

# City of New York

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## OFFICE OF THE COMPTROLLER

Scott M. Stringer  
COMPTROLLER



## MANAGEMENT AUDIT

**Marjorie Landa**

Deputy Comptroller for Audit

Audit Report on the Department of  
Education's Monitoring of Its Custodial  
Supplies Contract with Strategic  
Distribution, Inc.

MH20-076A

**June 30, 2021**

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
SCOTT M. STRINGER

June 30, 2021

Dear Residents of the City of New York:

My office has audited the New York City Department of Education (DOE) to determine whether it has adequate controls in place to monitor the compliance of Strategic Distribution, Inc. (SDI) with its custodial supply contract. We conduct audits such as this to increase accountability and to ensure that agencies enforce applicable laws and policies related to its contracts with outside vendors.

The audit found that DOE does not effectively monitor whether SDI is following certain key terms of its custodial supply management contract, including the requirement that SDI submit several management reports. DOE also waived the requirement that SDI submit a semi-annual contract review report that highlighted key performance areas. Additionally, DOE did not provide evidence that it reconciled data contained in the reports submitted by SDI to obtain assurance that the reports were accurate. Finally, DOE had no evidence that it performed price analyses to assess whether it paid reasonable prices for catalog items.

The audit makes 10 recommendations, including that DOE enforce the contract requirement that SDI submit to DOE all of the contractually required management reports; ensure that modifications made to contract terms are formally documented in writing; utilize the data contained in SDI's management reports and reconcile that data with the data contained in its own records to confirm its accuracy; and periodically perform pricing surveys to help ensure that the City is paying the lowest available prices for goods.

The results of the audit have been discussed with DOE officials and their comments have been considered in preparing this report. DOE's 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](mailto:audit@comptroller.nyc.gov).

Sincerely,

A handwritten signature in black ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

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# THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER MANAGEMENT AUDIT

## Audit Report on the Department of Education's Monitoring of Its Custodial Supplies Contract with Strategic Distribution, Inc.

MH20-076A

### EXECUTIVE SUMMARY

We conducted this audit to determine whether the New York City Department of Education (DOE) has adequate controls in place to monitor the compliance of Strategic Distribution, Inc. (SDI) with its custodial supply contract. DOE entered into a contract with SDI to obtain on-site delivery of custodial supplies to public schools throughout New York City (City). DOE's Division of School Facilities (DSF) is charged with managing and monitoring that contract. DSF employs custodian engineers (CEs) to manage school buildings across the City. As part of its responsibilities, SDI provides DOE with two catalogs of products that range from equipment to custodial supplies needed for the day-to-day operation of DOE's school buildings.

CEs are responsible for creating custodial supply and equipment purchase orders based on the needs of their assigned schools. Items listed in the SDI catalogs and their corresponding prices are embedded in DOE's Financial Accounting Management Information System (FAMIS), which allows CEs to place their orders through the system.<sup>1</sup>

As reported in FAMIS, DOE purchased 272,061 custodial items valued at \$100,093,447 for the period July 1, 2018 through June 30, 2020.

### Audit Findings and Conclusion

DOE does not effectively monitor whether SDI is following key terms of its custodial supply management contract and so needs to improve its controls. We identified the following deficiencies in DOE's monitoring of the SDI contract:

- DOE did not enforce the requirement that SDI submit certain management reports. As a result, DOE is less able to effectively identify trends or patterns meriting further investigation. DOE also waived the requirement that SDI submit a semi-annual contract review report that highlighted key performance areas;

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<sup>1</sup> FAMIS is used to create purchase orders and confirm receipt for goods and services from SDI.

- DOE was unable to provide evidence of any reconciliation of the data contained in the reports that SDI did submit to obtain assurance that the reports were accurate; and
- DOE had no evidence that it performed price analyses to assess whether it paid reasonable prices for catalog items and, if not, seek voluntary price reductions from SDI.

However, we found that DOE did not pay prices above those agreed to in the contract and paid SDI only for those goods that CEs certified were received. In addition, by embedding the SDI catalogs in FAMIS, DOE is now able to maintain detailed payment records for its custodial supplies.

Nonetheless, as a result of the weaknesses this audit identified, there is an increased risk that DOE may be paying more than it should for custodial items. In a related matter, we found that DOE did not sufficiently document its reasons for the performance evaluation ratings it gave SDI.

## Audit Recommendations

Based on our findings, we make 10 recommendations, including:

- DOE should enforce the contract requirement that SDI submit four types of management reports. Specifically, DOE should require that SDI submit to it the Quarterly Spend Report and the Accuracy Detail Analysis Report.
- DOE should ensure that modifications made to contract terms are formally documented in writing as required by its Procurement Policy and Procedures (PPP) Guidelines.
- DOE should utilize the data contained in SDI's management reports and reconcile that data with the data contained in its own records to ensure that it is getting accurate information about contract performance and to address any reporting and/or performance deficiencies identified through such reconciliations.
- DOE should periodically perform pricing surveys to ascertain whether it can identify any catalog items that can be purchased elsewhere at a savings of 20 percent or more.
- For the evaluations to be more meaningful, DOE should ensure that evaluations prepared on SDI's performance are detailed, and that they specify—if and as applicable—those areas of the contract that the vendor is following and the areas that require further improvement.

