



City of New York

OFFICE OF THE COMPTROLLER

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MANAGEMENT AUDIT

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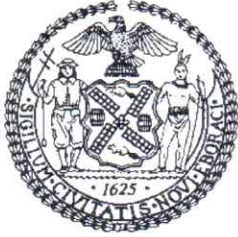
Deputy Comptroller for Audit

Audit Report on the Department of
Education's Controls Over the
Use of Procurement Cards at
Schools Supported by Children's
First Network 106

MD12-106A

January 3, 2013

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
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John C. Liu
COMPTROLLER

January 3, 2013

To the Residents of the City of New York:

My office has audited the New York City Department of Education's (DOE's) controls over the use of procurement cards (p-cards) at schools supported by Children's First Network (CFN) 106. We audit City agencies such as this as a means of ensuring agency compliance with regulations and accountability for resources.

The audit found that DOE does not have adequate controls in place to ensure that the schools supported by CFN 106 complied with p-card policies and procedures. The schools supported by CFN 106 did not obtain required bids for all transactions over \$250, did not evidence the receipt of goods and services, were missing supporting documentation, did not justify the educational need for purchases, made food purchases that were questionable, and inappropriately paid sales taxes.

The audit makes 13 recommendations, including that DOE should: ensure that cardholders obtain three bids for all purchases over \$250; require schools to ensure that p-card purchases are appropriately supported; investigate questionable food purchases; and recoup incorrectly paid sales taxes.

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

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

Sincerely,

A handwritten signature in blue ink, appearing to read "John C. Liu".

John C. Liu

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER MANAGEMENT AUDIT

Audit of the Department of Education's Controls Over the Use of Procurement Cards at Schools Supported by Children's First Network 106

MD12-106A

AUDIT REPORT IN BRIEF

Introduction

The audit determined whether the Department of Education (DOE) had adequate controls in place to ensure that the schools supported by Children's First Network (CFN) 106 complied with the policies and procedures governing the procurement card (p-card) program as set forth in DOE's Standard Operating Procedures (SOP).

In 2003, DOE adopted the use of p-cards for select categories of purchases in an effort to expedite processing times, eliminate out-of-pocket expenses for staff, and lower transaction costs for small purchases. P-cards can only be used by authorized staff for business-related purchases in compliance with DOE's procurement policies. There are 63 CFNs which provide support to approximately 25 schools each. P-card spending for Fiscal Year 2011 amounted to \$17,202,173. CFN 106 provided support to 24 schools, which had 2,787 p-card transactions totaling \$516,667-- the highest volume and amount of p-card transactions among all CFNs.

Audit Findings and Conclusions

The audit found that DOE does not have adequate controls in place to ensure that the schools supported by CFN 106 complied with p-card policies and procedures. Our audit sample consisted of five schools and 541 transactions totaling \$133,173. Of the 541 transactions, we identified 390 transactions totaling \$85,551 that had one or more deficiencies; these transactions represent 64 percent of the total dollar amount reviewed. The following deficiencies were identified in the audit:

- Required bids were not obtained
- Lack of evidence of receipt for goods and services
- Missing supporting documentation

- No justification for purchases
- Questionable food purchases
- Inappropriate payment of sales tax

The audit also found that cardholders routinely loaned their p-cards to other staff members and the required reconciliation of purchases was not consistently performed.

At the exit conference for this audit, DOE provided us with additional documentation in support of the aforementioned questionable transactions. However, our examination of these documents revealed that some appear to have been fraudulently created. We have referred this matter to the Special Commissioner of Investigation (SCI) for the New York City School District for possible further investigation. A copy of our referral was also sent to the Chancellor. Consequently, we are unable to place audit reliance on any of the documentation provided by DOE at the exit conference.

Audit Recommendations

Based on our findings, we make 13 recommendations, including that DOE should:

- Ensure that the cardholder obtains at least three bids for all purchases over \$250 and documents them using the DOE Telephone Bid Summary Form.
- Require schools to ensure that p-card purchases are appropriately supported by receipts, agendas and attendance sheets (when required), evidence of receipt, and justification of the educational need for the purchases.
- Investigate food purchases without required support, food purchases that exceeded the allowable limit, and purchases for which the educational need is not identified to determine whether they were appropriate. Recoup the funds for any purchases deemed inappropriate.
- Require the schools to recoup the sales taxes that were incorrectly paid and remind cardholders that tax-exempt certificates should be submitted for all future purchases.
- Enforce the policy that only authorized cardholders make purchases using the p-cards.
- Ensure that independent p-card reconciliations are performed and evidenced by the signature and date of the reviewer.

Agency Response

In their response, DOE officials agreed with 10 of the report's 13 recommendations and disagreed with the remaining three pertaining to independent p-card reconciliations and allowing only authorized cardholders to make purchases with p-cards.

INTRODUCTION

Background

In 2003, DOE adopted the use of p-cards for select categories of purchases in an effort to expedite processing times, eliminate out-of-pocket expenses for staff, and lower transaction costs for small purchases. The primary benefits to the end user are convenience and the elimination of intermediate steps required by DOE's traditional procurement processes.

Internal Controls training and internal audits are facilitated by DOE's Office of the Auditor General (OAG) and operational support and training is provided by the CFN. While school principals are responsible for their school-based budget and expenditures, it is ultimately the p-card holder's responsibility to ensure compliance with p-card policies and procedures.

DOE allows the use of p-cards at schools to reduce the need for out-of-pocket expenses and subsequent Small Item Payment Process transactions.¹ P-cards can only be used by authorized staff for business-related purchases in compliance with DOE's procurement policies. P-cards, which are issued by JP Morgan Chase, are valid for only one fiscal year. The P-card program is administered by DOE's Division of Financial Operations (DFO), which also conducts reviews.

As of the spring of 2010, all City public schools receive their primary support from a team of about 15 CFN staff members. There are 63 CFNs and each network team provides expert support, technical assistance, and quality control for a group of approximately 25 schools each. CFNs also help ensure that schools spend their budgets effectively.

The single p-card transaction limit is \$2,500 and there is a maximum limit of eight transactions per day. There is a \$15,000 maximum credit limit at any time and this amount can be replenished, but not exceeded. DOE's SOP: OTPS Purchases, issued in May 2010 and revised in March 2011, provide the policies and procedures governing the P-card program. Comptroller's Memorandum (CM) #01-1, Guidelines for Use of Procurement/Purchasing Cards, also provides guidance regarding the use of p-cards. According to DOE's p-card procedures, cardholders are responsible for maintaining a usage log, the monthly statements from the banking institution, sales receipts, and meeting agendas and list of attendees (when applicable). In addition, the cardholder must review the monthly statements and match them against the usage log and complete monthly online certifications of their transactions.

According to DOE, total p-card expenditures for Fiscal Year 2011 amounted to \$17,202,173. CFN 106, which provided support to 24 schools, had the greatest number of p-card transactions among the 63 CFNs. For Fiscal Year 2011, the 24 schools supported by CFN 106 had 2,787 p-card transactions totaling \$516,667. Of the 24 schools, the principals of 21 schools were listed as designated p-card holders.

¹ An electronic document processed through DOE's Financial Accounting Management Information System (FAMIS) used to pay a vendor for small incidental purchases or for the procurement of goods and services when either the purchase order or requisition method of purchase is not practical.

Objective

The objective of the audit was to determine whether DOE has adequate controls in place to ensure that the schools supported by CFN 106 complied with the policies and procedures governing the p-card program as set forth in DOE's SOP.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The audit scope was Fiscal Year 2011 (July 1, 2010, through June 30, 2011). Please refer to the Detailed Scope and Methodology at the end of this report for specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in 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 September 13, 2012 and was discussed at an exit conference held on October 1, 2012. We submitted a draft report to DOE officials on October 12, 2012, with a request for comments. We received a written response from DOE officials on October 26, 2012. In their response, DOE officials agreed with 10 recommendations and disagreed with the remaining three recommendations pertaining to independent p-card reconciliations and allowing only authorized cardholders to make purchases with p-cards.

