

AUDIT REPORT

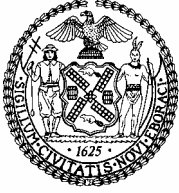


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on Other Than Personal Services Expenditures of Schools Within the Department of Education Regional Operations Center for Regions 6 and 7

MH05-069A

May 4, 2005



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

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has audited other than personal services expenditures of schools within the Department of Education (DOE) Regional Operations Center (ROC) for Regions 6 and 7. The audit determined whether the DOE procurement policies and procedures were followed for goods and services purchased by the schools that require ROC approval.

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

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

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

Very truly yours,

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

William C. Thompson, Jr.

WCT/fh

Report: MH05-069A
Filed: May 4, 2005

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

**Audit Report on Other Than Personal
Services Expenditures of Schools
Within the Department of Education Regional Operations
Center for Regions 6 and 7**

MH05-069A

AUDIT REPORT IN BRIEF

The audit determined whether the Department of Education's (DOE) procurement policies and procedures were followed for goods and services purchased by schools in Regions 6 and 7 that require Regional Operations Center (ROC) approval.

Audit Findings and Conclusions

DOE's procurement policies and procedures were generally followed for goods and services purchased by schools in Regions 6 and 7 that required ROC approval. Specifically, we found that OTPS purchases were reasonable and necessary for the operation of the schools, and vendor invoices were on file to substantiate the amounts paid.

However, our review disclosed the following weaknesses:

- ROC officials did not receive required certification of delivery for four (10%) of 42 sampled purchases.
- ROC officials did not ensure that there was adequate written justification or OPM approval for all three sole-source purchases in our sample.
- For two (18%) of the 11 sampled purchases of goods and services for which schools were required to obtain written bids, ROC employees approved the related purchase orders without receiving all bidding documentation to support the purchases.
- Five (12%) of the 42 purchases for goods or services were made by the schools prior to receiving ROC approval.

Audit Recommendations

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

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

INTRODUCTION

Background

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

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

The ROC for Region 6 in Brooklyn and Region 7 in Staten Island, the focus of this audit, is responsible for fiscal oversight of the schools within those regions. As of December 31, 2003, there were approximately 234,000 students in 239 schools in the two regions. For Fiscal Year 2004, OTPS purchases for these regions that exceeded the monetary limit requiring ROC approval totaled approximately \$11.6 million. The OTPS purchases of \$11.6 million were attributable to 164 of the 239 schools.

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

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

Objective

The objective of this audit was to determine whether DOE's procurement policies and procedures were followed for goods and services purchased by schools in Region 6 and 7 that require ROC approval.

Scope and Methodology

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

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

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

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

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

To select our audit sample, we obtained the population database of Fiscal Year 2004 OTPS payments for ROC Regions 6 and 7. During Fiscal Year 2004, there were 100 OTPS purchases totaling \$2.7 million for 15 schools that had five or more purchases for goods and services that exceeded the monetary limit for ROC purchase approval. We randomly selected six

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

out of the 15 schools (three schools were selected from each region). We reviewed all of the 42 purchase orders, totaling \$1 million, at our six sampled schools.

We visited the schools from November 9 to December 13, 2004. We documented our understanding of the schools' purchasing practices and determined whether they were in accordance with DOE's SOPM. For each sampled purchase, we reviewed the purchase files at the schools for the following documentation:

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

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

The results of the above tests, while not projectable to all schools within Regions 6 and 7 whose purchases required ROC approval, provided a reasonable basis to assess compliance with DOE purchasing procedures.

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

Discussion of Audit Results

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

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

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

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

FINDINGS AND RECOMMENDATIONS

DOE's procurement policies and procedures were generally followed for goods and services purchased by schools in Regions 6 and 7 that required ROC approval. Specifically, we found that OTPS purchases were reasonable and necessary for the operation of the schools and vendor invoices were on file to substantiate the amounts paid.

