

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 4 and 5

MD05-067A

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 4 and 5. 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: MD05-067A
Filed: May 4, 2005

Table of Contents

AUDIT REPORT IN BRIEF

Audit Findings and Conclusions 1
Audit Recommendations..... 2

INTRODUCTION..... 3

Background..... 3
Objective.....4
Scope and Methodology.....4
DOE Response.....5

FINDINGS AND RECOMMENDATIONS

Lack of Certification of Delivery for Goods or Services..... 7
 Recommendation..... 8
 DOE Response..... 8

Lack of Written Justification and OPM Approval
For Sole-Source Purchases..... 8
 Recommendations.....9
 DOE Response.....9

Lack of Purchase Bidding Documents.....9
 Recommendations.....10
 DOE Response.....10

Services Not Rendered Prior to Payment of Invoices.....10
 Recommendation.....10
 DOE Response.....11

Inadequate Segregation of Duties.....11
 Recommendations.....11
 DOE Response.....11

ADDENDUM I – DOE Response

ADDENDUM II – ROC Response

*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 4 and 5**

MD05-067A

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 4 and 5 that require Regional Operations Center (ROC) approval.

Audit Findings and Conclusions

Based on the documentation provided, we found that officials of the ROC and schools of Regions 4 and 5 generally did follow DOE's procurement policies and procedures for purchases that required ROC approval. Specifically:

- Other Than Personal Services (OTPS) purchases were reasonable and necessary for the operation of the schools. Equipment items purchased were found to be in use at the schools;
- Purchase orders were properly prepared and contained appropriate authorizations;
- Vendor invoices were on file to substantiate the amount paid; and
- Funds were encumbered before receipt of goods and services.

However, our review disclosed the following weaknesses:

- ROC officials did not receive required certification of delivery for three (8%) of 37 sampled purchases before processing their payments.
- ROC officials did not ensure that there was adequate written justification or approval from the Administrator of OPM (the DOE Office of Purchasing Management) for two of the nine sole-source purchases in our sample.

- For two (33%) of the six sampled purchases of goods and services for which schools were required to obtain written bids, ROC employees approved the related purchase orders without receiving the bidding documentation to support the purchases.
- The ROC processed two payments for services, totaling \$25,500, before the services were rendered.
- The ROC did not adequately segregate the responsibilities for approving purchase orders from processing payments for vendor invoices. In addition, there was a lack of supervision over the ROC invoice processing function.

Based on our findings, we make eight 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 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 the DOE's on-line Fastrack Ordering System (Fastrack) for general supplies, textbooks, computer and audio-visual software, athletic supplies, and other items currently available under requirement contracts with 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 in Queens for Regions 4 and 5, the focus of this audit, is responsible for fiscal oversight of the schools within those regions. As of December 31, 2003, there were approximately 196,000 students in 213 schools in the two regions. During Fiscal Year 2004, OTPS expenditures for schools in the two regions were approximately \$26 million. Fiscal Year 2004 OTPS expenditures that required ROC approval were approximately \$9 million.

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 Regions 4 and 5 that required 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 22, 2002; and
- relevant DOE memoranda and newsletters posted on DOE's Web site.

To obtain an overview of the school purchasing process we reviewed a draft of the School Procurement Process flowchart from DOE's 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 4 and 5. During Fiscal Year 2004, there were 119 OTPS

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

purchases totaling approximately \$3 million for 16 schools that had five or more purchases for goods and services that exceeded the monetary limit for ROC purchase approval. We randomly selected six out of the 16 schools (three schools were selected from each region). We reviewed all of the 37 purchase orders, totaling \$969,567, at our six sampled schools.

We visited the schools from November 10 to December 2, 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;
- Documentation showing that professional services paid for were actually received.

We also determined whether equipment items purchased was 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 4 and 5 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.

DOE Response

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 on March 2, 2005, and was discussed at an exit conference held on March 14, 2005. We submitted a draft report to DOE officials on March 23, 2005, with a request for comments. We received a written response from DOE officials on April 6, 2005.

In their comments, DOE officials 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 texts of the DOE responses are included as addenda to this report.

FINDINGS AND RECOMMENDATIONS

Based on the documentation provided, we found that officials of the ROC and schools of Regions 4 and 5 generally did follow DOE's procurement policies and procedures for purchases that required ROC approval. Specifically:

- OTPS purchases were reasonable and necessary for the operation of the schools. Equipment items purchased were found to be in use at the schools;
- Purchase orders were properly prepared and contained appropriate authorizations;
- Vendor invoices were on file to substantiate the amount paid; and
- Funds were encumbered before receipt of goods and services.