## Agency Response

In its response, DOE agreed with eight of the audit's ten recommendations. DOE disagreed with two recommendations: that it require SDI to provide the actual price for each catalog item separate from expenses incurred associated with administering the contract (recommendation #7); and that it establish and send monthly/quarterly evaluations or surveys to the CEs and Principals to obtain feedback on SDI's performance (recommendation #9).

# AUDIT REPORT

## Background

DOE provides primary and secondary education to over one million students, from early childhood to grade 12 in approximately 1,400 school buildings. DOE's DSF is responsible for operating and maintaining school buildings across the City. DSF employs CEs to manage its school buildings.

In July 2010, DOE entered into a contract with SDI for the purpose of providing on-site delivery of custodial supplies to public schools throughout New York City. DSF is charged with executing and monitoring that contract.

As part of its responsibilities, SDI provides DOE with two specific catalogs: one catalog listing what are identified as maintenance and toolbox repair items, which range from equipment to labor services necessary to service the equipment provided; and a second catalog listing custodial supplies needed for the day-to-day operation of the school building. The custodial supplies catalog includes the 300 items that are most often used at the schools. The catalogs are kept digitally in FAMIS, a web-based purchasing application system.

CEs are responsible for creating custodial supply and equipment purchase orders based on the needs of their assigned school. Items listed in the catalog and their corresponding prices are embedded in FAMIS, which allows CEs to place their orders through the system.

A prior audit issued by our office, *Audit Report on the Department of Education's Custodial Supplies Management Contract with Strategic Distribution, Inc.* (Audit # MG13-079A, issued June 25, 2014), found that DOE inadequately monitored its contract with SDI to ensure that the vendor complied with the terms of the contract. Among other things, the audit found that DOE was unable to provide information as to whether certain basic goals and objectives of the contract had been met, including whether goods had been purchased at reasonable prices and whether supplies had been promptly delivered. Additionally, the audit found that DOE had no formal tracking system to ensure that custodian complaints pertaining to the purchase of supplies were addressed in a timely manner.

The original term of the current contract, valued at \$210 million, covered Fiscal Years 2011 through 2020. Subsequently, the contract was extended in June 2020 to run through June 30, 2021 at an additional value not to exceed \$40,844,622.

As reported in FAMIS, DOE purchased 272,061 custodial items valued at \$100,093,447 for the period July 1, 2018 through June 30, 2020.

## Objective

To determine whether DOE has adequate controls in place to monitor the compliance of SDI with its custodial supply management contract.

## 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 scope of this audit was July 1, 2018 through September 30, 2020. Please refer to the detailed Scope and Methodology section at the end of this report for the specific procedures and tests that were conducted.

## **Discussion of Audit Results with DOE**

The matters covered in this report were discussed with DOE officials during and at the conclusion of this audit. This preliminary draft report was sent to DOE on April 30, 2021 and was discussed at an exit conference held on May 14, 2021. On June 3, 2021, we submitted a draft report with a request for comments. We received a written response from DOE on June 17, 2021. DOE agreed with eight of the audit's recommendations. However, in its responses to two of those recommendations, DOE maintains that its existing practices adequately address the issues, which is contrary to the audit findings. DOE disagreed with two recommendations that it require SDI to provide the actual price for each catalog item separate from expenses incurred associated with administering the contract (recommendation #7) and that it establish and send monthly/quarterly evaluations or surveys to the CEs and Principals to obtain feedback on SDI's performance (recommendation #9). We address those two points of disagreement and DOE's statements that it already adequately complies with two recommendations in the relevant sections of this report.

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

## FINDINGS AND RECOMMENDATIONS

DOE does not effectively monitor whether SDI is following key terms of its custodial supply management contract and so needs to improve its controls. We identified the following deficiencies in DOE's monitoring of the SDI contract:

- DOE did not enforce the requirement that SDI submit certain management reports. As a result, DOE is less able to effectively identify trends or patterns meriting further investigation. DOE also waived the requirement that SDI submit a semi-annual contract review report that highlighted key performance areas. The prior audit found that DOE did not require SDI to provide it with the required management reports and asserted that it requested the reports on an "as need basis."
- DOE was unable to provide evidence of any reconciliation of the data contained in the reports that SDI did submit with DOE's FAMIS data to obtain assurance that the SDI reports were accurate. The prior audit recommended that DOE reconcile those two categories of data.
- DOE had no evidence that it performed price analyses to assess whether it paid reasonable prices for SDI catalog items and, if not, to seek voluntary price reductions from SDI. The prior audit recommended that DOE track and compare market prices with the then-current contract prices and, when applicable, request reductions in the latter.

