

AUDIT REPORT



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

Audit Report on the Financial and Operating Practices of Community School District 5

FP03-090A

June 23, 2003



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 responsibilities of the Comptroller contained in Article 52-A, § 2590m, of the New York State Education Law, my office has examined the financial and operating practices of Community School District 5 (District 5). The audit determined whether District 5 complied with certain procedures for purchasing, imprest fund expenditures, and timekeeping, as set forth in the Department of Education's Standard Operating Procedures Manual (SOPM) for Financial Management Centers and with Chancellor's Regulations. The results of our audit, which are presented in this report, have been discussed with officials from the Department of Education, and their comments have been considered in preparing this report.

Audits such as this provide a means of ensuring that Community School Districts are following Department of Education guidelines and that government dollars 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 contact my office at 212-669-3747 or e-mail us at audit@Comptroller.nyc.gov.

Very truly yours,

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

William C. Thompson, Jr.

WCT/GR

Report: **FP03-090A**
Filed: **June 23, 2003**

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

**Audit Report on the
Financial and Operating Practices of
Community School District 5**

FP03-090A

AUDIT REPORT IN BRIEF

We performed an audit of compliance of Community School District 5 (District 5) with applicable Department of Education (Department) procedures for purchasing, imprest fund expenditures, and timekeeping. District 5 in the northern part of Manhattan comprises 16 schools that serve more than 9,000 students: 10 elementary schools, four middle or intermediate schools, and two schools from elementary level through high school.

Audit Findings and Conclusions

Our review indicated that District 5 generally complied with applicable Department procedures for purchasing and spent its funds on purchases that were reasonable and necessary for the operation of the schools and facilities. In addition: purchase orders were coded correctly; funds were properly encumbered before invoices were paid; invoices and supporting documentation generally supported Other Than Personal Services (OTPS) payments; District 5 employees signed payroll distribution sheets when picking up their paychecks; and all District 5 employees were bona fide. Finally, District 5 generally complied with the Department's Standard Operating Procedures Manual (SOPM) for Financial Management Centers in administering its imprest fund.

We did, however, identify weaknesses in District 5's financial and operating procedures. District 5 did not comply with certain provisions of the SOPM pertaining to purchasing and inventory management. Specifically, District 5:

- Did not ensure that all purchase order packages contained proof of receipt of the goods or services purchased;
- Processed 24 purchase orders without the approval of either a school principal or an authorized District 5 official;

- Paid for a weekend conference, totaling \$4,210, for a School Leadership Team, consisting of parents and school staff, without providing justification for the expense in accordance with the SOPM;
- Did not ensure that competitive bids were solicited for eight purchases totaling \$12,449;
- Did not maintain invoices for 16 purchases totaling \$15,044;
- Paid vendors from the imprest fund amounts that appear to exceed invoice amounts;
- Did not adequately segregate the responsibilities for requisitioning items and approving payments to vendors; and,
- Did not maintain bid documents in its files for the contracts we reviewed.

In addition, we noted that seven of the 15 schools reviewed did not maintain adequate controls over its textbook, software, and equipment inventories. Consequently, certain items purchased by District 5 on behalf of the schools could not be accounted for.

In addition, District 5 did not always follow certain timekeeping requirements of the Chancellor's Regulations, such as: obtaining authorization forms from employees using vacation and sick leave; ensuring that employees signed in or out when arriving at and departing from work; identifying and correcting discrepancies in time records; ensuring that time cards were reviewed and approved by appropriate personnel; and maintaining complete timekeeping records for its employees.

Audit Recommendations

To address these issues, the audit made 14 recommendations, including that Department officials should:

- Ensure that all purchase order packages have the proof of receipt of goods or services purchased, in accordance with the SOPM.
- Ensure that all purchase documents are approved and dated, in accordance with the SOPM.
- Ensure that competitive bids are obtained for purchases that exceed amounts prescribed in the SOPM.
- Ensure that all expenditures are properly supported by purchasing documentation, in accordance with the SOPM.
- Ensure that the schools maintain complete and accurate inventory records for books and equipment.
- Maintain attendance lists for all trips paid with District 5 funds.

