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THE SPECIAL COMMISSIONER OF INVESTIGATION
FOR THE NEW YORK CITY SCHOOL DISTRICT

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**PAPER, PENCILS AND
PLANES TO THE CARIBBEAN:
Corruption in the Purchasing of
School and Office Supplies**

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Introduction

Turning Dollars for School Supplies Into a Fun-Filled Vacation

On November 6, 1993, Joan Salvatore, director of early childhood programs in Bronx Community School District 12, boarded an early-morning American Airlines flight at Kennedy Airport, bound for San Juan, Puerto Rico. Salvatore was off to the annual post-election gathering of New York elected officials and their staff in San Juan. Salvatore's flight, her week-long hotel stay and all her other expenses were paid for through a "credit pool," a sort of slush fund she used to divert funds for children's school supplies to her personal use. So while Board of Education dollars funded Ms. Salvatore's efforts to network under the Puerto Rico sun, it was the children of her impoverished Bronx school district who truly paid the bill.

To see the impact of Ms. Salvatore's crimes, one need only look out her district office window in the South Bronx to the elementary school across Jennings Street. At Community School 66, one of many that should have benefitted from the dollars that funded Salvatore's vacation, children struggle to learn with inadequate textbooks in classrooms stocked with dilapidated furniture. While Ms. Salvatore vacationed in Puerto Rico, parents at the school, which in 1993 ranked 538th out of 628 City elementary schools in reading scores, wondered why they couldn't get adequate school supplies. They wrote to Special Commissioner Stancik about their suspicions. "We are very concern[ed] about how and where the money appointed to the children is going," the parents wrote. "Our school [plan] did not include a budget to buy materials for these classrooms. Some teachers didn't receive materials this year and had to buy them with their own money." This investigation helps explain why the children at C.S. 66 never received their school supplies.

But Salvatore's trip to Puerto Rico is only the most vivid example of illegal credit pools being used to defraud the city's schoolchildren and teachers of the supplies they need. By creating an undercover office supplies company, and aided by a confidential informant, we uncovered dozens of similar schemes throughout the school system. Employees in schools, district offices and

in central administration were willing and eager participants in purchasing fraud schemes. Our cases involved not only purchasing agents, but also principals, teachers, secretaries and other administrators. In all, 25 Board of Education ("BOE") employees participated in illegal credit pools, and our undercover company, Essy Products, obtained more than \$125,000 as a result of these illegal transactions. Allegations against six of these employees have been referred to state and federal prosecutors, while the conduct of the others has been made known to the Chancellor with the recommendation that their employment be terminated, and/or that they be barred from reemployment. Allegations against two vendors have also been referred for prosecution.

Yet that is likely the tip of the iceberg. Our confidential informant, who has been doing business with the BOE for the last ten years, described the credit pools through which our company profited as "prevalent" in the sale of school supplies to the BOE, which total over \$160 million annually. Indeed, there is no reason why credit pools should not be widespread. The BOE's antiquated purchasing and inventory system, along with a glaring loophole in its purchasing regulations, leave the door wide open to credit pools like those the subjects of this investigation engaged in with Essy Products. But to fully understand how the current system allows this type of fraud, it is necessary to study the credit pool arrangements themselves.

The credit pool, in fact, is not a particularly sophisticated criminal venture. To generate the pool, the vendor and the conspiring BOE employee agree on a fictitious purchase of school supplies. The order is transmitted to the vendor, but the supplies are never delivered. The conspiring employee signs a packing slip and submits it to the BOE, falsely indicating that the supplies were received. The BOE pays the vendor for these supplies, and the amount of that payment becomes the "opening balance" of the pool. The balance in the pool increases as the BOE employee "purchases" more fictitious supplies, or decreases as the vendor pays kickbacks to the employee or makes unilateral "withdrawals" for himself. The pool is not always used to personally enrich the BOE employee: it can be used to facilitate the purchase of luxury items such as televisions or microwaves regulated by the BOE; to evade the BOE's regulation, known as the "use it or lose it rule," that all funds be spent or returned to central administration by the close of

the fiscal year; or simply to purchase without the hassle of paperwork. In all its forms, however, the BOE loses track of its money and the supplies it is supposedly purchasing.

The credit pool "account" itself is typically not documented anywhere. There are no books that can be audited, no receipts that can be reviewed. As the pages ahead demonstrate, most BOE employees in these schemes relied on the vendor to keep track of the amounts in the pools. In essence, BOE funds used to create credit pool accounts simply drift in space. The BOE does not know, indeed has no way of knowing, how much of its money is adrift in credit pools among the 18,000 vendors with which it conducts business. But with more than \$160 million in supplies purchased annually, and the door wide open to this type of abuse, losses are almost certainly in the millions.

While there are many variations on the basic credit pool scheme, no credit pool can succeed unless the BOE pays for goods it never receives. This happens routinely for two reasons. First, BOE regulations allow the same employee to both order school supplies and sign for their delivery, so that a corrupt employee can falsely verify that the goods he ordered were delivered. Second, purchasing and inventory controls are so lax and outdated that the BOE simply does not know independently whether it has received the goods it ordered.

Any effort to attack the problems uncovered in this investigation must involve more than firing the employees involved in the fraud; it must remedy the systemic flaws that made the fraud so easy to commit and so difficult to detect. Our recommendations for reform are presented at the end of this report. After consultations with several experts in the field of procurement, from both the government and the private sector, it is clear to us that the BOE needs desperately to re-engineer its procurement methods.

There are significant steps that can be taken immediately, and at little or no cost. The BOE should adopt and enforce a regulation prohibiting the same employee from both ordering supplies and signing for their delivery. Further, accountability for purchasing and inventory must be clearly established throughout the system. All too often we found that the answer to the question "who's minding the store?" is simply "no one." To change that answer, the BOE will need to

designate existing staff to take responsibility for the proper ordering, receipt, and storage of supplies.

But if the BOE is ever to conduct its purchasing in a fully professional manner, on a footing with private industry or progressive government institutions around the country, it must automate its purchasing and inventory. Only with a modern computerized procurement system can the BOE be confident it has received the goods it has paid for. The BOE simply does too much purchasing, more than \$1.5 billion annually, to rely on the paper-driven system it currently uses.

We recognize that dollars are scarce. The reforms we recommend will entail considerable expense, but not nearly as much as maintaining the status quo. Experts we consulted estimated that the BOE could save tens of millions annually with a modern purchasing and inventory system. Further, it is hard to ignore that over the years the BOE has been consistently resistant to criticism of its purchasing and inventory practices, and has dragged its feet in implementing reforms.¹ We believe the time has come for the BOE to aggressively confront the weaknesses in its purchasing and inventory systems, so that the money so badly needed for school supplies does not continue to escape into the hands of corrupt vendors and BOE employees.

The Investigation: A Cooperating Vendor and an Undercover Company

The circumstances leading to the investigations described below began in December 1992, when a confidential source (referred to hereafter as "Fortunoff"), who was employed by the BOE as a purchasing agent at the time of the events described here,² informed our office ("SCI") that he had been involved in a fraudulent credit pool scheme with a salesman (referred to hereafter as "Sales").³ The company Sales worked for, New Jersey Office Supply, conducted approximately \$7.8 million worth of business with the BOE from 1990 to 1993. Fortunoff agreed to cooperate

1. We have reviewed numerous reports criticizing the BOE's purchasing and inventory controls, some dating back over a decade. Some of the more recent examples include: New York City Comptroller's Office, *Audit of the Board of Education's Inventory Controls Over Audiovisual Equipment in Its High Schools*, June 16, 1994; New York City Comptroller's Office, *Audit Report: Poor Controls at the Board of Education Result in Missing and Unaccounted For High School Computers*, October 26, 1992; Ernst & Young, *Management Letter: Board of Education of the City of New York*, October 29, 1993.

2. On May 20, 1994, Fortunoff resigned from his employment with the BOE.

3. Given the nature and extent of the undercover cooperation of these two individuals, we use these pseudonyms throughout the report.

with SCI in investigating Sales' activities and, over the next several months, he surreptitiously tape recorded conversations with Sales and, at our direction, accepted cash bribes from him. In July of 1993, Sales was arrested and a search warrant was executed at his home. On the day of his arrest, Sales agreed to plead guilty and cooperate with our continuing investigation. During the course of Sales' cooperation, which has lasted approximately one year, he has provided information about many current and former BOE employees with whom he had created credit pool accounts. At our direction, Sales secretly recorded dozens of conversations with these employees while he continued to do business with them. These conversations, coupled with hundreds of hours of debriefing sessions with Fortunoff and Sales, gave us an insider's view of the weaknesses in the BOE's purchasing and inventory systems, as well as the system-wide waste and theft of the BOE's school supply funds.

The cooperation of a vendor in a criminal investigation, without access to an office supplies company from which he can conduct business, is of limited value. Thus, an undercover company, created by SCI specifically for an opportunity such as this, was called into action. This company, called Essy Products,⁴ gave Sales, working with SCI, the front that was needed to carry out "business as usual" with corrupt BOE employees. Accounting procedures were established, and a system for obtaining goods was created whereby Essy Products could conduct an office supplies business with the BOE. Sales acted as its representative. In all, between September 1993 and August 1994, Essy Products obtained over \$125,000 in BOE money from illegal transactions with the BOE.⁵

The cases that follow illustrate how some Board employees took advantage of the opportunities presented by the weaknesses in the BOE's purchasing and inventory practices. Many employees involved in credit pool schemes were motivated solely by greed, and used the funds for personal enrichment. In other cases we examined, the employee did not personally profit from the credit pool. These employees generally participated in the scheme for one of three reasons:

4. "Essy" is essentially an acronym for "SCI," the initials of this office.

5. This amount includes BOE payments to Essy Products for real, phantom and substitute shipments, profits from sales made by Sales' company when goods were delivered, payments made by the BOE to Diversified Office Supplies, Sales' own company, and an additional \$1,000 we used to initially create the account. Both SCI and the BOE will be reimbursed, at least in large part, with this money; SCI for bribe money it paid to BOE employees through Sales, and the BOE for the money it paid for goods in transactions involving Sales, after he began his cooperation.

(1) to obtain supplies in a faster, less cumbersome manner than would have been possible had they followed BOE regulations, or (2) to obtain fancy goods for their offices, the purchase of which would otherwise have been barred as inessential, or (3) to "spend" their funds, pursuant to the BOE's "use it or lose it" rule. In so doing, however, these employees exposed the BOE to all the risks inherent in credit pools: price gouging, theft of supplies, unauthorized "commissions" taken by Sales, and unrecorded Board funds essentially adrift in space.

The purpose of this report is therefore threefold. First, we make public the details of our investigation, including the specific activities of the individuals who participated with Sales in these purchasing schemes. Second, we examine the BOE's approach to purchasing and inventory, which has left it completely exposed to widespread theft and fraud. And third, we present our proposals to improve the BOE's purchasing system, to deter fraudulent purchasing practices, and to detect such activities when they occur. Our investigation makes clear that if the BOE is to prevent the widespread waste and fraud that currently pervade its purchasing and inventory practices, more than criminal convictions will be necessary. Although purchasing is largely dependent on the trustworthiness of the transacting individuals, it is clear that the BOE's current policies lack even minimal safeguards to establish accountability for the sort of wrongdoing described in this report. We therefore recommend fundamental changes.

This report is presented in four sections. The first section details the 25 individual cases of illegal purchasing schemes uncovered during our investigation. The second section briefly reviews some readily observable patterns in BOE spending. The third section describes an earlier failed effort by the BOE to automate its purchasing and inventory systems, which would have helped detect and deter purchasing fraud. The fourth section contains our recommendations for reforming the BOE's procurement and inventory practices, as well as our criminal and disciplinary referrals.

Results of Our Investigation

The 25 cases described below illustrate the ease with which the BOE's current purchasing regulations are blatantly manipulated, circumvented and exploited. That number was limited only by time and the resources of this office and the informant. Given the length and breadth of this investigation, one can safely assume that these abuses are prevalent throughout the system.

Criminal Misconduct

"Sales" and "Fortunoff": A Deal Too Good to Refuse

As mentioned earlier, in December 1992, Fortunoff, a purchasing agent for a central BOE division, informed SCI investigators that Sales, a salesman for a national office products company known as New Jersey Office Supply ("NJOS") and a principal of a small office products company known as Diversified Office Supplies ("Diversified"), had been defrauding the BOE by receiving payment for falsified purchase orders and impost fund invoices. Fortunoff, who was responsible for purchasing for his entire division, with an annual OTPS⁶ budget of about \$500,000, became aware of Sales' schemes during his BOE employment, and admitted that he participated in them. He described the reasons for his involvement with Sales and agreed to assist us in our investigation.

Fortunoff's Activities With Sales Before Fortunoff Begins His Cooperation With SCI

Fortunoff first met Sales in October 1991, when his supervisor asked him to purchase unique free-standing dry-erase markerboards. At that time Fortunoff had only been in his position as a purchasing agent for two months, having assumed those responsibilities in August of that year. Following BOE regulations, Fortunoff called the BOE's central purchasing division, the Bureau of Supplies ("BOS"), to find out whether they had the markerboards in stock. He was told that the BOE had a contract with NJOS for the markerboards, giving Fortunoff the choice of

6. OTPS is BOE budgetary shorthand for "Other Than Personal Service," meaning expenditures for everything except staff salaries.

obtaining them through a requisition to the BOS or directly from NJOS, the contract vendor. Because he wanted the markerboards immediately and had found the BOS requisition process to be extremely slow -- especially with respect to the purchase of specialized products like markerboards -- Fortunoff decided to go directly to NJOS. When Fortunoff called that company about buying the markerboards, he was told that Sales, the agent for the BOE's account, would contact him. Shortly afterwards, Sales contacted and later met with Fortunoff, leading him into the world of credit pools, forged paperwork, phantom deliveries, and cash kickbacks.

At this time, Sales had already been selling office supplies to the BOE for about eight years, and was familiar with BOE purchasing rules. In May of 1992, when Sales first proposed to Fortunoff that they create a credit pool, Fortunoff quickly saw the advantages and accepted. To Fortunoff, who had only recently become responsible for purchasing on a large scale, the credit pool had several virtues. First and foremost, the pool allowed Fortunoff to circumvent cumbersome BOE purchasing regulations and thus acquire goods for his unit and his supervisors with enormous speed and flexibility.

To purchase computer diskettes, for example, without a credit pool, Fortunoff would have to take several steps to comply with BOE rules. First, Fortunoff would have to review the BOS's voluminous catalogs to determine whether it had already contracted for the diskettes. Second, assuming that the BOS did not have a contract for diskettes, Fortunoff would have to obtain written bids from three vendors for that item, which, of course, could require many phone calls. Then, after selecting the low bidder, he would have to prepare a detailed purchase order documenting the specifications of the desired purchase. Fortunoff would then submit the purchase order and bids to the Financial Management Center ("FMC") responsible for all business transactions of his BOE unit. He would then wait for word from that office that the funds for his proposed acquisition had been "encumbered," that is, earmarked and set aside for his purchase. Once all of these tasks were finally accomplished, Fortunoff would send the purchase order to the low bidder, who would process the order and then deliver the goods to Fortunoff's unit. The vendor would be paid by the BOE after submitting an invoice and after Fortunoff forwarded a signed packing slip to the FMC representing that all the invoiced items had been received.⁷

The process described above could take months to complete, depending on: how much attention Fortunoff devoted to this particular purchase, one of many he would be responsible for at any given time; the speed with which vendors supplied the necessary bids; and the length of time the purchase order remained buried on a desk at the FMC, under dozens of similar documents, until it was reviewed and the necessary funds encumbered. This is not to suggest that the BOE's regulations are irrational; on the contrary, requiring both competitive bidding and the assurance that sufficient funds are present in the budget for a prospective purchase are worthwhile objectives. The fact that this process is largely paper-driven and not automated, however, necessarily makes it time consuming and frustrating to both BOE purchasers and vendors.

In contrast, Sales' credit pool purchasing scheme was simple and painless. All Fortunoff had to do was submit to the FMC, in the appropriate sequence, one set of fraudulent documents: a bogus purchase order arbitrarily listing any fungible office supply that came to mind; three phony bids supplied by Sales, the lowest bid being from NJOS or some other company over which Sales could exercise at least some control; and delivery documents falsely representing that the ordered goods had been received. Once the phony documents were in place, the bureaucratic machine took over. The "low bidder," Sales or his designee, was paid the amount listed on the purchase order, and the credit pool was born. To add additional funds to the pool, Fortunoff needed only to submit more phony paperwork showing additional purchases.

