

City of New York

OFFICE OF THE COMPTROLLER

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MANAGEMENT AUDIT

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Audit Report on the Department of
Education's Controls over the Small
Item Payment Process of Its Schools
within Children First Network 603

MH15-100A

March 2, 2016

<http://comptroller.nyc.gov>



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March 2, 2016

To the Residents of the City of New York:

My office has audited the New York City Department of Education (DOE) to determine whether DOE has adequate controls over the Small Item Payment Process (SIPP) transactions processed by schools within Children First Network (CFN) 603 to ensure that payments were supported and represented allowable SIPP expenditures. We conduct audits such as this to ensure that City agencies comply with applicable procurement rules.

The audit found weaknesses in DOE's controls over SIPP transactions processed by the five sampled schools from CFN 603. Specifically, the audit found that 324 (78 percent) of the 414 sampled SIPP transactions had one or more deficiencies and that these affected \$145,395 (75 percent) of the sampled expenditures during the audit period. The reviews done by the schools were insufficient to ensure that applicable procedures were followed. The audit identified multiple deficiencies, including: split transactions; unsupported SIPP transactions; duplicate payments; the use of incorrect object codes; the inappropriate payment of sales tax; and a lack of evidence that required bidding procedures were consistently followed. In addition, the audit found little evidence that CFN 603 officials ensured that adequate reviews or reconciliations of SIPP transactions of \$500 or less were conducted.

Based on the audit findings, the audit recommended that DOE ensure that split transactions are not approved or processed; that schools obtain and maintain adequate supporting documentation before approving SIPP transactions; bidding requirements are adhered to for all purchases meeting the dollar value thresholds; duplicate transactions are not approved or processed; correct object codes are used; and that New York State and City sales taxes for goods and services are not paid.

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

If you have any questions concerning this report, please email my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

Scott M. Stringer

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER MANAGEMENT AUDIT

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EXECUTIVE SUMMARY

The objective of this audit was to determine whether there were adequate controls over the Small Item Payment Process (SIPP) transactions processed by schools within Children First Network (CFN) 603 to ensure that payments were supported and represented allowable SIPP expenditures.

The New York City Department of Education (DOE) provides primary and secondary education to over one million students. Prior to May 2015, DOE operated approximately 60 CFNs designed to provide schools throughout the City with instructional and operational support. Starting in May 2015, CFNs were replaced by DOE Borough Field Support Centers (BFSCs). Much like the CFNs, BFSCs assist schools with their instructional and operational efforts, including providing financial management and human resource support.

DOE has established SIPP to facilitate the purchase and payment of non-recurring Other Than Personal Service (OTPS) items that cost up to \$5,000. A SIPP transaction provides for the disbursement of funds to pay a vendor for small incidental purchases or for the procurement of goods and services when a purchase order (PO) is not practical. It is also a mechanism that provides reimbursement to a DOE employee for the purchase of small over-the-counter items, as well as certain other small business-related expenses.

SIPPs are entered into DOE's Financial Accounting Management Information System (FAMIS) database. SIPP transactions of up to and including \$500 are supposed to be approved by the designated approver at the school, usually a principal or assistant principal. SIPP transactions of more than \$500 and up to \$2,500 must be approved at the school level by either a principal or assistant principal. These payments are then routed through FAMIS for approval by a designated official at an oversight entity, which during the audit period was a CFN and which is now a BFSC. SIPP transactions above \$2,500 through \$5,000 are required to be approved by the school, and

then routed in FAMIS for approval by both the support entity (e.g., CFN 603 for our sampled schools) and by an official in DOE's Division of Financial Operations (DFO).¹

During Fiscal Year 2014, DOE schools spent approximately \$24 million using SIPP transactions, of which \$614,634 was spent by the 24 schools supported by CFN 603. Of this amount, the five schools in the audit sample spent a total of \$388,604 (63 percent).

Audit Findings and Conclusion

This audit found weaknesses in DOE's controls over SIPP transactions processed by the five schools we sampled from CFN 603. Specifically, we found that 324 (78 percent) of the 414 sampled SIPP transactions had one or more deficiencies that affected \$145,395 (75 percent) of the sampled expenditures during the audit period.

At all five of the sampled schools, the reviews at the school level were insufficient to ensure that applicable procedures were followed. In addition, we found little evidence that CFN 603 officials ensured that adequate reviews or reconciliations of SIPP transactions of \$500 or less were conducted. As a result, we identified multiple deficiencies including split transactions (multiple individual purchases in amounts under the SIPP threshold from a vendor rather than a single purchase in order to avoid the more stringent reviews that would apply if one larger purchase was made); unsupported SIPP transactions; duplicate payments; the use of incorrect object codes; the inappropriate payment of sales tax; and a lack of evidence that required bidding procedures were consistently followed. While the amount of the expenditure made on any one occasion was \$5,000 or less, the aggregate amounts expended through SIPPs in the five sampled schools was \$388,604. Since DOE spent \$24 million system-wide during Fiscal Year 2014, the weaknesses identified could result in a significant amount of improper expenditures.

Audit Recommendations

Based on our findings, we made 16 recommendations, including the following:

- DOE should ensure that split transactions are not approved or processed.
- DOE should ensure that the schools obtain and maintain adequate supporting documentation on file prior to processing and approving SIPP requests.
- DOE should ensure that bidding requirements are adhered to for all purchases meeting the dollar value thresholds, and that appropriate bidding documentation is maintained on file to support the bidding.
- DOE should ensure that duplicate transactions are not approved or processed.
- DOE should ensure that the correct object codes are used when generating a SIPP transaction.
- DOE should ensure that school employees use the appropriate sales tax exempt certificates to avoid paying New York State and City sales taxes for goods and services procured using SIPP money. If a certificate is not used, the employee should not be reimbursed for the tax.

¹ DFO's mission is to support the administrative and instructional needs of DOE by utilizing technologies and financial systems to effectuate accurate financial reporting and cost-effective operating processes.

Agency Response

DOE generally agreed with the audit's 16 recommendations but disagreed with the finding that a SIPP transaction for a reimbursement to a principal was not approved in accordance with DOE rules. The full text of the DOE response is included as an addendum to this report.

AUDIT REPORT

Background

DOE provides primary and secondary education to over one million students in over 1,800 schools and employs approximately 75,000 teachers. In addition, DOE employs non-pedagogical employees who assist in maintaining, administering and operating the schools.

DOE has established SIPP to facilitate the purchase and payment of non-recurring OTPS items that cost up to \$5,000. A SIPP transaction provides for the disbursement of funds to pay a vendor for small incidental purchases or for the procurement of goods and services when a PO is not practical. It is also a mechanism that provides reimbursement to a DOE employee for the purchase of small over-the-counter items, as well as certain other small business-related expenses (e.g., expenses related to travel). Frequent uses of SIPPs include:

- Emergency purchases;
- Admission and conference registration fees;
- Postage;
- MetroCards for public transportation;
- Reimbursements to DOE employees for business-related expenses, including transportation and conference expenditures for staff attending non-DOE conferences or meetings; and
- Reimbursements to parents, students, or other non-DOE employees for out-of-pocket expenses, anticipated out-of-pocket expenses, or for school/office based work.