- Maintain complete and accurate time records for all employees

INTRODUCTION

Background

The current structure of the New York City public school system that includes 32 local Community School Districts (CSD) was created by New York State law more than 30 years ago. In response to social and parental desire for more community control of the schools, New York State law established the 32 CSDs, each having its own locally elected school board.¹ The Boards were responsible for selecting the individual CSD superintendents who in turn were responsible for managing the elementary and middle schools within their respective CSDs. Recent legislation changed the reporting structure within the system and eliminated the New York City Board of Education, making the system's central administration a mayoral agency, the Department of Education (Department). The Schools Chancellor, rather than the local school boards, is now responsible for selecting the individual CSD superintendents. In January 2003, the Mayor and the Chancellor announced that starting with the September 2004 school year, the 32 CSDs would be administratively reorganized into ten instructional regions, headed by regional superintendents, and six operational centers to provide support.

Community School District 5 (District 5) in the northern part of Manhattan comprises 16 schools that serve more than 9,000 students: 10 elementary schools, four middle or intermediate schools, and two schools from elementary level through high school. Total funds expended by or on behalf of District for Fiscal Year 2002 were approximately \$119,385,142. District 5 is required to comply with the Department's Standard Operating Procedures Manual (SOPM) for Financial Management Centers and Chancellor's Regulations.

This is one in a series of audits conducted in accordance with Article 52-A, § 2590m, of the New York State Education Law that requires that the Comptroller audit the accounts of the New York City Board of Education (now the Department) and each Community School District and report the results of those audits at least once every four years.

Objective

This audit was conducted to determine whether District 5 is complying with applicable Department procedures for purchasing, imprest fund expenditures, and timekeeping.

Scope and Methodology

The audit covered the period from July 1, 2001, through June 30, 2002.

¹ There are also other districts with appointed superintendents—e.g., superintendents for borough high schools, for special education, and others; however, these districts do not have elected boards.

We reviewed the SOPM to obtain an understanding of the procedures and regulations with which District 5 is required to comply. We interviewed staff members of District 5 to obtain an understanding of its purchasing, imprest fund, inventory, and timekeeping policies and procedures.

To ensure that District 5 and its schools followed proper procurement procedures, we selected 319 payments totaling \$1,487,810 of the 2,564 District 5 payments totaling \$5,604,076 recorded in the Department's Financial Accounting Management Information System (FAMIS) for Fiscal Year 2002. We examined purchase orders for requisite approvals, authorizations, and for information indicating that the transactions were for legitimate business purposes. In addition, we determined whether each form was correctly coded and that funds were properly encumbered. We reviewed supporting documentation, which included vendor invoices, proof of receipt for goods or services, and, if required, documentation of competitive bids solicited. We also determined whether each payment amount was accurately recorded in FAMIS by comparing the recorded amount to the invoice amount and other supporting documentation. See Appendix A for the specific accounts, population, and sample details.

We visited District 5 schools from December 9, 2002, through December 12, 2002, to determine whether items purchased by the schools or by District 5 for the school were on hand, recorded on inventory records, and properly safeguarded. We judgmentally selected for review 44 purchases (totaling \$571,889) of non-consumable high-risk items of the 319 total purchases.

We reviewed District 5 compliance with the bidding requirements of the SOPM. Specifically, of the five District 5 "full-value" vendor contracts awarded for Fiscal Year 2002 totaling \$294,876, we reviewed the three highest contracts,² totaling \$227,016.