In an effort to refute some of the audit findings, at the exit conference, DOE officials provided additional supporting documentation for the purchases we identified with deficiencies. Many of these documents were not in the files with the p-card documentation we reviewed and obtained when we visited the schools,² and DOE officials were unable to provide a satisfactory explanation as to why these documents were not in the files. Moreover, a review of the documents provided identified some that are questionable and possibly fraudulent. We have referred this matter to the Special Commissioner of Investigation (SCI) for the New York City School District for possible further investigation. A copy of our referral was also sent to the Chancellor. As a result, we are unable to place audit reliance on any of the documentation provided by DOE at the exit conference.

With regard to the questionable documents, DOE stated in its response:

“The OAG director reviewed the records and identified concerns with respect to copies of seven ‘receipts’ relating to one particular vendor used by one of the five audited schools. The OAG review of the remaining records did not identify any further concerns. . . .

² We had already obtained copies of some of the provided documents when we visited the schools.

“The Department does not have reason to believe that any records beyond the seven purported receipts from the one school were created after the fact, and do not agree with the Comptroller’s reluctance to place audit reliance on them.”

Our reluctance to place audit reliance on the above-referenced documents is based not only on the questionable validity of some documents, but also on the absence of a satisfactory explanation as to why these documents were not in the files we reviewed at the schools. Additionally, we disagree with DOE’s assertion that only seven of the receipts provided at the exit conference were questionable. Our review identified additional documents that we deemed questionable. For example, agendas and attendance lists supporting some other transactions were inappropriately dated with the post dates³ of the transactions rather than with the actual dates of the events. Accordingly, we stand by our position.

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

³ The post date is the date that a cardholder’s purchase is recognized on the books of the credit card issuer. When a cardholder makes a purchase the transaction may not post for a few days.

FINDINGS AND RECOMMENDATIONS

The audit found that DOE does not have adequate controls in place to ensure that the schools supported by CFN 106 complied with p-card policies and procedures. As a result, our analysis of p-card purchases revealed a number of deficiencies. Of the 541 transactions totaling \$133,173 that we reviewed at the five sampled schools, we identified 390 transactions totaling \$85,551 that had one or more deficiencies. These transactions account for 64 percent of the total dollar amount reviewed. A breakdown of the deficiencies we identified, listed by category, is shown in Table I. (A further breakdown, by school, is shown in the appendix.)

Table I
Breakdown by Category of Deficiencies Identified

Deficiency	Number of schools where deficiency was found	Number of transactions*	Dollar amount***	Percent of transactions reviewed	Percent of total dollar amount reviewed
Required bids not obtained	5	57	\$38,483	11%	29%
No proof of receipt	5	121	\$33,106	22%	25%
No justification for purchase	5	63	\$30,592	12%	23%
Missing supporting documentation	5	90	\$21,556	17%	16%
Non-compliant food purchases	5	83	\$13,409	15%	10%
Inappropriate payment of sales tax	5	83	\$1,273**	15%	1%

*A transaction can fall under one or more of the categories shown above

**Amount of sales tax paid only

*** Of transactions related to the deficiencies

The audit also found that cardholders routinely loaned their p-cards to other staff members and that the required reconciliation of purchases is not consistently performed. Because there is no mandatory training for the new p-card holders and DOE does not require a signed user agreement, the cardholders may not be knowledgeable about the requirements of using p-cards.

DOE has established some mechanisms to oversee p-card use by schools. Both DFO and OAG perform reviews and audits of p-card usage. In addition, according to DOE officials, because of the high number of issues identified by OAG and DFO regarding p-card use, starting in June 2011, OAG designated a task force dedicated specifically to p-card audits. We assessed some of these reviews and audits and found that they identified many of the same weaknesses we identified in this audit. The audit findings of the OAG included missing supporting documentation, no evidence of receipt, payments made for questionable transactions, and sales tax paid. However, in those instances where risks and weaknesses were identified, we found no evidence of follow-up to ensure that the cited issues were appropriately addressed.

Deficiencies Found Regarding P-Card Use

Limited Adherence to Bidding Requirements

Our review determined that p-card holders do not always adhere to the DOE's bidding requirements. Of the 541 transactions reviewed, 107 transactions totaling \$88,834 met the dollar threshold for which bids should have been obtained. Of these, there was no evidence that the bidding requirement was adhered to for 57 p-card transactions totaling \$38,483. This represents 53 percent of the number of sampled transactions that required bidding.

DOE's p-card procedures require that the cardholder obtain at least three bids for single purchases over \$250 and/or purchases where the aggregate amounts for a single vendor exceeds \$2,500 within a fiscal year. When bidding requirements are circumvented, schools may not get the lowest price for the purchased goods and services.

Lack of Receipt for Goods and Services

Of the 541 transactions reviewed, 121 transactions totaling \$33,106 lacked evidence of receipt of goods and services. According to DOE's purchasing requirements, certification that goods or services have been delivered in satisfactory condition should be indicated by the signature of the receiver on certifying documents, such as the vendor packing slip.

DOE's p-card procedures state that the p-card expense reporting screen in FAMIS must be compared by the cardholder to the usage log and receiving reports to verify that there are no billing discrepancies. CM #01-1 also states that all purchases should be tracked in a log and receiving reports should be maintained. The memorandum further states that before any payments are made, the billing statement must be compared to the card usage log and receiving reports. Because the schools did not always ensure that receiving reports, packing slips, or invoices marked with receipt information were maintained, an adequate independent review cannot be conducted in accordance with DOE's procedures and CM #01-1. In addition, in the absence of proof of receipt, we were unable to determine to whom or where the goods or services were delivered. As a result, there is an increased risk that DOE will make payments for goods and services that were never received or were not used for school-related purposes.

No Justification for Purchase

Of the 541 transactions reviewed, we identified 63 transactions totaling \$30,592 that we deemed questionable because there was no documentation indicating the purpose of the expense or its justification as an educational need. According to DOE's procedures, substantiation of all expenditures made must be shown, including the educational need.

Below are some examples of the questionable purchases made:

- Purchase for \$775 for five Kindles from Amazon.com with no justification or explanation for the purchase.
- Purchase from Costco.com for \$194. Item purchased was listed as a refrigerator on the log, but the invoice indicates the purchase was for an AMC movie ticket bundle. There was no justification for the purchase or an indication of who received tickets.
- Two purchases from Target.com totaling \$679 for sofa beds.

In the absence of required documentation, we have limited assurance that these purchases were used for business-related purposes.

At the exit conference, DOE officials provided us with explanations for the educational need of a number of the purchases we questioned. However, the educational need should have been documented at the time of these purchases as required by DOE's SOP.

DOE officials also provided additional supporting documentation at the exit conference for some of the purchases we identified as lacking justification. As stated previously, however, DOE officials were unable to provide a satisfactory explanation as to why these documents were not in the files when we visited the schools. Moreover, a review of the documents identified some that were questionable and possibly fraudulent. As a result, we are unable to place audit reliance on any of the documents provided by DOE at the exit conference.

Missing Supporting Documentation

Of the 541 transactions reviewed, 90 transactions totaling \$21,556 lacked supporting documentation (e.g., receipts/invoices and for food purchases pertaining to meetings, sign-in sheets, and agendas/minutes of meeting). Of these, 46 transactions totaling \$16,885 had no sales receipt/invoice and 74 transactions for food totaling \$15,131 were missing sign-in sheets and/or agendas. (There were some transactions that were missing both a receipt and a sign-in sheet or agenda.)