With the pool in place, Fortunoff could quickly obtain what he wanted for his unit with a single phone call to Sales, who gave new meaning to the phrase "one-stop shopping." Through NJOS, or other contacts in the vendor community, Sales could obtain just about anything that Fortunoff needed, whether or not NJOS had a BOE contract for the particular item, and whether or not the desired item was reflected anywhere on the phony paperwork that generated the credit pool in the first place. Thus, Fortunoff could use the credit pool scheme to curry favor with his bosses by quickly obtaining things they wanted, like coffeepots, televisions and VCRs for their offices.

7. The procedure described here applies to purchases between \$1,000 and \$10,000. For an overview of the BOE's regulations regarding purchasing, see Appendix.

The credit pool scheme also offered Fortunoff a way around the "use it or lose it" rule. That rule placed Fortunoff under tremendous pressure towards the end of every fiscal year to exhaust his remaining OTPS funds by the end of the year, or lose them altogether. Fortunoff was finding it difficult to both spend the leftover funds on time and follow the BOE's rules, which were, as illustrated above, extremely time consuming. Since Sales placed no requirement on Fortunoff that Fortunoff spend the funds in the credit pool before the end of the fiscal year, Fortunoff could circumvent the "use it or lose it" rule, with Sales' help, by simply submitting false documents to his FMC making it appear that goods, up to the amount of his OTPS budget, had been purchased and delivered before the deadline.

Of course, it is much easier for a BOE employee to acquiesce to the credit pool arrangement than it is to extricate himself after becoming embroiled in the scheme. Once the employee is compromised, he cannot expose the wrongdoing without great risk to his continued employment, even if it becomes evident that a corrupt vendor, like Sales, is keeping large sums of the credit pool funds for himself.

Thus, Fortunoff accepted Sales' offer to enter into a credit pool scheme. In May 1992, Fortunoff set up the pool by creating five separate purchase orders to NJOS for office supplies, totaling about \$18,800. Since each purchase order was for over \$1,000, Sales knew that the orders had to be accompanied by three written bids, with the lowest bidder winning the order.⁸ Sales thus prepared three phony bids for four of the five purchase orders, with the low bidder being NJOS each time. Each order appeared proper on its face, containing the NJOS vendor number and specifying NJOS contract items.⁹ Pursuant to his arrangement with Sales, however, Fortunoff intended to receive only a fraction of the items that he had listed on each purchase order.

Once Fortunoff created the purchase orders, he and Sales reviewed the items he had listed on them, and together they decided which ones would actually be delivered. They also agreed that Sales would deliver the markerboards, to be paid for out of the credit pool, even though the

8. The BOE's Standard Operating Procedures Manual, known as the "SOPM," requires that three written bids be submitted for all purchases between \$1,000 and \$10,000. For purchases between \$250 and \$1,000, bids may be submitted orally, and are generally conveyed by telephone. See Appendix for an overview of the BOE's purchasing regulations.

9. The items "ordered" included: hanging folders, file folders (40,000 of them), file folder labels, file tabs, lined pads, name badges, post-it pads, markers, report covers, pencils, erasers, tape, scissors, push pins, staples, and paper clips.

boards were not reflected on any of the five purchase orders or accompanying bids. When the purchase orders arrived at NJOS, all of the supplies listed on the orders were released to Sales, at his direction, at the NJOS warehouse.¹⁰ Sales then delivered to Fortunoff the items that they had previously agreed upon, and Fortunoff, in turn, accepted delivery and signed all of the packing slips,¹¹ falsely indicating that all of the items originally listed on the orders had been delivered. Once they were signed, nothing stood in the way of the BOE's payment to NJOS for the full amount of approximately \$18,500. Shortly afterwards, Sales sold the undelivered supplies paid for by the BOE to other customers, and used the cash generated from those sales -- about \$12,700 -- to finance the credit pool.

With the \$12,700 credit pool in place, Fortunoff bought the appliances that his supervisors wanted for their offices. In return for buying and delivering these goods, which included televisions, VCRs, microwaves, refrigerators and coffee pots, Sales arbitrarily deducted approximately \$8,600 from the credit pool, leaving an outstanding balance of about \$4,100.¹² When they were delivered, none of these items were inventoried or marked as the property of the BOE, and no one at the BOE, besides Fortunoff and the superiors to whom he gave these items, was even aware of their existence. Moreover, each of these items was considered by the BOE to be "regulated," and should not have been purchased without going through the BOS.

In the spring of 1992, Sales told Fortunoff about a company he owned, Diversified Supplies.¹³ Using a company under his complete control made it even easier to defraud the BOE. Sales created false bids with Diversified as the low bidder, which allowed him to be paid directly

10. According to Sales, NJOS released the goods to him instead of shipping them directly to the BOE because he was a long-time and productive salesman, and he had informed his superiors that he preferred to deliver directly to customers as part of the "personalized" service that he offered to them. While this version of the events could have allowed Sales to perpetrate his purchasing fraud schemes without the knowledge of anyone at NJOS, our investigation did not determine, independent of Sales' account, the extent of the role played by NJOS in advancing Sales' scheme.

11. The packing slip, page five of the BOE's standard seven page purchase order, is the form that BOE employees must sign in order to verify that all goods listed on the purchase order have been delivered in proper amount and condition.

12. Because he was in sole control over the credit pool, Sales was in a position to charge the credit pool without regard to competition or BOE scrutiny. He never gave Fortunoff any receipts for the goods he purchased, or an accounting of the funds in the credit pool, and made it a practice to both overcharge for the items he purchased for Fortunoff and to deduct a large part of the funds for himself.

13. Sales created Diversified in February 1988, and ran the company out of his New Jersey home. Diversified ultimately won an office supplies contract with the School Construction Authority, as well as the BOE. According to Sales, in July 1993, his superiors found out about his activities with Diversified. As a result, Sales was reprimanded but allowed to keep his job.

by the BOE for undelivered goods, eliminating the extra step of reselling the goods released to him by NJOS.

By submitting fraudulent imprest fund invoices¹⁴ and additional false purchase orders, Fortunoff added more funds to the pool. In the spring of 1992, when it became clear that he had \$4,100 remaining in his imprest fund budget, Fortunoff gave Sales six false imprest invoices totaling nearly \$1,500. Sales made the invoices out to Diversified and several other companies.¹⁵

By the summer of 1992, with over \$5,000 left in the pool, Fortunoff bought more appliances from Sales, including a clock, a radio and a CD player.¹⁶ To secretly deliver these goods, they arranged to meet on a Saturday morning in a McDonald's parking lot near the Manhattan Bridge. When they met, Sales announced that he wanted to keep some of the unspent credit pool funds for himself, and was willing to give Fortunoff a payment of \$1,500 to "settle" their account. Fortunoff refused the offer, which, according to him, prompted Sales to remark, "Everybody wants things that they can't get, the way that they want to get them, so they create Santa Clauses everywhere." Sales added that they "should both receive something." Fortunoff became frightened and again declined the offer, apparently fully realizing, for the first time, that Sales had engaged him in serious criminal activity.

Fortunoff's Activities With Sales After Fortunoff Begins His Cooperation With SCI

About three months later, in late 1992, during a conversation with investigators from our office, Fortunoff informed us of his activities with Sales. After agreeing to cooperate with the investigation and secretly record his activities with Sales, Fortunoff contacted Sales in December 1992, and indicated that he had changed his mind and had decided to accept his offer. Fortunoff told Sales, "Christmas is not working out too well, what do you suggest?" Sales readily agreed to

14. Imprest fund accounts are maintained by every school, district and central office as a way to provide quick and relatively paperless reimbursement to vendors and employees for small purchases of less than \$250. Since imprest funds can only be used to reimburse purchases of less than \$250, Fortunoff generally made each invoice out in amounts ranging from \$240 to \$249.

15. The companies were Diversified, L. Pulvermacher and Horex Office Systems. Sales later told SCI that he had long-standing business relationships with the latter two companies and that those companies would cash the BOE's checks and then credit the funds to Sales' account. Allegations concerning the role played by Howard Whitman, owner of Horex Office Systems and a company discussed later in the report, American Expandable, in this scheme, have been referred to the Kings County District Attorney's Office.

16. According to Fortunoff, the CD player was for himself, while the clock and the radio were for a secretary who was depressed. Ultimately, Fortunoff did not give these items to her because he became fearful of being caught.

replenish the credit pool, and told him to start working on a purchase order for "five to six [thousand]."

Shortly after this conversation, Sales met Fortunoff and gave him \$2,500 cash. In exchange, they agreed that Fortunoff would process a false purchase order to NJOS for approximately \$4,500 and an additional eight false imprest invoices. Sales gave Fortunoff eight fraudulent invoices totaling nearly \$2,000, which were made out to Diversified and three other companies.¹⁷ Then, according to plan, Fortunoff submitted these invoices, along with the \$4,500 purchase order made out to NJOS, to the BOE for payment. Fortunoff also signed packing slips, falsely indicating that the goods had been delivered, and submitted those to the BOE as well.

Sales used Fortunoff in a variety of ways, all at the expense of the BOE. For example, Sales had storage cabinets in his Diversified inventory that he was finding difficult to sell. He thus tried to sell the cabinets to Fortunoff, whose unit at the BOE had absolutely no need for such items. Sales knew that Diversified did not have a contract to sell the cabinets to the BOE, and knew as well that, since they cost more than \$250, Fortunoff would need three competing bids to back up the sale.¹⁸ Sales provided Fortunoff with all three phony bids and Diversified sold these cabinets to the BOE for over \$2,000. The BOE thus became the owner of nine storage cabinets that neither the BOE, nor anyone else for that matter, wanted.¹⁹

The perpetuation of the credit pool scheme became "business as usual" for Fortunoff to the point that much of the fraudulent activity was conducted by mail. In February 1993, Sales mailed Fortunoff fourteen false imprest invoices, totaling about \$3,500.²⁰ Fortunoff again processed these invoices for payment, even though no goods were ever delivered.

17. All of the invoices created by Sales and given by him to Fortunoff were for just under the \$250 limit for imprest funds. Two invoices were each made out to Diversified, American Expandable, L. Pulvermacher and Horex Office Systems. As noted above, Sales owned Diversified. According to Sales, he had an arrangement with the other three companies whereby they would cash the BOE's checks and credit the funds to Sales' account.

18. Sales usually provided written bids as backup for fraudulent purchase orders, even though oral bids would have sufficed for sales between \$250 and \$1,000.

19. At the time Sales began his cooperation with this office he had not yet submitted the invoice for these cabinets and thus was never paid by the BOE.

20. The following vendors and amounts were listed on the fourteen bogus invoices created by Sales: Niagra Office Systems, Brooklyn, New York (two invoices totaling \$498.75); Rollfax International, Brooklyn, New York (two invoices totaling \$499.76); Horex Office Systems, Brooklyn, New York (two invoices totaling \$497); L. Pulvermacher, Carlstadt, New Jersey, (two invoices totaling \$499.88); The Levy Co., Livingston, New Jersey (two invoices totaling \$499.68); Promotional Looseleaf, South Plainfield, New Jersey (two invoices totaling \$499.43); and Diversified (two invoices totaling \$499.26).

In the spring of 1993, as the end of the fiscal year neared, Sales and Fortunoff discussed their biggest potential fraudulent transaction. Realizing that \$200,000 remained in Fortunoff's budget to spend on supplies, Sales suggested that \$50,000 "get lost" and \$20,000 of those funds be diverted to Fortunoff. The \$30,000 balance of the "lost" money would be Sales'. In an example of what we would see over and over again during the course of our investigation, it was Sales, the vendor, and not, as one might expect, Fortunoff, the BOE employee, that prepared the BOE's paperwork.²¹ Over the next few weeks, Sales met several times with Fortunoff to make cash installments on their kickback arrangement. In all, Fortunoff received approximately \$12,500.

The scheme could easily have continued until all \$50,000 had disappeared. Instead, FBI agents and SCI investigators arrested Sales and seized paperwork relating to his transactions with the BOE. Sales agreed to cooperate with our investigation and the results follow.

The Continuing Investigation: Other BOE Employees Jump on the Gravy Train

Beginning in the fall of 1993, Sales led us to other BOE employees who, like Fortunoff, had given in to the temptation of credit pools. Primarily through the vehicle of our fictitious undercover office supply company, Essy Products, Sales continued his usual routine of conducting illegal transactions with BOE employees throughout the school year. All of the conversations, meetings and transactions described below were recorded with Sales' consent. As noted above, Essy Products has obtained a total of about \$125,000 directed to the company by conspiring BOE employees.²² These funds have been deposited into an escrow account. A more determined vendor could easily have siphoned off more of the BOE's funds in the same period, as the size of the available market for fraud is potentially enormous.²³

In all, with Sales' help, we substantiated criminal allegations against six current or former BOE employees and one vendor, and charges against those individuals have been referred to federal and state prosecutors. An additional eighteen current or former employees engaged in pur-

21. In this instance, Sales helped prepare eight fraudulent BOE purchase orders, all of which were processed by Fortunoff and paid by the BOE, even though nothing was delivered.

22. In some instances, payments to Essy actually resulted in shipments of school supplies to the BOE.

23. NJOS, just one of about 18,000 vendors who did business with the BOE, conducted \$7.8 million worth of BOE business from 1990 to 1993. Diversified, created by Sales in part as a front to defraud the BOE and other buyers, generated \$563,000 worth of BOE business from 1990 to 1993.

chasing fraud schemes with Sales, but did not attempt to enrich themselves financially. We have recommended disciplinary action against these individuals.²⁴ The case descriptions that follow detail the schemes between Sales and these employees and illustrate the astonishing ease with which the BOE can repeatedly be defrauded out of tens of thousands of dollars. They also make clear that fraudulent purchasing practices extend to central BOE offices, district offices, individual schools, educators and administrators.

Joan Salvatore: Fun in the Sun at the Expense of the Kids

Until June of this year, Joan Salvatore was the acting director of early childhood programs in Bronx District 12 and is a 29-year veteran of the BOE. In our April 1993 report, *Power, Politics, and Patronage: Education in Community School District 12*, we discussed how Salvatore was appointed to her position in return for her school board campaign work for Lucy Cruz, now a City Councilperson. District 12 is located in one of the most impoverished neighborhoods in New York City, and has consistently ranked at or near the bottom of city-wide academic performance.²⁵ Every single dollar for early childhood programs is therefore urgently needed.

Salvatore was originally referred to Sales by another BOE employee who knew of Sales' credit pool schemes, and Salvatore and Sales were involved in a credit pool prior to his cooperation with this investigation. As director of early childhood programs, Salvatore not only had the ability to purchase goods for her program, but she could do so without any additional supervisory approval. Sales stated that from the time of his first contact with Salvatore, she showed more concern for getting BOE money into her own pocket than for getting the most for the kids in her programs with the limited dollars available to her. Our investigation makes clear that not only did Salvatore enrich herself, financially and personally, at the BOE's expense, but she used stolen BOE funds in an attempt to further her career.

Prior to Sales' cooperation, in February of 1993, he and Salvatore entered into their first credit pool scheme. At that time, Salvatore and Sales created three fraudulent bids and a purchase

24. See Disciplinary Recommendations and Referrals at the end of this report.

25. During the 1992-1993 school year, only 28% of District 12's elementary school students scored at or above grade level in reading (29th of 32 in the city) and only 45% scored at or above grade level in math (32nd). Only 30% of its intermediate school students could read at or above grade level (31st) and only 32% scored at or above grade level in math (31st). In 1993-1994, the district ranked 30th in reading scores and only 31% of its students scored at or above grade level in math.

order to Diversified, for about \$3,000 worth of envelopes. None of these envelopes were ever delivered to the BOE; instead, Sales, or an associate, delivered a 31" color television set, a Nintendo computer game system and cartridges, and either a camcorder or a VCR, to the home of either Salvatore or her sister-in-law, who lived close by. The remainder of the funds from the order were kept by Sales. A few months later, Salvatore revived the credit pool with Sales, this time ordering about \$5,000 worth of office products that Sales never delivered. As was the usual practice between Sales and conspiring BOE employees, it was Sales who took control of the scheme by creating the three phony bids, a fraudulent purchase order to Diversified for the amount of the low bid and a fake Diversified invoice. All that was left for Salvatore to do was to sign the packing slip. By the end of June, the BOE paid Diversified for these undelivered goods.

