

# AUDIT REPORT



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

## **Audit Report on Other Than Personal Services Expenditures of Schools Within the Department of Education Regional Operations Center for Region 3 and District 75**

*FP05-077A*

**May 4, 2005**



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

WILLIAM C. THOMPSON, JR.  
COMPTROLLER

**To the Citizens of the City of New York**

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter and Article 52-A, §2590m, of the New York State Education Law, my office has examined Other Than Personal Services expenditures of schools within the Department of Education (DOE) Regional Operations Center (ROC) for Region 3 and District 75 (Citywide Special Education). The audit determined whether DOE procurement policies and procedures were followed for purchases made by schools in Region 3 and District 75 that required ROC approval.

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

Audits such as this provide a means of ensuring that DOE purchasing procedures are being followed and that government funds are being used appropriately and in the best interest of the public.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at [audit@Comptroller.nyc.gov](mailto: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/gr

**Report: FP05-077A**  
**Filed: May 4, 2005**

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

**Audit Report on Other Than Personal Services Expenditures  
Of Schools within the Department of Education Regional  
Operations Center for Region 3 and District 75**

**FP05-077A**

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**AUDIT REPORT IN BRIEF**

The audit determined whether Department of Education (DOE) procurement policies and procedures were followed for purchases made by schools in Region 3 and District 75 (Citywide Special Education) that required Regional Operations Center (ROC) approval.

With the exception of sole-source purchases, DOE's procurement policies and procedures were generally followed for goods and services purchased by schools in Region 3 and District 75 (Citywide Special Education) that required ROC approval. Specifically,

- OTPS purchases were reasonable and necessary for the operation of the schools. 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
- Purchase files contained documentation indicating that goods and services were actually received.

With regard to sole source purchases, the audit disclosed that there was no documentation in the files of three schools and the ROC to justify five purchases of goods and services totaling \$47,436 using the sole-source method. In addition, purchase documents for the five purchases lacked the required approval of DOE's Office of Purchasing Management. The audit also disclosed one instance where the ROC improperly processed a payment for services, totaling \$6,000, before the services were rendered. Moreover, the ROC did not authorize this purchase until April 1, 2004—one month after the provision of services began.

We recommend that ROC officials ensure that:

- 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.
- Sole-source purchases above \$5,000 are approved by the OPM Administrator.
- All goods be delivered and services rendered before payment of invoices, in accordance with the SOPM.
- Approval be granted prior to the purchase of goods and services.

## INTRODUCTION

### Background

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

There are several methods by which individual schools can purchase goods and services. Items can be procured through 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).<sup>1</sup> 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 3 and District 75, which is the subject of this audit, is responsible for fiscal oversight of the schools within those regions. As of December 31, 2003, there were approximately 147,852 students in 200 schools in Region 3 and District 75. For Fiscal Year 2004, there were 192 OTPS purchases for Region 3 and District 75 that required ROC approval;

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<sup>1</sup> FAMIS links all financial accounting transactions, from budgeting and procurement to payment.

they totaled approximately \$11 million. The 192 OTPS purchases were attributable to 96 of the 200 schools.

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

### **Objective**

The objective of this audit was to determine whether DOE procurement policies and procedures were followed for purchases made by schools in Region 3 and District 75 that required ROC approval.

### **Scope and Methodology**

The scope 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 the DOE Division of Financial Operations and the administrators of the DOE 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,<sup>2</sup> 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 Region 3 and District 75. For Region 3, we judgmentally selected three out of the 69 schools with purchases for goods and services that required ROC approval. We reviewed all 14 purchases at the three selected schools totaling \$204,755. For District 75, we selected six of the 27 schools with purchases of goods and services that required ROC approval. The six schools had seven purchases totaling \$82,950. We judgmentally selected the one school that had two purchases requiring ROC approval and five of the 26 remaining schools with one purchase each that required ROC approval. In total, we reviewed 21 purchases, totaling \$287,705, at the nine sampled schools, which included five sole-source purchases and 16 purchases from contracted vendors. Ninety-six schools in Region 3 and District 75 had 192 purchases that exceeded the monetary limit for ROC purchase approval; they totaled approximately \$11 million dollars for Fiscal Year 2004.