In addition, since from April through the end of each school year POs cannot be generated due to the end of DOE's encumbrance period, SIPPs are the primary payment method utilized by schools for purchases of \$5,000 or less.

Prior to May 2015, DOE operated approximately 60 CFNs designed to provide schools throughout the City with instructional and operational support, including assistance in processing SIPPs. Starting in May 2015, CFNs were replaced by DOE BFSCs, which officially began operations in July 2015. Much like the CFNs, BFSCs assist schools with their instructional and operational efforts, including providing financial management and human resource support.

SIPPs are entered into DOE's FAMIS database by a designated initiator, who is a selected individual at the school. The transactions are automatically routed through FAMIS for the required approvals based on the SIPP dollar amount. SIPP transactions of up to and including \$500 are supposed to be approved by the designated approver at the school, usually a principal or assistant principal. SIPP transactions of more than \$500 and up to \$2,500 must be approved at the school level by either a principal or assistant principal. These payments are then routed through FAMIS for approval by a designated official at an oversight entity, which during the audit period was a CFN and which is now a BFSC, providing instructional and operational support to the school.

This audit was conducted of CFN 603, which during the audit period provided support for 24 schools located in the Bronx, Brooklyn, Manhattan, and Queens.² For the purpose of the audit,

² Out of the 24 schools, 18 schools were in the Bronx and two each in Brooklyn, Manhattan, and Queens.

we selected to review the five schools in CFN 603 with the highest value of SIPP payments during Fiscal Year 2014.

SIPP transactions above \$2,500 through \$5,000 are required to be approved by the school, and then routed in FAMIS for approval by both the support entity (e.g., CFN 603 for our sampled schools) and by an official from DOE’s DFO. Employee reimbursements for travel outside the City are entered into the Travel Reimbursement and Approval Certification system (TRAC—a component within FAMIS) prior to the event. After the event, the transaction details are updated so that the employee is reimbursed using a SIPP for actual expenses incurred.

DOE’s procedures require that schools solicit multiple bids for commodities (e.g., school supplies and food) and document the bidding process for all purchases over \$250. The bids must either be received in writing from the vendor or over the telephone, in which case DOE’s *Telephone Bid Summary Form* must be used. Further, DOE’s procedures state that “when the aggregate amount, within the same fiscal year with the same vendor exceeds \$2,500 bids are required.” During Fiscal Year 2014, DOE schools spent approximately \$24 million using SIPP transactions, of which \$614,634 was spent by the 24 schools supported by CFN 603. Of this amount, the five schools in the audit sample spent a total of \$388,604 (63 percent). Table I below identifies the amounts spent by each of the five sampled schools using SIPP transactions during Fiscal Year 2014.

Table I
Value of the Fiscal Year 2014 SIPP Transactions of the Five Sampled Schools

School Name	School Code	Number of SIPPs	Value of SIPPs
High School of Computers & Technology	X275	437	\$181,181
Herbert Lehman High School	X405	351	\$66,347
Academy for Scholarship and Entrepreneurship	X270	162	\$57,017
Bronx Bridges High School	X432	370	\$52,076
Bronx High School for the Visual Arts	X418	129	\$31,984
TOTAL		1,449	\$388,604

Note: Due to rounding, numbers in each column may not add up.

Objective

The objective of this audit was to determine whether there were adequate controls over SIPP transactions processed by schools within CFN 603 to ensure that payments were supported and represented allowable SIPP expenditures.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. This audit was conducted in accordance

with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The audit scope was Fiscal Year 2014 (July 1, 2013, through June 30, 2014). Please refer to the Detailed Scope and Methodology at the end of this report for specific procedures and tests that were conducted.

Discussion of Audit Results with DOE

The matters covered in the audit were discussed with DOE officials during and at the conclusion of this audit. A preliminary draft report was sent to DOE and discussed at an exit conference held on December 21, 2015. On January 20, 2016, we submitted a draft report to DOE with a request for comments. We received a written response from DOE on February 3, 2016.

In its response, DOE generally agreed with the audit's 16 recommendations but disagreed with the finding that a SIPP transaction for a reimbursement to a principal was not approved in accordance with DOE rules.

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

FINDINGS AND RECOMMENDATIONS

This audit found weaknesses in DOE's controls over SIPP transactions processed by the five schools we sampled from CFN 603. Specifically, we found that 324 (78 percent) of the 414 sampled SIPP transactions had one or more deficiencies that affected \$145,395 (75 percent) of the sampled expenditures during the audit period. Table II, below, provides a breakdown of the sampled SIPP transactions we found at the five sampled schools and the amounts we identified with issues.

Table II
Sampled SIPP Transactions with Transaction Deficiencies at the Five Sampled Schools

School Name	Total SIPPs Reviewed	Value of SIPPs Sampled	Total SIPPs with Issues	Percent of SIPPs with Issues	Value of SIPPs with Issues	Percent of the Value of SIPPs with Issues
High School of Computers & Technology	122	\$68,767	113	93%	\$59,270	86%
Herbert Lehman High School	70	\$31,083	29	41%	\$14,639	47%
Academy for Scholarship and Entrepreneurship	112	\$46,698	106	95%	\$43,298	93%
Bronx Bridges High School	67	\$25,126	51	76%	\$16,011	64%
Bronx High School for the Visual Arts	43	\$21,979	25	58%	\$12,177	55%
TOTAL	414	\$193,652	324	78%	\$145,395	75%

Note: Due to rounding, numbers in each column may not add up.

At all five of the sampled schools, the reviews at the school level were insufficient to ensure that applicable procedures were followed. In addition, we found little evidence that CFN 603 officials ensured that adequate reviews or reconciliations of SIPP transactions of \$500 or less were conducted. As a result, we identified multiple deficiencies including split transactions (multiple individual purchases in amounts under the SIPP threshold from a vendor rather than a single purchase in order to avoid the more stringent reviews that would apply if one larger purchase was made); unsupported SIPP transactions; the inappropriate use of SIPPs; and a lack of evidence that required bidding procedures were consistently followed. While the amount of the expenditure made on any one occasion was \$5,000 or less, as noted, the aggregate amounts expended through SIPPs in the five sampled schools was \$388,604. Since DOE spent \$24 million system-wide via SIPPs during Fiscal Year 2014, the weaknesses identified could result in a significant amount of improper expenditures.

Table III, below, shows a breakdown of the types of deficiencies at the five sampled schools.

Table III
Breakdown of Transactions with Deficiencies Identified at the Sampled Schools

Deficiency	Academy of Scholarship and Entrepreneurship	Herbert Lehman High School	Bronx High School for the Visual Arts	Bronx Bridges High School	High School of Computers & Technology	Total
Missing Supporting Documentation	31	2	8	29	88	158
Required Bids Not Always Obtained	55	4	8	20	34	121
Split Transactions	58	5	2	9	58	132
Double Payments	5	0	0	1	4	10
Incorrect Use of Object Codes	10	21	14	21	69	135
Inappropriate Payment of Sales Taxes	2	2	0	1	12	17
Inappropriate Use of SIPPs	26	1	1	11	16	55
Total No. of SIPP Transactions with Deficiencies*	106	29	25	51	113	

*The number of SIPP transactions does not equal the number of deficiencies since some transactions have multiple deficiencies.