At the time of Sales' arrest, he had not delivered any items that Salvatore had "ordered" to replenish the credit pool with \$5,000. In October 1993, at which point Sales was cooperating with our investigation, he met with Salvatore at her office at 1000 Jennings Street, District 12 headquarters, to discuss what she wanted to do with these funds. During this meeting, Salvatore told Sales that she wanted to use the money for two Rolex watches and a gas barbecue grill. She also stated that she wanted to process a third fraudulent purchase order, for about \$6,000, out of which she wanted to buy a small number of school-related items, leaving the balance unspent for the time being.

The following week, Salvatore told Sales that she had not yet obtained pricing information on the Rolex watches, but stated that she knew what kind of barbecue she wanted: "The one that's connected to the gas in your house." Sales told her that he would "get a good model," and an SCI investigator prepared a purchase order and phony bids for about \$6,300 in office supplies to generate the additional funds for the credit pool. The low bidder was the SCI undercover company, Essy Products, which Salvatore believed was controlled by Sales.

During the rest of October, Sales and Salvatore discussed what she would do with the more than \$11,000 that was now in her credit pool. At one point, Salvatore told Sales that of the items listed in the \$6,300 purchase order, she only wanted him to deliver only about \$144 worth

of pens and date books. With the remaining funds, Salvatore decided, "Instead of getting the Rolex . . . I wanna go on a vacation:"

Salvatore: But what I wanted to do with the other stuff is I really want to take a vacation.

Sales: O.K.

Salvatore: Because I'm really tired.

Sales: O.K.

Salvatore: And stressed out and everything. So like, how could I work that out?

Sales: You tell me, how do you wanna do it?

Salvatore: I don't know.

Sales: Do you have a travel agent or . . .

Salvatore: Uh, well, I wanna go to uh, Puerto Rico with um, the legislators that go every year.

When Salvatore stated, "I don't know how you work it. I never did this so I need help," Sales asked her how much money she thought the trip would cost. She replied that she would need about \$300 for the airfare, "about a thousand" for the room, and "then I wanna get a car and you know, other things." They decided that Salvatore would give him her travel bills, and that Sales would then reimburse her out of the funds from the now enlarged credit pool. A few days later, Salvatore told Sales that \$1,500 would suffice as payment for her trip, and, the following day, they met in Sales' van, where Salvatore accepted \$1,500 cash. As Sales handed Salvatore the bribe, she laughingly asked, in an apparent reference to her knowledge of SCI's earlier investigation of District 12, "Is this gonna be on a video?"

Once the cash exchange was completed, Salvatore and Sales had lunch at Joe & Joe's, a Bronx restaurant, where they discussed the barbecue that Sales "owed" her, as well as the most recent purchase order for \$6,300. Referring to her trip to Puerto Rico, she stated that she wanted to bring her sister-in-law and the latter's three children. According to Salvatore, when her brother told her that he did not want them going, she had replied, "Well, I'm gonna pay for it." She

described her trip to Puerto Rico as "a legislative trip that's run by . . . it's all assemblymen, all senators, congressmen, the mayor's going, the governor goes, it's a political trip, they do it every year . . ." Later that day, Salvatore faxed Sales a bill for "Somos el Futuro Group, November 4-11, 1993, Puerto Rico," including airfare and hotel rooms for two adults and three children, totaling \$1,790.20.

Less than two weeks later, investigators from this office observed Salvatore at Kennedy Airport, boarding American Airlines flight #677 to San Juan, Puerto Rico. Courtesy of the BOE, Salvatore took an all-expenses-paid vacation to Puerto Rico, along with political figures and powerful individuals from the Bronx who were in a position to advance her career.

The new year brought more requests from Salvatore. In January 1994, Salvatore repeated her earlier request for 20 date books and 20 pens from the third fraudulent purchase order, and "the rest, you know, will just wait." At that time, Salvatore told Sales that she wanted him to create yet another purchase order and send it to her home. A few weeks later, Salvatore told Sales to make the purchase order out for about \$6,000 worth of items. On February 1, 1994, Salvatore and Sales met in her office, where Sales gave her the date books and pens, as well as three fraudulent bids and a fraudulent purchase order. As before, the lowest bid, for more than \$6,400, was again submitted by Essy Products. This purchase order has not yet been encumbered, and the BOE has not yet paid Essy for that order.

When Salvatore and Sales next spoke, about five months later, Salvatore told Sales that she still wanted the gas barbecue grill, and he told her that he would call her at home to set up delivery. At that time, Salvatore stated that she no longer worked in the District 12 office, and was now working in Community School 57, a school in the district. She also told Sales that she was tired, even after her trip to Puerto Rico, and that she intended to take a year-long paid sabbatical during the 1994-1995 school year.

The BOE has paid over \$11,000²⁶ to Diversified and Essy Products, and still "owes" Essy over \$6,400 for the orders Salvatore placed with Sales since he began his cooperation. In return,

26. Before Sales' cooperation, the BOE paid Diversified about \$3,000 for the February 1993 fraudulent envelope order placed by Salvatore.

District 12's early childhood program has received 20 date books and 20 pens, which will no doubt go a long way towards improving reading scores in the district.

Sandra Orter: The BOE Pays the Rent

Until recently, Sandra Orter was an administrative associate²⁷ at the Division of Strategic Planning, a central BOE office located at its Brooklyn headquarters at 110 Livingston Street.²⁸ Her duties, which included buying goods for her division, placed her in constant contact with vendors like Sales.

The steady stream of income that Sales provided Orter in the form of cash kickbacks helped support a lifestyle which would otherwise have been out of her reach: she had difficulty managing the rent on her Brooklyn apartment, her mortgage payments on a Poconos vacation home, and additional financial obligations. Moreover, as a result of their long-standing business relationship, Orter had come to view Sales as a close personal friend. Their business meetings usually included a discussion of their personal problems, and, on occasion, Orter even invited Sales to her Poconos house. This close personal friendship between a vendor and a buyer is exactly the kind of relationship that should be avoided in a professionally managed purchasing operation.

Sales and Orter created their first credit pool in the fall of 1992, before Sales began cooperating with SCI, when Orter submitted a fraudulent purchase order for Diversified to provide the BOE with over \$41,000 worth of various types of paper.²⁹ At Orter's request, Sales never delivered any of the paper specified in the purchase order, and instead gave Orter about \$16,000 to \$17,000 in cash bribes, over the course of about four to five months, from January to April 1993. Sales paid Orter in increments of \$2,000 to \$3,000, in hundred-dollar bills, keeping the remainder for himself.

27. From September 1986 through June 1988, Orter was employed by the BOE as a teacher. From October 1989 to May 1994, Orter was employed by the BOE as an administrative associate. In May 1994, Orter resigned from the BOE.

28. The purchases made by this office are monitored by the Central Business Office, a unit of the central BOE's Division of Business and Administration.

29. Since Diversified was under contract with the BOS to supply paper, bids were not necessary and any amount of paper could be ordered, regardless of the total cost.

In July 1993, after Sales began his cooperation with this investigation, he called Orter at her office. Orter informed him that she wanted to buy some office supplies from Diversified, using funds from a new credit pool that she wanted to create using phony bids. Orter told Sales that she had previously mailed him a list of the supplies she wanted, but Sales advised her that he had not received it. Orter stated that she would fax him another list, asking him to put a mark near the items that were under contract to Diversified, and then to fax her all three bids for each of the items on the list that were not on contract. During this conversation, Sales advised Orter that, after recalculating "the numbers," he found out that he still owed her \$500 from their prior credit pool. "Oh my God . . . oh thank God," Orter replied.

On July 15, 1993, Orter faxed Sales eight pages of documents, including a partially completed and handwritten purchase order which listed such items as pens, pencils, writing pads and staplers, but did not contain prices or quantities for most of the items listed. Four days later, when Sales called Orter and told her that many of the items listed in her purchase order were not on contract with Diversified, she asked him to give her three bids for each of the non-contract items, and told him that she wanted to create a phony purchase order for \$15,000 worth of supplies:

Orter: So, give me bids.

Sales: So, I'll give you bids, so I'll create.

Orter: You got to give me bids for everything.

Sales: Alright, I'll give you three bids for, I'm just telling you what's there, you know when you give me the list, you don't have the quantities there, so I don't know how much.

Orter: I'm looking to do about ah, fifteen.

Sales: Fifteen hundred?

Orter: Thousand.

Sales: Fifteen thousand, O.K. O.K, alright, so I'll work on that.

Orter: That's why I'd rather do bids.

Sales: Alright, then if we do the bids, I'll, if you want me, I'll inflate the bid.

Orter: Yeah, that's what I want you to do.

Sales: Yeah, yep, yep, I'll mark it up and inflate the bids.

Referring to the \$500 he "owed" her from their prior credit pool, Sales stated, "I've got to make a couple deliveries and I'm floating around with that. So, you know . . . and then I've got to give you that other thing that." "I'm holding my breath," Orter replied. They arranged to meet for lunch the following day.

During the lunch, at the Szechuan Empire Chinese restaurant just around the corner from 110 Livingston Street, Sales gave Orter \$500. They discussed doing additional business with phony purchase orders, which would allow both Sales and Orter to obtain cash kickbacks. "Well," Sales asked, "in other words, right now, you know I mean, are we gonna be able to do like we did before, or we're gonna have to deliver everything?" "Uh, no, no, you don't have to deliver," Orter responded and described how the scheme would work:

Orter: Um, so let's say I buy a little paper.

Sales: Um hmm.

Orter: I can order maybe, I don't know, two three skids.³⁰

Sales: O.K.

Orter: So you'll charge me enough so that I will get something out of it. I don't care what I get.

About two weeks later, Orter gave Sales three purchase orders for office supplies, totaling over \$7,600. The following day, Orter told Sales that she wanted \$1,500 cash from this order, stating, "I need 15 . . . out of the 75." Sales said that it would be no problem to get her \$1,500 and asked her how soon she wanted it. "Oh," Orter replied, "would Friday [four days later] be too soon?" and suggested that she could pick up the cash on her way to her Poconos house. During this conversation, Sales and Orter also discussed delivering cheaper, substitute items, instead of the goods that were under contract.

As they arranged, Orter met Sales in his van on the following Friday, August 6th, where Sales gave Orter an envelope containing a \$1,500 cash bribe. Sales told Orter that he was giving her this kickback before the BOE paid him for the \$7,600 in purchase orders, and that he was con-

30. "Skids" of paper are quantities comprising 400 reams of letter-sized paper. A ream is comprised of 500 sheets, making a "skid" 200,000 sheets of letter-sized paper.

cerned about getting "paid" himself. Orter responded that the funds to pay the purchase orders had already been encumbered, but offered "not [to] spend . . . this, until you get paid."

Later during this conversation, Orter indicated that she wanted to start a monthly payment schedule of \$500 cash kickbacks. "You know what I want," she asked, "I want, how do I get \$500 a month? I have to write [orders for] \$1,600 to get \$500?" Sales replied that she only had to create a purchase order for \$1,250 in order to net \$500, thus indicating that his profit on each purchase order would be the balance, \$750. Sales suggested that another way for Orter to obtain the \$500 monthly payments would be to "shortchange," meaning that he would deliver fewer items than were ordered on the face of the purchase order. "Don't shortchange while I'm here," Orter replied, explaining that she anticipated closer scrutiny of purchasing activities because someone else had "blow[n] it . . . in front of the Chancellor." Instead of phantom or substitute deliveries, Orter suggested that Sales inflate the prices of the items he delivered, skim 15% off the amount paid by the BOE, and kick it back to her. They decided that they would inflate the NJOS catalogue price by 15%; Orter's share would be 10% of the total inflated price and Sales' cut would be the balance of 5%.

About one month later, with the 10% kickback scheme in place, Orter sent Sales a fax thanking him for his "help." She wrote that she was "continually grateful" to him because "[w]hen my needs seemed insurmountable you were there to help both emotionally and financially," and expressed frustration that she needed \$800 a month to pay her mortgage, but could not "write \$8,000 a month" in fraudulent purchase orders. For this reason, Orter asked Sales to supplement "your already generous agreement," but noted, "I will understand if I've over extended my bounds of the 10%, but it doesn't hurt to ask." Unlike most of the BOE employees who dealt with Sales, Orter indicated that she had been keeping track of the amount of funds in the credit pool, and, on the fax, listed the amounts corresponding to the fraudulent purchase orders and imprest fund invoices that she had previously "processed" for Sales. Beside each of the entries, Orter listed her 10% share, which she totalled at \$1,049. (*See copy of fax on next page*)

Three days later, Sales and Orter spoke about her request for additional funds. "I just can't guarantee you \$800 a month," Sales told her, and Orter replied, "I know." Sales stated that he

Fax from Sandra Orter to Sales on September 10, 1993:

SEND BY: 9-10-93 15:08 EDUCATIONAL DATA INC. XXXXXXXX

Head-H* Brand Fax Transmittal Form 7071 (4 of 1993)	Page 2
To: XXXXXXX	From: S O.
Phone:	Phone: 5879
Fax:	Fax:

When my needs seemed insurmountable you were there to help both emotionally & financially & for that I'm continually grateful. Now one year later things are heating up. I make a long story short to make, "when I'm able to support the mortgage payment & the electric bill for the house, I can't consider it mine." The monthly cost is \$800.00. So, I'm asking if there is some task I could do so that I could be assured of an additional monthly income? Mostly, I can't write \$8,000.00 a month, so I'm asking to supplement your already generous agreement with work. I'm sure that if I could support myself I could get an uncontested divorce & be over with this nightmare. I will understand if I've over extended my bounds of the 10%, but it doesn't hurt to ask. Presently I've processed the following:

N.J.	230.00	23.00
N.J.	241.00	24.00
N.J.	5500.00	550.00
Div.	250.00	25.00
Essy	245.00	24.00
Div.	250.00	25.00
Essy	242.00	24.00
Essy	3540.00	354.00
		1049.00

"When my needs seemed insurmountable you were there to help both emotionally and financially and for that I'm continually grateful.

"Now one year later things are heating up. To make a long story short he said, 'When I'm able to support the mortgage payment and the electric bill for the house, I can't consider it mine.' The monthly cost is \$800.00. So, I'm asking if there is some task I could do so that I could be assured of an additional monthly income? Mostly, I can't write \$8,000.00 a month, so I'm asking to supplement your already generous agreement with work.

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Div.	250.00	25.00
Essy	242.00	24.00
Essy	3540.00	354.00
		1049.00

"The orig. 1500 came from 2 N.J.'s -- 2183 and 2181 and 1 Essy and was 1/3.

"Thanks, thanks, thanks."

9-10-93 15:08 EDUCATIONAL DATA INC. XXXXXXXX

Div.	250.00	25.00
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Div.	250.00	25.00
Essy	242.00	24.00
Essy	3540.00	354.00
		1049.00

The orig. 1500 came from 2 N.J.'s -- 2183 & 2181 & 1 Essy. & was 1/3.

Thanks, thanks, thanks

would provide her with the 10% kickback they had previously discussed, but said that the BOE had still not paid him for the \$1,500 cash bribe he had "already fronted" to her. After discussing the lag time between the encumbering of funds and the actual sending of checks to vendors, Orter asked if she would get the \$1,049 cash kickback calculated in her fax once Sales was paid by the BOE. Sales assured her that she would.

About five weeks after that, Orter again asked Sales for additional money, stating in a fax that her "financial situation sucks" because she had paid a \$1,200 dental bill and was now two months late in her rent payments:

I'm deeply sorry I have to ask for money . . . But I'm two months in arrears -- I thought I would have the thou by now, so I paid my dental bill in full (1200.00). Could you send me a money order for the thou either here or home by Friday or Monday the latest? Thanks and again I'm truly sorry.

Included in the documents Orter faxed was an invoice totaling \$1,254.64, for current and back rent for her apartment.

Sales phoned Orter, about two weeks later, to arrange a meeting, and he told her, "I got your fax . . . I wanna take care of that for you." Orter thanked him, but Sales explained that he could not write her a check, because his lawyers would question it. They agreed to meet the following day for lunch at the same Chinese restaurant where their previous payoff had occurred.

At lunch, Orter told Sales that she thought that she would soon be admitted to the John Jay College of Criminal Justice in Manhattan. Orter stated that she would be studying a subject that she knew well; as she laughingly put it, "I'm going to do a masters or doctoral program in, guess what -- investigation of white collar crime." After completing this program, Orter said she would "like to work in Washington," at an inspector general's office "at the city, state or federal level," or for a company like Prudential Bache or Solomon Brothers. When the conversation turned to her overdue rent bills, Sales stated that if he paid them, the funds in her credit pool would be exhausted; Orter acknowledged that this was correct. Sales then handed Orter an envelope containing \$1,200 cash, and counted out another \$60, informing her that the total sum of \$1,260 would pay her rent and leave her with a \$5 "tip."