We visited the schools from November 30 to December 20, 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 determined whether the items purchased were on hand. Since ROC officials are responsible for reviewing compliance with DOE bidding requirements, confirming receipt of items purchased, and authorizing payments, we reviewed the ROC's files to determine whether they contained: vendor invoices; appropriate bidding documentation; and certifications from school officials that goods and services purchased were actually received.

The results of the above tests, while not projectable to all Region 3 and District 75 schools whose purchases required ROC approval, provided a reasonable basis to assess

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

compliance with DOE purchasing procedures.

\* \* \* \*

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

### **Discussion of Audit Results**

The matters covered in this report were discussed with DOE officials during and at the conclusion of this audit. A preliminary draft report was sent to DOE officials on March 2, 2005, and was discussed at an exit conference held on March 15, 2005. We submitted a draft report to DOE officials on March 23, 2005, with a request for comments. We received a written response from DOE officials on April 6, 2005.

In their comments, DOE officials generally agreed with the audit's findings and described the steps that they have taken or will take to address the audit's recommendations. DOE officials also stated, "Given that this was a huge transition year for the Department, we are pleased to see that the reports recognize the work that is being done by the ROCs...."

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



## FINDINGS AND RECOMMENDATIONS

With the exception of sole-source purchases, DOE's procurement policies and procedures were generally followed for goods and services purchased by schools in Region 3 and District 75 (Citywide Special Education) that required ROC approval. Specifically,

- OTPS purchases were reasonable and necessary for the operation of the schools. 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;
- Purchase files contained documentation indicating that goods and services were actually received.

However, we did find several instances of noncompliance with DOE procedures relating to sole-source purchases, which are discussed in the following sections of the report.

### **Lack of Documentation to Support Sole-Source Purchases**

There was no documentation in the files of three schools and the ROC to justify the procurement of goods and services totaling \$47,436 using the sole-source method.<sup>3</sup> The five sole-source purchases (which represent all of the sole-source purchases we reviewed) were for school workshops, desks and chairs, software, musical instruction, and gym equipment (e.g., a free-standing tower). 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."

The files lacked evidence that any of the above requirements were met for the five sole-source purchases examined. Therefore, we were unable to determine whether it was appropriate to use the sole-source method for these purchases or whether these purchases should have been competitively bid. Moreover, the SOPM states that for sole-source purchases of commodities

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<sup>3</sup> The schools are the Manhattan Occupational Training Center (Manhattan), Hillside Psychiatric Hospital PS 23 (Queens), Public School 40 (Queens), and Public School 80 (Queens).

and purchases exceeding \$5,000, approval from the Administrator of the OPM is required. However, the purchase documents for the five purchases lacked OPM approval.

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

In addition, we were provided other e-mails that contained conflicting information regarding OPM approval. Therefore, we maintain that the purchases mentioned above should have been approved by the OPM Administrator.

### **Recommendations**

The ROC should ensure that school officials:

1. Provide written justification for all sole-source purchases, in accordance with the SOPM. The ROC should review this documentation before approving such purchases.
2. Obtain the approval of the OPM Administrator for sole-source purchases in accordance with the SOPM.

***ROC Officials' Response:*** "In the case of the five (5) sole-source purchases cited in the audit report, 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 and the SOPM has been updated, we will ensure strict compliance with the procedures requiring approval of proposed sole source professional services orders, above \$5,000, by the OPM Administrator.

"The ROC Contract Officers and staff have been directed to implement specific internal controls for any request for purchases of 'professional services' at a cost above \$5,000 identified by the school as sole source. As suggested by the auditors this may include:

- Letter from the school principal justifying the request for the sole source designation.
- Results of any internet or other searches conducted to locate alternate vendors.
- Other relevant attachments; e.g., copies of vendor-supplied materials describing the services.

- If the Contract Officer’s research concludes with the determination that there is ample justification for OPM to declare the vendor sole-source, the Contract Officer will transmit the packet to the OPM Administrator for review and final decision.