However, our review disclosed the following weaknesses:

- ROC officials did not receive required certification of delivery for three (8%) of 37 sampled purchases before processing their payments.
- ROC officials did not ensure that there was adequate written justification or approval from the Administrator of OPM for two of the nine sole-source purchases in our sample.
- For two (33%) of the six sampled purchases of goods and services for which schools were required to obtain written bids, ROC employees approved the related purchase orders without receiving the bidding documentation to support the purchases.
- The ROC processed two payments for services, totaling \$25,500, before the services were rendered.
- The ROC did not adequately segregate the responsibilities for approving purchase orders from processing payments for vendor invoices. In addition, there was a lack of supervision over the ROC invoice processing function.

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 three (8%) of 37 sampled purchases for goods before processing their payments.

During school visits, we confirmed that all of the three purchases for goods were delivered. In addition, at our exit conference, ROC officials provided to us certification of deliveries for these items, which were faxed to them by the schools after payments were

processed. Based on the documentation provided, we noted that for one of the cited purchases, the ROC official processed the related invoice for payment on December 10, 2003, before its receipt date of January 2004, as signed by the receiver at the school.

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 procedure is also shown 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.

Recommendation

ROC officials should:

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

DOE Response: “Our office will reemphasize these rules to both our staff and school officials throughout our ongoing trainings. Additionally, the department is implementing an automated system to certify delivery which will be implemented in May 2005.”

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

ROC officials did not ensure that there was adequate written justification or approval from the Administrator of OPM for two of the nine sole-source purchases in our sample.

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

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

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. DOE officials informed us that as part of OPM's approval process, it verifies that the item or service can only be purchased from one vendor.

At our exit conference, we received copies of e-mails stating that the dollar limit for the requirement of OPM approval had increased from \$5,000 to \$15,000. However, since this policy change was not formally written or approved, we did not consider it an official policy change; therefore, we have not changed our statistics.

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

Recommendations

ROC officials should ensure that

2. School officials provide written justification for all sole-source purchases not approved by OPM, in accordance with the SOPM. The ROC should review this documentation before approving such purchases.
3. Sole-source purchases are approved by the OPM Administrator when required.

DOE Response: "The ROC Contract Officers and staff have been reminded to follow the procedures identified in SOPM relating to sole-source services.

"To resolve the issue of whether the ROC's have sole-source approval power between \$5,000-\$15,000, the SOPM has been officially changed indicating this on February 2005 for 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 (33%) of the six sampled purchases of goods and services for which schools were required to obtain written bids, ROC employees approved the related purchase orders without receiving the bidding documentation to support the purchases.

The SOPM requires that for non-contracted purchases greater than \$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."

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

One of our cited purchases showed that one of its three written bids was solicited by a school designee after he submitted the purchase order, including the selected vendor's name, to the ROC for approval. Clearly solicitation of bids after a vendor has been selected is not 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.
5. Maintain copies of bid documentation.

DOE Response: "Staff have been reminded that approval of any non-contracted purchase greater than \$5,000 must have proper bid documents prior to the approval of the aforementioned PO's and that these documents must be maintained in the file.

"Proper bidding procedures have been reinforced during the training sessions conducted at ROC and will be reinforced again at future training sessions."

Services Not Rendered Prior to Payment of Invoices

The ROC processed two payments for services, totaling \$25,500, before the services were rendered.

According to the SOPM, "Services must be rendered prior to payments to vendors unless unique circumstances require prepayments. FMCs should continue to issue memoranda to schools advising them of such."

The two cited purchases were for workshops held on August 30 and 31, 2004. The principal certified that services were delivered by signing the purchase orders on June 28, 2004, and submitting them to the ROC. A ROC official, upon receipt of the invoices and the signed purchase orders certifying delivery, processed the payments on July 15, 2004, six weeks before the services were actually rendered.

Recommendation

6. ROC officials should ensure that services are rendered prior to payment of invoices.

DOE Response: “It was reinforced with all ROC procurement staff during training and was reinforced with school staff that no payments are to be issued prior to rendering of services.”

Inadequate Segregation of Duties

For six (17%) of the 37 sampled payments, the same ROC official approved the purchase orders and processed the invoices for payment. In addition, there was no supervision over the ROC invoice processing function.