However, we found that DOE did not pay prices above those agreed to in the contract and paid SDI only for those goods that CEs certified were received. In addition, by embedding the SDI catalogs in FAMIS, DOE is now able to maintain detailed payment records for its custodial supplies. (The prior audit found that DOE was unable to produce detailed payment records of the supplies purchased from SDI.)

Nonetheless, as a result of the weaknesses found by this audit, there is an increased risk that DOE may be paying more than it should for custodial items. In a related matter, we found that DOE did not sufficiently document its reasons for the performance evaluation ratings it gave SDI.

These matters are discussed in the following sections of this report.

### **DOE Does Not Enforce Requirement That SDI Submit Certain Management Reports**

According to the terms of the contract, SDI is required to submit to DOE the following four management reports in print and in an approved electronic format.

- Quarterly Spend Report – A report that reflects the total dollar amount of purchases made by each school on a quarterly basis.
- Detailed Usage Report – A report that itemizes all items purchased by the school, including the total dollar volume of purchases made and the volume of each item ordered each month. The report should include the catalog unit price per item, the order numbers, corresponding invoice numbers, invoice dates and invoice amount for the same billing period.
- Back Ordered Report – A report of all back ordered items and the date of delivery.



- Accuracy Detail Analysis Report – A report that provides the breakdown of returned or rejected orders by reason code.

In addition, SDI “shall also submit a Semi-Annual Contract Review Report highlighting key performance areas, identifying problems early in the contract and forecasting future contract performance. Not less than on a semi-annual basis, the contractor will also be required to meet with the Division of School Facilities and/or the Division of Contracts and Purchasing to formally present significant findings, review and discuss the above-mentioned reports.”

However, DOE requires SDI to submit only two of these five types of reports specified in the contract: the Detailed Usage Report and a report that serves as the Back Ordered Report.<sup>2</sup> DOE has expressly waived the contract requirement for the production of the Quarterly Spend Report. According to DOE, it already receives the information contained in that report in the Detailed Usage Report. However, the Detailed Usage Report does not contain a summary of the dollar amount of purchases made by each school for each quarter, which the Quarterly Spend Report would provide.

DOE also accepts the Detailed Usage Report in lieu of the Accuracy Detail Analysis Report. However, the Detailed Usage Report does not contain a breakdown of each order that was rejected and returned, as would be contained in the Accuracy Detail Analysis Report. In addition, the Detailed Usage Report does not include a reason code to explain the rejection and returns, which the Accuracy Detail Analysis Report would provide.

DSF staff use a reporting tool called COGNOS to help assess the voluminous data SDI provides. According to DOE officials, COGNOS, when used in conjunction with the management report supplied by SDI, provides DOE with useful insights for monitoring the custodial supplies contract.<sup>3</sup> However, DOE did not demonstrate that it is using COGNOS to aggregate the information that would be included in the Quarterly Spend and Accuracy Detail Analysis Reports.

In the absence of these management reports, DOE is less able to effectively identify and analyze contract trends or patterns in areas such as spending on supplies per school (e.g., whether there are any noticeable differences among schools with similar capacities) and the frequency of returned or rejected orders. Consequently, there is an increased risk that contract-performance issues and other indicators of potential problems meriting further investigation and possible corrective action will never be identified because the DOE does not require SDI to generate the reports that would highlight such issues. In the previous Comptroller’s audit we found that DOE did not require SDI to provide it with these required management reports and that DOE asserted that it requested the reports on an “as need basis.”

#### *DOE Waived Requirement That SDI Submit a Contract Review Report*

According to §4-08 in DOE’s PPP Guidelines, revisions made to an existing contract must be reflected in a contract amendment, which then becomes part of the original contract. However, DOE, without amending the SDI contract, informally waived the provisions in it that require SDI to submit a contract review report. DOE officials stated that they currently do not require that SDI submit a Semi-Annual Contract Review report. According to one official, the Detailed Usage Report DOE obtains from SDI adequately provides the level of detailed information necessary to make assessments as to the key performance areas, as well as to identify problem areas early in

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<sup>2</sup> In lieu of the Back Ordered Report, SDI provides the Key Performance Indicator (KPI) Report, which contains all the information the contract requires for the Back Ordered Report.

<sup>3</sup> COGNOS is a web-based reporting tool that pulls data from other DOE systems such as FAMIS and is able to provide the queried information as an aggregate.

the contract and forecast future contract performance. However, DOE did not provide evidence that it prepares an alternate report that highlights the performance areas that would be found in the Semi-Annual Contract Review report.

In addition, while DOE stated that it holds the required meetings with SDI in which significant findings are presented, reviewed, and discussed as required by the contract, DOE did not provide evidence that it regularly does so as required by the contract. Rather, DOE officials stated they “do not have written agendas for the meetings but we may take and email meeting minutes to all participants on an as needed basis.” As support, DOE provided only an agenda for an October 3, 2019 meeting with SDI.