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

Inadequate Controls Over the SIPP Process

Limited Evidence of SIPP Transaction Reviews by the CFN

Our review of SIPP transactions for the sampled schools found that there was little evidence that an adequate review was conducted to ensure compliance with applicable procedures. According to DOE’s procedures, all equipment, supplies and services purchased with DOE funds must serve DOE’s educational and/or administrative programs, while complying with bidding and administrative requirements. To ensure that funds are spent responsibly, all OTPS purchase documents must be authorized by a DOE official who is required to certify that a school needs the goods and services being ordered to conduct an educational or administrative program and that they have been purchased in accordance with all DOE rules and regulations, including those pertaining to bidding and contracts. In a school, the authorizing official is usually the principal or his/her designee. According to DOE’s *OTPS Purchases SOPs* (Standard Operating Procedures), adequate supporting documentation should be on file prior to paying for goods and services.

To comply with DOE policy, CFN 603 officials informed us that each SIPP transaction over \$500 is reviewed by the CFN 603 office prior to being approved in FAMIS and that all supporting documentation is requested from the school and maintained on file by CFN 603 for six years. However, according to CFN 603 officials, since DOE policy does not require a review of SIPP

transactions \$500 or less, CFN 603 did not institute controls to ensure that SIPP transactions of \$500 or less were appropriate.

Our audit observations raised the concern that because no central review is required for purchases of \$500 or less, schools may deliberately structure their purchases to ensure that individual purchases fall at or below \$500 so as not to trigger a CFN review. During the scope period, \$317,828 (82 percent) of the \$388,604 that our five sampled schools spent through SIPPs were for transactions of \$500 or less. Consequently, there is an increased risk that the improper use of SIPPs will not be detected.

For example, we found that the High School of Computers & Technology (Computers & Technology) made 437 SIPP transactions totaling \$181,181 during our scope period, which exceeded the combined total spent by the next three highest schools we reviewed (\$175,440). One Computers & Technology employee was reimbursed \$37,190 through 91 SIPP transactions, all of which were \$500 or less. Our review found that a number of these transactions lacked sufficient supporting documentation to show that the purchases were necessary for the educational or administrative needs of the school. As a result, the transactions may not have been approved by the CFN had they been reviewed. Moreover, as discussed in the section below, many of these transactions appear to have been deliberately split, which prevented the CFN from reviewing them.

Starting in May 2015, CFNs began transitioning these responsibilities to BFSCs, which officially began operations in July 2015. Accordingly, we address our recommendations concerning the issues we found to the BFSCs.

Split Transactions Identified

Our review identified 132 split transactions (33 percent) among the five sampled schools totaling \$58,303. We considered a transaction to be split when a single purchase of goods or services with one invoice was paid using multiple SIPPs or when there were two or more purchases of the same goods or services from the same vendor on the same day or over several days, with each payment using a separate SIPP.

DOE's *OTPS Purchases SOPs* establishes the agency's policy prohibiting split purchases. The *OTPS Purchases SOP* states that "it is impermissible to attempt to circumvent the purchasing thresholds by making multiple awards [purchases] to the same vendor within the same fiscal year." In addition, in reference to "split billing," the procedure requires that employees "complete the purchase with one vendor in one transaction [and] not make multiple payments for one purchase."

However, we found evidence that purchases had intentionally been split to ensure that they fell under the \$500 review threshold. For example, at the Academy for Scholarship and Entrepreneurship (Academy), one vendor was paid a total of \$12,533 using 26 separate SIPP transactions, most of which were for exactly \$495. School officials told us that they were unaware that they could process SIPP transactions for over \$500. They acknowledged that, based on this understanding of the rules, they split the payments into multiple transactions.

The total of \$12,533 in payments to a single vendor violated DOE rules in multiple ways. Preliminarily, the required telephone bids were not solicited, although each of the 26 purchases were over \$250. In addition, as noted, since multiple \$495 dollar purchases from this single vendor appear to actually have been a single transaction, they should have been centrally

reviewed and approved by CFN 603. Further, since the multiple transactions also exceeded the \$2,500 threshold, they also required approval by the DFO. Finally, the payments to the vendor also exceeded the \$5,000 threshold requiring a PO.

The Assistant Principal who entered these SIPP transactions into FAMIS stated that she was never trained when she was assigned to her position and so she was unaware that transactions over \$250 required telephone bids or that she could make SIPP transactions over \$500. Because CFN 603 did not perform any review of SIPP transactions that were \$500 or less, it did not detect that these purchases violated DOE rules and it was unable to identify any purchases that were split in order to avoid CFN approval procedures.

Split purchases are expressly prohibited by DOE rules because they can be used to circumvent DOE's bidding requirements, which are intended to help ensure that schools are obtaining the lowest possible prices for goods and services. In addition, split transactions may circumvent the FAMIS approval policies, which require that all transactions over \$500 be approved by the school's CFN and those over \$2,500 also be approved by the DFO. These additional levels of approval are intended to help ensure that purchases are for an educational purpose and conform to purchasing regulations and procedures. By splitting transactions, these controls are negated, increasing the risk that inappropriate and unauthorized purchases could occur.

Recommendations

1. DOE should require BFSCs to periodically generate and review FAMIS reports to search for patterns of potentially inappropriate transactions of \$500 or less.

DOE Response: "The DOE agrees with this recommendation. With the reduction of the SIPP threshold requiring BFSC review and authorization from \$500 to \$250, the DOE has committed to dedicating resources to reviewing and approving transactions in excess of those the Comptroller recommended. Leveraging the knowledge the BSFC staff will garner from their review of SIPPs, the Office of Field Support (OFS) and the Division of Financial Operations (DFO) will explore if the creation of reports could be useful in identifying schools who could benefit from additional support."

2. DOE should require BFSCs to perform sample reviews of transactions of \$500 or less.

DOE Response: "The DOE agrees with this recommendation. The new SIPP threshold of \$250 goes beyond the Comptroller's recommendation and will increase the level of review of SIPP transactions by BFSC staff prior to payments being issued."

Auditor Comment: DOE's revised policy lowering the review threshold from \$500 to \$250 is a step in the right direction. However, it does not negate the risk that schools may continue to circumvent a BFSC review by simply splitting their purchases to ensure that they fall below the new threshold level. Accordingly, we urge DOE to ensure that the BFSCs perform sample reviews of transactions that fall below the new threshold level.

3. DOE should ensure that the BFSCs inform the schools regarding any issues identified when reviewing SIPP transactions of \$500 or less and assist them in improving their SIPP transaction process.

DOE Response: “The DOE agrees with this recommendation. Where improper use of SIPPs are identified at any level, BFSC will reach out to necessary school staff to remind them of the proper procedure to be followed. Additionally, BFSC staff will also work collaboratively with schools to train purchasing staff. As necessary, they will also follow up with schools as a result of reviewing SIPP reports designed by the DOE.”