Comptroller’s Directive #1—Internal Controls—states that to “minimize the possibility of inefficiency, errors, and fraud, responsibility for a sequence for related operations should be divided among two or more persons. . . . Key duties and responsibilities in authorizing, processing, recording, reviewing transactions and safeguarding assets should be separated among individuals.”

Segregating responsibilities would enhance the internal controls, ensure that all purchases are reasonable and appropriate, and reduce the scope for error or fraud. In addition, without supervisory review over the invoice processing function, accurate data entry is not assured. For instance, the ROC incorrectly posted in FAMIS four payments for services, totaling \$20,712, to Public School 78 instead of Public School 111, which received the services.

Recommendations

ROC officials should ensure that

7. The responsibilities for approving purchase orders and processing invoices for payment are segregated among different employees.

DOE Response: “We have reinforced with ROC staff that those approving non-contracted purchases greater than \$5,000 and contracted purchases greater than \$15,000 should not approve the payments.”

8. Supervision exists over the invoice processing function.

DOE Response: “We will continue monitoring the process to ensure proper supervision of the ROC invoicing process.”



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.

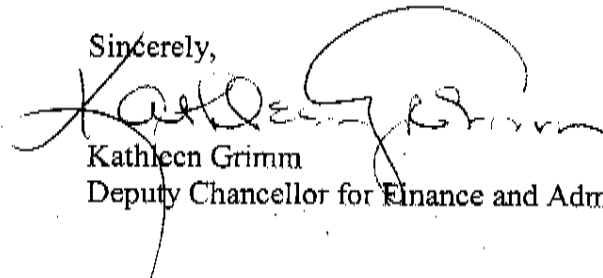
Several of the recommendations in the audit reflect areas where the ROCs, OAG, and DFO identified and have made provisions for needed change. The internal recommendations and changes were identified as a result of a review of the procurement processes conducted by the OAG in the fall '03. This review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

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.

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

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

ADDENDUM II
Page 1 of 8

Audit Implementation Plan Form A

PAGE 1 OF 8

RESPONSE DATE: March 30, 2005

AUDIT TITLE: OTPS Expenditures of Schools within the DOE Regions 4 and 5
AUDITING AGENCY: NYC Office of the Comptroller
DIVISION: Bureau of Management Audit
DRAFT REPORT DATE: March 23, 2005
AUDIT NUMBER: MD05-067A

A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED

Recommendation #1: Obtain certification of delivery of goods and services prior to payment of invoices.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

In response to the finding that ROC officials did not receive certification of delivery for 3 (8%) of 37 sampled purchases of goods before processing payments, it should be noted that it has always been the policy of the Regional Operation Centers to document all purchases with signed proof of delivery before payments are processed. An exception to this is indicated in a September 2000 policy memorandum issued by Department of Financial Operations authorizing the payment of invoices without certification for contracted vendors (see attachment). It also should be noted that it is sometimes challenging to obtain signed documentation on delivery of goods and services from the amount of schools that we service. At times some of the documents and files may have been misplaced or not received after the school confirmed delivery.

Furthermore, there are instances in which we contact the school directly in order to ascertain delivery of goods and services. Upon verbal confirmation we pay the invoice and then follow-up with the school to obtain the actual documentation of the delivery.

As mentioned in the audit report, the three purchase orders cited were documented with proof of delivery and copies of these documents were provided to the auditors at the March 14, 2005 exit conference. Therefore, based upon the statistics used in the report, the ROC would have properly documented 37 of 37 purchases and followed proper SOPM rules and regulations.

In the case where ROC officials processed the related invoice for payment on December 2003 before its receipt date of January 2004, this occurred because two purchase orders were produced for the same product and for the same amount as follows:

PO #	Invoice #	Amount	Invoice Date	Payment Date	Date Item Received
WO0400464	63110	\$13,189.65	12/19/03	12/10/03	12/03
WO0400698	62364	\$13,189.65	12/04/03	12/30/03	12/23/03

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

ADDENDUM II
Page 2 of 8

Audit Implementation Plan Form A

PAGE 2 OF 8

For this reason, there was confusion as to which order was received first and which was signed first. Both were received in December 2003 but the second order (PO# WO0400698) was not re-confirmed for signature until January 2004.

However, in order to continue our efforts to follow proper procurement guidelines and always obtain certification of delivery of goods and services prior to payment of invoices, our office will reemphasize these rules to both our staff and school officials throughout our ongoing trainings. Additionally, the department is implementing an automated system to certify delivery which will be implemented in May 2005.

