

AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL 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 9 and 10

FP05-076A

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 and Article 52-A, §2590m, 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 Regions 9 and 10. The audit determined whether DOE procurement policies and procedures were followed for purchases made by schools in Regions 9 and 10 that required ROC approval.

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

Audits such as this provide a means of ensuring that DOE purchasing procedures are being followed and that government funds are being 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.

Report: **FP05-076A**
Filed: **May 4, 2005**

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

**Audit Report on Other Than Personal Services
Expenditures of Schools within the
Department of Education Regional Operations Center
For Regions 9 and 10**

FP05-076A

AUDIT REPORT IN BRIEF

The audit determined whether Department of Education (DOE) procurement policies and procedures were followed for purchases of goods and services made by schools in Regions 9 and 10 that required Regional Operations Center (ROC) approval.

Audit Findings and Conclusions

Based on the documentation provided, we found that officials of the ROC and schools of Regions 9 and 10 generally did not follow DOE's procurement policies and procedures for purchases that required ROC approval. Specifically:

- Purchase files lacked evidence of competitive bidding. In addition, two files contained evidence of bid improprieties indicating that the vendor who was awarded the purchase had submitted all three bids to the schools (bids should have been received from three separate vendors to ensure competition);
- Vendor invoices were not always on file;
- Files lacked justification for purchases made using the sole-source method rather than obtaining bids; and
- Files did not always contain documentation showing that the goods and services paid for were actually received. It should be noted that through physical observation we determined that most of the goods purchased were received. However, we could not determine whether the services purchased were provided.

In addition, we found that Park West High School used funds in its budget to purchase equipment on behalf of another school—Seward Park High School—which is a violation of the

Standard Operations Procedures Manual (SOPM). According to Park West officials, in exchange for this purchase, Seward Park High School permitted one of its employees to perform clerical duties for Park West High School.

To address these issues, we recommend that ROC officials:

- Ensure that school officials comply with procurement regulations requiring written bids from separate vendors. In that regard, all bids must be independent and solicited from separate vendors.
- Ensure that school officials maintain all appropriate bid documentation on file.
- Review the file containing the questionable bid documentation and determine whether the matter should be referred to the Special Commissioner of Investigation for the NYC School District.
- Ensure that school officials submit certificates of delivery for goods or services prior to payment of invoices.
- Obtain invoices prior to paying vendors for goods and services purchased.
- Ensure that all goods are delivered and services rendered before payment of invoices, in accordance with the SOPM.
- Ensure that all 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.
- Ensure that school officials obtain the approval of the OPM Administrator for sole-source purchases, in accordance with the SOPM.
- Should remind school personnel that they are to purchase only those items that are needed to conduct programs within their schools.

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 and programs. 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 the 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 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 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 9 and 10, the subject of this audit, is responsible for fiscal oversight of the schools within those regions. As of December 31, 2003, there were approximately 170,000 students in 288 schools in Regions 9 and 10. For Fiscal Year 2004, there were 456 OTPS purchases for Regions 9 and 10 that required ROC approval; they totaled approximately \$15 million. The 456 OTPS purchases were attributable to 191 of the 288 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.

Objective

The objective of this audit was to determine whether DOE procurement policies and procedures were followed for purchases of goods and services made by schools in Regions 9 and 10 that required ROC approval.

Scope and Methodology

The scope of this 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;

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

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

- the *Standard Operating Procedures Manual for Schools and Financial Management Centers*, OTPS Purchases chapter (SOPM) dated November 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 Regions 9 and 10. We randomly selected six out of 21 schools that each had more than five purchases of goods and services that required ROC approval (three schools were selected from each region). In total, we reviewed all of the 51 purchases totaling \$2,390,870 at the six sampled schools, which included 34 purchases from contracted vendors, 13 purchases from non-contracted vendors (one purchase did not require written bids), and four sole-source purchases. Overall, there were 142 OTPS purchases totaling approximately \$4 million for Fiscal Year 2004 at the 21 schools that each had more than five purchases of goods and services requiring ROC approval.