4. DOE should ensure that split transactions are not approved or processed.

DOE Response: “The DOE agrees with this recommendation. The DOE’s trainings for BFSC staff has, and will continue to, include a discussion on inappropriate split transactions. If split transactions are discovered during the BFSC review, staff will follow up with schools who may have processed transactions that are not in accordance with DOE purchasing policies.”

Schools Did Not Consistently Follow Rules Governing SIPPs

Inadequate Supporting Documentation

Our review of 414 sampled SIPP transactions found that 158 (38 percent of the sampled transactions) totaling \$67,888 lacked supporting documentation (e.g., agendas, sign in sheets, receipts/invoices and proofs of payment) at the schools.³ Of the 158 SIPP transactions lacking supporting documentation, three schools were unable to locate *any* documentation for 15 transactions (nearly 10 percent) totaling \$5,486—seven from Academy, six from Computers & Technology and two from the Bronx High School for the Visual Arts (Visual Arts). Without complete supporting documentation, we were unable to determine what was actually purchased, whether the purchases were for school-related purposes, whether FAMIS object codes and payment amounts were correct, or whether sales taxes were paid.⁴ None of the three schools had an explanation for the missing documentation.

The remaining 143 SIPP transactions totaling \$62,402 where *some* documentation was available, nonetheless lacked sufficient supporting documentation, such as proof of payment (e.g., credit/debit card statements), original receipts/invoices, sign-in sheets, or agendas. Such unsupported payments included 53 SIPP transactions for the purchase of food totaling \$15,182 at four schools for various school-related events—13 at Academy; 3 at Visual Arts; 6 at Bronx Bridges High School (Bronx Bridges); and 31 at Computers & Technology. While most had supporting invoices, some were missing explanations of the events for which the food was purchased or sign-in sheets showing who attended the events.

According to DOE’s OTPS policy, adequate supporting documentation should be on file at the school prior to any payments being made for goods and services. This includes all purchase-related documentation, such as invoices, packing slips or similar records used to verify delivery and/or receipt of materials and services, as well as bid documentation. DOE rules also require that records be maintained on file for at least six years. It is the principal’s responsibility to ensure that the SIPP purchases and payments are adequately supported, and that records are properly maintained and safeguarded.

³ Agendas identify the purpose of the event paid for using SIPP transactions and sign-in sheets list the names of attendees who attended the event.

⁴ DOE public schools are exempt from sales taxes.

The following are examples of SIPP transactions we found that lacked sufficient documentation at each of the sampled schools:

Computers & Technology

1. Seven payments to three students, totaling \$3,500: Only a list of student names, the corresponding SIPP transaction numbers, and the payment amount of \$500 for each transaction were provided.
2. 27 reimbursements to one employee for multiple purchases, totaling \$11,824, including:
 - 10 SIPP reimbursements for 16 restaurant meals, totaling \$2,378, where the only supporting document was a credit card receipt. No detailed invoices or other documents were provided to show what the purpose of the purchase was, whether alcohol was provided, or whether sales tax was paid.
 - Eight reimbursements for hotel rooms in Rochester, New York, totaling \$2,266.
 - Three reimbursements for gift cards, totaling \$1,500.
3. Four reimbursements to two employees for the rental of two buses for a trip to a State park, totaling \$1,800: There was only one invoice for the total amount, with no evidence to justify the expenditure, such as what the trip was for, including an explanation of the educational purpose of the trip; no sign-in sheet showing who went on the trip; and no evidence to show whether the employees paid for the buses (the bill was addressed to Computers & Technology).
4. Six payments for entertainment services, totaling \$2,504: There was no documentation explaining the purpose of the purchases. Also, for four of the six payments, there were no invoices.
5. Three reimbursements to an employee, totaling \$1,500, who made payments to an individual who made a presentation at the school. However, there was no agenda or supporting documents to show what the presentation was about or when it was held. There was also no evidence to show that the employee actually paid for the presentation.
6. Two reimbursements to an employee for 10 hotel rooms in Oneonta, New York, for a college visit, totaling \$833: There was no documentation identifying the college visited or listing the students who went on the trip. In addition, the bill was not addressed to the employee who received the reimbursement, and there is no evidence to show that this employee had actually paid for the rooms.
7. A payment of \$2,255 for the registration of students attending a conference: There was no list of students who attended the conference and no agenda or other information about the conference.
8. Two payments, totaling \$2,685, for 103 hoodies: No documentation was provided showing who received the hoodies and the purpose of the purchase.

Herbert Lehman High School (Herbert Lehman)

1. An instance in which \$480 worth of gift cards was purchased without supporting documentation justifying the expenditure or identifying the recipients of the gift cards.

Academy

1. A payment of \$299 for a scanner: There was no invoice available. A quote for the cost of the scanner was the only documentation provided. In addition, school officials informed us that the scanner was never received.
2. Four payments for software licenses, totaling \$1,700: Screenshots showing the prices of the licenses were the only supporting documents for the purchases.

Bronx Bridges

1. Reimbursement of \$190 to one employee for 17 Yankee tickets for students: No documentation was provided showing who received the tickets and what the purpose of the purchase was.
2. Reimbursement to one employee for \$360 for 15 tickets for a play that students were studying: There was no documentation showing which students attended the play.
3. Three payments, totaling \$763, for microphone headsets needed for testing and two-way radios needed for a trip. Sales quotes were the only supporting documents for the purchases.
4. A payment of \$2,014 for a language course for two employees only had documentation for one of the employees. Therefore, \$1,007 of the payment was undocumented.
5. Two individuals were paid \$500 each using four SIPP transactions for painting work performed at Bronx Bridges. The invoices provided did not identify what was painted, what days the painting was done and how much was being charged for the work.

Visual Arts

1. A payment of \$150 for a DJ for a Parent Teacher Association meeting: There was no documentation showing that there was a meeting or that a DJ was needed for the meeting.

Because of the insufficient documentation outlined above, we could not determine whether the SIPP transactions were justified or, in some instances, whether the money reimbursed to individuals was appropriate or warranted.

Lack of Evidence of Bidding

Our review determined that the sampled schools did not consistently adhere to DOE's bidding requirements. Of the 399 sampled SIPP transactions reviewed that had supporting documentation,⁵ 188 transactions (from the five sampled schools) totaling \$107,164 met the dollar value threshold for which bids should have been obtained. Of these, there was no evidence that the bidding requirements were followed for 121 transactions (64 percent) valued at \$56,822 (53 percent). When bidding requirements are not observed, schools may not obtain the most competitive prices for the purchased goods and services.

As noted above, DOE's procedures require that schools solicit multiple bids for commodities (e.g., school supplies and food) and document the bidding process for all purchases over \$250. The bids must either be received in writing from the vendor or over the telephone using DOE's

⁵ As discussed above, 15 transactions we sampled had no supporting documentation.

Telephone Bid Summary Form. Further, DOE’s procedures state that “when the aggregate amount, within the same fiscal year with the same vendor exceeds \$2,500 bids are required.”

Duplicate Payments Identified

Our review identified 10 duplicate payments among three of the five sampled schools totaling \$5,248—five at Academy, four at Computers & Technology and one at Bronx Bridges. When we reviewed the supporting documentation provided by the schools, we found that the same invoice was used to document more than one SIPP payment, resulting in the vendor or employee being paid twice for the same item(s). Of the 10 SIPP transactions, six were payments to vendors and four were for employee/student reimbursements.