IMPLEMENTATION DATE

The ROC currently practices and follows the recommendation set forth above.

RESPONSIBILITY CENTER

Queens Plaza North Regional Operations Center

Signature:



Print Name: Sandy Brawer

4/6/05
Date

Print Title: Director of Regional Operation Centers 4 & 5

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

ADDENDUM II
Page 3 of 8

Audit Implementation Plan Form A

PAGE 3 OF 8

RESPONSE DATE: March 30, 2005

AUDIT TITLE: OTPS Expenditures of Schools within the DOE Regions 4 and 5
AUDITING AGENCY: NYC Office of the Comptroller
DIVISION: Bureau of Management Audit
DRAFT REPORT DATE: March 23, 2005
AUDIT NUMBER: MD05-067A

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

Recommendation #2: School officials provide written justification for all sole-source purchases not approved by OPM, in accordance with the SOPM. The ROC should review this documentation before approving such purchases.

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

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

In the case of the five sole-source purchase stated in the audit report where we did not obtain adequate written justification from Office of Purchasing Management (OPM), we were following regulations communicated to the ROCs in FY 03-04. The regulation states 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 ROC's without the necessity of OPM involvement.

Furthermore, the ROC' officials depend heavily on OPM for its procurement expertise. They also rely on OPM's experienced buyers to secure vendors for the procurement needs of the Department's schools. This eliminates a duplication of effort at the Department.

At the exit conference we submitted further documentation in support of the sole-source purchases. It is unclear as to which five of the nine PO's in the sample are still being cited. Therefore, we will respond on all of them.

Five sole-source vendors stated in the audit report have been approved by OPM. For one of the PO's cited, Aviation High School did obtain OPM sole source approval prior to encumbering the PO. The letter from OPM approved several vendors at one time. Subsequently the letter was misfiled at the school and the ROC. A copy of the letter is attached for your reference.

However, it is important to note that 3 of the 4 remaining items sampled 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." The vendor, National Center on Education and the Economy (NCEE) was named in the grant to provide their instructional model to the schools. In order to support the model and ensure the integrity of the services the schools were expected to purchase materials and attend workshops designed and offered by NCEE.

Further, these same items met the condition for sole source. The SOPM states sole source exists "when a vendor, for very specific reasons, is identified as the only feasible source...use of copyrighted materials." National Center on Education and the Economy has copyrighted their model and materials thus are the only authorized distributor.

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

ADDENDUM II
Page 4 of 8

Audit Implementation Plan Form A

PAGE 4 OF 8

The last purchase was for a vendor whose listing application expired in June 2003 and they were in the process of renewing their contract. OPM provided instructions to encumber a PO using sole-source. The vendor has since secured a renewed contract as a sole-source vendor.

The ROC Contract Officers and staff have been reminded to follow the procedures identified in SOPM relating to sole-source services.

To resolve the issue of whether the ROC's have sole-source approval power between \$5,000-\$15,000, the SOPM has been officially changed indicating this on February 2005 for commodities. 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

Upon being notified in FAMIS of entry by a school, the Contract Officer will review the documents to ensure that there is adequate documentation for the designation of sole-source. Those items greater than \$15,000 and professional services above \$5,000 will be directed to OPM.

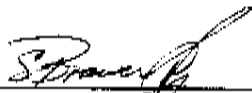
IMPLEMENTATION DATE

March 2005: ROC Internal Procedures
May – September 2005: Updated training for schools.

RESPONSIBILITY CENTER

Queens Plaza North Regional Operations Center

Signature:



Print Name: Sandy Brawer

4/6/05
Date

Print Title: Director of Regional Operation Centers 4 & 5

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

ADDENDUM II
Page 5 of 8

Audit Implementation Plan Form A

PAGE 5 OF 8

RESPONSE DATE: March 30, 2005

AUDIT TITLE: OTPS Expenditures of Schools within the DOE Regions 4 and 5
AUDITING AGENCY: NYC Office of the Comptroller
DIVISION: Bureau of Management Audit
DRAFT REPORT DATE: March 23, 2005
AUDIT NUMBER: MD05-067A

**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.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

Staff have been reminded that prior to approval of any non-contracted purchase greater than \$5,000 must have proper bid documents prior to the approval of the aforementioned PO's and that these documents must be maintained in the file.