However, our review disclosed the following weaknesses:

- ROC officials did not receive required certification of delivery for four (10%) of 42 sampled purchases.
- ROC officials did not ensure that there was adequate written justification or OPM approval for all three sole-source purchases in our sample.
- For two (18%) of the 11 sampled purchases of goods and services for which schools were required to obtain written bids, ROC employees approved the related purchase orders without receiving all bidding documentation to support the purchases.
- Five (12%) of the 42 purchases for goods or services were made by the schools prior to receiving ROC approval.

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

Lack of Certification of Delivery for Goods or Services

ROC officials did not receive the required certification of delivery for four (10%) of 42 sampled purchases for goods or services before processing their payments. However, the schools provided certification of delivery for two of the four purchases, and during school visits we confirmed that three of these four purchases for goods were delivered. Without having the certification of delivery for the remaining purchase, a purchase of services, we could not confirm that services were provided.

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

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

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

At the exit conference, ROC officials provided us with additional documentation for certification of delivery for six purchases. Upon further review, we agree that certifications of delivery were in the ROC files for two purchases. However, we did not accept the documentation for four purchases. The documentation we received at the exit conference was not in the files of the ROC during the course of our audit work. Thus, we questioned whether officials had reviewed this documentation prior to approving the payment of invoices.

Recommendation

ROC officials should:

1. Obtain certification of delivery for purchases of goods and services prior to payment of invoices.

DOE Response: DOE officials agreed, stating, "The DOE is moving toward implementing on-line certification in the near future to ensure full compliance. In addition, we will be reinforcing with our schools and staff the importance of having certification documentation for goods and services."

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

There was no adequate written justification or OPM approval for all three sole-source purchases in our sample. These findings relate to two of our sampled schools, as follows:

Table I

Sole-Source Review

School	# of Sole-Source Purchases	Description of Item	Total Amount of Sole-Source Purchases	# Lacking Justification	# Lacking OPM Signature
MS 246 (Brooklyn)	1	Parent/teacher/student workshop	\$8,999	1	1
JHS 252 (Brooklyn)	0				
MS 2 (Brooklyn)	0				
Tottenville HS (Staten Island)	0				
McKee HS (Staten Island)	0				
S.I. Technical HS (Staten Island)	2	Biology lab equipment	\$20,431	2	2
TOTAL	3		\$29,430	3	3

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

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

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

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

There were no written certifications from school officials stating that they made an effort to locate comparable equipment or sources for the purchases, nor did they indicate why the vendor was uniquely qualified in the area. For example, one sole-source purchase order stated

that a sole-vendor letter had been provided on many previous purchase orders, but no sole-vendor justification was attached to it.

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

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

Recommendations

ROC officials should ensure that:

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

DOE Response: DOE officials agreed, stating “ROC contract officers and staff have been directed to implement a closer review of all sole source purchases above \$5,000 to ensure that they are in compliance with Standard Operating Procedure requirements.”

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

DOE Response: DOE officials agreed, stating “Now that it is clear that the regulations governing procurement of sole source items differ for professional services in contrast to commodities, we will ensure strict compliance with the procedures requiring approval of proposed sole source professional service orders, above \$5,000, by the OPM Administrator.”

Lack of Purchase Bidding Documents

For two (18%) of the 11 sampled purchases of goods and services for which schools were required to obtain written bids, ROC employees approved the related purchase orders without receiving all bidding documentation to support the purchase. The problems found are described below:

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

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

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

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

Recommendations

ROC officials should:

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

DOE Response: DOE officials agreed, stating “For all purchases exceeding \$5,000, bids must be forwarded to the ROC prior to approval of the purchase order. . . . ROC procurement team members have also been made aware of the need to review bid documentation more closely prior to approval to ensure compliance.”

5. Maintain copies of bid documentation.

DOE Response: DOE officials agreed, stating “Steps have been taken at the ROC to ensure the integrity of our filing system.”

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

DOE Response: DOE officials agreed, stating “Any bids received from vendors above \$10,000 must be sealed and read at a public opening.”

Purchases Are Made Prior to Obtaining ROC Approval

Although the ROC approved all 42 purchases in our sample, we found five (12%) instances in which the schools purchased goods or services prior to receiving ROC approval. DOE requires that school purchases above \$5,000 from a non-contracted vendor or above \$15,000 from a contracted vendor must be approved by the principal or authorized DOE official and by the ROC in order for the purchase to be made. The SOPM states, “review and approval by two parties for expenditures . . . and all other regulations are designed to safeguard the use of public funds and to provide accountability.” The invoices or order dates for these five purchases were dated prior to the ROC approval date. Table III, below, lists the five purchases.