Sales and Orter again had lunch together about six months after the \$1,260 cash bribe. Shortly before this meeting, Orter wrote Sales to tell him that she was resigning and that her last day as a BOE employee would be May 20, 1994. During their lunch, Orter sought assurance that their kickback scheme would not be exposed.

Orter: Can anybody turn you in?
Sales: Nope.
Orter: Make sure.
Sales: [Unintelligible]
Orter: Go back, if you want to send me all the papers, you can deliver it in cartons for all I care, and we'll look over everything to make sure . . .
* * *
Sales: I delivered stuff where it went I never have paper work, I never, why do you think anytime I do anything, I do it myself.
Orter: Something that has no paper trailing [sic], fine. Whatever paper trails that you have . . .
Sales: I'm gonna look.
Orter: . . . Make sure that you have for five years, every paper stapled. 'Cause you have to remake it.
Sales: I hear you. Hey, I understand.

In total, Orter received over \$20,000 in bribes from her fraudulent transactions with Sales. It is ironic that this money may be funding Orter's education in white collar crime.

Assistant Principal Robert Mazza: An Appalling Role Model

The High School for Leadership and Public Service is a new high school that began operation in the fall of 1993. Robert Mazza, the assistant principal of the school and a BOE employee since 1970,³¹ received several personal luxury items from Sales, as well as five separate pay-

31. During that time, Mazza worked as a speech teacher at Erasmus Hall High School and Clara Barton High School in Brooklyn, and as an assistant principal or a teacher at the High School for Environmental Studies in Manhattan.

ments totaling over \$5,500. Mazza's involvement with Sales, as described below, illustrates a theme common to many of the cases described in this report. The distinction between creating a credit pool for the sake of "getting the job done," and creating it for the sake of oneself, quickly becomes blurred; to the point that every transaction becomes primarily, if not entirely, motivated by self-interest.

Sales and Mazza first met in June 1992, before Sales began his cooperation with SCI, at the High School for Environmental Studies where Mazza was then employed. In May 1993, Sales had a conversation with Mazza regarding a \$5,300 purchase order to Diversified. Mazza instructed Sales not to deliver the goods listed on the order, and instead to substitute them with, among other things, items that he wanted for himself, worth a total of about \$2,300.³² Sales later delivered these products to Mazza at his school; the balance of the funds was retained by Sales.³³

On July 21, 1993, Mazza contacted Sales. At that time, he was well into his new job as assistant principal at the High School for Leadership and Public Service, then a brand new, theme-based high school, one of only 32 created at that time as part of a program to improve academic achievement and school safety. At the time of that conversation, Mazza was preparing for the fall, when the doors of the school would open for the first time. As a consequence, Mazza had authority over a great deal of funds to prepare the school for its first students. As discussed below, Mazza spent that money; his students, unfortunately, would not end up seeing much value from Mazza's spending.

Sales and Mazza had a number of conversations on July 21, during which they discussed creating a purchase order for \$15,000 or \$25,000. Sales asked Mazza to explain what he wanted to do, so that he could "figure out how we're gonna do it again." Mazza then referred to their earlier transaction, indicating that he recalled the credit pool scheme and that he wanted Sales to employ that device on this occasion as well:

Mazza: O.K. What, remember in um, uh, you know in the fall ...

Sales: Yes.

32. Among the items Mazza directed Sales to provide were three CD-ROMs, an electronic Rolodex, one or two cameras and a quantity of film.

33. Sales later gave us the estimated profits from this transaction, which were deposited in Essy Products' escrow account.

Mazza: . . . when you had written up that, that, you know, all that stuff and you know, it wasn't delivered and stuff like that.

Sales: The stuff, meaning, right, the stuff that wasn't delivered.

Mazza: Right, and then we had [you] know, like an account with you sorta like that.

Sales: Right.

Mazza: Well, that's the sort of thing I wanna do . . .

Sales: O.K.

Mazza: . . . but I want stuff that I don't have to keep inventory on.

Sales: O.K.

Mazza: Because otherwise they'll come in an they'll say, well, where is the computer, and where is the this and where is that?

Sales: Right.

Mazza: You know, stuff that's like uh . . .

Sales: You know, like the CD-ROMs and things that we got and...

Mazza: Yeah, that you can't, you can't do . . .

Sales: Right, that you can't show and uh . . .

Mazza: Right. Because you have to keep numbers and stuff.

Sales: . . . so that Rola -- that Rolodex that you know . . .

Mazza: Exactly.

Mazza then asked Sales whether goods like file cabinets and paper could be used to create a phony purchase order. Sales replied affirmatively and also told Mazza that if he needed "any money or anything like that, you know, we'll be able to take care of that for you," and Mazza replied, "O.K., great." Later that day, the two agreed that Sales would create fraudulent bids for items with the intention of substituting other items at Mazza's direction, when Mazza decided what he wanted. They agreed to meet later that afternoon, near a Brooklyn BOE building at 65

Court Street, by the corner of State and Boerum Streets, where Sales would deliver the fraudulent bids and purchase orders.

At the meeting, Mazza sought Sales's assurance that he would not be implicated if Sales was ever arrested, stating, "Listen, um, . . . I don't wanna . . . ah, . . . if you ever go down, you better not mention my name." Sales gave Mazza the fraudulent paperwork they had earlier discussed: fraudulent bids and three separate purchase orders for office supplies such as highlighters, computer diskettes, toner, and typewriter ribbons, totaling about \$27,000. Mazza later stated, "now, you said you can get me cash?" Sales replied that it would be no problem. Mazza also asked Sales to give him packing slips so that he could account for what he had ordered.

Over the next two months, Mazza left numerous messages on Sales' answering machine, listing the items that he wanted him to buy using the funds in the \$27,000 credit pool. Sales frequently spoke with Mazza, explaining that he was working on the order but could not deliver the items before Labor Day. On September 8, Sales and Mazza arranged to meet the following afternoon in front of Mazza's school, where Mazza could take delivery of some supplies he had ordered. During this conversation, Mazza asked Sales if he could bring him money, and Sales agreed. In a call the next day to set up the meeting, Sales asked Mazza how much money he wanted, and arranged to bring him \$500.

At the meeting on September 9, which again took place in Sales' van, in front of Mazza's school, Mazza told Sales that he wanted to use funds from the pool to pay BOE electricians to "electrify" a room at his school where he wanted to install some new computers, claiming that the BOE had refused to provide electricians to perform the work. Sales said that it would be no problem, and asked how much money the electricians wanted. Mazza stated that he had not been given a price yet, but that it "[c]ouldn't be more than a thousand dollars." Sales offered to provide a bill, but Mazza suggested that Sales "could just pay me," explaining that, because the electricians would be moonlighting, neither they nor he wanted a record of the payment. Mazza voiced no concern for the fact that these employees were violating BOE regulations by performing unauthorized work at his school and accepting payment for it. Before ending the meeting, Sales

handed Mazza the \$500 cash bribe and two packing slips, which Mazza intended to sign and submit to the BOE to falsely verify that items had been delivered.

On September 14, 1993, Mazza directed Sales to use some of the credit pool funds to pay a company called Metro Time Clock, claiming that the payment was for the installation of a bell system at his school. Metro Time Clock was eventually paid with a \$960 check from Essy Products.³⁴

About a month later, in October of 1993, Mazza told Sales that electricians would perform the work at his school on the following Saturday, and had asked for \$1,300 cash. Mazza expressed no concern when Sales twice informed him that, in order to give him \$1,300 cash, he would have to take \$2,800 out of the pool. "For me to give you cash like that, that's gonna be expensive," Sales explained, claiming that he had to pay taxes and take a percentage as profit for himself. Mazza did not object, adding that the electrician did not want to write out a bill because "he's worried that it's gonna get back to him." Mazza then asked whether he could lower the cost to the credit pool by providing Sales with some bills, suggesting that he could give him "some bills from my house, you know, [for work] that I had done." In an effort to conceal his involvement in the scheme, Mazza added, "But I don't want my . . . no, I don't want my . . . I can block out the, the uh, name and address."

During this conversation, Sales asked Mazza what he needed for that day. Claiming that he had paid approximately \$1,200 for some school supplies, Mazza asked if Sales could write a check to his Visa credit card, which he had used to pay for some of those items.³⁵ Hoping to avoid detection, however, Mazza asked Sales not to write his account number on the check. Later in the conversation, without explanation, he asked Sales to make the check out to Visa for \$2,500.

Sales: Alright. Well, at least let me get ya', I'll make a check out to the Visa, do you have the account number on hand by any chance?

Mazza: Umm . . .

34. This company cashed the check and apparently never questioned the receipt of a check for BOE work from an unrelated private vendor.

35. The only Visa card expenditure that Mazza eventually documented to Sales was a bill for \$184 from Nobody Beats The Wiz.

Sales: It's on your card.

Mazza: It's on my card, but, can you not put the account number, this way they can't trace me.

Sales: Alright. Well, when it comes back, it, it's O.K., we can do that.

Mazza: O.K., make, could you make, you could makin' [sic] it out now?

Sales: I was goin' to make it out.

Mazza: Can you make that out for, for umm . . . do, do I have to give you the amount that's on those things, or can I give you more?

Sales: You could give me more if you want.

Mazza: Make it out for twenty-five [hundred dollars].

Sales told him that he would bring the check later that afternoon.

When they met later that day, again in Sales' van in front of Mazza's school, Sales gave Mazza a \$1,200 check³⁶ made out to "CHASE/VISA," as well as an additional \$500 cash. In order to reduce the amount Sales intended to deduct from the credit pool, Mazza asked, "How, how can we work it so it doesn't, you know, cost eighty percent more?" Sales told Mazza to get him "some kind of a bill" showing that some kind of work had been performed. Mazza asked if he could use a bill for different services as documentation for the electrical work: "You know, can I get a, another locksmith thing and just put thirteen hundred on that, and say reinstalled locks?" Sales said yes. When Sales said that he would bring money for the electrician, Mazza again raised the subject of reducing the charges against the pool, asking "can you, umm, instead of paying me in cash, if cash is gonna cost this much, if you paid, paid me in Visa, if you wrote another check in Visa, instead of the cash, could it, would it be less?" Sales replied that as long as he gave him a bill for an item that he would ordinarily sell, like a television set, Sales could pay Mazza's Visa bill and have a ready explanation "if I get audited."

36. After consulting with investigators from this office, it was decided that Sales would only give Mazza a check for \$1,200, and not \$2,500 as Sales had initially agreed.

The following Saturday, October 16, 1993, an investigator from this office, posing as Sales' messenger, met Mazza in front of his high school and gave him an envelope containing \$1,300 cash for the electrician. A few hours earlier, two electricians from the BOE's Division of School Facilities were observed entering the high school with Mazza.

Three days later, on October 19, Sales and Mazza met again in their usual place: Sales' van outside Mazza's school. At that time, Sales gave Mazza nearly \$1,500 cash, stating that the money was for bills Mazza had given him, purportedly for school-related purchases he and other school staff had made.³⁷ As revealed below, Mazza acknowledged that he had not been particularly careful about keeping track of the amount of money in the credit pool.

Mazza: Alright. So, where are we as far as ah, the other twenty five, twenty seven . . .

Sales: I'd say there's somewhere maybe a, maybe about seven thousand left . . .

Mazza: O.K.

Sales: . . . give or take a little on that end.

At another point during this conversation, Mazza suggested that he wanted to use some of the remaining credit pool funds to buy supplies for his son's parochial school.

Mazza: Um, they don't have to know about this, I'd like you to deliver some stuff to my son's school.

Sales: O.K., what school does he go to?

Mazza: Alright, it's called a Genesis program, and it's in um, Regina Pacis School, I don't know if you know Brooklyn, you know Brooklyn? It's on 65th Street and um, geez what avenue is it? I'll have to call you on, I'm not sure of the avenue.³⁸

Sales: O.K.

Mazza: But, I'll tell you what he needs . . .

37. If this claim was truthful, then these staff members were also violating the BOE's purchasing regulations. If Mazza did indeed reimburse these employees, one must also question whether they gave any thought as to whether Mazza's reimbursement of their purchases was proper or from where he was getting the money. In fact, Mazza told Sales that one of the employees he was reimbursing was the principal of his school.

38. The Genesis program is located at Xaverian High School, 1201 66th Street in Brooklyn, and is a Roman Catholic junior high school program for 6th to 8th graders. The Genesis program is not affiliated with the BOE.

Mazza then described several types of cabinets that he wanted delivered to his son's school.³⁹

From December 1993 through March 1994, Mazza and Sales spoke frequently, always about items that Mazza needed. In a February conversation, Mazza told Sales that, among other things, he wanted a "Trajan Noir" fountain pen, which he described as having an 18 karat gold plated design, as well as a Casio "Boss" electronic organizer. In March 1994, Mazza told Sales that he wanted to place another bogus order, again backed by fraudulent bids, to replenish the credit pool. An investigator from this office created three fraudulent bids, the lowest of which was for nearly \$10,000, which Sales later faxed to Mazza.⁴⁰ When they met in Mazza's office on March 29, Mazza again asked Sales for an accounting of the funds, stating, "We still have money from this time?" When Sales replied that there was probably about \$7,000 remaining, Mazza requested that Sales give him some of the leftover money. They agreed that, with another cash payment of \$2,000, their account would be settled.

Mazza: Can I get some of that cash?

Sales: Sure, yeah, so we'll, we'll bury it, how much you want with that then?

Mazza: How much can I get?

Sales: Two?

Mazza: Two.

Sales: And then we'll call that even or something.

Mazza: Alright. Think I can have more than two?

In order to keep the cost of the cash kickback to a minimum, Mazza indicated that he would order a CD-ROM. At the end of the meeting, Mazza asked, "Alright, you don't have any money to give me now?" Sales replied that he did not have the cash on hand.

On April 13, 1994, Sales met Mazza and gave him another three fraudulent bids for office supplies, with the lowest bid at about \$4,100.⁴¹ At this meeting, Sales also gave him the 18 karat gold fountain pen, which has a retail value of \$300, and the Casio electronic organizer, valued at

39. Mazza never followed up on this request and these goods were never delivered.

40. This order has not been encumbered or paid.

41. This order has been encumbered, but has not yet been paid.

\$180. In total, Mazza received over \$5,500 of Board funds as a result of his credit pool schemes with Sales. Mazza's idea of leadership and public service, as demonstrated by his activities with Sales, is probably not what the creators of his high school had in mind.

Ilisa Sulner: Sitting Pretty in Her BOE-Funded Leather Chair

Ilisa Sulner, the principal (technically "supervisor") of P.S. 168, a Bronx special education school, first met Sales in September 1992. Neither her students' special needs, nor the scarcity of the BOE's resources, prompted Sulner to maximize the limited BOE dollars available to her. Rather, as her discussions with Sales made clear, Sulner was completely unconcerned with cost.

In October 1993, by which point Sales was cooperating with SCI, Sulner asked Sales to provide her with three phony bids and a purchase order for enclosed work stations. In cooperation with SCI, Sales did exactly that, making Essy Products the low bidder. The total price for ten work stations, at \$619 a station, was \$6,190. Once Sulner received this paperwork, she told Sales not to make delivery, but to credit her with the funds until she knew what she actually wanted to buy. Remarkably, no one missed the ten work stations, even though it seems inconceivable that the non-delivery of such substantial items could go unnoticed.⁴²

About five months later, Sulner called Sales and told him that she needed funds for supplies for a new school she was opening. Sulner initially asked Sales to give her cash from the credit pool so that she could buy the items herself, but later changed her mind, stating that she had seen other BOE employees on television caught in illegal acts. "You don't watch the news?" Sulner asked. "They were in a car just like you and I are and they had a tape of him offering her a job . . . and saying you gotta do this and that and the other for me."⁴³

Eventually, using part of her credit pool, Sulner bought about \$3,600 worth of office products from Sales in April 1994. One month later, again dipping into the credit pool, she ordered about \$1,000 worth of furniture from Sales, including desks, a TV/VCR stand, file cabinets and a leather chair for herself. Since the chair was for her home, Sulner indicated that she wanted to

42. Each workstation is designed to hold a computer screen and keyboard and is approximately 27"x24"x50".

43. Sulner was apparently referring to this office's April 1993 investigation of Bronx District 12, in which Virginia Noville was caught on tape attempting to bribe a District 12 board member for a principalship. *Power, Politics, and Patronage: Education in Community School District 12*, April 1993.

pick it out herself, and Sales sent her to a Manhattan furniture showroom where he had an account.⁴⁴ Sulner ultimately selected a \$230 blue leather chair, and, on May 31, 1994, Sales delivered it to her home in Queens.