Proper bidding procedures have been reinforced during the training sessions and school personnel conducted at ROC and will be reinforced again at future training sessions.

IMPLEMENTATION DATE

March 2005: ROC Reminder
June 2004 – June 2005: Training for schools.

RESPONSIBILITY CENTER

Queens Plaza North Regional Operations Center

Signature:



Print Name: Sandy Brawer

4/4/05
Date

Print Title: Director of Regional Operation Centers 4 & 5

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

ADDENDUM II
Page 6 of 8

Audit Implementation Plan Form A

PAGE 6 OF 8

RESPONSE DATE: March 30, 2005

AUDIT TITLE: OTPS Expenditures of Schools within the DOE Regions 4 and 5
AUDITING AGENCY: NYC Office of the Comptroller
DIVISION: Bureau of Management Audit
DRAFT REPORT DATE: March 23, 2005
AUDIT NUMBER: MD05-067A

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

Recommendation #6: ROC Officials should ensure that services are rendered prior to payment of invoices.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

In the case of the two payments for services cited in the report that were paid prior to rendering of the services, these items were included in a grant that ended June 30, 2004 and the school believed would not rollover. In order to not lose the funding and critical Professional Development services for the teachers, the school had to pay in advance in order to reserve the seats in the upcoming year.

It was understood that since this vendor was due a large sum of funds in the current year for a existing contract; and therefore should the staff development not take place, recouperment of the funds could occur. These were the only two instances that had such situations in all of the payments made for the 37 sampled PO's. Therefore, barring these extenuating circumstances, the ROC did fully comply with the recommendation that services are rendered prior to payment.

However, it was reinforced with all ROC procurement staff during training and was reinforced with school staff that no payments are to be issued prior to rendering of services.

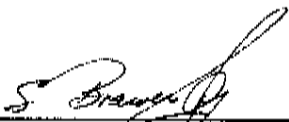
IMPLEMENTATION DATE

March 2005: ROC Internal Procedures
May 2004 – September 2005: Updated training at ROC

RESPONSIBILITY CENTER

Queens Plaza North Regional Operations Center

Signature:



Print Name: Sandy Brawer

4/6/05
Date

Print Title: **Director of Regional Operation Centers 4 & 5**

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

ADDENDUM II
Page 7 of 8

Audit Implementation Plan Form A

PAGE 7 OF 8

RESPONSE DATE: March 30, 2005

AUDIT TITLE: OTPS Expenditures of Schools within the DOE Regions 4 and 5
AUDITING AGENCY: NYC Office of the Comptroller
DIVISION: Bureau of Management Audit
DRAFT REPORT DATE: March 23, 2005
AUDIT NUMBER: MD05-067A

A. RECOMMENDATION WHICH THE AGENCY
HAS IMPLEMENTED

ROC officials should ensure that:

Recommendation #7: The responsibilities for approving purchase orders and processing invoices for payment are segregated among different employees.

Recommendation #8: Supervision exists over the invoice processing function.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

It is the practice of all ROC's to implement a segregation of duties policy with regards to procurement functions. The cited situation only occurred with respect to the new Portal computerized encumbering system, being transitioned into the DOE during the 2003/04 school year. This issue has been addressed and should not occur in the future.

The segregation of duties policy was been implemented at the end of the 2003-2004 year. The issue was discovered by the ROC and addressed as soon as it was found. We will continue monitoring the process to ensure proper supervision of the ROC invoicing process. We will also continue to train all the staff in order to assure proper adherence to guidelines.

The case cited in the report, in which four payments were made to PS 78Q instead of PS 111Q, did not result in any overpayment of services to the vendor. The original PO was for \$92,341 for the services offered by vendor to three different schools (PS 78, PS 92, and PS 111). First, four payments were incorrectly posted to PS 78 instead of PS 111. As additional invoices were received the error was discovered by ROC staff and the remaining payments were made against PS 111.

We have reinforced with ROC staff that those approving non-contracted purchases greater than \$5,000 and contracted purchases greater than \$15,000 should not approve the payments.

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

ADDENDUM II
Page 8 of 8

Audit Implementation Plan Form A

PAGE 8 OF 8

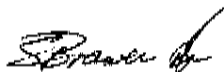
IMPLEMENTATION DATE

March 2005: ROC Implementation

RESPONSIBILITY CENTER

Queens Plaza North Regional Operations Center

Signature:



Print Name: Sandy Brawer

4/5/05
Date

Print Title: Director of Regional Operation Centers 4 & 5