The existence of duplicate payments reflects inadequate oversight and a likely failure to follow applicable procedures. All duplicate payments should be recouped.

Incorrect Object Codes Charged

Schools did not ensure that the appropriate object code⁶ was consistently charged to accurately reflect the nature of the goods or services being purchased. Our review of 399 sampled SIPP transactions revealed that 135 (34 percent) totaling \$65,148, were charged to incorrect object codes.

Comptroller’s Directive #24, §6.0, states, in part: “Payment voucher approvers must ensure that the appropriate accounting and budget codes are being charged. This includes charging the correct unit of appropriation and correct object code within that unit of appropriation.”⁷ Using the correct object code allows the agency to categorize the type and amount of a particular expense item within a fiscal year. Among other things, this information can be used to generate year-end reports that identify expenditure patterns. The use of incorrect object codes can compromise management’s ability to assess expenditure patterns and to properly plan future budgets. In addition, there is an increased risk that incorrect object codes may be used by schools to hide spending that is excessive, or for items not typically allowed to be purchased using SIPPs.

After we shared this finding with the sampled schools, Lehman officials stated that they would ensure that using the correct object code will be a priority in the future. After sharing our findings with Visual Arts, we were told by one official that she was not properly trained in the use of object codes and was in need of additional training. (The remaining three sampled schools did not provide any comment.)

The significant percentage of transactions charged to incorrect codes may be an indication that the schools’ budgets do not accurately reflect their operational needs. By using incorrect object codes, a school’s actual budget spending patterns will not be accurately reflected, which in turn will adversely affect the school’s ability to reliably forecast future spending needs.

⁶ Object codes are established as part of the City’s and DOE’s accounting systems to identify the category of each OTPS expenditure. They are required for accounting and budgeting purposes.

⁷ A unit of appropriation is the amount of money allocated to an agency’s operating budget representing the amount that can be spent for a particular program, purpose, activity or institution.

Sales Taxes Incorrectly Paid

Of the 399 sampled SIPP transactions, we found that for 17 (four percent), taxes were paid to the vendors at four of our sampled schools—Academy, Lehman, Bronx Bridges, and Computers & Technology. For these 17 transactions, we determined that taxes totaling \$248 were incorrectly paid. However, we were unable to determine whether taxes were paid for 11 SIPP transactions totaling \$2,614, since only a credit card receipt was provided instead of a detailed invoice.

The City of New York is exempt from sales tax. This exemption applies to purchases made by DOE officials during the performance of their duties for sanctioned school purposes. According to DOE's procedures, to claim sales tax exemption, schools must present their tax-exempt certificates to vendors when purchases are made. Paying sales tax is an unnecessary expense which reduces the amount of money available for other necessary purchases.

Inappropriate Use of SIPPs

Our review found instances where SIPP transactions were used even though they were not the appropriate method of payment. We found 55 SIPP transactions, totaling \$27,424, among the five sampled schools that should not have been processed as SIPPs. Examples of these SIPP transactions, as detailed below, included payments to a vendor totaling \$12,533 using SIPPs rather than a PO as required, the purchase of athletic equipment and uniforms, payments of student stipends, and inappropriate employee reimbursements associated with a senior class trip to Walt Disney World.

SIPPs Used in Lieu of POs

According to DOE's procedures, SIPPs may not be used for recurring purchases and should only be used when encumbering a PO is not feasible or practical. However, as stated previously, Academy paid a vendor \$12,533 using 26 individual SIPP transactions for "Differentiated Literacy Solution." Since the total of these payments exceeds the threshold of \$5,000 that can be spent using SIPPs, this vendor should have been paid with a PO instead.

Athletic Equipment and Uniform Purchases

Our review found instances where athletic equipment and uniforms were incorrectly purchased using SIPPs. According to DOE procedures, "all athletic equipment MUST be purchased through the contracted vendor [and] all orders are to be placed through [the] FAMIS portal." [Emphasis in original.] Further, DOE officials informed us that SIPPs should not be used for the purchase of team and club uniforms.

However, we found 10 payments and two employee reimbursements totaling \$6,786—six at Bronx Bridges, five at Computers & Technology, and one at Lehman—for the purchase of sports equipment and uniforms. These purchases could have been made using approved DOE procedures. Specifically, these items should have been purchased by issuing POs to one of DOE's contracted vendors where the prices and sales conditions have already been negotiated.

Payments for Senior Activities

According to the SOP, SIPPs can be used to pay students and their parents as a reimbursement/payment for actual or anticipated out-of-pocket expenses (e.g., transportation, child care) for either working at a school or DOE office or attending a DOE meeting. As stated

previously, adequate supporting documentation should be on file prior to paying for goods and services.

During our review of sampled SIPP transactions, we identified three students at Computers & Technology who received 10 payments of \$500 each, totaling \$5,000 and found inadequate documentation maintained by the school. The only documentation supporting these payments was a list of students' names, the corresponding SIPP transaction numbers, and the payment amount of \$500 for each transaction. Upon further review, we found that SIPPs were used to pay 48 students at the school a total of \$65,000 using 130 SIPP transactions of \$500 each. The principal informed us that these payments were for student stipends and limited to seniors to allow them to "volunteer their time to assist in [the] MOUSE Squad, PA organization, assist staff, and other tasks, to help them afford all senior activities and trips" and were only to be used for senior-related activities, which included the prom and a trip to Walt Disney World. However, this usage of SIPP transactions is not authorized under DOE rules. Moreover, it is inconsistent with other information we received from DOE in the course of the audit.

We discussed this matter with DOE's Auditor General (AG) to ascertain DOE's policy relating to SIPP payments to students who are working in a school for the sole purpose of acquiring money to pay for their senior activities. The AG stated that as a Career and Technical Education school, Computers & Technology offers career and technical training for the students, and that this is done by providing paid internship opportunities for students to gain real work experience, which can be in the school or in a company with which the school has a partnership. However, the AG further informed us that these students are paid through DOE's payroll system based on the submission and approval of timesheets that record the students' work hours. The AG also acknowledged that the payments made to the students at Computers & Technology should not have been paid via SIPP. Rather, the AG stated that the payments were for work that the students performed as part of an internship program and were not made to cover their senior activities as we had been told. According to the AG, the students elected to turn their checks over to the school to cover the cost of their student activities, but that the payments were not made to the students exclusively for that purpose.

The AG's description of the program is contrary to the principal's description. Specifically, the principal stated that the SIPP transactions generated in each student's name would not be released to them for any reason. He emphasized that even if a student's parent came to the school and demanded that the money be turned over to the student, as has happened in the past, he would refuse to release the funds to that student.

By not having adequate controls in place to review transactions at or below the \$500 threshold, DOE was unable to identify these transactions. Had the CFN reviewed these transactions, it would have been able to question the appropriateness of using SIPPs in this manner and ensure the proper use of City funds. Of additional concern to us is the apparent lack of controls, transparency, and accountability relating to the school's use and management of the funds for these activities. DOE should conduct a review of the program to ensure that it is functioning within DOE policy and procedures.