To determine whether District 5 was in compliance with imprest fund procedures specified in the SOPM, we randomly sampled 50 transactions, totaling \$6,437, from the Fiscal Year 2002 imprest fund expenditures of \$200,887 (1,272 transactions). We examined the "Authorization for Imprest Fund Expenditure" form for requisite approvals and authorizations. In addition, we determined whether each form was correctly coded. We reviewed supporting documentation, including vendor invoices, employee expense forms, and proof of receipt for goods or services. We ascertained whether each imprest fund expenditure was within its allowable amount for a particular vendor or item.

To determine whether District 5 complied with the Chancellor's Regulations for timekeeping, we reviewed the attendance records of all 79 employees who were listed on District 5 payroll records in December 2001—35 Administrative, 33 Teachers and Supervisors, and 11 Family Workers and School Aides. Specifically, we attempted to determine whether work hours were properly documented on the time records for all District 5 assigned staff.

Finally, to determine whether all employees at District 5 were bona fide, we observed a payroll distribution on March 28, 2003.

² A full-value contract is for a one-time purchase of a specific item(s) at a specific dollar amount.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, § 93, of the New York City Charter, 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 officials from the Department during and at the conclusion of this audit. A preliminary draft report was sent to the Department officials and discussed at an exit conference held on May 20, 2003. On May 23, 2003, we submitted a draft report to Department officials with a request for comments.

We received a written response from the Department on June 16, 2003, in which it generally agreed with the audit recommendations and described the specific steps that it has taken to address the exceptions noted in the report. The full text of the comments from the Department is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

Our review indicated that District 5 generally complied with applicable Department procedures for purchasing and spent its funds on purchases that were reasonable and necessary for the operation of the schools and facilities. In addition: purchase orders were coded correctly; funds were properly encumbered before invoices were paid; invoices and supporting documentation generally supported OTPS payments; District 5 employees signed payroll distribution sheets when picking up their paychecks; and all District 5 employees were bona fide.

We did, however, identify weaknesses in District 5's financial and operating procedures. District 5 did not comply with certain provisions of the SOPM pertaining to purchasing and inventory management. Specifically, District 5:

- Did not ensure that all purchase order packages contained proof of receipt of the goods or services purchased;
- Processed 24 purchase orders without the approval of either a school principal or an authorized District 5 official;
- Paid for a weekend conference, totaling \$4,210, for a School Leadership Team consisting of parents and school staff, without providing justification for the expense in accordance with the SOPM;
- Did not ensure that competitive bids were solicited for eight purchases totaling \$12,449;
- Did not maintain invoices for 16 purchases totaling \$15,044;
- Paid vendors from the imprest fund amounts which appear to exceed invoice amounts;
- Did not adequately segregate the responsibilities for requisitioning items and approving payments to vendors; and,
- Did not maintain bid documents in its files for the contracts we reviewed.

In addition, we noted that seven of the 15 schools reviewed did not maintain adequate controls over its textbook, software, and equipment inventories. Consequently, certain items purchased by District 5 on behalf of the schools could not be accounted for.

Furthermore, District 5 did not always follow certain timekeeping requirements of the Chancellor's Regulations, such as: obtaining authorization forms from employees using vacation and sick leave; ensuring that employees signed in or out when arriving to and departing from work; identifying and correcting discrepancies in time records; ensuring that time cards were reviewed and approved by appropriate personnel; and maintaining complete timekeeping records for its employees.

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

OTPS Purchasing Weaknesses

OTPS Procurements Lacked Authorizations and Dates

District 5 did not ensure that all purchase order packages had proof of receipt of the goods or services. The SOPM states, “At the time of delivery, the school/office or activity. . . acknowledges receipt of stocked supplies by officially stamping the name of the school/office or activity and date of delivery on the delivery envelope or other designated form of receipt. The person responsible for accepting the delivery will affix his/her signature thereto.”

We noted that for 145 of the sampled payments totaling \$515,325 District 5 had no records indicating when the goods or services had been received. In addition, the documentation for nine of the 145 payments contained no signatures attesting to the receipt of the items purchased. Four of the nine payments were for purchases of non-consumable goods—books. We checked receipt of these items at the schools and found that they had been received. Since the remaining five purchases were for consumable goods (office supplies and workbooks) we were unable to confirm receipt through observation as they were no longer on hand.