According to DOE p-card purchasing requirements, cardholders are required to maintain sales receipts, meeting agendas (when applicable), and a list of attendees (when applicable). In the absence of complete supporting documentation, the cardholder cannot perform an adequate reconciliation. Also, for food purchases without meeting agendas and attendance sheets, we could not determine whether the meeting purpose and the per person cost were in line with DOE's requirements. Finally, without sales receipts, there is no evidence to verify (1) what was actually purchased and (2) the amount being paid does not also include payment for other items that were purchased for other than business-related purposes.

DOE officials provided additional supporting documentation at the exit conference for some of the purchases we identified as missing supporting documentation. For the reasons stated previously, however, we are unable to place audit reliance on any of these documents.

Questionable Food Purchases

Of the 541 transactions reviewed, 83 transactions totaling \$13,409 for food purchases did not adhere to DOE's policies. DOE's policy states that payments for food and meals are permitted only for official guests (non-DOE employees) and only for food at certain types of business meetings.

DOE's purchasing policy indicates only six approved reasons for reimbursable food at work and states that food should not be purchased routinely. Food can consist of light refreshments (\$3 per person) or modest meals (\$8 per person) as follows:

- When an out-of-town official, consultant, private firm, or other party not paid by the DOE meets with DOE employees
- When the DOE invites potential bidders to a formal RFP conference

- At a meeting lasting more than two hours held at the organizer's worksite and 50 or more people who are away from their worksite attend
- At an all-day meeting of unpaid volunteers
- At periodic meetings with key managerial staff organized by office head, lasting longer than two hours
- At a meeting starting two hours before work or two hours after the normal workday so long as attendees are not paid overtime or receive a meal allowance.

Some examples of questionable food purchases, which lacked attendance sheets and agendas and/or exceeded allowable spending limits, are listed below:

- Purchase by K524 from Udom Thai Restaurant for \$170 for a food festival for parents
- Purchase by Q520 from Perfection Caterers for \$1,215 for 90 individuals attending a National Honor Society initiation ceremony
- Two purchases by X397, totaling \$1,292, at Calle Ocho Restaurant for a dinner party for 40 guests with no supporting documentation other than an e-mail
- Purchase by X397 for \$395 at Cumin Indian Restaurant for "Professional Development"
- Purchase by M432 at Grand Sichuan NY restaurant for \$179 with no supporting documentation.

DOE officials provided additional supporting documentation at the exit conference for some of the food purchases we identified as questionable. For the reasons stated previously, however, we are unable to place audit reliance on any of these documents.

Sales Taxes Incorrectly Paid

The five schools tested did not use their tax-exempt status for 83 of the 541 p-card transactions reviewed, resulting in \$1,273 in sales taxes incorrectly paid. The sales taxes ranged from just over \$1 to \$174.

The City of New York is exempt from sales tax, and this includes purchases made during the performance of DOE official duties. According to DOE's policy, in order to claim sales tax exemption, schools must present their tax-exempt certificates to the vendor before making any p-card purchase. Paying sales tax is an unnecessary expense and reduces the amount of money available for other items needed to be purchased by the schools. In addition, it takes time and effort for DOE to recoup the incorrectly paid sales taxes.

Recommendations

DOE should:

1. Ensure that the cardholder obtains at least three bids for all purchases over \$250 and documents them using the DOE Telephone Bid Summary Form.

Agency Response: DOE agreed, stating, "The Department will reinforce and monitor the use of the Department's Telephone Bid Summary Form for purchases from non-contracted vendors that exceed the \$250 threshold."

2. Require schools to ensure that p-card purchases are appropriately supported by receipts, agendas and attendance sheets (when required), evidence of receipt, and justification of the educational need for the purchases.

Agency Response: DOE agreed, stating, "DFO, OAG, and OSS continue to enhance internal controls and training surrounding P-Card policies and procedures. As of July 1, 2012, following all DFO and OAG reviews, a summary of audit results is shared with the cardholder, the appropriate supervisors, and the Procurement designee in each Network so that corrective actions can be taken."

3. Investigate food purchases without required support, food purchases that exceeded the allowable limit, and purchases for which the educational need is not identified to determine whether they were appropriate. Recoup the funds for any purchases deemed inappropriate.

Agency Response: DOE agreed, stating, "The Department agrees that appropriate documentation justifying these expenditures should have been maintained by the P-Cardholder. . . . The Department's purchasing policy indicates that there are only six approved reasons for purchasing food at work. However, these standards apply to food for staff; they do not apply in situations involving food provided to students and parent meeting or events. A number of the non-compliant food transactions identified by the Comptroller were instances where students and or parents were fed. . . ."

"In accordance with the Department's new P-card oversight processes, purchases that do not have the required supporting documentation will be forwarded to the Committee for review and appropriate action, which may include additional training, monitoring and follow-up reviews, P-card suspensions and/or recoupments."

Auditor Comment: Nowhere in DOE's purchasing policy does it state that food purchases involving students and parents are exempt from the policy. We were also told by DOE officials that the per person limit for food purchases does not apply to food purchases for parents and students. However, this position is contradicted by DOE's own OAG in one of its audits, in which a school is cited for a purchase of food for students that was above the per person limit for food. If it is DOE's position that the criteria listed for food purchases in its policy do not apply to food purchases for students and parents, then this should be clearly indicated in the policy.

4. Consider creating and distributing additional guidelines on the most common types of questionable p-card purchases and on documenting the business need of purchases.

Agency Response: DOE agreed, stating, "DFO updates the P-Card placard annually, which highlights key P-Card policies regarding common purchases and procedures. DFO also developed an FAQ document for P-Cardholders along with a P-Card Certification Calendar. All three documents have been provided to P-Cardholders with the issuance of P-Cards in the current school year. OSS is preparing a comprehensive set of training materials on the proper use of P-Cards. CFN teams will present these materials to schools as they conduct their regular visits."

5. Require the schools to recoup the sales taxes that were incorrectly paid and remind cardholders that tax-exempt certificates should be submitted for all future purchases.

Agency Response: DOE agreed, stating, "The Department will reinforce the use of the sales exempt certificate for NY purchases. Network staff will assist the cardholders in contacting the vendors to request reimbursement for purchases where NY state sales tax was applied."

Other Weaknesses

No Independent Reconciliation of P-Card Purchases

There is no independent reconciliation of p-card purchases. A p-card holder makes p-card purchases, reconciles the procurement logs to the monthly billing statements, certifies the transactions in FAMIS, and handles disputes as needed. As stated previously, cardholders are required to ensure compliance with p-card policies and procedures. As a result, the cardholder is, in fact, reconciling and certifying his/her own transactions, representing a lack of segregation of duties. This is not in compliance with CM #01-1, which requires that staff independent of the cardholders conduct monthly reviews of cardholder activity to ensure that the card is being used in accordance with the rules and procedures established. DOE has no requirement that there be a second level of review. Consequently, in most cases, all control is placed with the cardholder. Based on the findings of our audit, this practice is questionable at best.

Furthermore, for 250 (46 percent) of the 541 transactions tested, totaling \$40,708, there was no evidence that required monthly reconciliations were even performed. If the required monthly reconciliations are not performed, potential errors or disputes may go undetected.

Cardholders Routinely Loaned their P-Card to Other Staff

When interviewing cardholders at three of the five sampled schools (K524, Q520, and X388), we learned that cardholders routinely loaned their p-card(s) to other staff to make purchases. We identified instances where the invoices clearly indicate that someone other than the cardholder made the purchase. Further, the procurement logs do not indicate who actually made the purchases.