DOE has not identified an existing mechanism by which it regularly documents, reviews, and assesses the key performance areas that the Semi-Annual Contract Review report is supposed to document and enable DOE to assess. Having unilaterally waived that contract requirement, and lacking equivalent, alternative documentation, it is harder for DOE to identify contract performance problems and to take corrective actions as early as possible. Consequently, there is an increased risk that measures needing correction will not be identified timely or at all and that, when and if they are, they may not be addressed in a timely manner.

## **DOE Does Not Reconcile Information in Reports Submitted by SDI**

According to §4-05 of DOE’s PPP Guidelines, Contractor Performance, contractor evaluations should evaluate the degree to which their performance conforms to requirements such as quality, timeliness, fiscal administration, and accountability. Further, Comptroller’s Directive #1, *Principles of Internal Control*, also emphasizes the importance of performing reconciliations and maintaining records to enable City agencies to determine that required contract (and other) functions are properly performed. Accordingly, as part of the oversight process, DOE has a responsibility to reconcile the data reflected in the management reports received from SDI to its own independent data from FAMIS and to resolve any discrepancies.

However, DOE was unable to provide any records to demonstrate that it reconciled the data contained in the reports submitted by SDI with the data contained in its own systems. This oversight deficiency was also found in the Comptroller’s prior audit, with a recommendation that DOE conduct reconciliations of the data. Failure to perform periodic reconciliations increases the risk that these reports may contain inaccuracies that go undetected.

We compared purchases recorded in SDI’s Detailed Usage Report and the purchases recorded by CEs in FAMIS for Fiscal Year 2019 and found that they generally agreed. Nonetheless, in the absence of reconciliations, there is an increased risk that DOE will be making management decisions based on faulty information that may exist in SDI’s reports and that such faulty information will go undetected.

## **Recommendations**

1. DOE should enforce the contract requirement that SDI submit four types of management reports. Specifically, DOE should require that SDI submit to it the Quarterly Spend Report and the Accuracy Detail Analysis Report.

**DOE’s Response:** “The DOE agrees with this recommendation inasmuch as our prior practice of reviewing SDI data to analyze purchases and performance will be modified to align with the terms of the contract requiring SDI to submit all reports.”

2. DOE should ensure that modifications made to contract terms are formally documented in writing as required by its PPP Guidelines.

**DOE's Response:** "The DOE agrees with this recommendation, as it is longstanding practice and policy."

**Auditor Comment:** While we are pleased that DOE agrees with this recommendation, we note that DOE's claim that it reflects the agency's longstanding practice and policy is contradicted by the audit finding that the agency did not formally document its waiver of the requirement that SDI submit a contract review report. Therefore, we urge DOE to ensure that it consistently implements this recommendation.

3. DOE should maintain records of the meeting minutes that provide detailed information on its discussions with SDI regarding contract issues that arise and on mutually-agreed-upon resolutions so that it can have documented evidence of SDI's responsiveness to issues identified and consider such evidence in SDI's formal contract evaluation.

**DOE's Response:** "The DOE agrees with this recommendation and will prospectively maintain meeting minutes and agendas."

4. DOE should utilize the data contained in SDI's management reports and reconcile that data with the data contained in its own records to ensure that it is getting accurate information about contract performance and to address any reporting and/or performance deficiencies identified through such reconciliations.

**DOE's Response:** "The DOE agrees with this recommendation. All SDI management reports will be reconciled against DOE's payment system. It is worth noting that the auditors conducted their own reconciliation and found no discrepancies."

## DOE Does Not Generally Perform Pricing Analyses to Ensure It Is Paying Lowest Prices for Items

DOE's purpose in entering into a centralized supply contract was, in large part, to better enable it to order frequently purchased custodial supplies and identify trends for those items ordered most often. With that information, DOE would be able to assess items deemed as high-volume orders, and use that information to negotiate lower prices.

The SDI contract states that DOE "reserves the right to request Voluntary Price Reductions in the event that any of the price(s) quoted are deemed high on individual item(s) within a category or aggregate class, or contingency items." If DOE discovers that catalog items can be purchased elsewhere at a savings of 20 percent or more for items with a 50 percent or greater in the purchase volume, DOE has the right to request a price reduction within the price range offered by the alternate source. Further, DOE is entitled to request a discount if there is an increase of 20 percent or more in the purchase volume of the high-usage items. However, DOE did not provide evidence that it periodically performs ongoing pricing surveys to help ensure that SDI is charging the lowest available prices for all goods in its catalog. This deficiency was also found in the Comptroller's prior audit, with a recommendation that DOE should track and compare market prices to the current contract prices and, when applicable, request a reduction in prices.

The only items for which DOE provided evidence that it conducts a pricing survey are items that were added to the catalog during Fiscal Year 2019.