The SOPM also requires that the school principal and an authorized District 5 official approve all OTPS transactions. However, 24 purchase orders lacked such approvals. Specifically, 16 purchase orders lacked appropriate District 5 approval, four purchase orders lacked both District 5 and the Principal’s approvals, and four purchase orders lacked the Principal’s approval.

Recommendations

Department Officials should ensure that all:

1. Purchase order packages have the proof of receipt of goods or services purchased, in accordance with the SOPM.
2. Purchase documents are approved and dated, in accordance with the SOPM.

Department Response: “Effective July 1, 2003, the Department of Education will reorganize the 32 local community school districts into 10 Regional Instructional Divisions. The responsibility for fiscal oversight of Region 10 schools will belong to the Manhattan Regional Operation Center.

“Therefore, the Office of Auditor General will send a copy of the Financial and Operating Practices of CSD #5 audit report to the regional center that will be in charge of District 5 and will follow-up to ensure SOPM procedures are being adhered to.”

Inadequate Documentation

District 5 spent \$4,210 for a weekend conference without documenting justification for the expense. This conference was held from Friday, February 8, 2002, to Sunday, February 10, 2002, at the Crowne Plaza Hotel in White Plains, New York, and was attended by the Public School 46 School Leadership Team. The cost of the conference included: a two-night stay at \$109 per night for eight rooms (\$1,744); breakfast and lunch buffets for 14 people (\$1,169); dinner at the hotel (\$613.20); banquet room rental (\$300); service charges (\$234); and, set-up charges for the buffets (\$150).

According to the SOPM, the individual responsible for planning a conference “must document the process and justify in writing” why the decision was made to hold the conference at an outside facility. In addition, the individual should make every attempt “to secure a free or low cost facility.” The SOPM provides examples of these facilities, such as borough community colleges, SUNY Colleges, or high schools. Use of these facilities could have significantly reduced the \$4,210 cost of this conference. There was no documentation that this procedure was followed when the event was organized.

Although the school solicited bids for the conference venue, as required in the SOPM, we question whether the bids solicited were competitive. The school received bids from two luxury hotels—the Waldorf-Astoria and Doubletree Guest Suites—both in Manhattan. The conference was held at the Crowne Plaza Hotel in White Plains, New York, at a cost of \$4,210. The total cost for the conference including meals and two-night sleeping accommodations at the Waldorf-Astoria would have been \$7,606, and for Doubletree Guest Suites, the cost would have been \$7,605. Obtaining bids from luxury hotels in Manhattan and comparing them to a bid from a hotel in White Plains does not appear to be following a fair and competitive bid process.

Recommendation

3. Department Officials should ensure that the schools adhere to all SOPM guidelines when organizing conferences.

Department Response: “District Five will remind schools. . .[to] adhere to all SOPM guidelines when organizing conferences.”

Competitive Bids Not Solicited

We found eight OTPS purchases, totaling \$12,449.09, for which District 5 schools did not solicit competitive bids. Consequently, District 5 had no assurance that the amounts paid were fair and reasonable. The SOPM requires that a minimum of three bids must be obtained at least by telephone for individual purchases of \$251 to \$5,000; and a minimum of three bids must be obtained in writing for individual purchases of \$5,001 to \$10,000.

In addition, District 5 had no documentation showing that bids were obtained in accordance with the SOPM for the three full-value contracts we sampled.

Recommendations

Department Officials should:

4. Ensure that competitive bids are obtained for purchases that exceed amounts prescribed in the SOPM.

Department Response: “District Five will remind schools. . .[to] ensure that competitive bids are obtained for purchases that exceed amounts prescribed in the SOPM.”

5. Implement a supervisory contract review process that ensures that all necessary documents are on file.

Department Response: See response to recommendations #1 and #2.