As part of the internal controls for procurement card usage, CM #01-1 states that agencies should ensure that "cards are not 'loaned' or used by anyone other than the employee or employees authorized to use it." If the cardholder does not have possession of the card at all times and delegates its use to others, it increases the opportunity for unauthorized purchases.

Office Supplies Routinely Purchased Using P-cards

The audit determined that all five of the schools used p-cards to purchase office supplies from Staples, which is a DOE-contracted vendor. Some of these purchases could have been emergency purchases; however, some schools routinely made purchases from Staples. In fact, during Fiscal Year 2011, school M432 made 54 purchases from Staples totaling \$4,527 and school Q520 made 20 purchases totaling \$6,264. It appears from some invoices we reviewed that, in some cases, the school was able to get the contracted rate using the p-card. However, DOE policies clearly state that all office supplies and all art and drawing supplies must be purchased through the contracted vendors via the FAMIS portal using e-catalog item numbers. Using p-cards on a regular basis to purchase office supplies does not guarantee that the contracted rate is always received and increases the risk that schools may overpay for items available through the contracts.

Incomplete Purchasing Logs

Of the 541 p-card transactions, we found that 205 transactions (38 percent) totaling \$53,673 had incomplete information recorded on the procurement log. DOE p-card requirements stipulate that it is the cardholder's responsibility to maintain a usage log that contains the date of purchase, vendor's name, description of the purchase, dollar amount, receipt of goods/services (dated and signed by the receiver), and the name of the individual purchaser. When the purchase log is incomplete or the information is not recorded, the required monthly reconciliation and certification of p-card transactions cannot be adequately performed.

Recommendations

DOE should:

6. Revise its procedures to require independent monthly reconciliations of p-card transactions.

Agency Response: DOE disagreed, stating, "It is not entirely clear from the Report whether Comptroller's Memorandum #01-1 is cited in this audit as governing authority or merely as the source of certain recommended best practices. . . . While we acknowledge the value of independent reconciliations as an internal control, it is not practically feasible for the Department given our size and the number of cardholders spread geographically across the City. The Department does not have the resources to expand its central monitoring capacity to conduct independent reviews of all transactions by all cardholders on a monthly basis. Accordingly, the Department has designated and enhanced its internal controls, as described throughout this response, by focusing on cardholder accountability and significant expansion and coordination of audits and reviews by DFO and OAG."

Auditor Comment: DOE misunderstands our recommendation. We are not recommending that the independent monthly reconciliations be performed by a central monitoring unit but rather by another individual at the school other than the cardholder. An independent reconciliation of p-card purchases would help to alleviate many of the p-card documentation issues we identified in this report. Accordingly, DOE should reconsider implementing this recommendation.

7. Ensure that independent p-card reconciliations are performed and evidenced by the signature and date of the reviewer.

Agency Response: DOE disagreed, stating, "See prior response."

Auditor Comment: Again, we are recommending that another individual at each school be assigned the task of performing monthly reconciliations of p-card use and that the reconciliation be evidenced by the signature of the reviewer. Accordingly, DOE should reconsider implementing this recommendation.

8. Enforce the policy that only authorized cardholders make purchases using the p-cards.

Agency Response: DOE disagreed, stating, "Given the nature and role of principals within our system of accountability, it makes sense that they are frequently the sole or primary cardholder in their schools. However, the day-to-day duties of a principal and the intent and purpose of our P-Card program render impractical and unenforceable a policy that would compel a principal to, for

example, personally run out for emergency supplies or read off the P-Card number on a telephone purchase. The Department holds the cardholder personally responsible for all purchases made with the P-Card, as well as for maintaining all supporting documentation related to their purchases.”

Auditor Comment: DOE should consider reevaluating who should be cardholders at the schools. Since, as DOE states, the duties of a principal render it impractical for him/her to run out to make an emergency purchase or read credit card numbers over the telephone, individuals other than principals (e.g., authorized users) should be assigned the cards. DOE states that the cardholder is ultimately held responsible for purchases made by authorized users. However, because authorized users may not be aware of the SOP, there is an increased risk that unauthorized purchases can be made or that purchases may not comply with DOE policy. In addition, according to DOE’s SOP, school secretaries cannot apply for p-cards; however, at two of the five schools, we were informed by the principals that they allow their secretaries to make purchases using the p-card. This practice of delegating the use of p-cards defeats the purpose of DOE’s control regarding office titles not allowed to receive p-cards.

9. Reinforce the policy that office supplies are purchased through the FAMIS portal from contracted vendors.

Agency Response: DOE agreed, stating, "The Department will reinforce the policy that office supplies are to be purchased through the FAMIS portal from contracted vendors."

10. Ensure that purchasing logs are complete.

Agency Response: DOE agreed, stating, “The Department will reinforce and monitor the use of the P-Card Usage Logs. DFO and OAG will continue to review monthly P-Card Usage Logs as part of their reviews and audits. Schools are cited when logs are incomplete or not maintained. CFN training and support efforts will reinforce this requirement. The Department will consider other means of increasing compliance with this requirement.”

Oversight of the P-card Program Needs Improvement

DOE has not established certain practices that would help ensure that there is adequate oversight of the p-card program. Specifically, DOE does not conduct follow-up reviews on identified p-card weaknesses, does not require mandatory p-card training, and does not require cardholders to sign a user agreement. In addition, DOE does not have any written procedures detailing the review process for p-cards.

No Evidence of Follow-up of P-card Reviews

DOE does not conduct follow-up reviews on identified p-card weaknesses. DFO administers the p-card program and conducts desk reviews of a limited number of p-card transactions; however, it does not conduct follow-up reviews to help ensure future compliance. The CFN provides operational support and works with the schools to develop management action plans based on the findings identified by OAG’s audits, but it does not conduct follow-up visits to determine future compliance.

DOE's OAG conducted audits in School Years 2009-2010 and 2010-2011 and identified weaknesses regarding recordkeeping and disallowed and/or questionable p-card expenditures. These audits were conducted at four of the 24 schools supported by CFN 106. (All four reviews were conducted prior to November 2011.) We asked DOE for copies of the management action plans that were submitted by these four schools, but DOE was unable to provide them. OAG has not followed up to determine what actions have been taken by these schools to correct the deficiencies it identified.

The DOE SOP states that if expenditures are not in accordance with regulations, the authorizer will be responsible for the restitution of any funds. In fact, the OAG audits recommended that either school or CFN officials review the questionable transactions and, if any are deemed inappropriate, then the amounts should be recouped. We asked DOE officials for any recoupments that were made from CFN 106 schools, and DOE officials were unable to provide us with a listing of recoupments.

Because there is generally no enforcement of sanctions for card misuse, there is an increased risk that misuse of p-cards may occur and go undetected.

No Mandatory Training for P-card Holders

There is no mandatory training for p-card holders. OAG provides training on the proper use of p-cards as part of its internal controls training. However, training is largely optional. According to DOE, the training only becomes mandatory if findings are identified for a specific p-card holder and the training targets the specific areas of concern identified. We interviewed seven cardholders at the five selected schools and found that only one person said that she received any p-card training. In addition, the interviews conducted with p-card holders and school principals at the selected schools revealed that five of the seven cardholders interviewed were not knowledgeable of all the procedures governing the p-cards.

According to the SOP, p-cards should only be given to individuals who are knowledgeable about the purchasing procedures in the SOP. Lack of mandatory training may result in the improper use of p-cards and increase the risk of misappropriation of funds.

Cardholders are Not Required to Sign a User Agreement

DOE does not require cardholders to sign a user agreement. CM #01-1 recommends that "...agencies use 'cardholder agreements', signed by the employee, which detail the terms and conditions of the card assignment." Because DOE does not require its cardholders to sign an agreement, the agency has limited assurance that cardholders are aware of the proper terms and conditions of the card assignment. In addition, in the absence of a signed document that clearly spells out the terms and conditions of p-card usage, DOE may be hindered in holding users accountable for purchases that do not comply with DOE's SOP.