The contract specifies that all SDI catalog item prices must include SDI's profit, overhead, and other costs associated with SDI's performance of the contract. SDI's costs may include, but are not limited to, the delivery and storage costs as well as overhead costs. SDI reports a single price for each item in its catalog, inclusive of all such costs and profit. DOE does not require SDI to itemize the various other costs that are subsumed within its catalog price for a given item. However, that information would be necessary to enable DOE to make meaningful comparisons of the prices it pays SDI for each item with the prices other vendors charge for those items. Absent such itemization, DOE cannot conduct meaningful comparisons of the cost of items in the catalog with items available elsewhere. Moreover, apart from its pricing surveys concerning the items added to the SDI catalog in Fiscal Year 2019, DOE did not provide evidence that it reviews SDI's pricing to help ensure that DOE is paying the lowest available prices for all items.

## Recommendations

5. DOE should periodically perform pricing surveys to ascertain whether it can identify any catalog items that can be purchased elsewhere at a savings of 20 percent or more.

**DOE's Response:** "The DOE agrees with this recommendation. We will perform pricing analysis on items for which we can request a price reduction under the terms of the contract."

6. If items are identified that can be purchased outside the catalog at a savings of 20 percent or more, DOE should request a price reduction within the price range offered by the alternate source.

**DOE's Response:** "The DOE agrees with this recommendation and will seek price reductions for items identified in our pricing analysis as eligible."

7. To help facilitate such surveys, DOE should require that SDI provide DOE with the actual price for each item in its catalog separate from the cost associated with the expenses incurred by SDI for administering the contract.

**DOE's Response:** "The DOE disagrees with this recommendation. Section 1.5 of the contract states that the vendor shall submit to the DOE an *all-in cost* including the total cost associated with the following: 'Unit price of the items in the catalog; Delivery costs; Storage costs; Service and/or repair costs per standard warranty; Catalog production and delivery of the catalog; Reporting costs; Electronic integration and transmission software costs; Product data update costs; Administrative cost; Overhead cost and profit.' In performing cost analysis among vendors on a specific item, the total cost of an item from each vendor should be used as that is the cost to the DOE. Having an all-in cost does not affect the ability of the DOE to perform price analysis or identify cost savings."

**Auditor Comment:** Both during this audit and in its response, DOE fails to identify how it can conduct pricing analyses for custodial items without knowing the actual prices that SDI is charging the agency for those items. DOE's reference to existing contract language demonstrates only that the current information SDI provides complies with that provision. It does not rule out DOE's ability to request—and if necessary require—the recommended information. DOE—as the contracting agency—is responsible for establishing the contractual deliverables. As such,

DOE has a responsibility to establish deliverables that would enable the agency to fulfill its obligation to ensure that the City is paying the lowest available prices for goods it procures. Therefore, we urge DOE to reconsider and implement this recommendation.

## **Prices of the High-Usage Items Were in Accordance with Contract**

Pursuant to its contract, SDI is required to charge DOE the prices for the custodial supplies from the Distributor's price list contained in the contract (after calculating the discount), including the cost of delivery to the school building.

We found that all prices paid by DOE agreed with the contracted Distributor's price list. Additionally, DOE personnel entered the contractually-agreed-upon prices for the top 300 high-usage catalog items that we tested in FAMIS. Neither SDI representatives nor CEs have access to change prices that are entered in FAMIS.

Of the 91,515 reconciled payment records for July 1, 2018 through June 30, 2019 (Fiscal Year 2019), 58,443 records represented orders from DOE's list of 300 high-usage items. The prices DOE paid were in accordance with the contracted prices and reflected the allowable price adjustments where appropriate.

### **DOE Ensured That Goods Received before Payment Remitted to SDI**

To certify the receipt of a custodial supply order, section 4-04 of DOE's PPP Guidelines requires the custodial engineer to enter the delivery date in FAMIS. Payments made to the vendor are based on the CEs certifications that confirm the order was received in full at the school.

For all custodial items ordered from SDI by the schools' CEs for July 1, 2018 through June 30, 2019, custodians certified that the items were received. According to DOE officials, FAMIS has edits embedded in its system that prevent it from issuing payments to the vendor (SDI) prior to certification. Further, payment cannot exceed the amount of the approved purchase order.

Our review of FAMIS data for 67,841 check dates (payments) for items that were purchased through the contract revealed that DOE made no payments to SDI prior to the dates entered in FAMIS by custodians when they certified receipt of the items.

## **Other Matters**

### **Inadequate Evidence of DOE's Assessment of SDI's Performance**

In accordance with section 4-05 of DOE'S PPP Guidelines, "Performance evaluation of contractors shall evaluate the degree to which the contractor's performance has conformed to the requirements of the contract, including, but not limited to quality and timeliness of performance and fiscal administration and accountability." Further, section 4.01 requires that all documentation pertaining to the management of a contract be maintained in the agency's contract file.

Despite our request, DOE did not provide copies of the internal evaluations that were prepared of SDI's performance. Instead, DOE officials provided a response stating DSF's program staff "meet

regularly with SDI to review vendor performance via the KPI [Key Performance Indicator] report.” While we found three DOE/DSF prepared evaluations that it submitted with contract registration documents on the City’s online system known as OAISIS<sup>4</sup>--one for each year since 2017, the information contained in those evaluations did not identify the terms of the contract that were being evaluated or specifically whether SDI was in compliance with those terms.

