

AUDIT REPORT



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

Follow-up Audit Report on the Other Than Personal Services Expenditures of Schools within the Department of Education Regional Operations Center for Region 3 and District 75

FS07-102F

June 29, 2007



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

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter and Article 52-A, §259m, of the New York State Education Law, my office has examined Other Than Personal Services expenditures of schools within the Department of Education (DOE) Regional Operations Center (ROC) for Region 3 and District 75 (Citywide Special Education). This follow-up audit determined whether DOE implemented recommendations in the previous audit entitled Audit Report on the Other Than Personal Services Expenditures of Schools with the Department of Education Regional Operations Center for Region 3 and District 75 (Audit No. FP05-077A, issued May 4, 2005).

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

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

Very truly yours,

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

William C. Thompson, Jr.

WCT/fh

Report: FS07-102F
Filed: June 29, 2007

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

**Follow-Up Audit Report on
Other Than Personal Services Expenditures of Schools within
the Department of Education Regional Operations Center for
Region 3 and District 75**

FS07-102F

AUDIT REPORT IN BRIEF

This follow-up audit determined whether the Department of Education (DOE) has implemented the four recommendations made in a previous audit entitled *Audit Report on Other Than Personal Services Expenditures of Schools within the Department of Education Regional Operations Center for Region 3 and District 75* (Audit No. FP05-077A, issued May 4, 2005). In this report, we discuss the four recommendations from the prior audit in detail, as well as the implementation status of each recommendation.

The earlier audit determined whether DOE other than personal services (OTPS) procurement policies and procedures were followed for purchases of goods and services made by schools in Region 3 and District 75 that required Regional Operations Center (ROC) approval. In that audit, the auditors determined that the officials of the ROC and schools in Region 3 and District 75 generally followed DOE procurement policies and procedures for purchases that require ROC approval. However, there were instances of noncompliance with DOE procedures relating to the sole-source method of procurement for certain purchases. Specifically, the purchase files lacked justification letters; payments were made prior to the delivery of goods and services; and purchases were made prior to being approved.

Audit Findings and Conclusions

The current audit disclosed that DOE implemented three of the four recommendations made in the previous audit. However, we could not determine whether one other recommendation was implemented because the purchases that we reviewed (which comprised the entire population) did not exceed the monetary threshold that would require the approval of the Administrator of the Office

of Purchasing Management. However, Regions 3 and District 75 instituted an internal control checklist to ensure that the procedures were followed.

In this current audit, we also noted that one school in District 75 appears to have split purchases to circumvent the approval requirements for purchases exceeding \$5,000, the monetary threshold that would require ROC approval for these purchases. There was one instance in which the school issued two purchase orders to the same vendor.

INTRODUCTION

Background

The DOE is organized into 10 regions including more than 1,400 schools that provide primary and secondary education to more than one million New York City students. Each region has a Learning Support Center that houses the instructional leadership team for the region as well as a full service support office. Six of the Learning Support Centers also house Regional Operations Centers (ROCs), which provide operational and financial support to the schools. While school purchases are made at the individual school level, ROC officials review and approve: school-generated purchase orders, bidding documents for school purchases above certain monetary limits, and evidence of receipt of items purchased. ROC officials also process payments for school purchases, except for purchases made on behalf of the schools by the DOE Central Office. The ROC of Region 3 and District 75 (Citywide Special Education) is responsible for the fiscal oversight of 209 schools.

There are several methods by which individual schools can purchase goods and services. Purchases can be made through the DOE's on-line Fastrack Ordering Systems, for general supplies, textbooks, computer and audio-visual software, athletic supplies, and for other items currently available under requirements contracts with the DOE Office of Purchasing Management (OPM). ROC approval is not required for these purchases. Goods and services that are not available through Fastrack may be obtained by purchase orders prepared under the DOE Financial Accounting Management Information Systems (FAMIS)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.

Objective

This follow-up audit determined whether DOE implemented the four recommendations contained in a previous audit, *Audit Report on Other Than Personal Services Expenditures of Schools*

¹ The Financial Accounting Management Information System, which is the New York City Department of Education's Accounting System.

within the Department of Education Regional Operations Center for Region 3 and District 75 (Audit No. FP05-077A, issued May 4, 2005).