Lack of OTPS Documentation

District 5 did not maintain documentation to support five payments (totaling \$13,496) of the 319 payments reviewed. Specifically, District 5 did not provide purchase orders, invoices describing the items purchased, and documentation indicating whether the items were actually received.

Recommendation

Department Officials should:

6. Ensure that all expenditures are properly supported by purchasing documentation, in accordance with the SOPM.

Department Response: “District Five will remind schools. . .[to] ensure that all expenditures are properly supported by purchasing documentation.”

School Inventory Control Weaknesses

Our tests of inventory at the various schools disclosed that they did not always comply with the SOPM, which states, “All equipment, educational and administrative supplies stored in large quantities, textbooks and other computer software should be inventoried regardless of funding source.” Listed below are the individual schools reviewed and the specific weaknesses noted.

Public School 10

Public School 10 purchased five types of software products totaling \$77,000 (object code 199, Ed/Instructional Software). Although we found all the products present at the school, these software products were not on the school's inventory records. We noted that two of the software products had not been opened since their delivery in March 2002.

Public School 46

Public School 46 was unable to locate a saxophone purchased for \$586 (object code 489, Parent Activity Fund). The purchase order package contained a United Parcel Service tracking form indicating that the saxophone was delivered on March 13, 2002, and signed for by a school official. The school did not have the saxophone or any other musical instruments recorded on its inventory records.

Public School 92

Public School 92 purchased books totaling \$1,400 (object code 338, Library Books). The purchase order had a signature indicating that the books were received, but no itemized list of books was included in the purchase order package. The current Principal stated that she had no documentation for this purchase, nor does she know which books were purchased. Therefore, we could not confirm that these books were received.

Public School 125

Public School 125 made two purchases for 2,326 textbooks totaling \$68,310 (object code 337, Textbooks). The purchase order had a signature indicating that the books were received, as well as an itemized list of books. We physically counted the books distributed to students and those in the storage room. We were unable to locate 524 (23%) of the 2,326 textbooks. This school maintained no inventory records for its textbooks.

Public School 133

Public School 133 purchased 100 Sony Playstations with educational software, totaling \$12,665 (object code 685, Consulting Staff Development). Although school personnel indicated that all 100 Playstations and related software were received, we were unable to account for 28 of them.

Intermediate School 172

Intermediate School 172 had a purchase of 948 textbooks, totaling \$31,000, delivered on January 24, 2002 (object code 337, Textbooks). This school did not maintain inventory records for its textbooks. We were unable to locate 212 of the textbooks at the schools. School officials agreed that the 212 textbooks were missing.

Public School 175

At Public School 175, four video collections, totaling \$7,693, were missing (object code 337, Textbooks). Although District 5 paid for these items, the Principal stated that they were never delivered to the school.

Recommendation

7. Department Officials should ensure that the schools maintain complete and accurate inventory records for books and equipment.

Department Response: See response to recommendations #1 and #2.

Imprest Fund Issues

District 5 generally complied with the SOPM in administering its imprest fund. However, District 5 did not maintain original invoices to support 11 purchases from the imprest fund totaling \$1,548. According to the SOPM, “Original receipts (invoices) must be obtained for each imprest fund payment.” Without such documentation, we were unable to determine what items were purchased.

In addition, there were two instances in which District 5 paid vendors amounts appearing to exceed invoice amounts by \$3,176. In the first instance, District 5 purchased 185 tickets for a dinner cruise on Spirit Cruises for students and parents. According to the invoice, the total cost of this trip was \$12,779 (including \$464.31 for beverages). However, this vendor received 27 payments through the imprest fund totaling \$13,075—a difference of \$296. In the second instance, District 5 purchased 100 tickets to the circus at Madison Square Garden. According to the vendor invoice, the total cost of this trip was \$2,350. However, District 5 made 11 individual imprest fund payments to this vendor totaling \$5,230—a difference of \$2,880.