We visited the schools from November 30, 2004, to January 20, 2005. 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 the goods and professional services paid for were actually received.

We also determined whether the 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 Regions 9 and 10 schools 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 officials during and at the conclusion of this audit. A preliminary draft report was sent to DOE officials on March 2, 2005, and was discussed at an exit conference held on March 15, 2005. We submitted a draft report to DOE officials on March 23, 2005, with a request for comments. We received a written response from DOE officials on April 6, 2005.

In their comments, DOE officials generally agreed with the audit's findings and described the steps that they have taken or will take to address 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 of Regions 9 and 10 generally did not follow DOE's procurement policies and procedures for purchases that required ROC approval. Specifically:

- Purchase files lacked evidence of competitive bidding;
- Vendor invoices were not always on file;
- Files lacked justification for purchases made using the sole-source method rather than obtaining bids; and,
- Files did not always contain documentation showing that the goods and services paid for were actually received. It should be noted that through physical observation we determined that most of the goods purchased were received. However, we could not determine whether the services purchased were provided.

In addition, we found that Park West High School used funds in its budget to purchase equipment on behalf of another school—Seward Park High School—which is a violation of the SOPM. According to Park West Officials, in exchange for this purchase, Seward Park High School permitted one of its employees to perform clerical duties for Park West High School.

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

Problems with Bidding Documentation

Twelve of the 13 purchases made from non-contracted vendors required that the school solicit bids from three vendors and obtain a written response from two of the solicited vendors. (The preliminary draft of this report stated that 15 of the 17 purchases made from non-contracted vendors required bidding. Based on the information provided by DOE officials at the exit conference, we removed three 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; and in one instance the purchase file contained unneeded telephone bid summaries.) The SOPM requires that schools solicit three faxed or written bids for non-contracted purchases above \$5,000. The SOPM further states that “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.”

The files for eight of the 12 purchases that required bidding were either missing information or contained highly questionable bid documentation. Specifically, five files contained only bid summaries—the actual bids received from vendors were not included, and one file contained the vendors' standard price lists. For the remaining three, the vendors' bids were not included, and one had a bid price that did not match the sales price on the vendor's price list. (It should be noted that the vendor in the latter case would have been the low bidder

had the correct price been recorded on the bid sheet.) In addition, two files did not contain the winning bid, only the losing bids. Further, we found examples of bid improprieties in two of the files; there was evidence that the vendor who was awarded the purchase had submitted all three bids to the schools. Therefore, we could not be assured that these purchases were actually competitively bid. It should be noted that one of the schools used whiteout in an attempt to conceal the fact that the winning bidder actually submitted the three bids. Clearly, our findings indicate a need to implement stronger internal controls over the solicitation process to provide adequate safeguards against fraud and abuse.

Recommendations

ROC Officials should:

1. Ensure that school officials comply with procurement regulations requiring written bids from separate vendors. In that regard, all bids must be independent and solicited from separate vendors.
2. Ensure that school officials maintain all appropriate bid documentation on file.

ROC Officials' Response: "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 a 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.

"Letters will be generated by ROC staff and given to schools to correct patterns of identified abuse of competitive bidding procedures.

"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."

3. Review the file containing the questionable bid documentation and determine whether the matter should be referred to the Special Commissioner of Investigation for the NYC School District.

ROC Officials' Response: “This recommendation was implemented on March 16, 2005. The matter was referred to the Special Commissioner of Investigation whose Office issued SCI Complaint #2005-0736.”

4. Ensure that school officials properly classify purchases from contracted vendors and from non-contracted vendors.

ROC Officials' Response: “In the cases highlighted in the audit findings, proper procedures were followed based on the appropriate vendor classification. ROC’s approving officers will monitor closely all non-contract purchase orders in the ROC approval path to ensure proper classification of vendors. Purchase orders are processed through the FAMIS electronic portal system. Purchase orders that are misclassified will be rejected prior to approval and electronically returned to the initiating school with instructions to cancel and re-encumber properly as a contract purchase order.