TABLE III

Purchases Made Prior to Obtaining ROC Approval

School	Description of Item Purchased	Invoice Date or Order Date	ROC Approval Date	Purchase Amount
MS 246	Math Workshops	01/23/04	03/30/04	\$31,500
MS 246	Professional development	10/02/03	12/02/03	\$19,800
MS 246	Books	04/16/04	04/23/04	\$30,969
MS 246	Workshops	11/30/03	02/03/04	\$8,999
Tottenville HS	Reconditioning of football helmets	02/12/04	03/17/04	\$5,292
TOTAL				\$96,560

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

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

Recommendation

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

DOE Response: DOE officials agreed, stating “ROC staff continuously stress to schools the need to seek approval prior to procuring any goods or services whether or not ROC approval is required. This topic is discussed at monthly Principal Conferences, trainings, and through various correspondences with school personnel.”



THE NEW YORK CITY DEPARTMENT OF EDUCATION

JOEL I. KLEIN, *Chancellor*

ADDENDUM I

Page 1 of 6

OFFICE OF THE DEPUTY CHANCELLOR

Kathleen Grimm, Deputy Chancellor for Finance and Administration

52 Chambers Street, Room 320 • New York, New York 10007

(212) 374-0209 (Voice) (212) 374-5588 (Facsimile)

April 05, 2005

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

Re: Draft Audit Reports Entitled: Other Than Personal
Services Expenditures of Schools within the
Department of Education's Regional Operation
Centers

Dear Mr. Brooks:

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

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

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


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

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

Attachment II: Summary of Management Implementation Strategies.

Attachment III: ROCs responses to individual findings.

Sincerely,



Kathleen Grimm
Deputy Chancellor for Finance and Administration

KG:

Enclosures

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

Attachment I

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

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

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

Action Implemented: Automated Approval Process:

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

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

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

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

Finding #2: Lack of purchase bidding documents

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

Actions Implemented:

Change in levels of Purchasing Authority

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

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

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

Recommendation: ROC should obtain written justification for sole source purchase

Action Implemented:

A. Systems Enhancement

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

B. Changes in ROC approval level

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

Finding # 4: Lack of certification before payment of invoices

Recommendation: ROCs should ensure certification before payment of invoices.

Action Implemented: Automated Certification of Delivery- Portal Enhancement

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

Attachment II

ROC Management Action Plan:

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

Department-wide Initiative

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

Attachment III

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

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

Audit Implementation Plan Form A

PAGE 1 OF 4

RESPONSE DATE: 3/30/05

AUDIT TITLE: OTPS Expenditures of Schools within the DOE Regions 6 and 7
AUDITING AGENCY: The City of New York Office of the Comptroller
DIVISION: Bureau of Management Audit
DRAFT REPORT DATE: March 23, 2005
AUDIT NUMBER: MH05-069A

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

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

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

Of the forty-two documents sampled, four purchases were cited for our not having obtained proper certification of delivery. As the report indicates, these four were submitted at our exit conference. As previously mentioned at our exit conference, we had a skeleton staff present while the auditors were here during winter recess 2004. Had we been apprised of the missing documentation at that time, it would have been provided much sooner than at the March exit conference. Certification of Delivery for each for each item was provided demonstrating adherence to the SOPM. Had the documentation been accepted, there would not have been any findings in this area. We believe we are in compliance with this recommendation. The DOE is moving toward implementing on-line certification in the near future to ensure full compliance. In addition, we will be reinforcing with our schools and staff the importance of having certification documentation for goods and services.

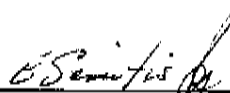
IMPLEMENTATION DATE

Although this is an ongoing process, we anticipate on-line certification being in place by May 2005.

RESPONSIBILITY CENTER

Staten Island Regional Operations Center -- Regions 6 and 7.