Recommendations

DOE should:

11. Ensure that follow-up reviews of schools identified with p-card deficiencies are conducted and that audited schools submit management action plans in order to determine whether findings are rectified and recommendations are implemented.

Agency Response: DOE agreed, stating, "The Department's oversight procedures for this school year include a follow-up review for P-Cardholders with certain identified P-Card deficiencies. Following all DFO and OAG reviews, a summary of results is shared with the cardholder, the appropriate supervisors, and the Procurement designee in each Network so that corrective actions may be taken. The Network Procurement designee is responsible for offering support to the school and cardholder regarding the findings of the review. This support may include creating an action plan for a school to implement P-Card controls and scheduling training for cardholders to review proper procedures."

12. Require that p-card holders receive mandatory training in DOE's procurement and p-card procedures upon receipt of the card.

Agency Response: DOE agreed, stating, "For the current school year, the on-line P-Card application was revised to include an attestation where the cardholder certifies that the cardholder reviewed SOP policies and procedures. DFO provides the user with the P-Card placard, FAQs and certification Calendar with the P-Card. Additional efforts planned for this year include the joint development of a webcast by DFO and OSS to reinforce P-Card rules, regulations and address questionable P-Card purchases as well as the need to document the business need of purchases. . . . CFN Teams will present training materials to schools as they conduct their regular visits."

13. Require that cardholders sign a user agreement that outlines the terms and conditions of card usage as well as possible sanctions for misuse.

Agency Response: DOE agreed, stating, "All FY13 P-Card applicants are required to electronically sign . . . [a p-card] attestation."

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The audit scope was Fiscal Year 2011 (July 1, 2010, through June 30, 2011.)

To gain an overall understanding of DOE's p-card program, we reviewed and used as criteria DOE's SOP: OTPS Purchases issued May 2010 and revised March 2011, DOE's Procurement Policy and Procedures, DOE's Procurement Card Instructional Guide, and Comptroller's Memorandum #01-1. We interviewed officials from the OAG's office, DFO, and CFN 106 who were responsible for overseeing the p-card program. In addition, we interviewed school principals and p-card holders at the selected schools to obtain an understanding of their involvement in the p-card program.

To obtain an understanding of any issues with the use of p-cards, we obtained and reviewed excerpts from OAG's internal audit reports for the 2009-2010 and 2010-2011 School Years. In addition, we analyzed DFO's review of p-card transactions for Fiscal Year 2011 and reviewed supporting documentation for these transactions to determine what issues DFO flagged as questionable.

To determine whether only authorized cardholders are using the p-cards, we obtained an official list of the p-card users for schools supported by CFN 106 from DFO and compared the names on the list with the names of users on the purchasing logs and invoices.

We reviewed and sorted the listing of purchases made by schools supported by CFN 106 to identify purchases that exceeded the \$2,500 transaction limit, possible split purchases, purchases that seemed questionable or personal in nature, and purchases that may not have adhered to DOE's SOP-- for example, food purchases, payments for hotels, and curriculum-based products. In addition, for some of the purchases that seemed questionable in nature, we searched for the vendor on the internet to see what types of items/goods it sells. Questionable transactions were determined based on the vendor, purchase amount, and date of purchase. Posting dates were also factored into the selection of questionable transactions. Monday post dates were closely analyzed because of the possibility of the purchase being made on a weekend and dates that did not fall on school days or fell on holidays were flagged for further review. Furthermore, questionable transactions that appeared personal in nature were also flagged. Consequently, of the 24 schools supported by CFN 106, we targeted 11 schools based on the frequency of questionable transactions. The p-card purchases for these 11 schools represented 70 percent of the total dollar value of p-card purchases by the schools supported by CFN 106. We judgmentally selected for detailed review K524 because it had the most transactions and the highest amount of p-card spending in Fiscal Year 2011. We judgmentally selected 115 purchases to test at K524 based on a review of the vendors and amounts on the summary of billing statements. In addition, we judgmentally selected four other schools based on a review of the billing statements that appeared to have a high dollar value of possibly questionable transactions. We reviewed all p-card transactions made during Fiscal Year 2011 at

each of these schools. The selected schools, along with total p-card transactions and p-card transactions reviewed for Fiscal Year 2011, can be seen in Table II.

Table II

Selected Schools Fiscal Year 2011 P-card Transactions

School	Total P-card Transaction Count	P-card Purchase Total	Number of P-card purchases Reviewed	Dollar Amount of P-card Transactions Reviewed
K524	360	\$67,872	115	\$39,550
M432	197	\$24,992	197	\$24,992
X388	90	\$39,895	90	\$39,895
Q520	71	\$17,890	71	\$17,890
X397	68	\$10,846	68	\$10,846
Total	786	\$161,495	541	\$133,173

We reviewed transactions from each school and tested whether invoices or charge receipts describing the purchases were present and matched the charges on the credit card statement, whether other supporting documentation was present as per DOE's SOP requirements, whether logs were maintained by each user, and whether receiving reports were present. We also reviewed the invoices to determine whether sales taxes were paid, whether any purchases exceeded the individual purchase thresholds, and whether any purchases were split to circumvent the purchasing thresholds.

The results of these tests, while applicable to only the purchases made at the five sampled schools, provided a reasonable basis for us to determine whether DOE has adequate controls in place to ensure that the schools supported by CFN 106 complied with DOE's p-card policies

APPENDIX

Breakdown of Deficiencies Identified

(By School)

School	K524	M432	X388	Q520	X397	Total
Total transactions reviewed	115	197	90	71	68	541
Dollar amount	\$39,550	\$24,992	\$39,895	\$17,890	\$10,846	\$133,173
Transactions with one or more deficiencies	103	173	40	24	50	390
Dollar amount	\$34,575	\$20,980	\$11,139	\$9,372	\$9,485	\$85,551
Deficiencies:						
Required bids not obtained	25	8	8	10	6	57
Dollar amount	\$17,130	\$2,875	\$7,803	\$5,009	\$5,666	\$38,483
No proof of receipt	51	52	7	7	4	121
Dollar amount	\$14,183	\$9,252	\$6,497	\$2,598	\$576	\$33,106
No justification for the purchase	14	29	10	6	4	63
Dollar amount	\$8,352	\$8,432	\$7,258	\$3,504	\$3,046	\$30,592
Missing supporting documentation	27	26	10	6	21	90
Dollar amount	\$9,464	\$2,350	\$2,209	\$1,566	\$5,967	\$21,556
Non -compliant food purchases	17	28	5	3	30	83
Dollar amount	\$3,554	\$2,672	\$797	\$1,496	\$4,890	\$13,409
Inappropriate payment of sales tax	31	32	5	6	9	83
Dollar amount	\$493	\$451	\$208	\$55	\$66	\$1,273



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October 26, 2012

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

Re: Audit Report on the Department of Education's Controls over the Use of Procurement Cards at Schools Supported by Children First Network 106 - MD12-106A

Dear Ms. Kim:

This letter and the attached response to findings and recommendations will serve as the NYC Department of Education's (Department) formal response to the draft report (Report) by the New York City Office of the Comptroller (NYCC) in its audit of the Department's Controls over the Use of Procurement Cards (P-Cards) at Schools Supported by Children First Network (CFN) 106, to be included as an appendix to the NYCC's final audit report. The Department has reviewed the draft report and is generally in agreement with many of the recommendations contained within.