“ROC A will begin investigating the potential for development of an enhancement to the FAMIS system that, upon entry, will detect non-contract vendors that should be classified as contract vendors and prohibit processing.”

Missing Delivery Certifications and Vendor Invoices

Of 51 sampled purchases, 17 (33%) lacked supporting documentation in school and ROC files certifying that goods and services purchased and paid for were actually received. In addition, the files for four purchases lacked vendor invoices. The SOPM states, “Adequate supporting documentation should be on file prior to paying for goods/services.” The SOPM also states that certification that goods or services have been delivered in satisfactory condition should be indicated by the signature of the receiver.

Seven of the 17 purchases were for goods, and the remaining 10 purchases were for professional services. For six of the seven purchases of goods, we were able to confirm that the items were delivered and on hand through personal observation and inspection of packing slips during our school visits; receipt of the items—graduation caps and gowns—could not be confirmed since there were no delivery documents on file and, according to school officials, the items had been distributed to students. In addition, there were no documents on file confirming receipt of services in connection with the 10 sampled purchases.

Notwithstanding the absence of supporting documentation, school and ROC officials affirmed their compliance with the requirement for sending and obtaining certificates-of-delivery prior to payment. However, the lack of documentation indicates that neither schools nor

ROC officials are adequately complying with this requirement, which is an important internal control to ensure that the ROC pays only for goods or services that have been delivered.

We obtained additional documentation from ROC and school officials at the exit conference purportedly certifying that items ordered were received. However, the documentation provided in one instance certified the goods as delivered prior to the goods actually being shipped by the vendor. Also, the documentation we received at the exit conference was not in the files of ROC or school officials during the course of our audit work. In fact, many of the documents provided indicated that school officials certified that the goods or services were delivered months after the vendor was paid. Therefore, we question whether ROC officials confirmed whether the goods or services were received prior to approving the payment of the purchase orders, as required by DOE procedures.

The officials also provided additional documentation for two of the four purchases that were missing invoices. However, this documentation did not substantiate the payments made. One invoice for \$597,591 purportedly supported a \$60,050 payment. However, no documentation was provided showing how the \$60,050 payment was attributed to the services billed on the invoice. In the second instance, officials provided a vendor's statement that was for the balance due, but the statement did not indicate what was purchased, the date of delivery, or any other information that could be attributed to the payment in question. Accordingly, no adjustments were made to our findings.

Recommendations

ROC officials should:

5. Ensure that school officials submit certificates of delivery for goods or services prior to payment of invoices.

ROC Officials' Response: "In instances where timely payments were required, ROC staff contacted schools to confirm receipt of delivery of goods. Because of the acknowledged difficulty of obtaining certificate of delivery from schools, an on-line certification will be implemented to comply with this recommendation. School officials will be able to certify the delivery of goods and services on-line at the time of receipt. In the same manner, ROC Team members will verify whether all goods and services have been certified prior to invoice payment. It is expected that the FAMIS portal enhancements will be implemented prior to the end of the current fiscal year."

6. Obtain invoices prior to paying vendors for goods and services purchased.

ROC Officials' Response: "ROC officials have instructed ROC staff responsible for vouchering that they are responsible for obtaining invoices prior to making payments. Contract managers have conducted training session regarding this recommendation. Invoices will be maintained at the ROC site."

Invoice Improperly Paid

For one of the 51 sampled purchases, the ROC processed for payment a \$5,064 invoice before the goods were delivered. The invoice, which was for sporting equipment, was processed for payment on May 5, 2004—four weeks before the goods were delivered. The SOPM stipulates that “for payments to be processed for OTPS goods or services . . . certification that goods or services have been delivered in satisfactory condition is indicated by the signature of receiver.”