Thus, the evaluations submitted did not contain sufficient information to support the performance rating DOE gave to SDI. Instead, as justification for giving SDI a rating of “satisfactory,” DOE officials included a statement in the evaluation that there are no pending complaints or issues regarding the services provided by the vendor. We note, however, that DOE has no formal mechanism for tracking complaints, as discussed below.

### *DOE Does Not Formally Track User Feedback*

DOE maintains two e-mail accounts through which CEs can communicate problems they have with SDI’s performance. One account routes the email to the Outlook inbox of a DSF official and the other routes the email to SDI. However, DOE does not conduct any analysis of those complaints to gauge whether complaints are handled expeditiously or to identify systemic issues or problems that may be occurring. DOE identified no other mechanisms (e.g., surveys of the CEs or of school principals) by which it collected feedback of the service provided by the vendor. In its response to the prior Comptroller’s audit, DOE stated that it would develop a complaint tracking system that would capture custodian engineers’ concerns as they pertain to pricing, deliveries, product satisfaction, and other aspects of the supply contract and to allow aggregation of data to identify system-wide supply procurement issues.

Failure to maintain adequate supporting evidence to substantiate performance evaluations increases the risk that complaints and the resolution of such complaints are not tracked and responded to in a timely manner, if at all. Furthermore, issues that CEs and school principals encounter with the vendor may not be addressed in a timely manner, and key performance aspects may not receive appropriate consideration when DOE evaluates SDI’s overall performance. Consequently, the risk that poorly performing contractors will not be identified and may instead be rewarded by having their contracts extended or renewed is increased.

## **Recommendations**

8. DOE should formally track all complaints using a method that presents the complaints as an aggregate, and that details the dates, sources, and reasons for the complaints, as well as information on how the complaints were addressed and resolved.

**DOE’s Response:** “The DOE agrees with this recommendation, inasmuch as it aligns with the feedback system the DOE instituted in January of 2017. The system is comprised of an electronic messaging system monitored by the DOE and the vendor. The DOE issues annual directives to submit complaints to said electronic message system and conducts regular reviews of the accounts to track user feedback or coordinate on resolutions if necessary. For reference, from July 1, 2018, to September 30th, 2020 (the scope period of this audit), there were only

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<sup>4</sup> The Omnibus Automated Image Storage Information System (OAISIS) is designed to provide the City of New York with an electronic document management system, utilizing document imaging and workflow processing technology to support contract registration and claims processing functions.

60 unique complaint messages, which constitutes 0.02% of the total number of orders and all were subsequently resolved.”

**Auditor Comment:** Although DOE states that it agrees with the recommendation, its response implies that the current complaint system addresses it adequately. However, DOE did not provide evidence that its existing complaint system aggregates the complaints; details the dates, sources, and substance of the complaints; and shows whether, how, and when the complaints were addressed and resolved. By establishing a comprehensive system through which all complaints and resolutions are logged, DOE will be better able to keep track of the complaints received and their resolutions, and be better equipped to identify systemic issues with the vendor’s performance. We therefore urge DOE to reconsider and implement this recommendation.

9. DOE should establish monthly/quarterly evaluations or surveys to be sent via email to the CEs and Principals to obtain feedback on vendor performance.

**DOE’s Response:** “The DOE disagrees with this recommendation, as we shared with the auditors that the DOE already has a functional user feedback system as referenced in the response to Recommendation 8.”

**Auditor Comment:** The system referenced by DOE does not aggregate all complaints received or their resolutions, as noted above. Furthermore, the current system does not elicit or capture meaningful feedback from all CEs and Principals on the vendor’s performance, apart from any complaints they may have logged concerning individual issues. DOE should implement an affirmative process to obtain feedback on the vendor’s performance from all CEs and Principals in the form of monthly/quarterly evaluations or surveys. That process would allow DOE to keep abreast of the vendor’s performance across all schools and promptly address any performance problems, if necessary. We therefore urge DOE to reconsider and implement this recommendation.

10. For the evaluations to be more meaningful, DOE should ensure that evaluations prepared on SDI’s performance are detailed, and that they specify those areas of the contract that the vendor is following, if applicable, and the areas that require improvement, if applicable.

**DOE’s Response:** “The DOE agrees with this recommendation, and our evaluation process going forward will track SDI’s performance in greater detail.”

## 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. 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 scope of this audit covered the period July 1, 2018, through September 30, 2020.

To achieve our audit objective and gain an understanding of the internal controls governing DOE's responsibilities regarding the monitoring of its contract with SDI, we reviewed and, where applicable, used the following as criteria: DOE's Custodial Supplies Management Request for Proposal (RFP) Contract # 2011917009; New York City Comptroller's Directive #1, *Principles of Internal Control*; DOE's PPP Guidelines, amended as of February 24, 2016; and selected pages from a PowerPoint training slide that addresses how Custodian Engineers are to post orders, the handling of order cancellations and returns, and the certification of deliveries made at the schools.