Scope and Methodology

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

- The prior audit report issued by the Comptroller's Office (*Audit Report on Other Than Personal Services Expenditures of Schools within the Department of Education Regional Operations Center for Region 3 and District 75* (Audit No. FP05-077A, issued May 4, 2005);
- The *Standard Operating Procedures Manual-Division of Financial Operations* (SOPM), revised OTPS purchase chapter, issued March 2006;
- On-line procedure document *Using FAMIS for Purchasing and Payments*;
- The operational flowchart of the school procurement process;
- OPM *School Purchasing Guide*, procurement policy chapter;
- *On-line Guide to Certification of Delivery*;
- relevant memoranda, newsletters, and other documents available on the DOE Website; and,
- DOE Audit Implementation Plan (AIP), dated December 19, 2005; and
- Region 3 and District 75 officials.

The previous audit stated that with the exception to sole-source purchases, Region 3 and District 75 generally followed the DOE purchasing policies. To determine whether Region 3 and District 75 are following DOE purchasing policies and procedures when purchasing goods and services through the sole-source method of procurement, we reviewed all 12 sole-source purchases that Region 3 and District 75 listed on their logs for Fiscal Year 2006. These 12 purchases totaled \$102,195—\$80,805 from Region 3 and \$21,390 from District 75.

We reviewed the files for these 12 purchases to determine whether the files contained the appropriate documentation to justify these types of purchases, and whether these purchases were appropriately approved in accordance with the SOPM.

During the period between the completion of the previous audit and the beginning of this follow-up audit, DOE added a new feature schools to FAMIS enabling school officials to certify the delivery of goods and services. The new feature allows school personnel to indicate online the time of receipt of goods or services and whether the receipt represented partial or full delivery of the purchase.

This feature allows the ROC to verify that purchases were certified as received online prior to the issuance of payments to vendors. We reviewed the files of the 12 sole-source purchases to determine whether these purchases were certified online prior to the issuance of payments to the vendors.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, §93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with DOE officials during and at the conclusion of this audit. A preliminary draft report was sent to DOE officials and was discussed at an exit conference held on May 4, 2007. We submitted a draft report to DOE officials with a request for comments on May 16, 2007. We received a written response from DOE officials on May 25, 2007. The Department generally agreed with the findings and recommendations of this audit. Their comments are included as an addendum to this report.

RESULTS OF FOLLOW-UP AUDIT

The current audit disclosed that DOE implemented three of the four recommendations made in the previous audit. We could not determine whether the other recommendation was implemented because the sample we reviewed, which comprised the entire population of sole-source purchases made in Fiscal Year 2006, did not exceed the thresholds that would require the approval of the OPM Administrator. Of the sole-source purchases we reviewed, there were written justifications from the schools for these types of purchases, and they were certified as received online prior to the issuance of payment. Furthermore, ROC approvals were granted prior to the purchases being processed.

We also noted a new internal control issue not cited in the previous audit. There was an instance in which a school issued two purchase orders to the same vendor school thereby splitting the purchases to bypass the approval requirements for purchases exceeding \$5,000, the monetary threshold for these purchases.

Previous Finding: “Lack of Documentation to Support Sole-Source Purchases”

There was no documentation in the files of four schools or at the ROC to justify five purchases totaling \$47,436 for goods and services using the sole-source method of procurement.² 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.” Moreover, the SOPM states that for sole-source purchases of commodities and purchases exceeding \$5,000, approval from the Administrator of the OPM is required. However, the purchase documents for the five purchases lacked OPM approval.

Previous Recommendation #1: “ROC should provide written justification for all sole-source purchases, in accordance with the SOPM. The ROC should review this documentation before approving such purchases.”

Previous Recommendation #2: “ROC should obtain the approval of the OPM Administrator for sole-source purchases in accordance to SOPM.”

Previous DOE Response: “We will ensure strict compliance with the procedures requiring approval of proposed sole source professional services orders, above \$5,000, by the OPM Administrator.

“The ROC Contract Officers and staff have been directed to implement specific internal controls for any request for purchases of ‘professional services’ at a cost above \$5,000 identified by the school as sole source. As suggested by the auditors this may include:

- Letter from the school principal justifying the request for the sole source designation.
- Results of any internet or other searches conducted to locate alternate vendors.

² The schools are the Manhattan Occupational Training Center (Manhattan), Hillside Psychiatric Hospital PS 23 (Queens), Public School 40 (Queens), and Public School 80 (Queens).