“In our training programs with principals and school operations liaisons on procurement, for the 2005-2006 school year, we will incorporate revised materials emphasizing that a school is required to undertake systematic steps prior to encumbering any sole-source professional service order. The procedures outlined above are designed to document that the vendor, for very specific reasons, is the only feasible source for obtaining the services and, therefore, may be requested to be declared exempt from the competitive bidding process. Through more intensive training in the sole source regulations, we will ensure that sole source requests reaching the ROC can be readily accompanied by adequate documentation addressing the SOPM’s criteria for sole source designation.”

### **Invoice Improperly Paid**

For one of the 21 sampled purchases, the ROC processed for payment a \$6,000 invoice before the services were fully rendered. The SOPM stipulates that “services must be rendered prior to payments to vendors unless unique circumstances require prepayments.” The invoice was to pay for school workshops that were held from March 1, 2004, through May 10, 2004. However, the invoice was processed for payment on April 22, 2004—three weeks before the completion date of the workshops. Moreover, we noted that the ROC did not approve this purchase until April 1, 2004—one month after the provision of services began.

### **Recommendations**

The ROC should ensure that:

3. All goods are delivered and services rendered before payment of invoices, in accordance with the SOPM.
4. Approval is granted prior to the purchase of goods and services.

***ROC Officials’ Response:*** “This recommendation pertained to one (1) order for services totaling \$6,000 encumbered by a school, for approval by the ROC, after services had actually commenced. In addition, the ROC processed full payment for the order, based on certification of delivery of full services by the school, before services were actually completed. Artistic-related services were rendered by a professional artist in an after school instructional program, funded through Project ARTS, from March 1 to May 10, 2004. The school improperly encumbered the order after the start date of March 1 instead of before, and incorrectly certified completion of all services on April 21 in advance of all services having truly been rendered.

“On March 11, 2005, the ROC Director wrote to the principal of the school. This communication informed her of the finding, reminded her of the DOE’s standard operating procedures governing school-based on-line processing of purchase orders, asked her to review and verify that her school-based internal control practices are structured to achieve 100% compliance with the DOE’s standard operating procedures for all purchases, reminded her of the potential consequences to the Approving Officer (principal) when a pattern of violations occurs, and offered assistance from ROC staff in establishing internal systems to support full compliance with operating procedures. A copy was shared with the local instructional superintendent, the principal’s direct supervisor.

“In our training programs with principals and school operations liaisons on procurement, for the 2005-2006 school year, we will re-emphasize that the commencement of services by a vendor is contingent upon prior encumbrance of a purchase order in FAMIS, approval by the ROC where required, and approval by the principal (as evidenced by the principal’s signature thereon); additionally, the principal or designee is not to certify delivery of full services, unless all services have been rendered in full.”



**THE NEW YORK CITY DEPARTMENT OF EDUCATION**

JOEL I. KLEIN, *Chancellor*

**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.

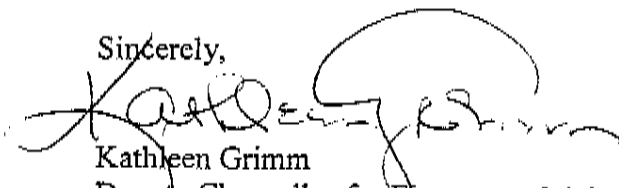
Several of the recommendations in the audit reflect areas where the ROCs, OAG, and DFO identified and have made provisions for needed change. The internal recommendations and changes were identified as a result of a review of the procurement processes conducted by the OAG in the fall '03. This review 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	Maurcen 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: March 28, 2005

AUDIT TITLE: OTPS Expenditures of Schools within the DOE Region 3 and District 75  
AUDITING AGENCY: NYC Office of the Comptroller  
DIVISION: Bureau of Management Audit  
DRAFT REPORT DATE: March 23, 2005  
AUDIT NUMBER: FP 05-077A

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

We recommend that ROC officials ensure that:

**Recommendation # 1:** 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.

**Recommendation # 2:** Sole-source purchases above \$5,000 are approved by the OPM Administrator.

**RESPONSE TO RECOMMENDATION – IMPLEMENTATION PLAN**

In the case of the five (5) sole-source purchases cited in the audit report, 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 and the SOPM has been updated, we will ensure strict compliance with the procedures requiring approval of proposed sole source professional services orders, above \$5,000, by the OPM Administrator.