Like many of our subjects, Sulner did not bother to keep track of how much money was in her credit pool account. We demonstrated this by deducting \$1,000 from the remaining \$1,522 in her credit pool, without Sulner even noticing. Sulner did make clear, however, that she looked forward to doing future business with Sales, excitedly informing him, in June 1994, that she hoped to have even more funds to spend the following year.

Helen Stambler: Swimming in Credit Pool Funds

At the time of her transactions with Sales, Helen Stambler was an administrator for the BOE's Arts and Cultural Education Unit at 131 Livingston Street in Brooklyn.⁴⁵ Like many employees who dealt with Sales, Stambler turned to him because she had funds she had to "use or lose" by the end of the 1993 fiscal year. In the spring of 1993, prior to Sales' cooperation with our investigation, Stambler and Sales created a credit pool by processing two fraudulent purchase orders and eight fraudulent imprest checks, totaling over \$5,200. The imprest checks were made out to eight different companies, each just under the \$250 limit for imprest expenditures, totaling nearly \$2,000.⁴⁶ From the \$5,200 pool, Stambler received only about \$2,600 worth of office supplies. With the about \$2,600 remaining, she told Sales, "I have a balance and I'm gonna want to use it for things I'm not allowed to get." During the 1993-94 school year, Stambler followed through on this promise, as she used the remaining funds to buy non-contract items, including certain office supplies, coffee products for her office kitchen, and a Sharp "Wizard" electronic organizer, worth about \$250, for herself. Sales delivered all of these goods.

44. Sales had a long-standing business relationship with the owners of the furniture showroom, and they billed Sulner's purchase to his account.

45. Stambler was recently promoted to Director of Curriculum and Instruction in Manhattan's District 1. In early September 1994, Stambler contacted Sales and told him that she wanted to use the last of her credit pool funds to furnish her new office. Because art, music and cultural education programs have been extremely hard hit by budget cuts since the mid 1970's -- a recent report by the Fund for New York City Public Education found that two-thirds of City students receive no art or music instruction whatsoever -- Stambler's waste of these extremely scarce funds, that she was no longer authorized to spend, is deplorable.

46. As noted above, these companies cashed the checks for Sales because he had long-standing business dealings with them.

By April 1994, with her first credit pool depleted, Stambler left the following message on Sales' answering machine: "Would you give me a call, I'd like you to write up a purchase order for oh, . . . \$5,000 worth of stuff . . . I want to have a purchase order so I can spend the money before it gets cut." Sales, working with SCI investigators, sent her three phony bids for office supplies, with Diversified "winning" the \$5,000 order. Sales has not yet been paid for this order and has not delivered any goods.

One month later, with more funds to spend, Stambler asked Sales to prepare a purchase order, for between \$2,500 and \$3,000. In order to conceal her activities, she asked Sales to create the order for ordinary, consumable items, such as pads, papers and envelopes, and asked him not to deliver any of these goods. Sales again gave her three phony bids, with Diversified's \$2,635 bid "winning" the sale. Like the prior order, Sales has not yet been paid for these items and has not delivered any goods.

During this same period, Stambler also attempted to increase her credit pool through the use of fraudulent imprest fund invoices, telling Sales she wanted to get "some mileage out of some more funds I have." Stambler asked Sales to create imprest invoices showing the purchase of "paper, you know . . . portfolios, things like that." She told Sales that what she actually wanted was not paper and portfolios, but a coffee maker for her office, and an \$85 computer link so that her Sharp Wizard organizer would be compatible with her home computer. In May 1994, with the assistance of SCI, Sales created five phony imprest fund invoices pursuant to this plan, and Stambler processed those documents which showed purchases totaling \$1,229. The BOE recently made three payments to Diversified and two to Essy for this order.

Ronald Bleier: Using BOE Funds for Home Computer Equipment

Ronald Bleier, an English teacher at Martin Luther King High School in Manhattan, took advantage of his credit pool with Sales to obtain, among other things, laptop computers for himself and another teacher. Bleier first contacted Sales in May 1992 to inform him that he had about \$5,000 to spend, and said that he had heard that Sales could help him. Sales explained how he could create a \$5,000 credit pool, and Bleier, following his advice, submitted a fraudulent pur-

chase order to the BOE for about \$5,000 worth of goods that he did not actually want and which were, in fact, not delivered.

With about \$150 of the \$5,000 in the credit pool, Bleier bought two pen and pencil sets, which he said were intended as student graduation gifts. Then, throughout the 1992-93 school year, Bleier continued to use the credit pool, primarily to buy a variety of office supplies. In June 1993, Bleier spent the last of his funds on two laptop computers worth about \$1,150 each. Bleier told Sales to deliver one to his home in Manhattan and the other to the home of Angela Dickens, a teacher in the district; both laptops were delivered to these locations. Shortly afterwards, Bleier ordered a \$300 Canon bubble jet printer, which was also delivered to his home. Prior to its delivery, Bleier explained that while he originally wanted the computer equipment for his school, he had decided to keep it at his home because he was worried about theft: ". . . I have a problem with, personally with the ah . . . safety aspect . . . You know, you turn your head for one second and these things are gone. . . But yeah, that was the idea, to have them in school for the kids, yeah that was the idea."

Like other employees we have described here, Bleier also had no idea how much money he had spent with Sales, and asked Sales to provide an accounting:

[Could you] find some way of getting the arithmetic over in terms of how much we were billed for the different things that . . . whatever you can get us on, on the billing that we've done so far. You know including and up to the, umm computers. . . Do you know off-hand how much each one costs?"

Currently, the relationship between Sales and Bleier has cooled, reportedly due to budget cuts in his program, as well as the fact that the new person in charge of purchasing at his school, according to Bleier, makes "doing business" more difficult.

BOE Employees Who Break the Rules at Great Cost to Children

Not every BOE employee who dealt with Sales was as interested in personal gain as Salvatore, Orter, Mazza, Sulner, Stambler and Bleier were. Some violated the purchasing rules simply because they found them to be annoying and burdensome, but were none the richer for their wrongdoing. While a few of these individuals accepted personal items from Sales, most acted as they did because that was the easier course, and because they had no concern that the BOE receive anything of value for its dollar. This attitude on the part of these employees, in combination with the purchasing system now in place, is enormously expensive, and the cost is paid by the clientele ostensibly served by the BOE and its employees: New York City's public school children.

Similar themes run throughout most of the eighteen individual cases described below. First, most of these cases demonstrate just how easily the BOE's competitive bidding procedures are rendered meaningless when one vendor and one BOE employee decide to collude; since there is no real purchasing oversight at the BOE, there is nothing to stop them. Obviously fraudulent bids pass undetected and non-delivered merchandise is never missed. Second, these cases vividly illustrate the spending frenzy that occurs as the fiscal year draws to a close, when even otherwise responsible employees must exhaust their budget, or face criticism for allowing it to go unspent; the pressure to spend the money on anything at any cost becomes enormous. Third, the activities of many of the employees described below indicate the lack of training many have in the BOE's purchasing procedures. Fourth, these cases demonstrate the breadth and scope of purchasing fraud at the BOE; the employees described below include principals, teachers, and administrators in district and central BOE offices.

Last, these employees liked dealing with Sales because he did their work for them; Sales led them by the hand through the BOE's purchasing procedures and frequently prepared not just one, but all three bids and the purchase order. While the conduct of the employees described below may seem less offensive than that of Salvatore, Orter, Mazza, Sulner, Stambler or Bleier, the waste of the BOE's scarce funds as a result of that conduct is just as reprehensible. Ultimately, New York City students have fewer books and their teachers have less materials -- whether or not the BOE employees who engaged in the fraud did so for personal profit.

Getting a Special Education in Purchasing

Of the eighteen cases described in this section, ten involved employees who work, in some capacity, in special education ("special ed"). As their activities, and the activities of Ilisa Sulner described above, made clear, special ed employees enjoy virtually unprecedented access to enormous funds.⁴⁷ It is especially disheartening, given the needs of their students, that these employees completely sidestepped the competitive bidding process, thus allowing funds to be wasted on overpriced goods.

Elise Rosenberg: "I don't care, it's not my money"

Elise Rosenberg is the assistant chairperson of the Committee on Special Education in Brooklyn's District 17. Rosenberg had been conducting business with Sales for two to three years prior to his participation in this investigation. Early in their relationship, she learned the benefits of the credit pool scheme, having created a small one with him of about \$250. As with most of the BOE employees we investigated, Rosenberg's actions with Sales demonstrated a total disregard for the cost of the items she bought, as long as she got what she wanted. This indifference can best be summed up by Rosenberg herself, as she once told Sales, "Yeah, I don't care, it's not my money. I have a new attitude."

In September 1993, Rosenberg placed four orders with Sales, two to NJOS, one to Essy, and one to Diversified, for a total of about \$2,400. Rosenberg had no intention of receiving any of the goods listed on those orders. Instead, she directed Sales to deliver different items, ones she actually needed, even though those goods were not reflected on the paperwork. During this discussion, when Sales told her that one of the items she wanted was, in fact, under contract to NJOS, she replied, "All right, that's O.K., I'll do it, give me any [contract] number you want . . . You know what I'm saying? Then I'll uh, make up other orders."

Throughout early 1994, Rosenberg continued to order these substitute goods, and, at one point, even offered to give Sales a gift of one of the items he had sold to her.

47. According to the Chancellor's budget request for 1994-95, the average BOE expenditure for an elementary school student in general education is about \$6,200, while the average expenditure for a full-time special ed student is \$19,305.

Bebe Herman: Spreading the Word Around

At the time of her dealings with Sales, Bebe Herman was a secretary in the District 75, Citywide Special Education office.⁴⁸ Herman not only defrauded the BOE by obtaining fraudulent bids from Sales, but, because she referred other special ed employees to him, she gave Sales the chance to conduct fraudulent business with special ed employees all over the city. Furthermore, as a secretary in the Citywide Special Ed office, Herman helped other special ed employees working with Sales process their phony paperwork.

Like many employees described in this section, Herman liked dealing with Sales because she could count on him to provide all three bids for every purchase order, which meant less work for her. During the two years that Herman conducted business with Sales, she repeatedly solicited phony bids from him, although, ironically, she always demanded that he give her a "competitive" price. In September 1993, Sales gave Herman all three bids for over \$2,600 worth of folders. One month later, Sales again gave her three phony bids, this time for Polaroid cameras and film, totaling \$2,069. In December 1993, in her last transaction with Sales, Herman obtained three fraudulent bids for \$1,230 worth of office furniture. Sales delivered the items she ordered.

Vicki Hoffman: How to Spend a Grant

Vicki Hoffman, a teacher and coordinator at P.S. 233, a Queens special ed school, was referred to Sales by Bebe Herman when Hoffman had an \$8,000 grant to create video libraries in five schools. Like Herman, Hoffman was determined to avoid the BOE's purchasing regulations, even if it meant that the BOE was overcharged. She was also determined not to do the work required to obtain legitimate competitive bids. Instead, she decided to "stay away from written bids," which the BOE requires for purchases of between \$1,000 and \$10,000. She did this by creating a separate purchase order for each of the five TV/VCRs she wanted, and directing Sales to provide the information for all three non-written (telephone) bids which the BOE requires for purchases of between \$250 and \$1,000. Sales gave her the bid information, and, using Essy Products, charged the BOE \$680 in separate purchase orders for each TV/VCR, for a total of \$3,400.

48. Herman resigned from the BOE on May 20, 1994.

In October 1993, Hoffman ordered another five TV/VCRs, again at \$680 each, from Essy Products, totaling \$3,400. With the remaining \$1,200 from her grant, Hoffman ordered two additional TV/VCRs at \$600 each, this time from Diversified. Interestingly, although Hoffman orchestrated her dealings with Sales, her orders would not have been processed without authorization from a supervisor. Hoffman obtained the signature of Susan Erber, principal of P.S. 233, on all of her orders. Hoffman told Sales that Herman processed the paperwork regarding these sales at the District 75 office.

Regina Zacker: Stocking the Kitchen

Regina Zacker, an administrator in the high school special ed office at the BOE's 110 Livingston Street headquarters, was yet another BOE employee with access to special ed funds who showed little concern for the needs of these students. Zacker repeatedly violated the BOE's regulations and allowed the BOE to be overcharged for the products she purchased. According to Sales, in about May 1992, before he began cooperating with this investigation, Zacker created a \$2,000 credit pool through the use of a fraudulent purchase order and three phony bids. Zacker did not use the pool right away, preferring to ponder over the purchases she would make with the funds.

Several months later, during the winter of that year, Zacker told Sales that she wanted to order computer software, but did not want to use the existing credit pool funds to do so. Rather, she asked Sales to accept a \$2,576 purchase order for binders, and to supply three phony bids to accompany that order. She then told Sales not to deliver the binders, but to bring her \$2,576 worth of software instead.

Finally, in the spring of 1993, a year after she created the \$2,000 credit pool, Zacker was ready to spend it. With the money, she asked Sales to deliver a variety of kitchen appliances for her office, including a refrigerator, a microwave and a coffee maker. That fall, after Sales began his cooperation with this office, he realized that he had actually delivered more than \$2,000 worth of appliances to Zacker. She agreed to make up the difference by creating another fraudulent purchase order, to NJOS, for \$1,673. In an effort to avoid detection, Zacker addressed the order to the attention of a different BOE employee at another school. Sales did his part, with the assis-

tance of SCF investigators, by providing her with three phony bids to go along with the purchase order. In April 1994, Zacker signed a phony packing slip so that Sales would be paid.

Maureen Piccoli: Losing Track of the Credit Pool

Maureen Piccoli works as an administrator assigned to the District 75 Citywide Special Education office.⁴⁹ In May 1993, Piccoli created a credit pool with Sales by ordering approximately \$5,000 worth of office supplies that she did not want or need. Instead, Piccoli initially ordered Sales to send her about \$1,940 worth of office furniture, including bookcases, desks and file cabinets. Then, during the following school year, Piccoli used the remaining balance of about \$3,100 to buy additional office furniture for herself and several other offices that she administered. In addition to this fraudulent conduct, Piccoli, in August 1993, solicited three fraudulent bids from Sales for about \$7,400 worth of office supplies, but failed to process the order. Furthermore, Piccoli was yet another BOE employee who had no idea of her account balance, as she repeatedly relied on Sales to give her an accounting on her credit pool.

Additional Special Ed Cases

Mimi Dessen, an administrative coordinator at P.S. 993, a special ed satellite school located in I.S. 172 in Queens, exploited both bidding and imprest fund procedures. In September 1993, when Dessen needed furniture for two new special ed sites, she was directed to Sales by Ilisa Sulner. At Dessen's request, Sales supplied her with three phony bids and, one month later, Dessen faxed two purchase orders to Sales for furniture, each for about \$5,000. The furniture, worth over \$8,600, was delivered in October 1993.⁵⁰

During her dealings with Sales, Dessen also violated the BOE's imprest fund rules, by directing him to buy cameras and film separately over a two month period, thereby "splitting" the total bill by bringing each purchase under what she thought was the BOE's \$250 per vendor, per month limit.⁵¹ Clearly, no one was reviewing Dessen's bills, as Sales submitted invoices for the

49. Piccoli is licensed to teach the emotionally handicapped but has full-time purchasing responsibilities for District 75.

50. Interestingly, the BOE was billed for one less chair than it received, but Dessen never contacted Sales about it.

51. Although many BOE employees believed that they could not use imprest funds to spend more than \$250 per month, per vendor, the SOPM does not specifically prohibit more than one such purchase a month. It does, however, prohibit "bill splitting" of imprest fund invoices in order to avoid the BOE's more stringent purchasing regulations.

cameras and film on the letterhead of one company, but indicating that payment should be made to him at a different address. In January 1994, Dessen again used phony bids, provided at her request by Sales, this time to order seven mobile computer work stations from him, who delivered them before the fraudulent paperwork had even been created. Although Sales paid approximately \$250 for each item, he charged Dessen \$350 each, thereby earning a profit of roughly \$700 on a total sale of \$2,450.

Carmine Scerra, a licensed supervising school psychologist who also worked in the District 75, Citywide Special Education office, was yet another employee referred to Sales by Herman. In December 1992, Scerra engaged in bid rigging, by allowing Sales to match the lowest bid Scerra had received for office partitions. Diversified thereby "won" the order for \$14,046 worth of partitions.⁵² In May 1993, as the fiscal year was ending, Scerra needed more office partitions, but this time, he did not even bother obtaining other bids, simply asking Sales to supply him with all three, and requesting that Sales wait until the fall to deliver these items. In the meantime, Scerra signed the packing slip for over \$5,400 worth of partitions, even though he had not received them, and Sales was paid by the BOE. The partitions were ultimately delivered over the course of the fall of 1993.