To obtain an understanding of the various roles and responsibilities of DOE personnel regarding the contract, we interviewed: the DSF's Director of Field Operations, the Deputy Director of Field Operations, and the Deputy Director of Materials Management. We also conducted a walkthrough with the Deputy Director of Material Management, who provided an overview of each of his team member's day-to-day functions in monitoring the contract. In addition, we reviewed the organizational chart for DSF to familiarize ourselves with its organizational structure as it relates to the contract.

DOE provided us with several datasets:

- an electronic Excel spreadsheet for the period of July 1, 2018 through June 30, 2020 containing 272,061 records of custodial supply payments valued at \$100,093,447, which was extracted from DOE's FAMIS system;
- an electronic Excel spreadsheet of SDI's Usage report for the period July 1, 2018 through to June 30, 2019 containing 213,053 records of purchased items valued at \$37,131,474;
- an electronic Excel spreadsheet of the PPI calculation prepared by DOE that is used to annually adjust prices of the 300 high-usage items;
- an electronic Excel spreadsheet prepared by DOE that reflects 92 items that were returned to SDI, resulting in credits to DOE; and
- a copy of a report entitled Uncertified Custodial Orders Report used to confirm certifications and identify those CEs who fail to follow certification procedures, which was obtained from COGNOS.

In order to test the completeness and reliability of the data, using Audit Command Language (ACL), we compared the catalog numbers of the 117,060 records of purchased items valued at \$36,183,459 contained in the FAMIS dataset for Fiscal Year 2019 to the 213,053 records of purchased items valued at \$37,131,474 reported in SDI's Usage report. We first applied filters to separate the two sets of data according to catalog and non-catalog items—since the audit's focus was a review of catalog item purchases, specifically the top 300 high-usage items. This resulted



in 94,144 catalog records (in FAMIS) of purchased items valued at \$26,961,565 and 168,669 catalog records (in the Usage report) of purchased items valued at \$31,252,978.

To ensure that the correct catalog code for each order corresponded to the correct associated record in the Usage report, we further filtered and grouped the records in both data sets according to work request, location and catalog number—resulting in 94,144 FAMIS records and 166,541 catalog records (in the Usage report) of purchased items valued at \$31,252,978. We then applied additional filters to extract only those records that had an “R” identifier—which is the equivalent to FAMIS’ work request number. It resulted in all 94,144 FAMIS records and in 93,667 records (in the Usage report) of purchased items valued at \$27,565,589. We then matched these two figures and found that 91,515 records of purchased items valued at \$26,129,764 could be reconciled, which we then used as our population for conducting our audit tests.

To determine whether DOE ensured that the adjusted prices of the top 300 high-usage items were entered in FAMIS, we used ACL to compare the top 300 high-usage items recorded in FAMIS to the 300 high-usage items noted in the annual PPI report.

To obtain an independent list of the top 300 high-usage items recorded in FAMIS, using the 91,515 reconciled FAMIS records, we summarized each individual catalog item and subtotaled according to the extended dollar amount, resulting in 1,686 individual catalog codes for each product that was purchased. From the 1,686 records, we identified and extracted the 300 high-usage items according to catalog code and the total extended dollar amount spent. We then matched this independently generated list to the top 300 list that was prepared by SDI as part of its PPI report.

To ascertain whether DOE accurately applied the PPI calculations to the top 300 high-usage items, we reviewed both the 91,515 reconciled FAMIS records and the Usage report to see whether the adjusted prices provided in SDI’s PPI report matched exactly to records in both reports.

To determine the extent to which DOE accounted for all the returns to SDI, we used Excel to reconcile the returned items in DOE’s Excel file to the records identified as returns in SDI’s Usage report.

To ensure payments were made to SDI after deliveries were certified, we requested and were provided with a separate list of 68,516 check payment dates that represent the first purchase payments made to SDI. Using the original FAMIS dataset, we compared the dates the items were certified in FAMIS to the dates that payments were made for the items.

To ascertain whether DOE reviewed the management reports SDI submitted to them, we requested evidence of the reconciliation efforts that were performed.

To determine the extent to which DOE monitored SDI’s performance, we requested the Semi-Annual Contract Reports.

To determine whether DOE assessed SDI’s performance, we reviewed three DOE/DSF prepared evaluations that were posted with contract documents on OASIS—one for each year since 2017.

To assess the satisfaction of those directly affected by DOE’s contract with SDI, we made inquiries as to how complaints are tracked and resolved.

We reviewed a prior report issued by our office, Audit Report on the Department of Education’s Custodial Supplies Management Contract with Strategic Distribution Inc. (MG13-079A), issued June 25, 2014, to ascertain whether the conditions identified in that audit still existed.

The collective results of all the tests done provide sufficient, competent evidence to support our findings and conclusions about DOE's controls over the monitoring of its contract with SDI.



