



**U.S. DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
75 Park Place, 12th Floor
New York, New York 10007
Telephone (212) 264-8442 Fax (212) 264-5228**



March 30, 2004

Control Number
ED-OIG/A02-D0016

Joel I. Klein, Chancellor
New York City Department of Education
Office of the Chancellor
52 Chambers Street, Room #320, B4
New York, NY 10007

Dear Chancellor Klein:

This **Final Audit Report** presents the results of our audit, entitled *New York City Department of Education's Use of Computer Equipment to Support the E-Rate Program*. The objective of our audit was to determine if schools in the New York City Department of Education (NYCDOE) used computers and related equipment purchased with U.S. Department of Education (ED) funds to enable students to access the Internet using the E-Rate (Schools and Libraries Universal Service Fund) contracted Internet Service Provider, based on approved E-Rate applications with the Federal Communications Commission (FCC). We also determined if ED and FCC incurred any duplication of payments in the administration of this program.

We provided a draft of this report to NYCDOE. In its response dated March 15, 2004, NYCDOE agreed with our recommendation. We have summarized NYCDOE's comments and included the response as Attachment 1.

BACKGROUND

The E-Rate program was created as part of the Telecommunications Act of 1996 to provide schools and libraries with discounts of 20 to 90 percent for Internet access and telecommunications infrastructure, and for internal connections. The E-Rate program is funded by the telecommunications industry through taxes on individual telephone bills, and is administered by a non-profit group called the Universal Service Administrative Company (USAC), through a contractual agreement with FCC. Non-profit elementary and secondary schools (public or private) may apply for E-Rate discounts through an

application process made to USAC. Once approved, the school is responsible for paying the remainder of the costs for Internet Service Provider connections not paid with E-Rate funds (matching provision). ED funds can be used to purchase computer equipment for Internet access.

AUDIT RESULTS

We found that NYCDOE schools utilized computers and related equipment purchased with ED funds to enable students to access the Internet using the E-Rate contracted Internet Service Provider (see Figure 1). We did not find any duplication of payments, using ED and FCC funds, to purchase computers for this program. However, we found that NYCDOE lacked adequate inventory controls over computers and related equipment purchased with ED funds.



Figure 1: Wireless Computer Accessing the Internet
Middle School 202, Ozone Park, New York

Finding —Lack of Adequate Controls Over Federally Funded Equipment

NYCDOE did not consistently maintain property records that identified the source of property and percentage of Federal participation in the cost of the property, as required by Federal regulations. We sampled 12 schools that had a combined \$536,566 in ED funded technological equipment. Of the 12 schools, 4, totaling \$165,906, were not in compliance with Federal regulations.

Per, 34 C.F.R. § 80.32, July 1, 2000, (d) Management requirements.

Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

NYCDOE's Standard Operating Procedure Manual (SOPM), dated September 2001, contained an inventory policy that was vague and lacked specific guidance for the consistent recording of individual inventory records on a per school/district basis. Specifically, in the SOPM, the funding field in the database was not marked as a mandatory field for data entry. Other than the SOPM, NYCDOE did not provide guidance for inventory recordkeeping.

Since NYCDOE lacked adequate controls over the inventory of computers and related equipment purchased with ED funds, there is no assurance that these computers and equipment were exclusively used for their intended purposes.

Recommendation

We recommend that the Assistant Secretary of Elementary and Secondary Education require NYCDOE to:

- 1.1 Revise the SOPM to provide clear and comprehensive policies and procedures to ensure NYCDOE maintains adequate inventories of computers and related equipment purchased with Federal funds that comply with Federal property management requirements, including funding source and percentage of Federal participation in the cost of the property.

Auditee Comments

In its response, NYCDOE concurred with the recommendation, but did not discuss implementation of the corrective action. NYCDOE stated that their SOPM chapter on inventory defines clear and comprehensive policies and procedures that ensure that adequate inventory records of computers and equipment are maintained. The inventory list and cards in the SOPM include fields for identifying the funding source and all other necessary identifiers of the item. Regardless, NYCDOE stated it will continue to reinforce the procedures necessary for the management of equipment.

OIG Response

We continue to support our recommendation and maintain that the SOPM chapter was vague and unless it has been updated, further guidance is needed to ensure proper inventory recordkeeping. While there is a field identifying funding source on the inventory list and cards in the SOPM, it was not marked, as it should have been, as a mandatory field for data entry.

OTHER MATTERS

During the audit, we found that NYCDOE recorded unallowable technological equipment totaling \$8,412 as charges to FCC's E-Rate program in their accounting system. End-user components are not allowable charges to FCC's E-Rate Program. NYCDOE

provided invoices for two transactions indicating that Community School District 30 purchased five laser jet printers and improperly charged these transactions to the E-Rate program accounting code. This problem occurred because NYCDOE had a decentralized purchasing system, which allowed the Community School District 30 to purchase the end-user equipment and incorrectly account for them as an eligible service for the E-Rate program. NYCDOE did not seek reimbursement from FCC for this equipment.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if schools in NYCDOE used computers and related equipment purchased with ED funds to enable students to access the Internet using the E-Rate contracted Internet Service Provider, based on approved E-Rate applications with the FCC.