Signature:



Print Name: Espi Semetis



Date

Print Title: Director, Staten Island Regional Operations Center (ROC)

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

Audit Implementation Plan Form A

PAGE 2 OF 4

RESPONSE DATE: 3/30/05

AUDIT TITLE: OTPS Expenditures of Schools within the DOE Regions 6 and 7
AUDITING AGENCY: The City of New York Office of the Comptroller
DIVISION: Bureau of Management Audit
DRAFT REPORT DATE: March 23, 2005
AUDIT NUMBER: MH05-069A

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

ROC officials should ensure that:

Recommendation #2

School officials provide written justification for all sole-source purchases, in accordance with SOPM. The ROC should approve this documentation before approving such purchases.

Recommendation #3

Sole-source purchases are approved by the OPM Administrator when required.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

It was believed, based on the regulations communicated to the ROCs in FY 03-04, that all sole-source purchases between \$5,000.01 and \$15,000.00, including commodities and professional services, were to be decided upon by the ROCs without the necessity of OPM involvement. Now that it is clear that the regulations governing procurement of sole source items differ for professional services in contrast to commodities, we will ensure strict compliance with the procedures requiring approval of proposed sole source professional services orders, above \$5,000, by the OPM Administrator. ROC contract officers and staff have been directed to implement a closer review of all sole source purchases above \$5,000 to ensure that they are in compliance with Standard Operating Procedure requirements.

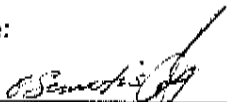
IMPLEMENTATION DATE

March, 2005

RESPONSIBILITY CENTER

Staten Island Regional Operations Center – Regions 6 and 7.

Signature:



Print Name: Espi Semetis

4/4/05

Date

Print Title: Director, Staten Island Regional Operations Center (ROC)

NEW YORK CITY DEPARTMENT OF EDUCATION
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Audit Implementation Plan Form A

PAGE 3 OF 4

RESPONSE DATE: 3/30/05

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AUDIT NUMBER: MH05-069A

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

ROC officials should:

Recommendation #4

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

Recommendation #5

Maintain copies of bid documentation

Recommendation #6

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

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

Although one purchase had no bids on file at the ROC, proper procedures were followed at the school which did have the bids on file. It is possible that the bids were lost in our files. Therefore, steps have been taken at the ROC to ensure the integrity of our filing system. Additionally, we have stressed and will continue to stress in upcoming trainings to schools that contracted vendors should be used wherever possible and that if there is a need to purchase from non-contracted vendors, bids must be obtained. For all purchases exceeding \$5,000, bids must be forwarded to the ROC prior to approval of the purchase order. Any bids received from vendors above \$10,000 must be sealed and read at a public opening. ROC procurement team members have also been made aware of the need to review bid documentation more closely prior to approval to ensure compliance.

IMPLEMENTATION DATE

School Based Training – March '05

RESPONSIBILITY CENTER

Staten Island Regional Operations Center – Regions 6 and 7.

Signature:



Print Name: Espi Semetis



Date

Print Title: Director, Staten Island Regional Operations Center (ROC)

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

Audit Implementation Plan Form A

PAGE 4 OF 4

RESPONSE DATE: 3/30/05

AUDIT TITLE: OTPS Expenditures of Schools within the DOE Regions 6 and 7
AUDITING AGENCY: The City of New York Office of the Comptroller
DIVISION: Bureau of Management Audit
DRAFT REPORT DATE: March 23, 2005
AUDIT NUMBER: MH05-069A

A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED

Recommendation #7

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

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

ROC staff continuously stress to schools the need to seek approval prior to procuring any goods or services whether or not ROC approval is required. This topic is discussed at monthly Principal Conferences, trainings, and through various correspondences with school personnel.

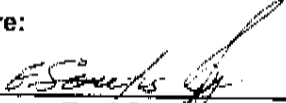
IMPLEMENTATION DATE

Training Sessions- March 05.

RESPONSIBILITY CENTER

Staten Island Regional Operations Center – Regions 6 and 7.

Signature:



Print Name: Espi Semetis



Date

Print Title: Director, Staten Island Regional Operations Center (ROC)