Pat Luce, a special ed teacher at P.S. 25 in Staten Island, was another employee referred by Herman to Sales. In April 1994, Luce requested and obtained three fraudulent bids from Sales for \$450 worth of files. At Sales' instruction, she cut off the top of the faxed bids so that her business office would not detect that all of the bids had been faxed from the same location. Not surprisingly, NJOS obtained the order and delivered the items.

Lorraine Boyhan, the principal of P.S. 140, a special ed school located in P.S. 372 in Brooklyn, requested and obtained three phony bids from Sales, in May 1993, for \$2,870 worth of furniture and equipment. Diversified "won" the order and delivered the items.

Diane Nitzberg is the coordinator of the Bronx Adaptive Technology Center,⁵³ and was another special education employee referred to Sales by Herman. In December 1993, Nitzberg

52. Sealed bidding and a public reading were required by the SOPM for this purchase, as its value was greater than \$10,000 and less than \$15,000. When asked about this violation of the SOPM, Sales was unsure whether Scerra deliberately broke the rules or whether he was just unfamiliar with them. Either way, if anyone at the District 75 business office had reviewed this purchase, they would have noticed this obvious violation.

faxed Sales three purchase orders, in which she listed certain computer furniture that she wanted. One order was for her Center, and the other two were for the Staten Island and Manhattan Adaptive Technology Centers. In her fax, Nitzberg wrote, "We need your bids and your price." During a series of conversations which followed this fax, Nitzberg made clear that she expected Sales to provide all three bids. On January 7, 1994, Sales faxed Nitzberg three bids that SCI investigators had created. Diversified was the lowest bidder, at \$434.72. Two weeks later, the computer furniture was delivered.

Bid Rigging at the Bureau of Supplies

John Price⁵⁴ was involved in a purchasing fraud scheme with Sales different from those that have so far been discussed. While a purchasing agent at the Bureau of Supplies ("BOS"), Price gave Sales confidential bid information. That information primarily consisted of details concerning BOS contracts; access to those details, which other vendors did not have, gave Sales a valuable advantage over his competitors. With this information, Sales won many BOS contracts for NJOS and Diversified. Price's case, like that of Sandra Orter, is evidence of the harm that can result when purchasing agents develop close friendships with the vendors from whom they make purchases.

While Price was a BOS purchasing agent, he and Sales became close friends. They regularly lunched together, Price spent holidays with Sales and his family, and Price even became a weekly dinner guest at the home of Sales' parents.⁵⁵ In addition, Sales and Price frequently exchanged expensive gifts; among other things, Price gave Sales a beeper, a dollhouse for his daughter, sweaters for his son, and Christmas gifts for Sales' wife, children and parents, and Sales, in turn, gave Price a used car,⁵⁶ valued at about \$4,800, a suit, a leather coat, used couches, sweat-

53. Adaptive Technology Centers are part of the BOE's special education/citywide programs. There is one Center located in each of the five boroughs, the aim of which is to help severely handicapped children learn how to use computers and other high-tech equipment.

54. We have used a pseudonym in this section because the investigation into the facts and circumstances involving this individual is still ongoing.

55. According to Kevin Gill, Executive Director of the Bureau of Supplies, the Bureau of Supplies current policy prohibits any outside contact between its purchasing agents and vendors. Gill stated that any agent found in violation of this policy would be terminated.

56. Sales claimed that he bought Price the car because Price's car had been stolen while he was working late one night at the BOS. Sales paid \$4,800 for the car, which, at this time, Price is still using to commute to the train station.

ers and watches. Apart from this exchange of gifts, Price gave Sales confidential bid information on approximately nine separate occasions.

It appears that Price received nothing of monetary value from Sales in return for the bid information. Rather, according to Sales, Price gave him this "assistance" because of the close personal relationship between the two. Price is no longer employed by the BOE.

Central BOE Employees Get Into the Purchasing Fraud Act

Helen "Betty" Hobbs, Roy Ornelas and Judy Fein: School-Based Mismanagement

At the time of their dealings with Sales, Helen "Betty" Hobbs, Roy Ornelas and Judy Fein all worked in the BOE's Office of School-Based Management/Shared Decision Making located at 131 Livingston Street in Brooklyn, Hobbs as an administrative associate, Ornelas as an office associate and Fein as their supervisor. Among other things, their case illustrates the damage to the BOE when a vendor is allowed to charge any price he wants for his goods.

During the spring of 1993, prior to Sales' cooperation, Hobbs and Ornelas repeatedly requested and obtained fraudulent bids for office supplies from Sales totaling over \$25,000.⁵⁷ By allowing Sales to create the bids himself, Hobbs and Ornelas permitted him to gouge the BOE. Sales did so by charging \$25.60 for each of the 140 boxes of folders they bought from Diversified. At the same time, the NJOS catalog price for the folders was \$18.10 per box. Sales therefore charged the BOE \$3,584 for the Diversified shipment, over \$1,000 more than would have been charged had he used the NJOS contract price. Though most of the items on these orders were delivered, Hobbs asked Sales to substitute some of the items with non-contract goods. At the same time, Ornelas asked for and received a briefcase from Sales worth \$65.

In May 1994, after Hobbs and Ornelas had not been in contact with Sales for most of the school year, he received a message from their supervisor, Judy Fein, in which she stated that she had a "very large order" that had to be processed by the next day. Sales followed up on this request by calling Fein's office, where he spoke to Hobbs and later to Fein. "We have a problem,"

57. Between April and May 1993, they placed three orders with Diversified, for \$5,056.21, \$8,838.78, and \$1,137.76, and one order with NJOS for \$9,986.24.

Hobbs told Sales, ". . . we have to spend money by close of business tomorrow . . . and we need your help in spending it." The amount they had to spend was about \$25,000, and it had to be spent quickly, because the end of the fiscal year was nearing and their office was being phased out. In addition, according to Fein, Askia Davis, the head of the department and senior assistant to the Chancellor, wanted all of their department's goods to be shipped and stored in their empty offices. Turning to Sales for advice, Hobbs asked, "What's the easiest way?" The three agreed that Sales would give them three sets of phony bids, for a total of nine, to use in creating three purchase orders for office supplies. The low bidder in each case was Diversified. The purchase orders made out to that company were for \$9,882.11,⁵⁸ \$7,043.34, and \$2,091.55, respectively, totaling not \$25,000, but just over \$19,000. To date, none of these orders has yet been paid.

The BOE's failure to review written bids was made especially clear during Sales' activities with Hobbs, Ornelas and Fein. The bids he created with investigators from this office were so obviously fraudulent that an even an untrained eye could have detected their fabrication. The three bids, in each of the three sets, were literally carbon copies of each other. The only difference was the different companies' letterheads and the amount discounted from the total.⁵⁹ (*See copy of bids on next page*)

Joanne Angelucci: The Office of Legal Services

Not even the office of the BOE's legal counsel could resist circumventing the BOE's purchasing regulations. In June 1994, Joanne Angelucci, a word processor in the BOE's Office of Legal Services, contacted Sales in order to purchase an office file cabinet. Rather than going through the BOS, she asked Sales to substitute items on a imprest invoice for the file cabinet: "I wanted to order a file cabinet . . . We wanted you to write we got something else for it, okay?" When the file cabinet was delivered, another person in the office signed the fraudulent packing slip, even though it clearly indicated that office supplies, and not a file cabinet, had been received.

58. An obvious error appears in this purchase order. In the calculation of the price for one of the ordered items, the BOE was overcharged by over \$1,260. No one at the BOE noticed this error during the purported review of the order.

59. All of the bids contained exactly the same items and prices (down to the penny). The only difference between them was that Diversified offered a 21% discount on the total amount, while the two other companies offered discounts of 18% and 15% .

Fraudulent Bids Sent to Helen Hobbs on May 20, 1994

DIVERSIFIED SUPPLIES

Post Office Box 381 • Livingston, N.J. 07039
Phone & Fax 201-938-8728

5/20/94

Betty Hobbs
 N.Y. Board of Education
 131 Livingston Street
 Brooklyn, N.Y. 11201

Dear Ms. Hobbs,

We are pleased to quote on the following:

144 ea Pencil Pencil K102A	1.09	158.96
288 ea Pilot Pen marker 38011	1.09	313.92
288 ea	36011	1.09 313.92
288 ea	37011	1.09 313.92
288 ea	38011	1.09 313.92
288 ea	35111	1.09 313.92
288 ea	37711	1.09 313.92
288 ea	35711	1.09 313.92
288 ea	38711	1.09 313.92
288 ea	35334	1.89 544.32
288 ea	35346	1.89 544.32
60 ea	90010	2.89 181.40
60 ea	90011	2.89 181.40
108 ea	35334	1.89 204.12
108 ea	35335	1.89 204.12
108 ea	35336	1.89 204.12
108 ea	35337	1.89 204.12
108 ea	35338	1.89 204.12
200 ea Amped Kassel 24025	9.00	1800.00
200 ea	24022	15.63 3126.00
100 ea Kassel plain Print24034	15.38	1538.00
864 ea Assorted Broad Tip		
Dennison Cartrags 887	1.29	1114.56
		12363.00

11% Disc ~~1,376.53~~
 3,788.35

THANK You for the opportunity of quoting.

William Levy

WLL

BAYSHORE STATIONERS

36 West Front Street, Keyport, N.J. 07735
Phone # 284-6555 FAX # 284-3036

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YOUR
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 STATIONERY
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 AND DELIVERY

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200 ea	24022	15.63 3126.00
100 ea Kassel plain Print24034	15.38	1538.00
864 ea Assorted Broad Tip		
Dennison Cartrags 887	1.29	1114.56
		12363.00

DISCOUNT 11% IF we are the low bidder we will deliver
 at NO CHARGE with 30 back orders.

Gina Longhin

T&J OFFICE SUPPLY

751-87 16th Avenue, Whitehouse, NY 11897 (718) 269-6177

5/20/94

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 N.Y. Board of Education
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864 ea Assorted Broad Tip		
Dennison Cartrags 887	1.29	1114.56
		12363.00

We have attached our discount of 11% on our interhead.
 If we are the successful bidder we will deliver in 3
 business days.

Tony Roman

Y.P. Sales

The three bids shown here were fabricated by Sales and investigators. As can be seen, the quantities, items, prices, totals and formats of the bids are identical. The only differences are the letterheads, closing remarks and discounts. Diversified Supplies won the order.

Phyllis Senatore: Not Looking for a Bargain

Phyllis Senatore, a former aide in the BOE's Division of Labor Relations and Collective Bargaining,⁶⁰ created a credit pool with Sales in June 1993 by issuing four imprest fund checks, one each to Diversified, Horex, Niagra and Promotional Associates, each for just under \$250. None of the office supplies she ordered from these companies were delivered. At the same time, Senatore also gave Sales a purchase order for nearly \$10,000 worth of furniture, for which Sales supplied all three bids. All of this merchandise was delivered. From the \$1,000 imprest credit pool, Senatore subsequently ordered about \$650 worth of office supplies. Senatore applied the remaining \$350 to a subsequent October 1993 purchase order for about \$1,350 worth of computer tables and office supplies. Sales gave her all three bids for this order, with Essy Products the low bidder. All of the goods in this order were eventually delivered.

Purchasing Fraud in the Schools

Jack Cohen: Purchasing 101

Jack Cohen is an assistant principal at the High School for Health Professions and Human Services in Manhattan.⁶¹ Not only was Cohen yet another employee who did not care how much the BOE was charged, his comments to Sales indicate that even if he had wanted to follow the purchasing rules, he was insufficiently trained to do so.

Cohen's initial credit pool activities with Sales occurred before Sales began cooperating with this investigation, when Cohen worked at Murray Bergstrom High School. During the 1992-1993 school year, Sales went to the school to see if anyone there wanted him to deliver items that had previously been ordered, although not by Cohen. While at the school, Sales met with Cohen, who told him not to deliver the ordered goods but to substitute them with other items.⁶²

On January 12, 1994, Cohen, who was now at the High School for Health Professions, contacted Sales to see if he was interested in conducting further business and said that he wanted

60. Phyllis Senatore recently resigned from the BOE.

61. According to the BOE's records, Cohen has a principal's license; however, according to Sales, Cohen is not the principal of the school. Sales stated that Cohen appears to be working as an office administrator. According to other sources, Cohen is an assistant principal.

62. Sales eventually delivered nearly \$9,000 worth of substitute goods to Murray Bergstrom High School pursuant to this order.

to "start an account," and asked Sales to give him imprest fund invoices for that purpose. On January 31, 1994, when they met at Cohen's school, Cohen told Sales that he had about \$18,000 to spend on supplies. When Sales asked whether Cohen wanted to handle the order as a credit pool, Cohen replied, "Yeah, that's what we did in the past."

During the meeting, Cohen gave Sales a list of office supplies that he wanted, including a chair and a laminating machine. When they discussed how Cohen would pay for the order, Cohen indicated that he would create five backdated fraudulent imprest fund checks. Cohen asked Sales to give him phony bids and invoices for paper products and other supplies, which Cohen would process in order to set up an account. Sales complied, with the assistance of SCI investigators, giving Cohen five Diversified invoices, totaling nearly \$1,250, for paper and other office products. Over the next two months, Sales delivered to Cohen the chair, valued at over \$290, and the laminating machine, worth about \$250, and also sent duplicating fluid to Cohen's friend at another school who was having difficulty ordering supplies.⁶³ In March 1994, Cohen requested an electronic organizer, label makers and a laser printer. The electronic organizer and label makers, worth a total of over \$440, were eventually delivered to him.

Shortly afterwards, Cohen decided to enlarge the credit pool, using fraudulent purchase orders and phony bids. Sales and Cohen worked together to create three such orders in amounts of \$8,764.70, \$9,520 and \$5,010. The low bidders, not surprisingly, were NJOS, Diversified and Essy Products. The BOE has not yet paid for these orders, and no delivery has been made.

Cohen's conversations with Sales made clear that he had not been given adequate training in the BOE's purchasing procedures. In a telephone conversation in April 1994, referring to the bids Sales had sent him, Cohen stated, "I got your folder here with everything in it . . . but I don't know how to prepare the purchase order." Luckily for Cohen, he was speaking to an expert, as Sales was able to lead him through the process.

63. As the two agreed, the duplicating fluid was billed to Cohen's account.

Linda Bazarnik: From Phony Bids to Bad Math

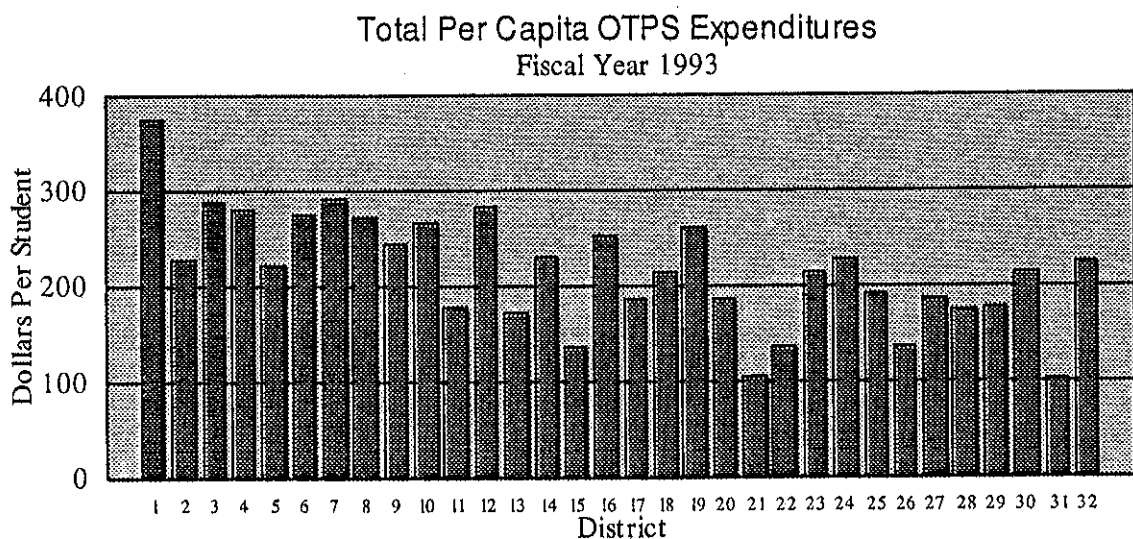
Linda Bazarnik is an assistant principal in P.S. 256 in Queens, and is responsible for ordering supplies for a number of schools in the district. As we saw with so many other employees who dealt with Sales, Bazarnik relied on him for fraudulent bids.

