

H. CARL McCALL
STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 26, 2002

Mr. Joel I. Klein
Chancellor
New York City Department of Education
52 Chambers Street
New York, New York 10007

Re: Report 2001-F-50

Dear Mr. Klein:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article III, Section 33 of the General Municipal Law, we have reviewed the actions taken by officials of the New York City Board of Education (Board) as of September 24, 2002 to implement the recommendations contained in our audit report, *New York City Board of Education - Selected Procurement Practices* (Report 97-N-4). Our report, which was issued on September 22, 1999, reviewed Other Than Personnel Services (OTPS) expenditures for fiscal year 1997 and examined the use of the on-line purchase requisitioning system known as FASTRACK.

Background

The Board recently was renamed the New York City Department of Education. It incurred about \$3.1 billion of OTPS costs during the 2002 fiscal year encompassing the period from July 1, 2001 through June 30, 2002. Major categories of OTPS costs include instructional supplies, textbooks, library books, equipment, consultants, rentals, transportation, printing, repairs and maintenance. Costs for general supplies and materials, which were a focus of our audit, were budgeted for \$243.5 million in fiscal year 2002.

The Board's Financial Management Centers (FMCs) include school districts and central office units. The FMCs make OTPS purchases through the issuance of purchase orders to vendors in the marketplace and also use imprest funds to pay vendors for small purchases for emergency or anticipated needs where other methods are impractical. Imprest funds are checking accounts that are periodically replenished to sustain an approved balance. The FMCs can also make OTPS purchases by requisitioning items that are available on requirement contracts that the Board's Office of Purchasing Management (OPM) has negotiated with specified vendors. OPM also has implemented an on-line purchase requisitioning system, FASTRACK, to reduce paperwork, to save time in the procurement process and to improve accessibility to OTPS items.

Summary Conclusions

In our prior audit, we identified instances where FMCs were not fully utilizing the favorable general office supply prices available through the requirement contracts. We also found that more needed to be done to increase the use of FASTRACK and to strengthen controls over certain imprest fund transactions.

In our follow-up review, we found that the Board has made some progress in implementing the recommendations contained in our audit report. For example, the Board had taken steps to promote the use of FASTRACK and was monitoring transactions to ensure that the imprest fund was being used properly.

Summary of Status of Prior Audit Recommendations

Of the seven prior audit recommendations, Board officials have implemented four recommendations, and have not implemented three recommendations.

Follow-up Observations

Recommendation 1

Routinely monitor and, where appropriate, follow-up on instances where the general office supplies requirement contract is not being used for this OTPS category.

Status - Not Implemented

Agency Action - The Board agrees with the recommendation. This past year a mandate was issued to all FMCs requiring that they use the general office supplies requirement contract. The contract manager will be responsible to monitor Board-wide usage of the contract. Plans are also now in place to start monitoring compliance through monthly reports that will outline spending. However, to date the recommendation has not been implemented.

Recommendation 2

Continue to enhance FASTRACK to meet users' needs, including those identified in this report, and continue to promote its use to obtain further processing efficiency.

Status - Implemented

Agency Action - The Board's OPM has issued a Request For Proposal (RFP) that will fully automate on-line ordering for the schools and improve upon the functionality of FASTRACK. Two finalists were identified and a funding source is in the approval process. Board officials also provide training seminars to help school officials better understand the advantages and uses of FASTRACK.

Recommendation 3

Further evaluate the appropriateness of imprest fund transactions that exceed the \$250 limit. If warranted by the evaluation, take additional steps to ensure compliance with requirements.

Status - Implemented

Agency Action - The Board's Division of Financial Operations stated that they would continue to quarterly review imprest fund documentation for FMC transactions that exceed the \$250 approved limit. They will evaluate transactions and, where appropriate, inform districts with recommendations to ensure compliance to purchasing guidelines with respect to the bidding requirement. The Board has also contracted with an accounting firm to review FMC spending practices and identify those that have violated the guidelines.

Recommendation 4

To identify future saving opportunities, establish risk-based controls for monitoring and following-up on imprest fund transactions that collectively account for large dollar purchases with specific vendors.

Status - Implemented

Agency Action - The Board's Division of Financial Operations generates a report to identify vendors where expenditures have exceeded \$15,000 without a contract. These reports are to be reviewed to determine if contracts are needed. In addition, the Office of Auditor General (OAG) is to follow-up and monitor the imprest fund transactions.

Recommendation 5

Contract for parent-initiated transportation costs for special education students.

Status - Not Implemented

Agency Action - Staff members of the OPM have reportedly been reviewing and evaluating the responses to the car service bid. When this process is complete they plan to identify the awarded vendors. This should result in the implementation of this recommendation.

Recommendation 6

Reemphasize requirements that bills not be split to avoid the \$250 limit for imprest fund transactions.

Status - Implemented

Agency Action - The Division of Financial Operations will continue to reiterate the purchasing guidelines via OTPS workshops and publications. Specific emphasis is being placed on the

bidding requirement for purchases that are in excess of the maximum dollar amount and the requirement that bills are not to be split to circumvent the \$250 limit. In addition, the OAG has established an action plan and responsibilities to ensure that proper procedures are followed.

Recommendation 7

Establish procedures and system checks to ensure consistency in payee names for imprest fund transactions.

Status - Not Implemented

Agency Action - Board Officials continue to disagree with this recommendation.

Major contributors to this report were Orin Ninvalle and Tom Trypuc.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved matters discussed in this report. We also thank the management and staff of the Board for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Jerry Barber
Audit Director

cc: Jeff Fardella