Recommendation

7. The ROC should ensure that all goods are delivered and services rendered before payment of invoices, in accordance with the SOPM.

ROC Officials’ Response: “Only 1 of the 57 POs sampled reflected this finding, indicating that the ROC demonstrated compliance in practice with the SOPM. As in the response to Recommendation #5, the new FAMIS electronic portal enhancements will support enhanced compliance with this recommendation. FAMIS electronic portal enhancements will be introduced to improve the certification of delivery process. School officials will be able to certify the delivery of goods and services on-line at the time of receipt. In the same manner, ROC Team members will verify whether all goods and services have been certified prior to invoice payment. It is expected that the FAMIS portal enhancements will be implemented prior to the end of the current fiscal year.”

Lack of Documentation to Support Sole-Source Purchases

There was no documentation in the files of three schools and the ROC to justify the procurement of goods and services totaling \$37,993 using the sole-source method.³ The four sole-source purchases were for caps and gowns, computer software, textbooks, and lodging for a visiting basketball team. 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.”

³ The schools are the Park West High School, American Sign Language and English School, and Salome Ukena.

The files lacked evidence that any of the above requirements were met for the four sole-source purchases examined. Therefore, we were unable to determine whether it was appropriate to use the sole-source method for these purchases, or whether these purchases should have been competitively bid. Moreover, the SOPM states that for sole-source purchases of commodities and purchases over \$5,000, approval from the Administrator of the OPM is required. The four purchases reviewed exceeded \$5,000. However, the purchase documents for the four purchases lacked OPM approval.

At the exit conference, ROC and school officials stated that the threshold for sole-source purchases requiring OPM approval was raised from \$5,000 to \$15,000. As documentation, these officials provided us with an e-mail from the Director of Regional & School Based Procurements, Division of Contracts and Purchasing. Although we acknowledge the e-mail, we do not, however, consider it adequate substantiation of a change in the SOPM. Our review indicated that changes to the SOPM are made through issuance of a memorandum from the Executive Director, Division of Financial Operations. No such memorandum was provided to us. In addition, we were provided other e-mails that contained conflicting information regarding OPM approval. Therefore, we maintain that the purchases mentioned above should have been approved by the OPM Administrator.

Recommendations

The ROC should ensure that school officials:

8. Provide written justification for all sole-source purchases, in accordance with the SOPM. The ROC should review this documentation before approving such purchases.

ROC Officials' Response: "ROC A will ensure that schools officials comply with the SOPM requirements for sole source purchases. The steps include, but are not limited to, the thorough review of sole source determinations and school officials' written justification(s) by ROC approval officers.

"ROC Team members will continue to provide the necessary training to new school staff on requirements for use of sole source. The revised SOPM posted in February 2005 provides the ROC with a training curricula."

9. Obtain the approval of the OPM administrator for sole-source purchases, in accordance with the SOPM.

ROC Officials' Response: "It was believed based on the regulations communicated to the ROCs in FY 03-04, that all sole source purchases between \$5,000.01 and \$15,000 were to be decided upon by the ROCs without the necessity of OPM involvement. All schools have been notified that written justification, indicating the steps taken to ensure the requested vendor is truly a sole-source, is required. ROC contract officers and staff have been directed to implement a closer review of all sole source purchases above \$5,000 to ensure that they are in compliance with Standard

Operating Procedure requirements. They have also been advised that those over \$5000 for professional services must be submitted to OPM approval.

“Regardless of sole source authority, the ROC will continue to identify on-going procurement needs throughout both Regions and advise Central Administration of the need for RFPs as appropriate.

“Additionally, a recommendation has been made to the Division of Financial Operations to eliminate sole source as an option for schools when processing a purchase order. If approved, all sole-source purchases would be processed at the ROC.”