As mentioned in the Report, the Department's own internal reviews and audits have identified many of the same deficiencies as identified by the Comptroller. Over the past several years, the Department implemented a number of changes to the P-Card program to further strengthen internal controls over P-Card expenditures, such as on-line certification of statement transactions, P-card reviews by the Division of Financial Operations (DFO) and suspensions of P-Cards where users did not comply with these requirements. In 2012, the Department took significant strides to more efficiently and effectively coordinate efforts involving P-Card oversight. A collaborative effort between DFO, the Office of Auditor General (OAG) and the Office of School Support (OSS) resulted in a formalized P-Card review methodology for the 2012-2013 school year which began July 1, 2012. The efforts of each office were outlined, as well as communication processes between the offices to reduce duplication of effort. This

will enable more consistent and effective follow-up on findings, and the implementation of consequences as needed, including training and, where warranted, P-Card suspensions or terminations and/or referrals for investigation of cardholders.

As part of this coordinated effort, a process has been established to share information among the offices and to ensure follow up on audit findings. During OAG or DFO reviews, if a P-Cardholder exhibits activity that OAG, DFO and OSS agree raise concerns about the nature of the purchases, the support documentation or other expected internal controls around P-Card purchases, the P-Cardholder will be placed on an OAG/DFO watch list. This shared document will provide OSS with the ability to facilitate monitoring of CFN training and support for the P-Cardholders that have been added to it. The list will also be used by DFO and OAG to determine which P-Cardholders are to be included in future reviews. Re-reviews by either DFO or OAG can ascertain whether recommended corrective measures have been implemented.

Additionally, a P-Card Committee (Committee) has been formed with members from DFO, OAG and OSS. The function of the Committee is to review the more egregious or questionable P-Card cases to decide what sanctions, if any, are to be placed on the P-Cardholder. Examples of Committee sanctions include suspending the P-Cardholder's card for 30, 60 or 90 days, for the rest of the fiscal year and/or the following fiscal year. The Committee's first meeting will take place this fall.

DFO has also implemented a daily employee status update to the P-Card program. The purpose of this automatic update is to immediately deactivate the card of any cardholder that is terminated, suspended, placed on a leave of absence, under investigation for P-Card misuse, or has transferred to a new school. DFO has continued its practice of card deactivation when cardholders haven't responded to requests for documentation by OAG or DFO, as well as when cardholders fail to certify their monthly expenditures in FAMIS.

Additional efforts implemented by DFO included changes to the attestation that a P-Card applicant electronically signs when applying for a P-Card. The P-cardholder is provided a link to the SOP and attests that they have read the SOP. They additionally attest that they are responsible for all purchases made with their card, that all purchases are for Department business, and that the purchase will be made in accordance with the Department's purchasing policies.

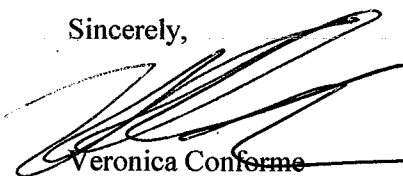
OAG has initiated an additional P-Card review program, separate from the mandated school audits, to significantly increase the number of schools being reviewed by OAG. This will heighten awareness that P-Card usage is being reviewed centrally, as well as provide users with feedback on areas where improved compliance with internal controls is needed. Over the summer, OAG reviewed school year 2011-2012 transactions of P-Cardholders at 330 schools and provided the results to the cardholders, principals and their network support staff. A second review of an additional 70 schools began in September and is currently ongoing.

OSS is preparing a comprehensive set of training materials on the proper use of P-Cards. CFN teams will present these materials to schools as they conduct their regular visits. The focus of this effort will be to remind cardholders of the importance of following SOP and for maintaining logs and documentation supporting all purchases.

Through all of the actions noted here and further detailed in the attached response to findings and recommendations, the Department believes it either has implemented or will be able to implement ten of the Report's 13 recommendations. For the remaining three recommendations, we explain why we believe the recommendation cannot be practically implemented given the nature and size of the Department and resource limitations, but we describe the controls that we have implemented and will implement with respect to the identified risks.

Unfortunately, we also have to address in this response the matter noted several places in the Report about certain questionable documents submitted to the Comptroller's Office at the exit conference. In the enclosed response to findings and recommendations, we provide additional context with respect to these suspicious records and describe the Department's own actions to identify and report the matter to both the Comptroller's Office and the Special Commissioner of Investigation (SCI). It is now the Department's duty and intention to allow SCI to complete its investigation and then to take appropriate action should any misconduct be substantiated

Sincerely,



Veronica Conforme

C: Brian Fleischer

**AUDIT REPORT ON THE DEPARTMENT'S CONTROLS OVER THE USE OF
PROCUREMENT CARDS AT SCHOOLS SUPPORTED BY CFN 106 (MD12-106A)**

This response to findings and recommendations, along with the cover letter of Chief Operating Officer Veronica Conforme dated October 26, 2012, will serve as the NYC Department of Education's (Department) formal response to the draft audit report by the New York City Office of the Comptroller (NYCC) in its audit of the Department's Controls Over the Use of Procurement Cards (P-Cards) at Schools Supported by Children First Network (CFN) 106, to be included as an appendix to the NYCC's final audit report.

Background

In 2003, P-Cards were introduced in an effort to expedite processing times and eliminate out-of-pocket expenses for staff. All purchases made with P-Cards must comply with the Department's procurement policies, including bidding thresholds, as detailed in the Standard Operating Procedures (SOP) chapter on the Division of Financial Operations (DFO) website. P-Cards are not to be used to split orders or otherwise circumvent bidding requirements. The single transaction limit with a P-Card is \$2,500 and there is a maximum limit of eight transactions per day. There is a \$15,000 maximum credit limit at any time. Personal purchases and cash withdrawals are prohibited, as is the purchase of individual services (e.g., consultants).

P-Cards are available to any office or school that completes the on-line application in the FAMIS portal. P-Cardholders must obtain the on-line approval of their supervisor. For school personnel, both the principal and the CFN team member need to approve the application. Principal applications are approved by both the CFN and the Superintendent. P-Cards are deactivated at the end of the school year and all P-Cardholders need to apply and obtain approval for the following year.

To detect internal control deficiencies within the Department, the Office of Auditor General (OAG) performs an ongoing risk assessment of the fiscal and operational controls of the Department, including both school-related and ancillary service expenditures. OAG's mandated school audits for fraud, waste and mismanagement have included a review of P-Card expenditures for the past five years. Any findings and recommendations to improve practices are shared with the principal and relevant support staff. Principals submit management action plans to address identified deficiencies. OAG's Internal Control Officers assist schools and CFN support staff with implementation of the recommendations and corrective actions to improve fiscal and operational processes. Each year's summary report is shared with senior Department management to provide an overview of common issues found at the school level.

As a result of the Department's own internal audit findings surrounding P-Cards, over the past several years a number of changes to the P-Card program have been implemented to further strengthen internal controls over P-Card expenditures. In April 2009, DFO announced that P-Cardholders would be required to perform a monthly on-line certification of their statement transactions in the Department's accounting system, FAMIS. In April 2010, DFO began conducting a P-Card transaction review to ensure compliance with SOP procurement rules. Each month 100 randomly selected cardholders were required to provide an explanation of the necessity of five to ten subjectively selected expenditures, as well as to provide all

supporting documentation. After their review, DFO provided users with feedback on any deficiencies found in complying with procurement SOP. Depending on the severity of non-compliance with the monthly certification or the review requirement, P-Card users could be subjected to progressive consequences of suspension and/or termination of P-Card privileges. Any questionable transactions were forwarded to OAG for review and possible referral to the Special Commissioner of Investigation (SCI). Also in the spring of 2010, DFO, working with OAG and the Office of School Support (OSS), identified acceptable merchant category codes for P-Card expenditures. Merchant code blocking of unapproved categories was instituted in June 2010 to prevent transactions in certain merchant category codes, such as airline tickets, hotels, car rentals, gasoline, florists and liquor stores. If a P-Cardholder has a legitimate need to purchase from a blocked merchant, they must contact DFO to explain the necessity of the purchase and if the justification is valid, DFO will assist in an override to allow the purchase. Along with the merchant category code blocking, effective with the 2010-2011 school year, an employee title edit was implemented to restrict staff in certain titles from obtaining P-Cards. Based on their review of OAG's findings and recommendations regarding P-Card usage in the schools, DFO also created a laminated placard highlighting key P-Card rules around various expenses where prior internal audits identified findings. The placard is updated and distributed with the issuance of the P-Card each year, along with a copy of the P-Card section of the SOP.