According to District 5’s Director of Operations, these tickets were purchased as part of Attendance Improvement and Dropout Prevention Programs for truant students in the DISTRICT 5 schools. However, District 5 maintained no records showing who received the tickets. Therefore, we were unable to determine whether tickets costing District 5 more than \$15,000 were distributed to the appropriate individuals.

Recommendations

Department Officials should:

8. Maintain vendor invoices to support all imprest fund payments.

Department Response: “District Five will remind schools. . .[to] maintain vendor invoices to support all imprest payments.”

9. Ensure that payments to vendors do not exceed invoice amounts.

Department Response: “District Five will remind schools. . .[to] ensure that payments to vendors do not exceed invoice amounts.”

10. Maintain attendance lists for all trips paid with District 5 funds.

Department Response: “District Five will remind schools. . .[to] maintain attendance lists for all trips paid with school or district funds.”

Lack of Segregation of Duties

For 28 of the 369 sampled payments reviewed, we noted that District 5's Director of Operations requisitioned the items and also authorized payments to the vendors. Of the 28 purchases, 18 were imprest fund payments totaling \$1,663, and 10 were OTPS payments totaling \$16,251. Segregating these responsibilities would enhance District 5's internal controls and ensure that all purchases are reasonable and appropriate. Comptroller's Directive #1—Internal Controls states that to “minimize the possibility of inefficiency, errors, and fraud, responsibility for a sequence of related operations should be divided among two or more persons In essence, key duties and responsibilities in authorizing, processing, recording, reviewing transactions and safeguarding assets should be separated among individuals.” Although Directive #1 is not binding on District 5, we believe that good internal control practices would dictate conforming to this Directive to the greatest extent possible.

Recommendation

11. Department Officials should ensure that the functions of making purchases and approving them are properly segregated.

Department Response: See response to recommendations #1 and #2.

Timekeeping Weaknesses

Our review of the timekeeping records disclosed the following discrepancies:

- 95 instances in which 36 employees did not submit leave authorization forms;
- 67 instances in which 24 employees did not sign in or out when arriving to and departing from work;
- 19 instances in which employees' time cards lacked evidence of supervisory review;
- 34 instances, totaling 20.5 hours, in which employees were not charged for being late;

- Six instances in which four employees were undercharged a total of 12.5 hours for leave used; and
- 31 instances in which 17 employees were not charged vacation or sick leave, even though the employees' time cards indicated no hours had been worked on those days.

In addition, District 5 did not provide timekeeping records for 10 employees. Also, District 5 did not provide "Daily Information Reports" or "Time and Attendance Inquiry Reports" indicating leave charges for 21 other employees. Without such records, we could not determine whether District 5 maintained accurate leave balances for these 31 employees.

Recommendations

Department Officials should:

12. Ensure that employees submit authorized leave slips for all leave time used.

Department Response: "District Five will remind schools. . .that employees submit authorized leave slips for all leave time used."

13. Ensure that timekeeping transactions are carefully reviewed so that timekeeping errors are avoided.

Department Response: "District Five will remind schools. . .[to] ensure that timekeeping transactions are carefully reviewed so that timekeeping errors are avoided."

14. Maintain complete and accurate time records for all employees.

Department Response: "District Five will remind schools. . .[to] maintain complete and accurate time records for all employees."