Inappropriate Purchase

Park West High School purchased 40 stackable chairs, 14 chair trucks, and 10 folding tables. Although the items purchased were for items that could be used for school business, we found only 10 chair trucks at Park West High School. The remaining chair trucks, chairs, and folding tables were sent to Seward Park High School. This transaction clearly violates provisions of the SOPM that requires that a school official “certifies that goods and services being ordered for a school/site are needed to conduct that program.” Obviously most of these items were not necessary at Park West High School. According to Park West officials, this purchase was made in exchange for Seward Park High School’s permitting one of its employees to perform clerical duties at Park West High School. Seward Park officials told us that they attempted to transfer the personal service cost of the employee to Park West High School, but were unable to do so.

Recommendation

10. ROC officials should remind school personnel that they are to purchase only those items that are needed to conduct programs within their schools.

ROC Officials’ Response: “Schools will be reminded to comply with the SOPM accordingly. The specific incident cited in the Draft Report has been referred to the Special Commissioner of Investigation as stated in response number four above.”



THE NEW YORK CITY DEPARTMENT OF EDUCATION

JOEL I. KLEIN, *Chancellor*

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April 05, 2005

Greg Brooks
Deputy Comptroller for Policy, Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

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.

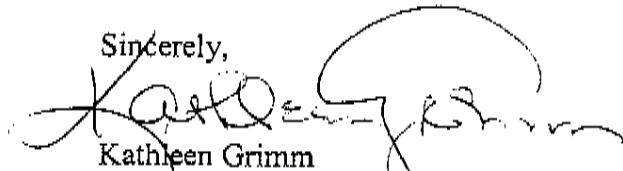
Several of the recommendations in the audit reflect areas where the ROCs, OAG, and DFO identified and have made provisions for needed change. The internal recommendations and changes were identified as a result of a review of the procurement processes conducted by the OAG in the fall '03. This review 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)

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

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RESPONSE DATE: 3/28/2005

AUDIT TITLE: OTPS Expenditures of Schools within the DOE Regions 9 & 10
AUDITING AGENCY: NYC Office of the Comptroller
DIVISION: Bureau of Management Audit
DRAFT REPORT DATE: March 23, 2005
AUDIT NUMBER: FP05-076A

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

Recommendation #1: Ensure that school officials comply with procurement regulations requiring written bids from separate vendors. In that regard, all bids must be independent and solicited from separate vendors.

Recommendation #2: Ensure that school officials maintain all appropriate bid documentation on file.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

Recommendation implemented prior to Draft Report.

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 a 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.

Letters will be generated by ROC staff and given to schools to correct patterns of identified abuse of competitive bidding procedures.

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

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Signature:



Print Name: Robert Wilson

4/6/05

Date

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

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A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED

Recommendation #3: Review the file containing the questionable bid documentation and determine whether the matter should be referred to the Special Commissioner of Investigation for the NYC School District.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

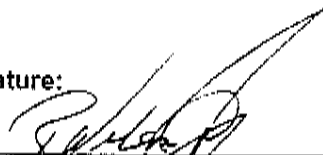
This recommendation was implemented on March 16, 2005. The matter was referred to the Special Commissioner of Investigation whose Office issued SCI Complaint #2005-0736.

IMPLEMENTATION DATE
March, 2005

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

Recommendation #4: Ensure that school officials properly classify purchases from contracted vendors and from non-contracted vendors.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

In the cases highlighted in the audit findings, proper procedures were followed based on the appropriate vendor classification. ROC's approving officers will monitor closely all non-contract purchase orders in the ROC approval path to ensure proper classification of vendors. Purchase orders are processed through the FAMIS electronic portal system. Purchase orders that are misclassified will be rejected prior to approval and electronically returned to the initiating school with instructions to cancel and re-encumber properly as a contract purchase order.

ROC A will begin investigating the potential for development of an enhancement to the FAMIS system that, upon entry, will detect non-contract vendors that should be classified as contract vendors and prohibit processing.