Inappropriate Employee Reimbursement

According to DOE's procedures, all equipment, supplies, and services purchased with DOE funds must serve DOE's educational and administrative programs. We found that a school employee at Computers & Technology was reimbursed \$1,500 for gift cards that were in increments of \$500 and \$250. Since students are not allowed to receive gift cards in increments larger than \$25, we

questioned the principal about the use of these gift cards. He stated that the two \$500 gift cards were used on the senior trip to Walt Disney World for miscellaneous expenses, such as meals. However, he did not specify who used the cards and did not provide evidence to show how the money was spent. He did not provide an explanation for the purchase of the two \$250 gift cards, including who used them, what was purchased and its educational purpose. Accordingly, these purchases are not allowable uses of SIPPs.

The purchase of these gift cards to provide additional money for a voluntary senior trip to Walt Disney World does not appear to serve any educational or administrative purpose that would justify the use of DOE funds.

Recommendations

5. DOE should ensure that the schools obtain and maintain adequate supporting documentation on file, including travel-related documentation, prior to processing and approving SIPP requests.

DOE Response: “The DOE agrees with this recommendation. Since the December 11, 2015 response to the Comptroller on the prior audit, DOE has been working on implementing system changes that will require schools to upload supporting documentation prior to SIPPs being processed and approved.”

6. DOE should ensure that bidding requirements are adhered to for all purchases meeting the dollar value thresholds, and that appropriate bidding documentation is maintained on file to support the bidding.

DOE Response: “The DOE agrees with this recommendation. BFSC procurement staff are being reminded not to approve transactions which do not adhere to DOE purchasing policies and procedures – this includes DOE bidding requirements.”

7. DOE should ensure that duplicate transactions are not approved or processed.

DOE Response: “The DOE partially agrees with this recommendation. BFSCs are being instructed to identify duplicate transactions to the extent possible. Purchasing training of school staff will include reminders on properly processing transactions to reduce the likelihood of paying the same invoice twice. Post audits and reviews of SIPP transactions will include an analysis of possible duplicate transactions, which if identified will result in additional training, as well as recoupment, where deemed necessary.”

Auditor Comment: It is unclear from DOE’s response the portion of the recommendation with which it does not agree. Nevertheless, we are pleased that DOE intends to conduct post audits and reviews of SIPP transactions to identify duplicate transactions that were erroneously approved and also intends to take corrective actions to limit their occurrence.

8. DOE should ensure that the three sampled schools that had duplicate payments recoup the money from the vendors or employees.

DOE Response: “The DOE partially agrees with this recommendation. The BFSC staff will investigate the transactions identified by the Comptroller as duplicate payments, and where appropriate, will seek recoupment.”

Auditor Comment: It is unclear from DOE's response the portion of the recommendation with which it does not agree. Nevertheless, we believe that in those cases where it is confirmed that duplicate payments were made, recoupment should be made.

9. DOE should ensure that the correct object codes are used when generating a SIPP transaction.

DOE Response: "The DOE partially agrees with this recommendation. BFSC procurement staff are being reminded to consider which object codes are being utilized when reviewing SIPP payment submissions. Training will include object code definitions (available on the DOE website) and how to process a budget modification if necessary. Since the DOE's response to the Comptroller on the prior report, the DOE has already identified object codes for contracted services where the use of SIPPs is unacceptable and is in the process of blocking the use of those object codes for SIPP transactions."

Auditor Comment: It is unclear from DOE's response the portion of the recommendation with which it does not agree. The procedures that DOE is implementing appear to address our recommendation.

10. DOE should ensure that school employees use the appropriate sales tax exempt certificates to avoid paying New York State and City sales taxes for goods and services procured using SIPP money. If a certificate is not used, the employee should not be reimbursed for the tax.

DOE Response: "The DOE agrees with this recommendation. The DOE is implementing a new text field that will warn SIPP payment initiators to exclude sales tax on the document entry screen. If BFSC reviews uncover sales taxes paid, they will follow up with schools to discuss the finding and implement corrective actions. The DOE's tax exempt status will also be discussed during the aforementioned trainings."

11. DOE should ensure that SIPP transactions are only used for appropriate purposes and should recoup any reimbursements to employees for unallowable purchases.

DOE Response: "The DOE partially agrees with this recommendation and will conduct a review of the cases of misuse identified by the Comptroller to consider recoupment. If deemed an unallowable purchase, funds will be recouped. The DOE will also review the Comptroller's findings to identify which schools would benefit from onsite BFSC training and which could benefit from internal audit."

Auditor Comment: It is unclear from DOE's response the portion of the recommendation with which it does not agree. The procedures that DOE is implementing appear to address our recommendation.

12. DOE should conduct an in-depth review of the program that makes SIPP payments to students for the sole purpose of covering students' senior activities to ensure that the program is functioning within DOE policy and procedures.

DOE Response: “The DOE agrees with this recommendation. The Superintendent has been conducting a review of the identified school’s program to ensure that it is functioning within DOE and State policy and procedures.”

13. DOE should provide refresher training classes on its procurement process to all appropriate school personnel responsible for processing purchases and payments in FAMIS, including SIPP transactions, especially the employees at the schools identified in this report.

DOE Response: “The DOE agrees with this recommendation. As stated in recommendation five, schools have been reminded via newsletter publications and training sessions of the purchasing and payment policies as well as the procedures including SIPP requests.”

Other Matters

At Academy, the Assistant Principal and Principal told the auditors that another DOE employee who works at a different school provided assistance to them by sometimes entering their SIPP transactions. They stated that this other DOE employee uses the Assistant Principal’s sign-in identification and password to access FAMIS to enter transactions for them. With the Assistant Principal’s password, this DOE employee would have the ability to create transactions in FAMIS without the Assistant Principal’s prior knowledge or approval. Although we could not determine how many times the employee accessed FAMIS to execute SIPP transactions on the Assistant Principal’s behalf or whether he had the capability to alter DOE financial data, this practice of sharing passwords should be strictly forbidden.

In addition, we found one SIPP transaction for the purchase of gift cards by the principal, totaling \$290, that the CFN did not approve in accordance with DOE rules. The Status History record in FAMIS showed that the payment was never reviewed or approved by anyone, including the CFN. However, the payment went through. According to DOE and school officials, reimbursements to the principal should have been reviewed and approved by the CFN.

Recommendations

14. DOE should immediately request that the Assistant Principal change her password and discontinue this practice.

DOE Response: “The DOE agrees with this recommendation. The Assistant Principal has changed her password and has confirmed that she will not share her password.”

15. DOE should enforce a policy prohibiting its employees from sharing passwords to strengthen the security of its financial system.

DOE Response: “The DOE agrees with this recommendation. As part of the BFSC training on SIPPs, school staff will be reminded of the DOE policy prohibiting sharing passwords. ”

16. DOE should require SIPP transactions for reimbursements to principals be reviewed and approved by the BFSC.

DOE Response: “The DOE disagrees with this recommendation. All principal SIPPs require a BFSC (formerly the CFN) review and approval before being processed for payment. Upon further review of the details surrounding the payment referenced in the Comptroller’s report, the DOE did see that the payment in question was approved by the CFN. The DOE can provide additional records to the Comptroller should they be interested.”