- Other relevant attachments; e.g., copies of vendor-supplied materials describing the services.
- If the Contract Officer's research concludes with the determination that there is ample justification for OPM to declare the vendor sole-source, the Contract Officer will transmit the packet to the OPM Administrator for review and final decision.

“In our training programs with principals and school operations liaisons on procurement, for the 2005-2006 school year, we will incorporate revised materials emphasizing that a school is required to undertake systematic steps prior to encumbering any sole-source professional service order. The procedures outlined above are designed to document that the vendor, for very specific reasons, is the only feasible source for obtaining the services and, therefore, may be requested to be declared exempt from the competitive bidding process. Through more intensive training in the sole source regulations, we will ensure that sole source requests reaching the ROC can be readily accompanied by adequate documentation addressing the SOPM's criteria for sole source designation.”

Current Status (Recommendation #1): IMPLEMENTED

Region 3 and District 75 has created an internal checklist procedure for sole-source purchases to ensure that a written justification from the school is submitted to the ROC for review. The ROC contract officers are required to complete the checklist before approving the purchase. Based on our review of the files of sole-source purchases, we found that there is documentation from the schools in each instance that the procurement method of sole-source is used to purchase goods and services. Therefore, we consider the recommendation to be implemented.

Current Status (Recommendation #2): COULD NOT BE DETERMINED

In response to the prior audit, Region 3 and District 75 have created a checklist of criterion for sole-source purchases. The checklist requires all sole-source purchases to include a justification letter from the school, vendor materials or a letter from the vendor. The checklist identifies the level of approval needed based on the purchase amount. The checklist states that commodities purchases exceeding \$15,000 and professional services exceeding \$5,000 require the OPM Administrator's approval. The checklist requires that the region contract officers review and endorse all sole-source purchases. However, the 12 sole-source purchases that we reviewed, which represented the entire population of such purchases, did not exceed the threshold that would require the OPM Administrator's approval. We, therefore, can not be certain if the controls to ensure program approval is adequate and/or properly utilized. Based on our interviews of key personnel and review of Region 3 and District 75 procedures, ROC officials have indicated that they are following the SOPM procedure regarding the approval of the OPM Administrator concerning sole-source purchases. However, we could not test to conclude that this was the case. Therefore, we could not determine whether this recommendation was implemented.

Previous Finding: “Invoice Improperly Paid”

The ROC processed a payment for an invoice before the services were fully rendered. Moreover, the ROC did not approve this purchase until one month after the provision of services began. The SOPM states that “services must be rendered prior to payments to vendors unless unique circumstances require prepayments.”

Previous Recommendation #3: ROC should ensure that “all goods are delivered and services rendered before payment of invoices, in accordance with the SOPM.”

Previous Recommendation #4: ROC should ensure that “approval is granted prior to the purchase of goods and services.”

Previous DOE Response: “On March 11, 2005, the ROC Director wrote to the principal of the school. This communication informed her of the finding, reminded her of the DOE’s standard operating procedures governing school-based on-line processing of purchase orders, asked her to review and verify that her school-based internal control practices are structured to achieve 100% compliance with the DOE’s standard operating procedures for all purchases, reminded her of the potential consequences to the Approving Officer (principal) when a pattern of violations occurs, and offered assistance from ROC staff in establishing internal systems to support full compliance with operating procedures. A copy was shared with the local instructional superintendent, the principal’s direct supervisor.

“In our training programs with principals and school operations liaisons on procurement, for the 2005-2006 school year, we will re-emphasize that the commencement of services by a vendor is contingent upon prior encumbrance of a purchase order in FAMIS, approval by the ROC where required, and approval by the principal (as evidenced by the principal’s signature thereon); additionally, the principal or designee is not to certify delivery of full services, unless all services have been rendered in full.”

Current Status (Recommendation #3): IMPLEMENTED

Our review of the 12 sole-source purchases found that Region 3 and District 75 have followed the DOE payment procedures. DOE has installed a new feature in FAMIS that allows schools to certify when goods and services are received. The 12 sole-source purchases that we reviewed had all been certified as registered online, and Region 3 and District 75 issued payments to the vendors after receiving the online certifications. Therefore, we consider the recommendation to be implemented.

Current Status (Recommendation #4): IMPLEMENTED

We reviewed the file of the 12 sole-source purchases and found that Region 3 and District 75 contract officers reviewed and granted approvals prior to the purchase of goods and services. Therefore, we consider the recommendation to be implemented.