IMPLEMENTATION DATE

March, 2005

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

Recommendation #5: Ensure that school officials submit certificates of delivery for goods or services prior to payment of invoices.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

In instances where timely payments were required, ROC staff contacted schools to confirm receipt of delivery of goods. Because of the acknowledged difficulty of obtaining certificate of delivery from schools, an on-line certification will be implemented to comply with this recommendation. School officials will be able to certify the delivery of goods and services on-line at the time of receipt. In the same manner, ROC Team members will verify whether all goods and services have been certified prior to invoice payment. It is expected that the FAMIS portal enhancements will be implemented prior to the end of the current fiscal year.

IMPLEMENTATION DATE

Ongoing

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A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED

Recommendation #6: Obtain invoices prior to paying vendors for goods and services purchased. Vendor invoices are obtained and maintained on file for all goods and services purchased.

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. Contract managers have conducted training session regarding this recommendation. Invoices will be maintained at the ROC site.

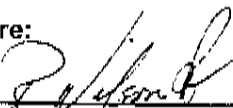
IMPLEMENTATION DATE

March, 2005

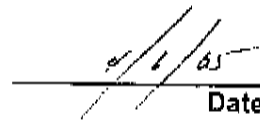
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Signature:



Print Name: Robert Wilson



Date

Print Title: Director, Manhattan 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 #7: ROC should ensure that all goods are delivered and services rendered before payment of invoices, in accordance with the SOPM.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

Only 1 of the 57 POs sampled reflected this finding, indicating that the ROC demonstrated compliance in practice with the SOPM. As in the response to Recommendation #5, the new FAMIS electronic portal enhancements will support enhanced compliance with this recommendation. FAMIS electronic portal enhancements will be introduced to improve the certification of delivery process. School officials will be able to certify the delivery of goods and services on-line at the time of receipt. In the same manner, ROC Team members will verify whether all goods and services have been certified prior to invoice payment. It is expected that the FAMIS portal enhancements will be implemented prior to the end of the current fiscal year.

IMPLEMENTATION DATE

Ongoing; March, 2005

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A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED

Recommendation #8: Provide written justification for all sole-source purchases, in accordance with the SOPM. ROC should review this documentation before approving such purchases.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

ROC A will ensure that schools officials comply with the SOPM requirements for sole source purchases. The steps include, but are not limited to, the thorough review of sole source determinations and school officials' written justification(s) by ROC approval officers.

ROC Team members will continue to provide the necessary training to new school staff on requirements for use of sole source. The revised SOPM posted in February 2005 provides the ROC with a training curricula.

IMPLEMENTATION DATE
March, 2005

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

Recommendation 9: Obtain the approval of the OPM administrator for sole-source purchases, in accordance with the SOPM.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

It was believed, based on the regulations communicated to the ROCs in FY 03-04, that all sole source purchases between \$5,000.01 and \$15,000 were to be decided upon by the ROCs without the necessity of OPM involvement. All schools have been notified that written justification, indicating the steps taken to ensure the requested vendor is truly a sole-source, is required. ROC contract officers and staff have been directed to implement a closer review of all sole source purchases above \$5,000 to ensure that they are in compliance with Standard Operating Procedure requirements. They have also been advised that those over \$5000 for professional services must be submitted to OPM approval.

Regardless of sole source authority, the ROC will continue to identify on-going procurement needs throughout both Regions and advise Central Administration of the need for RFPs as appropriate. Additionally, a recommendation has been made to the Division of Financial Operations to eliminate sole source as an option for schools when processing a purchase order. If approved, all sole-source purchases would be processed at the ROC.

IMPLEMENTATION DATE

Ongoing; March, 2005

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A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED

Recommendation #10: ROC officials should remind school personnel that they are to purchase only those items that are needed to conduct programs within their schools.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

Schools will be reminded to comply with the SOPM accordingly. The specific incident cited in the Draft Report has been referred to the Special Commissioner of Investigation as stated in response number four above.

IMPLEMENTATION DATE

March, 05

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