Auditor Comment: It is apparent that DOE’s disagreement is not with the recommendation—DOE acknowledges that all principal SIPPs require a BFSC review and approval—but with the finding associated with the recommendation. However, DOE’s offer of new evidence at this late stage is questionable. We shared this finding with DOE officials on several occasions, up to and including at the exit conference. The appropriate time for DOE officials to have shared this information with us was at those times, prior to their receipt of the draft report for this audit. However, at no time did officials indicate that they had additional information they wanted us to consider. Conversely, the Status History record of this transaction that we obtained from FAMIS clearly shows that the transaction was created on February 3, 2014, and completed, without CFN approval, on February 25, 2014. Accordingly, we find no basis to alter our finding.

DETAILED SCOPE AND METHODOLOGY

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

The audit scope was Fiscal Year 2014 (July 1, 2013, through June 30, 2014).

To obtain an understanding of DOE's SIPP policies and procedures, we reviewed and used the following as criteria:

- DOE's *OTPS Purchases SOPs*;
- DFO's SIPP Frequently Asked Questions;
- DOE's SOP, *Employee Travel Expense Reimbursement*;
- DOE's OTPS Object Codes list;
- "Welcome to FAMIS" printouts; and
- Various information relating to the SIPP process obtained from DOE's website.

To obtain an understanding of the DFO SIPP policies and procedures at the central level, we interviewed the DFO's Chief Administrator, Senior Director of Operations, Executive Director, and Administrator. To further our understanding of the SIPP process at the CFN level, we interviewed the CFN 603 Network Leader, CFN 603 Deputy Network Leader, CFN 603 Operations Manager, the Deputy Cluster Leader for Cluster 6 (who was responsible for overseeing the CFNs), and the Senior Director of Budget and Operations for Cluster 6.⁸ To determine the appropriateness of SIPP payments to students for work they performed at the school to cover the cost of senior activities, we requested information from DOE's Auditor General regarding DOE's policy pertaining to these types of payments.

In addition, we interviewed school principals and/or assistant principals and support staff responsible for processing and approving school purchases in FAMIS at the five sampled schools to obtain an understanding of the SIPP process at the school level.

To obtain an understanding of DOE's computer database FAMIS, we conducted walkthrough interviews with DOE's Financial Systems and Business Operations' Computer Specialist Supervisor and with DFO's Chief Administrator, Senior Director of Operations, Executive Director, and Administrator.

In December 2014, we received a list of SIPP transactions processed for Fiscal Year 2014 and a partial list for Fiscal Year 2015 (through the FAMIS acceptance date of November 28, 2014). Using the FAMIS acceptance dates, we extracted the SIPP transactions from July 1, 2013, through June 30, 2014; in total, we identified 124,622 SIPP transactions valued at \$23,975,639. To select the CFN to review, we totaled all SIPP transactions by CFN and then sorted the CFNs

⁸ Clusters oversee and support CFNs and work closely with DOE's central leadership. CFNs are organized into five clusters of about 11 CFNs each.

by total payments and by average per school cost. We identified two CFNs appearing in the top three of both sorts—CFN 404 and CFN 603. We judgmentally selected CFN 603 as the focus of this audit. (An audit of DOE's controls over SIPPs at schools within CFN 404 is currently being conducted by our office.)

The 24 schools supported by CFN 603 had a total of \$614,634 in SIPP transactions; of these, we judgmentally selected as our sample the five schools with the highest SIPP spending levels, totaling \$388,604 (63 percent). The schools were:

- Computers & Technology with 437 SIPP transactions totaling \$181,181;
- Herbert Lehman with 351 SIPP transactions totaling \$66,347;
- Academy with 162 SIPP transactions totaling \$57,017;
- Bronx Bridges with 370 SIPP transactions totaling \$52,076; and
- Visual Arts with 129 SIPP transactions totaling \$31,984.

For each of our five sampled schools, we reviewed their Fiscal Year 2014 SIPP transactions and judgmentally selected a total of 414 SIPP transactions, totaling \$193,652, for testing using the following criteria:

- Large dollar amounts in a single SIPP transaction;
- Multiple vendor payments or employee reimbursements within a one-week timeframe indicating possible split payments and split purchases;
- SIPP transactions just below the CFN and DFO approval amounts of \$500 and \$2,500, respectively; and
- Other inconsistencies/areas of interest, including a high number of payments to a single individual; recurring payments; reimbursements to DOE employees, parents, or students; and payments for unusual items or services as described by the school in FAMIS.

As part of our review, we determined whether: the purchases were adequately justified and for school-related purposes (for educational or administrative purposes); adequate and original supporting documentation was on file; the purchases and payments were in accordance with DOE procurement rules and regulations; and DOE-contracted vendors were used when applicable.



Raymond J. Orlando
Chief Financial Officer

February 3, 2016

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

Re: Audit Report on the Department of Education's Controls over the Small Item Payment Process of its Schools within Children First Network 603 (MH15-100A)

Dear Ms. Landa:

This letter will serve as the New York City Department of Education's (DOE) formal response to the New York City Office of the Comptroller's (Comptroller) draft report of the *Department of Education's Controls over the Small Item Payment Process of its Schools within Children First Network 603* (Report). The DOE generally agrees with the Comptroller's recommendations, and we offer the following response that lays out the DOE's continued actions with regards to strengthening the Small Item Payment Process (SIPP) management and oversight.

Since the DOE's December 11, 2015 response to the Comptroller's report on the same topic (Report MD15-096A) steps have already been taken to strengthen controls over SIPPs. Those actions have included:

- System changes that are in the process of being implemented to require schools to scan and upload SIPP backup documentation prior to SIPP processing and approval;
- The threshold requiring SIPP approval at the Borough Field Support Center (BFSC) is being lowered from \$500 to \$250. Budget directors or procurement specialists will review required documentation prior to approval for payment. Uploaded documentation required for BFSC review will include the completion and submission of an online bid summary form;
- Object codes for contracted services that the DOE deems unacceptable as SIPPs will be blocked; and

- The SIPP document entry screen will include a new text field that will warn users to exclude sales tax.

The BFSCs play a key role in the DOE's messaging to principals when SIPPs are appropriate and necessary. Trainings of BFSC staff have commenced and will continue through the 2015-2016 school year. The DOE will continue to gather best practices and share those with schools whenever possible.

Response to Recommendations:

To address the issues raised in the Report, the auditors recommended that:

Recommendation 1. *DOE should require BFSCs to periodically generate and review FAMIS reports to search for patterns of potentially inappropriate transactions of \$500 or less.*

Response. The DOE agrees with this recommendation. With the reduction of the SIPP threshold requiring BFSC review and authorization from \$500 to \$250, the DOE has committed to dedicating resources to reviewing and approving transactions in excess of those the Comptroller recommended. Leveraging the knowledge the BFSC staff will garner from their review of SIPPs, the Office of Field Support (OFS) and the Division of Financial Operations (DFO) will explore if the creation of reports could be useful in identifying schools who could benefit from additional support.