Community School District 5							
OTPS Audited Object Codes	Total # of Items	Total Dollars	Sample Selection Basis	Total # of Items Sampled	Total Dollars Sampled	Inventory Total # of Items Sampled	Sub-Sample Total Dollars Sampled
130 Instructional Supplies	1,074	\$ 1,665,367	Random	50	\$ 53,622	1	\$ 1,238
198 Gen Office Supplies	258	\$ 167,625	Random	50	\$ 35,636	2	\$ 1,642
451 Business Expenditures	176	\$ 63,058	Random	50	\$ 19,515		\$ -
489 Parent Activity Fund	73	\$ 53,198	Random	50	\$ 24,479	7	\$ 4,733
685 Consulting Staff Development	226	\$ 2,238,915	Random	50	\$ 476,533	1	\$ 12,665
199 Ed/Instructional Software	1	\$ 77,000	100%	1	\$ 77,000	1	\$ 77,000
332 Comp/Data Process Equip	6	\$ 55,292	100%	6	\$ 55,292	2	\$ 50,199
337 Textbook/Workbooks	156	\$ 694,389	Judgmental	14	\$ 423,138	13	\$ 391,550
338 Library Books	83	\$ 56,596	Judgmental	17	\$ 32,862	17	\$ 32,862
402 Telephones & Comm	119	\$ 317,230	Judgmental	15	\$ 233,962	0	\$ -
433 Rental Copying Equip	392	\$ 215,406	Judgmental	16	\$ 55,771	0	\$ -
Total	2,564	\$ 5,604,076		319	\$ 1,487,810	44	\$ 571,889
Contracts							
685 Full Value Contracts	5	\$ 294,876	Judgmental	3	\$ 227,016		
Imprest Fund							
	1272	\$ 200,887	Random	50	\$ 6,437		



THE NEW YORK CITY DEPARTMENT OF EDUCATION

JOEL I. KLEIN, *Chancellor*

JESS FARDELLA, Auditor General

ADDENDUM
Page 1 of 5

June 13, 2003

Gary H. Rose, Director, Bureau of Financial Audits
The City of New York
Office of the Comptroller
1 Centre Street, Room 1300 North
New York NY 10007-2341

Re. Draft Audit Report on the Financial and
Operating Practices of Community School
District 5 (FP 03-090A)

Dear Mr. Rose:

Enclosed is the Department of Education's (DOE) response to the findings and recommendations made in the above draft audit report.

The district agreed to implement nine of the fourteen recommendations (3, 4, 6, 8, 9, 10, 12, 13 and 14) that deal with compliance issues, timekeeping and procurement practices and will issue a memo to the schools to follow those procedures.

As you know, effective July 1, 2003, the Department of Education will reorganize the 32 local community school districts into 10 Regional Instructional Divisions and six Regional Operation Centers. Therefore, the implementation of the remaining five recommendations (1, 2, 5, 7, and 11) will be the responsibility of the newly created Regional Centers. The Office of Auditor General will submit a copy of this audit report to the applicable regional center for the implementation of the recommendations and we will follow-up with the Regional Center during our next round of Regional/School audits.

We are pleased that the report notes that the district, in general, has complied with the applicable Department procedures for purchasing and has spent its funds on purchases that were reasonable and necessary for the operations of the schools and facilities.

Sincerely,

Andrew Levine,
Deputy Auditor General

AL:nf
Enclosures

C: Joel I. Klein
Chad Vignola
Lucille Swarns
Fred King
Pearl Greene

Kathleen Grimm
Jess Fardella
Dennis Pradier
Dominick Cavallo

Bruce Feig
Louis Benevento
Jerry Schondorf
Nader Francis



THE NEW YORK CITY DEPARTMENT OF EDUCATION

COMMUNITY SCHOOL DISTRICT FIVE

433 West 123 Street, New York, N.Y. 10027

212-769-7500 212-769-7550 (Fax)

Dennis J. Pradier, Superintendent

June 11, 2003

MEMORANDUM

TO: OFFICE OF AUDITOR GENERAL

FROM: DENNIS J. PRADIER, SUPERINTENDENT *DJP*

SUBJECT: THE FINANCIAL AND OPERATING PRACTICES OF
COMMUNITY SCHOOL DISTRICT FIVE

Background

Effective July 1, 2003, the Department of Education will reorganize the 32 local community school districts into 10 Regional Instructional Divisions. Community School District Five will cease to exist becoming a part of Region 10. The responsibility for fiscal oversight of Region 10 schools will belong to the Manhattan Regional Operation Center.