In September 1993, Bazarnik requested that Sales provide her with three phony bids for office supplies. Sales gave her the bids, with Essy Products as the low bidder. Bazarnik, in turn, created three purchase orders, totaling nearly \$7,000, for items that were eventually delivered. Rather than solicit bids for all of the purchase orders, however, she used the prices from the three phony bids to generate all three orders.

Purchasing Patterns: District by District

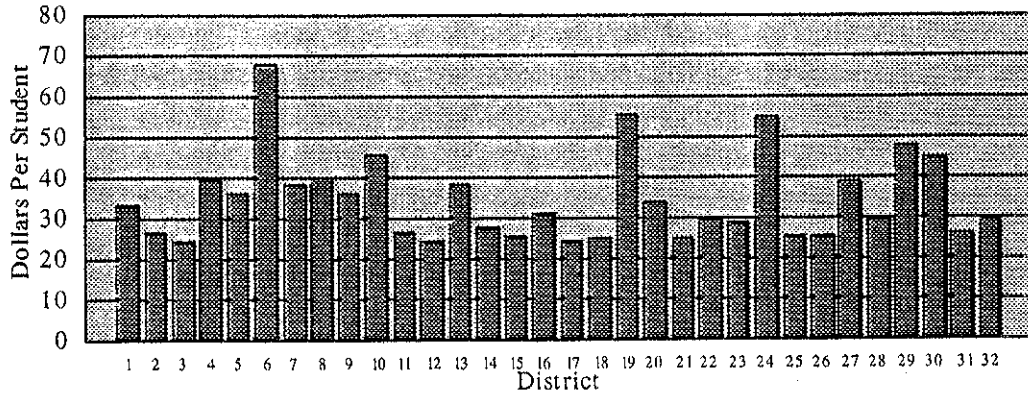
The BOE spends approximately \$1.5 billion every year on goods other than salaries (known in budgetary language as "OTPS"). For purposes of our investigation, we examined recorded levels of OTPS spending at each of the 32 community school districts. Our goal was to see whether the amounts of supplies purchased appeared appropriate to the needs of the district, and whether there were high variations in spending that might indicate potentially fraudulent purchasing practices.

Our examination found that OTPS spending varied widely among school districts. For example, during the 1992-1993 school year, the largest district, District 10 in the Bronx, which has an enrollment of 36,892 students, spent the largest amount in OTPS expenditures, \$9.5 million. Staten Island District 31, however, the second largest school district with 35,867 students, ranked 26th in OTPS spending, at \$3.5 million. On the other hand, the smallest district, District 1 in Manhattan, with 9,970 students, ranked 21st in OTPS expenditures, at \$3.9 million. Furthermore, districts of comparable size had widely different levels of OTPS spending. Districts 30, 6, 20 and 11, all of which have roughly the same student population, ranked 8th, 3rd, 12th and 15th, respectively. The chart below reflects disparities in spending per student:

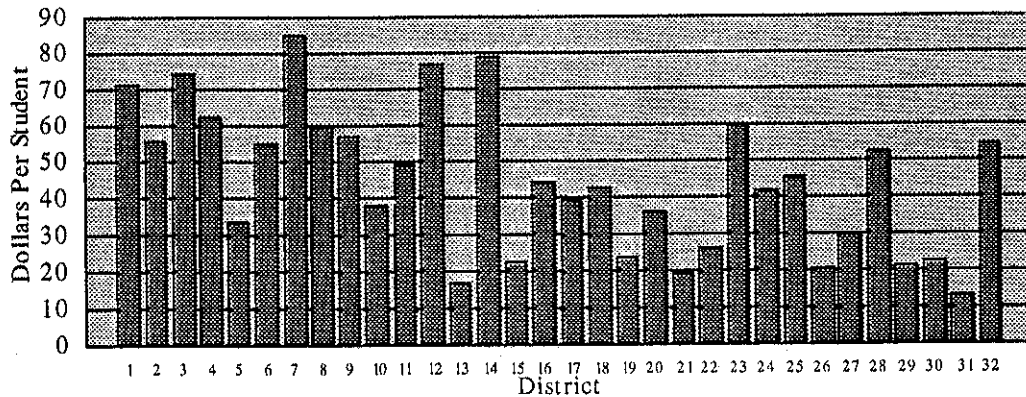


Additionally, in order to determine whether there was a high variation in spending by the districts on particular OTPS items, we examined how much each district spent, per student, during the 1992-1993 school year, on a few randomly selected items: general office supplies, instructional supplies and textbooks. The charts below illustrates our findings:

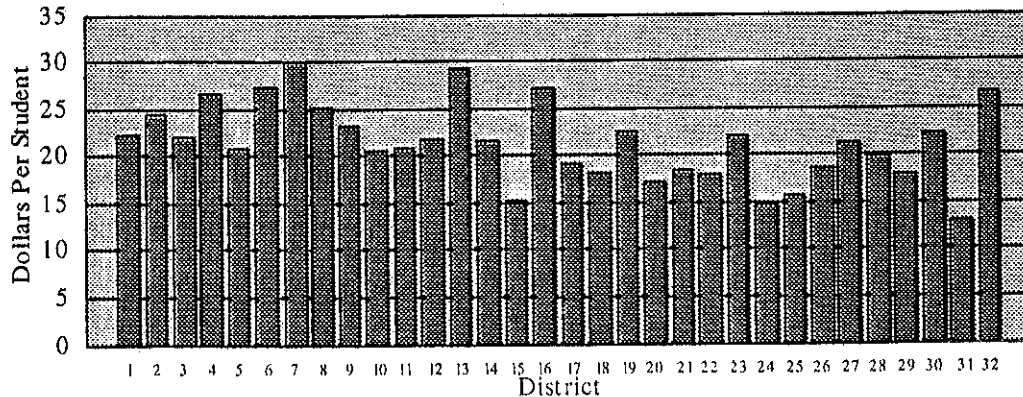
Per Capita Expenditures on Textbooks
Fiscal Year 1993



Per Capita Expenditures on Instructional Supplies
Fiscal Year 1993



Per Capita Expenditures on General Office Supplies
Fiscal Year 1993



Just as our analysis of overall district OTPS expenditures found puzzling disparities, our analysis of district spending on textbooks, instructional and general office supplies also raised questions: namely, was the wide variance in spending from district to district the result of illegal, or, at the very least, irregular purchasing practices? Or were there other explanations? Only a certified audit, with a full examination of inventory, could determine the explanation for these discrepancies.

These disparities underline the BOE's need to computerize its purchasing and inventory practices, which are currently paper-driven. Automating would greatly aid the BOE's oversight and auditing abilities, by providing readily accessible, current information regarding district purchasing and inventory practices. With computerization, a thorough audit could determine, for example, whether a district's spending is excessive, or if its inventory records conform with its spending. If the BOE had access to reliable and current information regarding the purchasing practices of our subjects, it would have uncovered systemic purchasing fraud long before this office did.

IPIS: An Integrated, Computerized Purchasing and Inventory System Is Never Fully Implemented

For a public school system with an \$8 billion annual budget, the BOE's purchasing and inventory practices are remarkably obsolete and have been described as "something out of the Dark Ages." As our cases make all too clear, the BOE's reliance on manual, paper-driven purchasing and inventory practices, coupled with a lack of internal controls and oversight, have provided employees with the equivalent of a license to steal. Not only has the BOE been aware of these problems for some time, it long ago acknowledged that automating these functions was a potential solution. In 1986, the BOE began efforts to automate its purchasing and inventory practices, spending over \$7 million and more than five years on the effort.

This ambitious project, known as "IPIS," for "integrated purchasing and inventory system," would have automated these and other manual functions. IPIS was originally designed to computerize work order repairs at the Division of Buildings (now known as the Division of School Facilities or "DSF"), inventory at the Office of School Food and Nutrition Services ("OSFNS"), the DSF and the Bureau of Supplies ("BOS"), and purchasing and payment at all three divisions as well as the 32 district offices.⁶⁴ BOE officials initially projected that IPIS would save \$17 million over four years.

In October 1987, after a lengthy process of designing the specifications for IPIS and soliciting bids,⁶⁵ the BOE awarded the contract to design and manage IPIS to a consultant named American Management Systems. By January 1989, work repair orders were on-line at the DSF, and by the fall of that year, inventory records were on-line at the OSFNS. By 1990, the purchas-

64. Although IPIS was not initially designed to allow purchasing from the BOS by individual schools, BOE officials intended to eventually phase in requisitioning throughout the entire school system, including schools and central administrative offices.

65. The BOE initially awarded the contract to another consultant in July 1986, but that consultant was unable to perform, forcing an additional round of re-bidding.

ing and remaining inventory functions appeared ready for testing. Nonetheless, in May 1991, the BOE cancelled implementation of these components. Only two of IPIS's four subsystems are currently being used: for work repair tracking at the DSF, and inventory monitoring at the OSFNS. The purchasing and remaining inventory components were never implemented in any way.

Different reasons have been offered for the demise of IPIS. These include: poor planning and conceptualization during the design phase of the system resulting in a product which was outdated before it was even implemented; the lack of anticipated program users on the IPIS planning committee resulting in a system that did not take into account users' needs; and, the absence of any high-level BOE official acting as the "project champion" and taking overall responsibility for IPIS's successful implementation. In any case, in May 1991, at a time when the BOE faced \$578 million in budget cuts, and the complete implementation of IPIS was estimated at an additional \$7 million, over the \$7 million that had already been spent, the BOE decided to abort the project.

Even though the purchasing and inventory components of IPIS were never fully implemented, the BOE still urgently needs such a system, not only to prevent fraud, but also to modernize, streamline and conserve its scarce resources. While we recognize that automation will not necessarily prevent every person who is determined and sophisticated enough to know how to "beat" the system, it will certainly provide the strong deterrent that is sorely lacking. The BOE cannot afford to fail a second time.

Recommendations and Conclusions

The cases we have examined in this investigation all make clear that the BOE's current purchasing and inventory practices are without effective controls or systematic checks and balances to assure that rules are followed, that funds are adequately safeguarded and that accountability is established. As it stands now, there is nothing stopping BOE employees from abusing this system for personal gain, and there is nothing to help the BOE detect fraudulent purchasing when it does occur. Indeed, without the cooperation of our confidential informant, Fortunoff, it is unlikely that we would have uncovered the schemes described in this report. For these reasons, it is crucial for the BOE to immediately and dramatically reform its purchasing and inventory practices. At a time when every single BOE dollar is scarce, the need for reliable safeguards and accountability is more critical now than ever before.

Some of our recommendations, all of which follow below, will require a commitment of time and funds to carry out. Our proposals concerning the basic re-engineering and concurrent automation of BOE procurement fall into that category.

The remainder of our recommendations, however, can be adopted immediately, at no significant cost. These include our proposal that accountability in procurement be established by giving specific employees, already on staff at district or central offices, ultimate responsibility for purchasing, delivery and inventory. Towards that end we have recommended that appropriate employees be appointed as certified financial officers, certified purchasing agents and designated receiving coordinators for district and central offices. We have also recommended the creation of a central inventory control unit. Last, we propose the immediate implementation of a regulation to preclude the same BOE employee from both ordering goods and verifying the delivery of those goods. All of our proposals for change in BOE procurement are set forth in detail here.

* **RECOMMENDATION:** The BOE's purchasing and inventory systems should be re-engineered.

The BOE spends approximately \$1.5 billion every year on goods and services other than salaries, close to 20% of its total budget. This is a vast amount of public money that the public has a right to expect will be spent responsibly and efficiently, and, moreover, for the benefit of its school children, not for the enrichment of corrupt BOE employees and private vendors. The BOE's current procurement system does anything but inspire that confidence; rather, one must conclude that scarce funds for education are being wasted at a distressing pace as a result of archaic purchasing and inventory methods.

The procurement system now in place, which evolved over many years, no longer works. It is embarrassingly easy to manipulate for personal gain, and totally inadequate to service the needs of approximately one million students and the 120,000 individuals employed to educate them. It is our recommendation that the system be re-engineered.

Every aspect of the current procurement system should be rethought in the context of the computer technology available today, with a view towards, at a minimum, correcting the obvious flaws in the current system revealed in this report. We offer below some specific recommendations concerning the desired outcome of a re-engineered system for the BOE. These recommendations are based, for the most part, on our concerns about the system's current lack of even minimal integrity controls. We do not purport, however, to be experts in the field of procurement and have not attempted to address every problem with purchasing encountered during our investigation; we urge the BOE, however, to do exactly that, and to design a procurement system which is secure, which meets the needs of students and employees, and which is calculated to attract the best vendors in the city, and nationwide.⁶⁶

Thus, instead of burdening its purchasing manual with even more rules, only to be ignored along with many of the existing rules, the BOE must consider how to achieve real, and professional, oversight in its purchasing process. The BOE must determine how to establish account-

66. Although we are not, ourselves, experts in this area, we did consult with professionals in the public and private sector with significant experience in procurement. The input from those sources, which include representatives of the City's Procurement Policy Board, the Mayor's Office of Contracts and the BOE's Audit Advisory Committee, is reflected in the proposals we offer here.

ability in purchasing and inventory control so that someone is ultimately responsible for every dollar spent on supplies. The BOE must also consider the indiscriminate manner in which authority to negotiate with vendors has been delegated to individuals throughout the system, and whether there are not other ways to decentralize purchasing. The BOE must devise a pre-qualification process by which it can adequately screen vendors prior to entering into a business relationship with any company. And, the BOE must ask whether any defensible purpose is served by perpetuating the "use it or lose it" rule which has been the catalyst for so much of the fraud uncovered in our investigation.⁶⁷

The City, working with a management consultant, has already begun the process of re-engineering its procurement process in a project known as "ICPMS," for the integrated contract and procurement management system.⁶⁸ ICPMS, if implemented, would computerize and consolidate agency-wide contracting and purchasing activities. There may be an opportunity for the BOE to join the City's ICPMS project in the interests of economically addressing what is a common problem. But, whether the BOE joins with the City or not, it must undertake the difficult task of correcting its flawed and outdated purchasing system.

We are mindful that the BOE currently faces severe financial restraints that may impact on our recommendations. Nonetheless, the imperative for change is unmistakable. Our investigation makes clear that internal controls are so clearly lacking in the BOE's purchasing and inventory practices, that the fraudulent schemes we uncovered may be only the tip of a very large iceberg. If reforms are not implemented, the BOE will continue to hemorrhage funds at a time when it can least afford to do so.

67. The "use it or lose it" rule is not unique to the BOE, or even New York City. The wasteful and inefficient practices caused by the rule have been addressed in *Reinventing Government*, David Osborne and Ted Gaebler, (New York: Plume, 1993), pp. 118-119.

68. Deloitte & Touche, *Reengineering the Procurement and Contract Management Process*, Final Report, May 1994.

* **RECOMMENDATION:** The BOE's purchasing and inventory systems should be fully computerized.

Why Automation Is Needed

It is clear from our investigation that the BOE's purchasing and inventory practices do not meet contemporary business standards: they are archaic, inefficient and extremely vulnerable to abuse, fraud and theft. Thus, in our view, the BOE can no longer afford not to fully computerize these practices. Automation will place the BOE on a business-like footing, on par with the private sector and the many state and local municipalities that have fully computerized their purchasing and inventory systems in order to downsize, reduce paperwork, improve efficiency, ensure accountability and reduce opportunities for fraud and theft.⁶⁹

Because the BOE's inventory system is not automated, there is no efficient way to determine how much of a particular item should be available at a given location at a given time. Or, looked at from a different perspective, there is no way of knowing when the absence of particular items should raise flags, and trigger inquiries either with a vendor who might be delinquent, or with an employee who might be corrupt. The BOE's inventory and purchasing practices are almost entirely paper-driven, which is not only inefficient and slow, but also makes effective monitoring and enforcement of rules next to impossible.

Compounding the problem, there is no single person at most school and BOE offices directly responsible for maintaining reliable inventory records, and for determining whether ordered goods actually arrive. As a result, record keeping is haphazard at best, and paid for orders that never arrive go undetected. What this means in simple, but graphic terms, is that special ed school Principal Ilisa Sulner could order ten enclosed work stations, enough for several typical BOE offices, and no one, except Sulner, would notice or care that they had not been delivered; or that Assistant Principal Robert Mazza could order, but not receive, \$27,000 worth of highlighter, toner, computer diskettes and ribbons and no one at the High School for Leadership and Public Service would notice what should have been a gaping hole in the office supply closet; or that

69. Delaware, Maryland, Kentucky and Tucson, Arizona are just a few of the state and local governments that have adopted automated purchasing and inventory systems.