New Issue

Bidding Procedures Were Not Followed at One School

During the current audit, we noted in District 75, the Academy for Career & Living Skills (PS811X) issued two purchase orders, one on April 4, 2006, (WO6018426) and the other on April 10, 2006, (WO6018736) to Curriculum Associates Inc. each for the amount of \$3,710.68. Both purchases were for the same items and quantities. 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. As such, it appeared that this school had not followed the approval process; therefore we requested the circumstances surrounding this incident.

We were informed by its principal in a letter, dated May 2, 2007, that this incident occurred “due to financial stress on our budget . . . when the initial order was placed we exhausted our instructional funds and were only able to purchase half the required material . . . we then purchased the remainder of the required items utilizing our Chapter 683 funds that were available.” The principal continues stating, “there was never any intent to split bill these required items . . . we now have a clear understanding of these procedures and will ensure this does not happen again in the future.”

RECOMMENDATION

To address this issue, we recommend that DOE officials in conjunction with the district representatives:

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

DOE Response: “This recommendation pertains to the actions of one (1) school where two (2) purchase orders totaling \$7,421.36 (\$3,710.68/order) were placed with a non-contracted vendor as sole source on different dates for exactly the same items and quantities. The finding a split sole source order represented only one occurrence among all of the orders reviewed by the auditors.

“A letter from the principal (copy follows) explains that the first of these two orders exhausted their instructional funds and the second was placed when additional funds were subsequently identified just prior to the purchasing deadline. The principal further states, “there was never any intent to split bill these required items.” The threshold for review and approval by the ROC of sole source commodity orders is \$5,000. The specific orders were for mandated Brigance assessment materials, marketed only by Curriculum Associates, which had previously been approved as sole source for these materials. Thus, it is important to note that the combined order (over \$5,000) would have been approved by the ROC if transmitted through the process for sole source orders over \$5,000.

“The principal acknowledged in the letter the correct procedure and gave assurance of compliance henceforth. We expect that, in the future, this school will process a change order to an original sole source order if the aggregate amount exceeds \$5,000, the established threshold.

“The ROC has conducted training for principals and schools liaisons throughout the year, and ROC staff members have made site visits during which a focus was placed on standard procurement procedures, including the prohibition against split orders. We have now enhanced our training materials to give even stronger emphasis to the prohibition, as a means to supporting our schools in achieving full compliance with the procedures.

“Effective July 2, 2007, the Regional Operations Centers will not exist and Integrated Service Centers (ISC) will be established. The ISCs will continue to provide training to schools in standard operating procedures utilizing the updated training materials. Additionally, reports of school expenditures may be reviewed to identify instances where follow-up contact with schools is warranted to reinforce procedures and thereby prevent violations.”



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

OFFICE OF THE DEPUTY CHANCELLOR

Kathleen Grimm, Deputy Chancellor for Finance and Administration

52 Chambers Street, Room 320 • New York, New York 10007
(212) 374-0209 (Voice) (212) 374-5588 (Facsimile)

May 25, 2007

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

**Re: Follow-up Audit Report on the Other Than Personal Services
Expenditures of Schools Within the Department of Education,
Regional Operations Center for Region 3 and District 75, FS07-102F**

Dear Mr. Graham:

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

The follow-up audit determined whether the DOE has implemented the four recommendations made in a previous audit entitled "Audit Report on Other than Personal Services Expenditures of Schools within the Department of Education Regional Operations Center for Region 3 and District 75 (Audit No. FP05-077A, issued May 4, 2005). We are pleased with the positive findings:

- The DOE implemented three of the four recommendations made in the previous audit.
- It could not be determined whether one other recommendation was implemented, because the purchases reviewed did not exceed the monetary threshold that would require the approval of the Administrator of the Office of Purchasing Management.

In addition to review of the prior recommendations, the auditors made a notation in regard to a singular occurrence of splitting of a purchase by one school. Please find attached our response to this finding, which delineates the action plan implemented in relation to accomplishing the auditor's recommendation.