June 17, 2021

Marjorie Landa  
Deputy Comptroller for Audit  
The City of New York  
Office of the Comptroller  
One Centre Street  
New York, NY 10007-2341

**RE: Audit Report on the Department of Education's  
Monitoring of its Custodial Supplies Contract  
with Strategic Distribution, Inc. – MH20-076A**

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 audit report on the DOE's Monitoring of its Custodial Supplies Contract with Strategic Distribution, Inc. (Report).

Response to Recommendations:

**Recommendation 1.** *DOE should enforce the contract requirement that SDI submit four types of management reports. Specifically, DOE should require that SDI submit to it the Quarterly Spend Report and the Accuracy Detail Analysis Report.*

**Response:** The DOE agrees with this recommendation inasmuch as our prior practice of reviewing SDI data to analyze purchases and performance will be modified to align with the terms of the contract requiring SDI to submit all reports.

**Recommendation 2.** *DOE should ensure that modifications made to contract terms are formally documented in writing as required by its PPP Guidelines.*

**Response:** The DOE agrees with this recommendation, as it is longstanding practice and policy.

**Recommendation 3.** *DOE should maintain records of the meeting minutes that provide detailed information on its discussions with SDI regarding contract issues that arise and on mutually-agreed-upon resolutions so that it can have documented evidence of SDI's responsiveness to issues identified and consider such evidence in SDI's formal contract evaluation.*

**Response:** The DOE agrees with this recommendation and will prospectively maintain meeting minutes and agendas.

**Recommendation 4.** *DOE should utilize the data contained in SDI's management reports and reconcile that data with the data contained in its own records to ensure that it is getting accurate information about contract performance and to address any reporting and/or performance deficiencies identified through such reconciliations.*

**Response:** The DOE agrees with this recommendation. All SDI management reports will be reconciled against DOE's payment system. It is worth noting that the auditors conducted their own reconciliation and found no discrepancies.

**Recommendation 5.** *DOE should periodically perform pricing surveys to ascertain whether it can identify any catalog items that can be purchased elsewhere at a savings of 20 percent or more.*

**Response:** The DOE agrees with this recommendation. We will perform pricing analysis on items for which we can request a price reduction under the terms of the contract.

**Recommendation 6.** *If items are identified that can be purchased outside the catalog at a savings of 20 percent or more, DOE should request a price reduction within the price range offered by the alternate source.*

**Response:** The DOE agrees with this recommendation and will seek price reductions for items identified in our pricing analysis as eligible.

**Recommendation 7.** *To help facilitate such surveys, DOE should require that SDI provide DOE with the actual price for each item in its catalog separate from the cost associated with the expenses incurred by SDI for administering the contract.*

**Response:** The DOE disagrees with this recommendation. Section 1.5 of the contract states that the vendor shall submit to the DOE an *all-in cost* including the total cost associated with the following: "Unit price of the items in the catalog; Delivery costs; Storage costs; Service and/or repair costs per standard warranty; Catalog production and delivery of the catalog; Reporting costs; Electronic integration and transmission software costs; Product data update costs; Administrative cost; Overhead cost and profit." In performing cost analysis among vendors on a specific item, the total cost of an item from each vendor should be used as that is the cost to the DOE. Having an all-in cost does not affect the ability of the DOE to perform price analysis or identify cost savings.

**Recommendation 8.** *DOE should formally track all complaints using a method that presents the complaints as an aggregate, and that details the dates, sources, and reasons for the complaints, as well as information on how the complaints were addressed and resolved.*

**Response:** The DOE agrees with this recommendation, inasmuch as it aligns with the feedback system the DOE instituted in January of 2017. The system is comprised of an electronic messaging system monitored by the DOE and the vendor. The DOE issues annual directives to submit complaints to said electronic message system and conducts regular reviews of the accounts to track user feedback or coordinate on resolutions if necessary. For reference, from July 1, 2018, to September 30<sup>th</sup>, 2020 (the scope period of this audit), there were only 60 unique complaint messages, which constitutes 0.02% of the total number of orders and all were subsequently resolved.

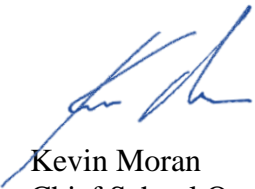
**Recommendation 9.** *DOE should establish monthly/quarterly evaluations or surveys to be sent via email to the CEs and Principals to obtain feedback on vendor performance.*

**Response:** The DOE disagrees with this recommendation, as we shared with the auditors that the DOE already has a functional user feedback system as referenced in the response to Recommendation 8.

**Recommendation 10.** *For the evaluations to be more meaningful, DOE should ensure that evaluations prepared on SDI's performance are detailed, and that they specify those areas of the contract that the vendor is following, if applicable, and the areas that require improvement, if applicable.*

**Response:** The DOE agrees with this recommendation, and our evaluation process going forward will track SDI's performance in greater detail.

Sincerely,



Kevin Moran  
Chief School Operations Officer