The ROC Contract Officers and staff have been directed to implement specific internal controls for any request for purchases of "professional services" at a cost above \$5,000 identified by the school as sole source. As suggested by the auditors this may include:

- Letter from the school principal justifying the request for the sole source designation.
- Results of any internet or other searches conducted to locate alternate vendors.
- Other relevant attachments; e.g., copies of vendor-supplied materials describing the services.
- If the Contract Officer's research concludes with the determination that there is ample justification for OPM to declare the vendor sole-source, the Contract Officer will transmit the packet to the OPM Administrator for review and final decision.

In our training programs with principals and school operations liaisons on procurement, for the 2005-2006 school year, we will incorporate revised materials emphasizing that a school is required to undertake systematic steps prior to

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

PAGE 2 OF 4

encumbering any sole-source professional service order. The procedures outlined above are designed to document that the vendor, for very specific reasons, is the only feasible source for obtaining the services and, therefore, may be requested to be declared exempt from the competitive bidding process. Through more intensive training in the sole source regulations, we will ensure that sole source requests reaching the ROC can be readily accompanied by adequate documentation addressing the SOPM's criteria for sole source designation.

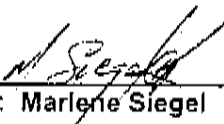
IMPLEMENTATION DATE

March 2005: ROC internal procedures  
May – September 2005: Updated training for schools

RESPONSIBILITY CENTER

Linden Place Regional Operations Center

Signature:



Print Name: Marlene Siegel

4/6/05

Date

Print Title: Director, Linden Place Regional Operations Center (ROC)

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

Audit Implementation Plan Form B

PAGE  3  OF  4

RESPONSE DATE: March 28, 2005

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

We recommend that ROC officials ensure that:

**Recommendation #3:** All goods be delivered and services rendered before payment of invoices, in accordance with the SOPM.

**Recommendation #4:** Approval be granted prior to the purchase of goods and services.

**RESPONSE TO RECOMMENDATION – IMPLEMENTATION PLAN**

This recommendation pertained to one (1) order for services totaling \$6,000 encumbered by a school, for approval by the ROC, after services had actually commenced. In addition, the ROC processed full payment for the order, based on certification of delivery of full services by the school, before services were actually completed. Artistic-related services were rendered by a professional artist in an after school instructional program, funded through Project ARTS, from March 1 to May 10, 2004. The school improperly encumbered the order after the start date of March 1 instead of before, and incorrectly certified completion of all services on April 21 in advance of all services having truly been rendered.

On March 11, 2005, the ROC Director wrote to the principal of the school. This communication informed her of the finding, reminded her of the DOE's standard operating procedures governing school-based on-line processing of purchase orders, asked her to review and verify that her school-based internal control practices are structured to achieve 100% compliance with the DOE's standard operating procedures for all purchases, reminded her of the potential consequences to the Approving Officer (principal) when a pattern of violations occurs, and offered assistance from ROC staff in establishing internal systems to support full compliance with operating procedures. A copy was shared with the local instructional superintendent, the principal's direct supervisor.

In our training programs with principals and school operations liaisons on procurement, for the 2005-2006 school year, we will re-emphasize that the commencement of services by a vendor is contingent upon prior encumbrance of a purchase order in FAMIS, approval by the ROC where required, and approval by the principal (as evidenced by the principal's signature thereon); additionally, the principal or designee is not to certify delivery of full services, unless all services have been rendered in full.

**IMPLEMENTATION DATE**

March 2005: Notification to principal of school cited  
May – September 2005: Updated training for schools

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

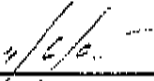
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RESPONSIBILITY CENTER  
Linden Place Regional Operations Center (ROC)

Signature:



Print Name: Marlene Siegel

  
Date

Print Title: Director, Linden Place Regional Operations Center (ROC)