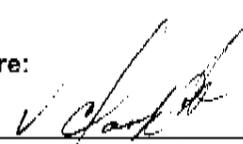
Recommendation #10: ROC officials should look into purchase order number WR0430700 and determine whether Middles School 118 received these books.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

10X118's did not receive any textbooks but rather a portion of funds were used to purchase classroom libraries for other schools. The Learning Support Center wanted to ensure constant support was given across the networks of schools.

RESPONSIBILITY CENTER
Bronx Regional Operations Center

Signature:



Print Name: Vincent Clark

4/6/05

Date

Print Title: **Director, Bronx Regional Operations Center (ROC)**