Recent Enhancements to P-Card Oversight

In 2012, the Department took significant strides to more efficiently and effectively coordinate efforts involving P-Card oversight. A collaborative effort between DFO, OAG and OSS resulted in a formalized P-Card review methodology for the 2012-2013 school year which began July 1, 2012. The efforts of each office were outlined, as well as communication processes between the offices to reduce duplication of effort. This will enable more consistent and effective follow-up on findings, and the implementation of consequences as needed, including training and, where warranted, P-Card suspensions or terminations and/or referrals for investigation of cardholders.

As part of this coordinated effort, a process has been established to share information among the offices and to ensure follow up on audit findings. During OAG or DFO reviews, if a P-Cardholder exhibits criteria that OAG, DFO and OSS agree raise concerns about the nature of the purchases, the support documentation or other expected internal controls around P-Card purchases, the P-Cardholder will be placed on an OAG/DFO watch list. This shared document will provide OSS with the ability to facilitate monitoring of CFN training and support for the P-Cardholders that have been added to it. The list will also be used by DFO and OAG to determine which P-Cardholders are to be included in future reviews. Re-reviews by either DFO or OAG can ascertain whether recommended corrective measures have been implemented.

Additionally, a P-Card Committee (Committee) has been formed with members from DFO, OAG and OSS. The function of the Committee is to review the more egregious or questionable P-Card cases to decide what sanctions, if any, are to be placed on the P-Cardholder. Examples of Committee sanctions include suspending the P-Cardholder's card for 30, 60 or 90 days, for the rest of the fiscal year and/or the following fiscal year. The Committee's first meeting will take place this fall.

DFO has also implemented a daily employee status update to the P-Card program. The purpose of this automatic update is to immediately deactivate the card of any cardholder that is terminated, suspended, placed on a leave of absence, under investigation for P-Card misuse, or has transferred to a new school. DFO has continued its practice of card deactivation when cardholders haven't responded to requests for documentation by OAG or DFO, as well as when cardholders fail to certify their monthly expenditures in FAMIS.

Additional efforts implemented by DFO included changes to the attestation that a P-Card applicant electronically signs when applying for a P-Card. The P-cardholder is provided a link to the SOP and attests that they have read the SOP. They additionally attest that they are responsible for all purchases made with their card, that all purchases are for Department business, and that the purchase will be made in accordance with the Department's purchasing policies.

OAG has initiated an additional P-Card review program, separate from the mandated school audits, to significantly increase the number of schools being reviewed by OAG. This will heighten awareness that P-Card usage is being reviewed centrally, as well as provide users with feedback on areas where improved compliance with internal controls is needed. Over the summer, OAG reviewed school year 2011-2012 transactions of P-Cardholders at 330 schools and provided the results to the cardholders, principals and their network support staff. A second review of an additional 70 schools began in September and is currently ongoing.

Referral to Special Commissioner of Investigation

Unfortunately, we also have to address in this response the matter noted several places in the Report about certain questionable documents submitted to the Comptroller's Office at the exit conference. Because we take this matter very seriously, it is important that we provide additional context with respect to these potentially questionable records and the Department's own actions to identify and report the issue of these concerning records to both the Comptroller's Office and SCI.

Our experience has been that school officials do not always provide all of the documentation that auditors would like to see in support of tested transactions during the auditors' field visit. This may occur for any number of innocent reasons, including misunderstandings about the full scope of records being sought for each tested transaction, erroneous original assumptions about where particular types of records had been filed or stored, or inadvertently skipping over one or more selected transactions on a list or spreadsheet. For that reason, and because Central Department officials do not and should not supervise field visits to schools by auditors from the Comptroller's Office, it has always been the Department's practice to disseminate preliminary audit findings back to the audited schools, via OSS and CFNs, to assess whether relevant documentation or other information relating to questioned transactions may have been missed, as well as to obtain and assess school officials' explanations for questioned transactions or missing documentation. Accordingly, it is not unusual for schools to identify and provide additional documentation between the issuance of preliminary audit findings and the audit exit conference. In this case, all five audited schools provided additional documentation to the CFN. CFN officials brought three sets of copies of the additional documentation to the exit conference.

The Department's Auditor General serves as the Chancellor's designee for all external audit engagements, and thus represents the Chancellor and the Department on external audit matters, including entrance and exit conferences. Immediately prior to the start of the exit conference in this audit, the OSS' external audit liaison informed the Auditor General that additional documentation had been obtained from the audited schools. As noted on page 4 of the Report, the Comptroller's auditors asked the Department to explain why the additional documentation had not been provided at the time of the field visits. Department officials spoke generally to the reasons that school officials may not provide all documentation during the field visit and invited the auditors to make their own assessment of the additional records and consider them as they deemed appropriate.

The OAG director reviewed the records and identified concerns with respect to copies of seven "receipts" relating to one particular vendor used by one of the five audited schools. The OAG review of the remaining records did not identify any further concerns. OAG informed the Comptroller's Office of the concerns and stated they would refer them to SCI. The Comptroller's Office indicated they would refer the concerns to SCI, as well.

The Department does not have reason to believe that any records beyond the seven purported receipts from the one school were created after the fact, and do not agree with the Comptroller's reluctance to place audit reliance on them. Because this matter is under review by an independent investigatory authority, the Department has no authority to conduct its own inquiry and cannot speculate here about what the investigation may conclude. It is now the Department's duty and intention to allow SCI to complete its investigation and then to take appropriate action should any misconduct be substantiated.

Responses to Comptroller's Findings and Recommendations

1. Ensure that the cardholder obtains at least three bids for all purchases over \$250 and documents them using the DOE's Telephone Bid Summary Form.

Response: Agree. The Department will reinforce and monitor the use of the Department's Telephone Bid Summary Form for purchases from non-contracted vendors that exceed the \$250 threshold. Both DFO and OAG P-Card reviews require the Telephone Bid Summary Form to be submitted as supporting documentation for purchases that exceed \$250 in order to show compliance with bidding procedures. A summary of review findings is shared with the cardholder and the Network Procurement designee at the completion of the review.

2. Require schools to ensure that P-Card purchases are appropriately supported by receipts, agendas and attendance sheets (when required), evidence of receipt, and justification of the educational need for the purchases.

Response: Agree. The Department has made similar findings in its own audits and reviews. DFO, OAG, and OSS continue to enhance internal controls and training surrounding P-Card policies and procedures. As of July 1, 2012, following all DFO and OAG reviews, a summary of audit results is shared with the cardholder, the appropriate supervisors, and the Procurement designee in each Network so that corrective actions may be taken. The Procurement designee is

responsible for offering training and support to the school and cardholder regarding the findings of the P-Card review. This support may include creating an action plan for a school to implement P-Card controls and scheduling training for cardholders to review proper procedures.

3. Investigate food purchases without required support, food purchases that exceeded the allowable limit, and purchases for which the educational need is not identified to determine whether they were appropriate. Recoup the funds for any purchases deemed inappropriate.