As a result, the entity currently known as Community School District Five will only be able to notify the schools of the proper procedures and suggest a course of action for the new Regional Operation Center.

Notification to Schools

District Five will remind schools of the following procedures:

- Schools must adhere to all SOPM guidelines when organizing conferences;
- Schools must ensure that competitive bids are obtained for purchases that exceed amounts prescribed in the SOPM;
- Schools must ensure that all expenditures are properly supported by purchasing documentation;
- Schools must maintain vendor invoices to support all imprest payments;
- Schools must ensure that payments to vendors do not exceed invoice amounts;
- Schools must maintain attendance lists for all trips paid with school or district funds;
- Schools must ensure that employees submit authorized leave slips for all leave time used;
- Schools must ensure that timekeeping transactions are carefully reviewed so that timekeeping errors are avoided;
- Schools must maintain complete and accurate time records for all employees.

Recommendations to Regional Operation Center

We would suggest the following recommendations to the new Regional Operations Center:

- Share the findings of the "Audit Report on the Financial and Operating Practices of Community School District Five" with appropriate personnel in the Operation Center;

- Conduct workshops and training sessions for school principals, assistant principals, and any additional staff members who have fiscal responsibilities in each school. The Office of Auditor General has conducted such training sessions in the past.
- Distribute copies of the SOPM video tape to all schools;
- Perform periodic internal "Pass Review" type audits for fiscal matters within each school;
- Prepare a manual of sample purchase orders, imprest funds payments attachments, proof of delivery, equipment inventories, textbook inventories, etc. for schools to use as a guide for training and actual implementation.

DJP:tb

Attachment

Clr 360a tb

Form C

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

PAGE 1 OF 1

RESPONSE DATE: June 11, 2003

AUDIT TITLE: Financial and Operating Practices of CSD #5

AUDITING AGENCY: NYC Comptroller

DIVISION _____

DRAFT REPORT DATE: May 23, 2003

AUDIT NUMBER: _____

**C. RECOMMENDATION WHICH THE AGENCY
AGREES WITH BUT IS PENDING IMPLEMENTATION**

3, 4, 6, 8, 9, 10, 12, 13, 14

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

See Notification to Schools

A memo will be sent to the schools reminding them of the procedures.

IMPLEMENTATION DATE

June 20, 2003

RESPONSIBILITY CENTER

CSD 5

Signature:

Dennis J. Pradler

Print Name: Dennis J. Pradler

Print Title: Superintendent

6/11/03
Date

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

PAGE ____ OF ____

RESPONSE DATE: 06/13/2003

AUDIT TITLE: Financial and Operating Practices of CSD #5

AUDITING AGENCY: NYC Comptroller

DIVISION: _____

DRAFT REPORT DATE: May 23, 2003

AUDIT NUMBER: FP03-090A

**C. RECOMMENDATION WHICH THE AGENCY
AGREES WITH BUT IS PENDING IMPLEMENTATION**

1, 2, 5, 7 and 11

RESPONSE TO RECOMMENDATION

Effective July 1, 2003, the Department of Education will reorganize the 32 local community school districts into 10 Regional Instructional Divisions. The responsibility for fiscal oversight of Region 10 schools will belong to the Manhattan Regional Operation Center.

Therefore, the Office of Auditor General will send a copy of the Financial and Operating Practices of CSD #5 audit report to the regional center that will be in charge of District 5 and will follow-up to ensure SOPM procedures are being adhered to.

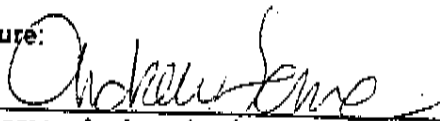
TARGET IMPLEMENTATION DATE

June 30, 2003

RESPONSIBILITY CENTER

Office of Auditor General

Signature: _____



Print Name: Andrew Levine

06/13/2003
Date

Print Title: Deputy Auditor General