To accomplish our audit objective, we interviewed school principals, various school personnel, and officials from NYCDOE, reviewed policy directives and supplemental instructions. We also obtained the electronic data files extracted by NYCDOE from the Financial Accounting Management Information System (FAMIS).

To achieve our audit objectives, we assessed the reliability of computer-processed data extracted by NYCDOE from FAMIS and found that the data are sufficiently reliable for meeting our audit objectives. We tested the accuracy and completeness of the data by comparing the electronic FAMIS file that contained all approved E-Rate sites by location code with an approved external file received from FCC. Based on these tests, we conclude that the data are sufficiently reliable to support the findings, conclusions, and recommendations and using the data would not lead to an incorrect or inaccurate conclusion.

We obtained an extract from NYCDOE's FAMIS for all purchases with ED funds for technological equipment for July 1, 2001, through June 30, 2002. We made site visits to a sample of these sites to determine if the purchases were related to the E-Rate program and the equipment was located at the sites sampled. The population of E-Rate sites chosen for sample selection purposes was generated using the fiscal year 2002 posting of technological purchases per the FAMIS system that were associated with approved E-Rate sites. The population was segregated into four strata, as follows:

<u>Strata</u>	<u>Sites</u>
\$75,001 and higher	2
\$30,001 through \$75,000	11
\$10,000 through \$30,000	13
Volume less than \$10,000	30

Both sites from the first strata were selected for review. Ten sites were randomly selected from the next two strata. The population sites included in the smallest dollar strata were deemed immaterial and were excluded from further sample consideration.

We conducted the fieldwork at NYCDOE offices and schools in June 2003 through September 2003. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to NYCDOE's administration of the E-Rate program. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objectives.

For the purpose of this report, we assessed and classified the significant controls into the following category:

- Property management

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed a significant management control weakness, which adversely affected NYCDOE's ability to maintain property records; specifically inadequate controls over computers and related equipment purchased with Federal funds. This weakness and its effect are fully discussed in the AUDIT RESULTS section of this report.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on the audit:

Raymond Joseph Simon
Assistant Secretary
Office of Elementary and Secondary Education
400 Maryland Avenue, SW
Washington, DC 20202

It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Daniel P. Schultz
Regional Inspector General
for Audit

**THE NEW YORK CITY DEPARTMENT OF EDUCATION**JOEL I. KLEIN, *Chancellor*OFFICE OF THE CHANCELLOR
52 Chambers Street – New York, NY 10007

To: Daniel P. Schultz
Regional Inspector General for Audit
U. S. Department of Education
75 Park Place, Room 1207
New York, NY 10007

From: John Wall
Finance Administrator
NYC Department of Education
65 Court Street, Room 1702
Brooklyn, NY 11201

SUBJECT: Draft Audit Report Comments

March 15, 2004

Dear Inspector General Schultz:

I concur with the recommendation of this Draft Audit Report entitled New York City Department of Education's Use of Computer Equipment to Support the E-Rate program and have included my response in the Implementation Plan attached.

Regarding the 'Lack of Adequate Controls over Federally Funded Equipment' finding, we will continue to reinforce the procedures necessary for the management of equipment. In addition, we will confer with the newly formed Regional Operational Centers of the Department and our Auditor General on the need to enforce these guiding principles.

Sincerely,

A handwritten signature in cursive script that reads 'John Wall'.

John Wall
Finance Administrator
NYC Department of Education

Cc: Louis Benevento
Vincent A. Giordano
Bruce Feig
Rick Stewart
Nader Francis

Audit Implementation Plan **Form A**

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

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RESPONSE DATE: 03/14/2004

AUDIT TITLE: NYC DOE Computer/E Rate Use/Protection

AUDITING AGENCY: US DOE

DIVISION: Inspector General

DRAFT REPORT DATE: 02/19/2004

AUDIT NUMBER: ED-OIG/A02-D0016

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

Revise the SOPM to provide clear and comprehensive policies and procedures to ensure NYCDOE maintains adequate inventories of computers and related equipment purchased with Federal funds that comply with Federal property management requirements, including funding source and percentage of Federal participation in the cost of the property.

RESPONSE TO RECOMMENDATION - IMPLEMENTATION PLAN

The SOPM chapter on Inventory does define clear and comprehensive policies and procedures to ensure that adequate inventory of computers and other equipment are maintained. Each site administrator is responsible for maintaining and updating the inventory records for his or her site. It states that this responsibility for proper inventory recording is mandated from New York State Education Law. These records are subject to audit by the Office of Auditor General of the Department, as well as the City Comptroller and other authorized state, and/or federal officials. The SOPM states that the annual inventory of all supplies and equipment is to be completed by November 1 of each year with a copy of the inventory statement and list going to the sites' Financial Management Center. The inventory list and cards include fields for identifying the funding source and all other necessary identifiers of the item. The accounting system of the Department (FAMIS) can be used to identify the percentage of Federal participation in the cost of the property.

IMPLEMENTATION DATE

RESPONSIBILITY CENTER
Financial Operations

Signature:



Print Name: John Wall

03/14/2004

Print Title: Administrator of Finance