Recommendation 2. *DOE should require BFSCs to perform sample reviews of transactions of \$500 or less.*

Response. The DOE agrees with this recommendation. The new SIPP threshold of \$250 goes beyond the Comptroller's recommendation and will increase the level of review of SIPP transactions by BFSC staff prior to payments being issued.

Recommendation 3. *DOE should ensure that the BFSCs inform the schools regarding any issues identified when reviewing SIPP transactions of \$500 or less and assist them in improving their SIPP transaction process.*

Response. The DOE agrees with this recommendation. Where improper use of SIPPs are identified at any level, BFSC will reach out to necessary school staff to remind them of the proper procedure to be followed. Additionally, BFSC staff will also work collaboratively with schools to train purchasing staff. As necessary, they will also follow up with schools as a result of reviewing SIPP reports designed by the DOE.

Recommendation 4. *DOE should ensure that split transactions are not approved or processed.*

Response. The DOE agrees with this recommendation. The DOE's trainings for BFSC staff has, and will continue to, include a discussion on inappropriate split transactions. If split transactions are discovered

during the BFSC review, staff will follow up with schools who may have processed transactions that are not in accordance with DOE purchasing policies.

Recommendation 5. *DOE should ensure that the schools obtain and maintain adequate supporting documentation on file, including travel-related documentation, prior to processing and approving SIPP requests.*

Response. The DOE agrees with this recommendation. Since the December 11, 2015 response to the Comptroller on the prior audit, DOE has been working on implementing system changes that will require schools to upload supporting documentation prior to SIPPs being processed and approved. Schools and school support staff have been notified of these changes via e-mail and the Principal Weekly publication. This notification included a reminder that all appropriate and necessary documentation needs to be provided and reviewed prior to SIPP approval being requested.

Recommendation 6. *DOE should ensure that bidding requirements are adhered to for all purchases meeting the dollar value thresholds, and that appropriate bidding documentation is maintained on file to support the bidding.*

Response. The DOE agrees with this recommendation. BFSC procurement staff are being reminded not to approve transactions which do not adhere to DOE purchasing policies and procedures – this includes DOE bidding requirements. The mandated scanning of supporting documentation, along with the requirement to complete the online bid form, will allow the BFSC to quickly ascertain if bidding requirements were met and follow up as needed should there be missing documentation. Audits and reviews will also take into account bidding thresholds when selecting items to test.

Recommendation 7. *DOE should ensure that duplicate transactions are not approved or processed.*

Response. The DOE partially agrees with this recommendation. BFSCs are being instructed to identify duplicate transactions to the extent possible. Purchasing training of school staff will include reminders on properly processing transactions to reduce the likelihood of paying the same invoice twice. Post audits and reviews of SIPP transactions will include an analysis of possible duplicate transactions, which if identified will result in additional training, as well as recoupment, where deemed necessary.

Recommendation 8. *DOE should ensure that the three sampled schools that had duplicate payments recoup the money from the vendors or employees.*

Response. The DOE partially agrees with this recommendation. The BFSC staff will investigate the transactions identified by the Comptroller as duplicate payments, and where appropriate, will seek recoupment.

Recommendation 9. *DOE should ensure that the correct object codes are used when generating a SIPP transaction.*

Response. The DOE partially agrees with this recommendation. BFSC procurement staff are being reminded to consider which object codes are being utilized when reviewing SIPP payment submissions. Training will include object code definitions (available on the DOE website) and how to process a budget modification if necessary. Since the DOE's response to the Comptroller on the prior report, the DOE has already identified object codes for contracted services where the use of SIPPs is unacceptable and is in the process of blocking the use of those object codes for SIPP transactions.

Recommendation 10. *DOE should ensure that school employees use the appropriate sales tax exempt certificates to avoid paying New York State and City sales taxes for goods and services procured using SIPP money. If a certificate is not used, the employee should not be reimbursed for the tax.*

Response: The DOE agrees with this recommendation. The DOE is implementing a new text field that will warn SIPP payment initiators to exclude sales tax on the document entry screen. If BFSC reviews uncover sales taxes paid, they will follow up with schools to discuss the finding and implement corrective actions. The DOE's tax exempt status will also be discussed during the aforementioned trainings.

Recommendation 11. *DOE should ensure that SIPP transactions are only used for appropriate purposes and should recoup any reimbursements to employees for unallowable purchases.*

Response. The DOE partially agrees with this recommendation and will conduct a review of the cases of misuse identified by the Comptroller to consider recoupment. If deemed an unallowable purchase, funds will be recouped. The DOE will also review the Comptroller's findings to identify which schools would benefit from onsite BFSC training and which could benefit from internal audit.

Recommendation 12. *DOE should conduct an in-depth review of the program that makes SIPP payments to students for the sole purpose of covering students' senior activities to ensure that the program is functioning within DOE policy and procedures.*

Response. The DOE agrees with this recommendation. The Superintendent has been conducting a review of the identified school's program to ensure that it is functioning within DOE and State policy and procedures. CTE programs must include "valid, scaffolded Work Based Learning opportunities throughout the CTE program of study" as a component of the program. This includes providing students with a strong experience in and understanding of all aspects of an industry, which may include work-based learning experiences.

Recommendation 13. *DOE should provide refresher training classes on its procurement process to all appropriate school personnel responsible for processing purchases and payments in FAMIS, including SIPP transactions, especially the employees at the school identified in this report.*

Response. The DOE agrees with this recommendation. As stated in recommendation five, schools have been reminded via newsletter publications and training sessions of the purchasing and payment policies as well as the procedures including SIPP requests.

Recommendation 14. *DOE should immediately request that the Assistant Principal change her password and discontinue this practice.*

Response. The DOE agrees with this recommendation. The Assistant Principal has changed her password and has confirmed that she will not share her password.

Recommendation 15. *DOE should enforce a policy prohibiting its employees from sharing passwords to strengthen the security of its financial system.*

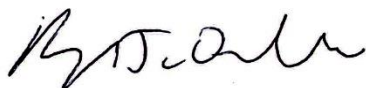
Response. The DOE agrees with this recommendation. As part of the BFSC training on SIPPs, school staff will be reminded of the DOE policy prohibiting sharing passwords. Ordinary course of business requires that passwords used to access the DOE's financial accounting system (FAMIS) be reset every 90 days.

Recommendation 16. *DOE should require SIPP transactions for reimbursements to principals be reviewed and approved by the BFSC.*

Response. The DOE disagrees with this recommendation. All principal SIPPs require a BFSC (formerly the CFN) review and approval before being processed for payment. Upon further review of the details surrounding the payment referenced in the Comptroller's report, the DOE did see that the payment in question was approved by the CFN. The DOE can provide additional records to the Comptroller should they be interested.

The DOE continues to explore options to reduce SIPP use and maximize the use of purchase orders with contracted vendors. SIPP purchases do have their place in supporting schools receiving the goods and services needed to provide student services. The DOE is confident that their commitment to strengthening controls over SIPPs is evident from the swift actions taken since the response provided to the Comptroller on the prior audit report.

Sincerely,



Raymond J. Orlando
Chief Financial Officer