Sincerely,


Kathleen Grimm
Deputy Chancellor for Finance and Administration

Attachment

c: Brian Fleischer	Vincent Clark	Vincent Giordano	Sandy Brawer
Nader Francis	Espi Semetis	Susan Olds	Magda Dekki
Marlene Siegel	Mariano Guzman	David Ross	Angel Namnum
Todd Johnson	Yvonne Torres		
	Robert Wilson		

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

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RESPONSE DATE: May 23, 2007

AUDIT TITLE: Follow-up Audit on the Other Than Personal Expenditures of Schools Within the Department of Education Regional Operations Center for Region 3 and District 75

AUDITING AGENCY: NYC Office of the Comptroller

DIVISION: Audit: Audits, Accountancy & Contracts ~ Support Services

DRAFT REPORT DATE: May 16, 2007

AUDIT NUMBER: FS07-102F

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

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

RESPONSE TO RECOMMENDATION
(ALTERNATIVE SOLUTIONS ON CURRENT SITUATION CITED IN AUDIT REPORT)

This recommendation pertains to the actions of one (1) school where two (2) purchase orders totaling \$7,421.36 (\$3,710.68/order) were placed with a non-contracted vendor as sole source on different dates for exactly the same items and quantities. The finding of a split sole source order represented only one occurrence among all of the orders reviewed by the auditors.

A letter from the principal (copy follows) explains that the first of these two orders exhausted their instructional funds and the second was placed when additional funds were subsequently identified just prior to the purchasing deadline. The principal further states, "there was never any intent to split bill these required items." The threshold for review and approval by the ROC of sole source commodity orders is \$5,000. The specific orders were for mandated Brigrance assessment materials, marketed only by Curriculum Associates, which had previously been approved as sole source for these materials. Thus, it is important to note that the combined order (over \$5,000) would have been approved by the ROC if transmitted through the process for sole source orders over \$5,000.

The principal acknowledged in the letter the correct procedure and gave assurance of compliance henceforth. We expect that, in the future, this school will process a change order to an original sole source order if the aggregate amount exceeds \$5,000, the established threshold.

The ROC has conducted training for principals and school liaisons throughout the year, and ROC staff members have made site visits during which a focus was placed on standard procurement procedures, including the prohibition against split orders. We have now enhanced our training materials to give even stronger emphasis to the prohibition, as a means to supporting our schools in achieving full compliance with the procedures.

Effective July 2, 2007, the Regional Operations Centers will not exist and Integrated Service Centers (ISC) will be established. The ISCs will continue to provide training to schools in standard operating procedures utilizing the updated training materials. Additionally, reports of school expenditures may be reviewed to identify instances where follow-up contact with schools is warranted to reinforce procedures and thereby prevent violations.

IMPLEMENTATION DATE

May 2007: Updated Training Materials for Schools

RESPONSIBILITY CENTER

Linden Place Regional Operations Center

Signature:

Marlene Siegel
Print Name: Marlene Siegel

5-23-07
Date

Print Title: Executive Director, Linden Place Regional Operations Center (ROC)

The New York City Department of Education
Joel I. Klein, Chancellor



The Academy for Career and Living Skills
811X@184 District 75

Caron Martin, Principal

Marjorie Millett, Assistant Principal
Mariola Kolodziej, Assistant Principal
Luis Quintana, Assistant Principal
Eleyna Rivas, Assistant Principal

May 2, 2007

Dear Mr. Johnson,

Based on your request and through my investigation with my Business Manager – Helene Jacobson, we have the following information. This is a letter of intent to explain the circumstances behind the two purchase orders for Curriculum Associates. The purchase order numbers are the following WO6018426 and WO6018736.

Curriculum Associates is the sole vendor for the Brigance Assessment Inventory. This inventory is mandated by the district to assess the needs and skills of my school's population.

In the past this assessment was purchased by the district, however, as of the 2004-2005 school year, it is now the responsibility of the school to purchase these items.

We are the largest special education school in the district, so we needed an abundance of materials. Due to financial stress on our budget as with all schools, when the initial order was placed we exhausted our instructional funds and were only able to purchase half the required materials. This purchase order WO6018426 was funded with Quick Code 005101 and object code 130. We then purchased the remainder of the required items utilizing our Chapter 683 funds that were available. This purchase order WO6018736 was funded with Quick Code 062600 and object code 130.

There was never any intent to split bill these required items required to serve our student population. We now have a clear understanding of the procedures and will ensure this does not happen again in the future.

I am fully aware of the situation and will cooperate in any matter necessary to provide information to the Regional Operation Center and the Comptroller.

Thank you.

Sincerely,

Caron Martin
Principal