Response: Agree. The Department agrees that appropriate documentation justifying these expenditures should have been maintained by the P-Cardholder. Again, the Department's own internal audits and reviews have produced similar findings. The Department's purchasing policy indicates that there are only six approved reasons for purchasing food at work. However, these standards apply to food for staff; they do not apply in situations involving food provided to students and parent meeting or events. A number of the non-compliant food transactions identified by the Comptroller were instances where students and/or parents were fed. The SOP states that incentives and awards may be given to students as part of a sanctioned incentive program with established written criteria, so long as the amount does not exceed \$25 per occurrence and not to exceed \$100 for any school year per student.

In accordance with the Department's new P-Card oversight processes, purchases that do not have the required supporting documentation will be forwarded to the Committee for review and appropriate action, which may include additional training, monitoring and follow-up reviews, P-card suspensions and/or recoupments.

4. Consider creating and distributing additional guidelines on the most common types of questionable P-Card purchases and on documenting the business need of purchases.

Response: Agree. As described in the background section, the Department continues to implement efforts to enhance internal controls and provide additional training materials for P-Cardholders. DFO updates the P-Card placard annually, which highlights key P-Card policies regarding common purchases and procedures. DFO also developed an FAQ document for P-Cardholders along with a P-Card Certification Calendar. All three documents have been provided to P-Cardholders with the issuance of the P-Cards in the current school year.

OSS is preparing a comprehensive set of training materials on the proper use of P-Cards. CFN teams will present these materials to schools as they conduct their regular visits. The focus of this effort will be to remind cardholders of the importance of following SOP and for maintaining logs and documentation supporting all purchases.

5. Require the schools to recoup the sales taxes that were incorrectly paid and remind cardholders that tax-exempt certificates should be submitted for all future purchases.

Response: Agree. The Department will reinforce the use of the sales exempt certificate for NY purchases. Network staff will assist the cardholders in contacting the vendors to request reimbursement for purchases where NY state sales tax was applied.

6. Revise its procedures to require independent monthly reconciliations of P-Card transactions.

Response: Disagree. It is not entirely clear from the Report whether Comptroller's Memorandum #01-1 is cited in this audit as governing authority or merely as the source of certain recommended best practices. By law, the Department is not a Mayoral agency with respect to procurement and has its own procurement rules and procedures, which are approved by the Panel on Education Policy. While we acknowledge the value of independent reconciliations as an internal control, it is not practically feasible for the Department given our size and the number of cardholders spread geographically across the City. The Department does not have the resources to expand its central monitoring capacity to conduct independent reviews of all transactions by all cardholders on a monthly basis. Accordingly, the Department has designed and enhanced its internal controls, as described throughout this response, by focusing on cardholder accountability and significant expansion and coordination of audits and reviews by DFO and OAG.

7. Ensure that independent P-Card reconciliations are performed and evidenced by the signature and date of the reviewer.

Response: Disagree. See prior response.

8. Enforce the policy that only authorized cardholders make purchases using the P-Cards.

Response: Disagree. As noted above, the Department is not governed by CM #01-1. However, both CM #01-1 and the Department's SOP distinguish between cardholders and authorized users. Given the nature and role of principals within our system of accountability, it makes sense that they are frequently the sole or primary cardholder in their schools. However, the day-to-day duties of a principal and the intent and purpose of our P-Card program render impractical and unenforceable a policy that would compel a principal to, for example, personally run out for emergency supplies or read off the P-Card number on a telephone purchase. The Department holds the cardholder personally responsible for all purchases made with the P-Card, as well as for maintaining all supporting documentation related to their purchases. Reference to this policy is included in the FAQ's put out by DFO. Changes have been made to the attestation that the P-Card applicant electronically signs when applying for a P-Card in FY13. The cardholder is provided a link to the SOP and attests that they have read the SOP; they are responsible for all purchases made with the card and that all purchases are for NYC business and are in accordance with the Department's purchasing policies. Upon completion of DFO and OAG reviews, if it has been determined that someone other than the cardholder has made the purchase, the cardholder will be cited and reminded that they are solely responsible for all transactions made with their P-Card. Our procedures do ask cardholders to maintain a record of authorized users to whom a cardholder may delegate the task of executing any particular transaction. That control will be reinforced and included in our internal audits and reviews.

9. Reinforce the policy that office supplies are purchased through the FAMIS portal from contracted vendors.

Response: Agree. The Comptroller's header for this section "Office Supplies Not Purchased Using Contracted Vendors" is inaccurate. However, in the body of the paragraph the Comptroller correctly notes that Staples is a contracted vendor. The Department acknowledges that purchasing contracted merchandise from Staples through the FAMIS portal is the preferred method to obtain office supplies. In the P-Card FAQ document on their website, DFO has already addressed using the FAMIS portal to purchase merchandise from Staples. However, there may be instances when a school needs an emergency purchase and can use the P-Card at a Staples store, provided they get the Department's contracted rate at the point of purchase. The Department will reinforce the policy that office supplies are to be purchased through the FAMIS portal from contracted vendors.

10. Ensure that purchasing logs are complete.

Response: Agree. The Department will reinforce and monitor the use of the P-Card Usage Logs. DFO and OAG will continue to review monthly P-Card Usage Logs as part of their reviews and audits. Schools are cited when logs are incomplete or not maintained. CFN training and support efforts will reinforce this requirement. The Department will consider other means of increasing compliance with this requirement.

11. Ensure that follow-up reviews of schools identified with P-Card deficiencies are conducted and that audited schools submit management action plans in order to determine whether findings are rectified and recommendations are implemented.

Response: Agree. The Department's oversight procedures for this school year include a follow-up review for P-Cardholders with certain identified P-Card deficiencies. Following all DFO and OAG reviews, a summary of results is shared with the cardholder, the appropriate supervisors, and the Procurement designee in each Network so that corrective actions may be taken. The Network Procurement designee is responsible for offering support to the school and cardholder regarding the findings of the review. This support may include creating an action plan for a school to implement P-Card controls and scheduling training for cardholders to review proper procedures. When watch list follow-up reviews are conducted, the watch list is updated at the conclusion of the review to indicate if the same finding was observed. Having the same finding during multiple reviews could lead to a cardholder being reviewed by the Committee. The Committee will meet to review cases assigned to them and make decisions regarding what sanctions, if any, are to be placed on the cardholder.

12. Require that P-Cardholders receive mandatory training in Department's procurement and P-Card procedures upon receipt of the card.

Response: Agree. For the current school year, the on-line P-Card application was revised to include an attestation where the cardholder certifies that the cardholder reviewed SOP policies and procedures. DFO provides the user with the P-Card placard, FAQs and certification calendar with the P-Card. Additional efforts planned for this year include the joint development

of a webcast by DFO and OSS to reinforce P-Card rules, regulations and address questionable P-Card purchases as well as the need to document the business need of purchases. As stated earlier CFN Teams will present training materials to schools as they conduct their regular visits.

13. Require that cardholders sign a user agreement that outlines the terms and conditions of card usage as well as possible sanctions for misuse.

Response: Agree. All FY13 P-Card applicants are required to electronically sign the following attestation, "I certify I am applying for my own Procurement Card. All purchases with the Procurement Card must be made in accordance with the NYC Department of Education's (NYC Department) applicable purchasing policies (detailed in topic 4 of the Standard Operating Procedures (SOP): <http://schools.nyc.gov/NR/rdonlyres/AF357509-D04A-4411-841C-7A17945356DA/0/RevisionToOTPS.pdf>). As a cardholder, I am responsible for all transactions associated with this card and for retaining supporting documentation for 6 years after the close of the fiscal year. All purchases made with this card should be for official NYC DOE business. By submitting this request, I am asserting that I have read the SOP and agree to follow all of the regulations."