Administrative Associate Sandra Orter could cause the BOE to pay for \$41,000 worth of undelivered paper, possibly enough for her entire division for at least a year, and no one would miss it. Certainly, reliable inventory records, as part of an integrated and automated record keeping system, would prevent, or at least deter, this sort of fraud.

Access to reliable and current information is essential to effective management and oversight. Since the BOE's managers and supervisors do not have ready access to dependable information regarding, for example, what is being bought, by whom, from what vendor, at what price, and where it is located, effective monitoring simply cannot occur. In addition, without such information, the BOE's auditors have no way to measure whether a district's expenditures are appropriate, meaningful and reliable, system-wide comparisons cannot be drawn, and changes in purchasing patterns cannot be detected.

In 1986, when the BOE first attempted automating its purchasing and inventory practices, it had the right idea; unfortunately, its execution was seriously flawed and the technology it selected was primitive. Nonetheless, BOE officials correctly recognized even then that the savings and benefits from automation were potentially enormous. Indeed, all of the BOE officials that we have spoken with on this subject have enthusiastically endorsed such automation. Today, the technology the BOE would need is already being used by corporations, vendors and governmental authorities, with successful results. The time has come for the BOE to adopt it.

Some Features of an Automated System

The automated purchasing and inventory system we envision would be paperless, with electronic information flowing rapidly between all of the transacting parties. Purchasing would be accomplished electronically between buyers and vendors. No longer will the BOE's purchasing and inventory practices be overwhelmed by time-consuming and wasteful clerical tasks. Accountability will be firmly in place from the beginning to the end of each transaction. Its basic features would include:

- (1) Unique access codes for each authorized purchaser, supervisor and designated receiver, thereby preventing unauthorized employees from making purchases, as well as preventing the same employee from both buying goods and confirming their delivery;

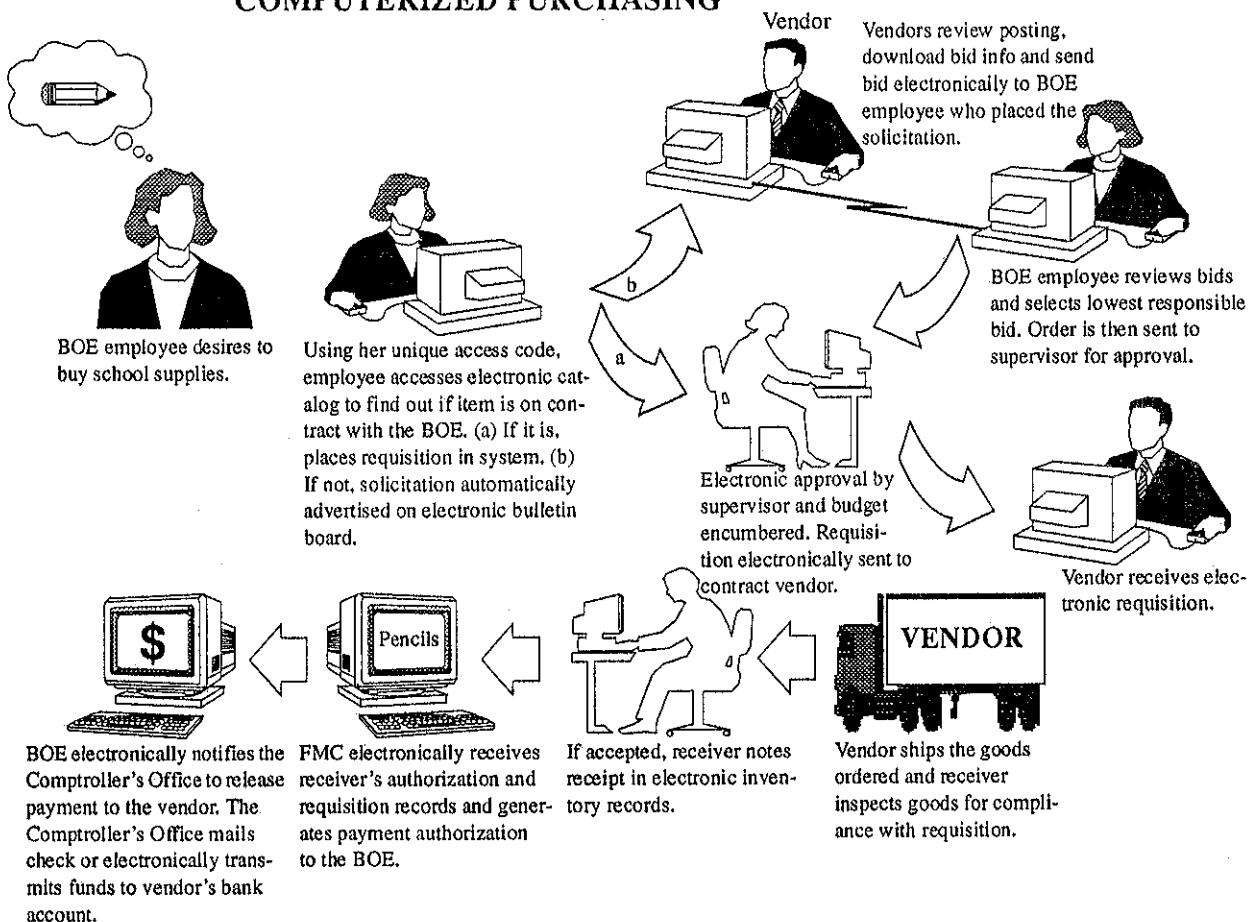
- (2) A database containing, among other things, vendor performance histories, evaluations, sample bids and sample contracts;
- (3) An easy-to-read electronic catalog containing basic information about contract items, contract vendors, prices, and other purchasing information;
- (4) An Electronic Data Interchange ("EDI") which would allow authorized vendors to electronically download bid documents, electronically mail bids, invoices and other purchasing documents to the BOE, and receive payment through electronic transmission to their bank account; EDI would allow a BOE purchasing agent to electronically order goods;
- (5) An electronic bulletin board,⁷⁰ accessible to the entire vendor community, advertising all current bid and contract offerings, contract awards, and access to payment status information;
- (6) Electronic on-line approvals;
- (7) Electronic inventory records;
- (8) An electronic "paper" trail capturing all relevant transaction information, allowing employees to track the progress of their purchase; The electronic paper trail would also be instrumental in auditing and monitoring procurement.⁷¹

70. Among others, the state of Oregon has successfully implemented an electronic bulletin board. Several federal agencies are currently implementing electronic bulletin boards that would list all of their pending and available contracts.

71. These specific proposals were conceived as a result of numerous discussions with BOE officials and representatives from the City's Procurement Policy Board and the Mayor's Office of Contracts. In addition, some of these proposals have previously been made to the BOE by outside management consultants. Other proposals resulted from a review of numerous periodicals, newspaper articles and other relevant publications on these topics.

The diagram below generally illustrates how the electronic purchasing system we envision would operate:

COMPUTERIZED PURCHASING



Even this extremely brief overview of the basic components of an automated purchasing and inventory system makes clear that it will radically reform and dramatically improve the way BOE purchases are made and inventory information is maintained and used. Not only will automation reduce the enormous financial costs associated with a paper-driven system, such as mailing, printing, and other clerical tasks, it will free up employees' time so that they can focus exclusively on the substantive acts involved in purchasing, like examining purchasing trends, assessing needs and selecting the lowest responsible bidder. Moreover, automation will substantially accelerate the purchasing process, help ensure compliance with regulations, create accountability, and provide managers and auditors with readily accessible and current information for purposes of management, planning, oversight and auditing.

The cost of automating purchasing down to the school level may be significantly reduced by the BOE's "Automate the Schools" program, whereby computers have already been installed in more than 1,000 schools and are currently being used for, among other things, attendance-taking purposes.⁷² The BOE projects that by the end of the 1994-95 school year there will be a computer in every school. Certainly there are costs to be expected in adapting these computers for use in an automated purchasing system, but their very existence in each school goes a long way towards making this recommendation a realistic possibility.

Other Benefits of an Automated System

From a system integrity perspective, the controls in an automated system will help deter fraudulent transactions, such as those we found during our investigation. Because the system would, among other things, automatically verify authorized users, contract numbers, vendor validity, and appropriate pricing, it would prevent a purchase from being made if, for example, the purchaser was unauthorized, or had not been pre-qualified. It would also prevent a purchase from being made from a vendor who was not on contract to supply the item, or if the price the vendor charged was greater than the contract price.⁷³ The system would contain controls that would automatically prevent the same person from both purchasing items and verifying their delivery, and would prevent payment to vendors in the absence of verification of actual delivery by an authorized receiver. Additionally, since information regarding inventories and purchasing patterns of individual employees would be readily available, irregular or fraudulent purchasing could be quickly uncovered and stopped. The intense effort undertaken by this office to substantiate allegations of purchasing fraud, which lasted over a year and included extensive surveillance, informants, and an undercover supplies company, would not be necessary except in those cases where the criminal schemes involved were far more sophisticated than those brought to light here.

The electronic bulletin board will also serve an important integrity control function. Because all bids, contract offerings and awards would automatically be publicized on the bulletin

72. This fall, the BOE is utilizing these computers for a pilot program, in ten schools, which automates purchasing between those schools and the BOS.

73. These controls could have even prevented potentially fraudulent bids, such as those which contained the same address, used a post office box for an address, or contained exactly the same price quotes.

board, fair and truly competitive bidding would be conducted, and purchasers would be prevented from illegally steering contracts to their "favorite" vendors. Furthermore, the availability of this information to all vendors will serve an important "self-policing" function, as vendors will be able to spot fraud or false statements by other vendors. Importantly, by providing easy access to all important information to every interested vendor, the BOE should attract a broad range of suppliers, including those of the highest quality and integrity.

An additional feature that the system could utilize is "procurement cards," like bank-issued credit cards, which would bring tremendous flexibility and speed into the procurement process. Cards such as these, which are being used by private companies, the federal government and some states and municipalities, are specifically designed for small purchases. These cards could be issued to a select group of authorized BOE employees for use with designated vendors. Limits concerning the types of items which could be purchased, and maximum dollar amounts allowed per purchase, would provide an important integrity control. When making purchases with procurement cards, BOE employees would provide specific accounting codes to be charged, so that a record of what was purchased would be tracked by the automated purchasing system that we propose. Thus, procurement cards would allow individuals at the school or district level to react quickly to small purchasing needs and to avoid filling out forms, or using the BOS as a time consuming intermediary. This, in turn, should alleviate some of the frustration with the current, slow moving system felt by many BOE employees, which made Sales' credit pools attractive in the first place. Integrity control over procurement card purchases, however, would not be lost.

An added benefit from an automated BOE purchasing system will be the reduction in the BOE's warehouse needs, if not the outright elimination of the Bureau of Supplies' ("BOS") warehouse. That warehouse, which stocks about 1,400 types of items, is located in a BOE facility in Queens, and occupies five of the seven stories of the building, which is itself the size of a city block. The BOS estimates that it spends \$750,000 annually in personnel costs to perform warehouse-related duties. Currently, the BOS establishes master requirements contracts for many frequently purchased goods, and itself makes high-volume purchases for delivery to its own warehouse. Employees throughout the system also order against the BOS's contracts, either by

calling the contracted vendor directly, or by requisitioning the goods from the BOS. When requisitioned, the BOS either arranges with the contracted vendor to deliver the desired goods directly to the particular school or office generating the order, or arranges for delivery from its warehouse. Under the automated system we envision, this warehouse, which is itself expensive to maintain, would no longer be needed at its current size, if at all. Because ordering and delivery would be performed electronically, the BOE would not need to store items at the warehouse. So called "stockless purchasing" has proven to be efficient and cost-effective, and has been adopted by many public entities, including the Port Authority of New York and New Jersey.

The BOS would still have an important role to play in this new automated system, as it would retain responsibility for establishing master requirements contracts, performing certain safety inspections and acting as the BOE's agent with vendors when purchasing problems arise. The BOS would be out of the business, however, of ordering vast quantities of materials for its own inventory; decisions such as when to acquire a particular item, and how much of it to acquire, could be made by the users at the school or office level pursuant to a rational, information-based, purchasing plan. On the other hand, purchasers at the school or district level would themselves be largely out of the business of negotiating sales terms directly with vendors, a function better left to a central bureau, such as the BOS, in the best position to achieve cost savings based on large purchases. Limiting the number of BOE employees who are called upon to negotiate with vendors will, in turn, limit the number of opportunities for corrupt relationships to develop.

From a strategic perspective, the automated system we have described will transform the BOE's current purchasing environment of waste, inefficiency and mismanagement into an information culture, where employees and their managers will have ready access to and use reliable information about purchasing and inventory when making purchasing decisions. For example, with access to current inventory and purchasing information, accurate future forecasting could be accomplished. The system could be programmed so that requisitions are automatically sent to the contract vendor when stock has decreased to a certain level. Purchasers would no longer buy too many or too few items, and end users would have what they need, when they need it.

In an automated system, monitoring and auditing will also be vastly improved. Instead of operating in the dark and basing purchasing decisions on unreliable information, managers and auditors will easily be able to obtain a current and reliable electronic "paper" trail for every transaction, showing, for example, where money is going, by purchaser, vendor, geographically, and by size and type of order. In this regard, every person who makes, authorizes, or receives a single BOE purchase will be held accountable. In addition, the system could instantly provide tracking information on purchasing trends at schools, districts and central offices, as well as information regarding where purchases have been delivered, to whom, and if they have been taken off the premises. Numerous audits could be reliably accomplished with access to this information. Automation would allow a limited number of auditors to credibly conduct audits involving thousands of employees and \$1.5 billion in expenditures. Should automation not be adopted, the BOE would have no choice but to increase its auditing staff several fold to have even a remote chance of finding, and stopping, the rampant purchasing abuses exposed here.

These are just a few advantages that will result from computerizing the BOE's purchasing and inventory practices. Although automation will not prevent every person determined to commit fraud, the improvements it will generate over the present system cannot be overstated. As we have illustrated, the BOE is paying an enormous price by its continued reliance on an easily manipulated, paper-driven purchasing and inventory system, only a fraction of which can be measured by the fraudulent purchasing schemes we uncovered. Although we are aware that automating will require a substantial investment, we are convinced that the cost to the BOE of continuing to conduct "business as usual" is far greater. The savings that automation will produce will quickly pay for its associated costs.

* **RECOMMENDATION:** The BOE's regulations must be changed to bar the same person from both purchasing and receiving delivery of goods.

As our investigation made clear, the BOE's regulatory loophole allowing the same person to both order goods and sign for their delivery was instrumental to the purchasing fraud schemes we uncovered. These two functions must be segregated. The BOE's failure to do so violates

basic, established management principles. It also violates the BOE's own internal control procedures, which state that "personnel should be given assignments so that no one individual controls all phases of an activity or transaction."⁷⁴ In addition, the BOE's Standard Operating Procedures Manual must be changed to clearly reflect this segregation.⁷⁵ As noted above, the automated purchasing system that we recommend would require the separation of these functions. This recommendation, however, can be adopted independent of automation.

* **RECOMMENDATION:** Establish accountability in procurement by making specific employees responsible for purchasing and inventory.

One of the more frustrating aspects of this investigation has been determining who was ultimately responsible for purchasing at any given location, and thus accountable for the chronic, and often obvious, purchasing fraud that we observed. The answer, more often than not, was no one. We thus recommend that employees already on staff be appointed to take on certain, defined responsibilities for purchasing and inventory. This recommendation can be implemented independent of full scale automation.

Certified Financial Officer

The BOE should designate a certified financial officer for the central BOE and for each community school district. Each financial officer would serve as the chief fiscal officer and business manager, or director of operations for his or her unit. The financial officer would have ultimate responsibility over financial affairs for his or her district or for the central BOE, including purchasing and inventory. Full implementation of this recommendation may require legislation.⁷⁶

74. SOPM, Internal Control sec. 1.4.2.

75. As it stands now, the SOPM does not explicitly bar the same person from purchasing and receiving. It merely states that "key duties such as recording transactions, issuing or receiving supplies, materials or equipment should be assigned to separate individuals." Our recommendation would make this segregation mandatory.

76. This is the second time this office has recommended the appointment of financial officers, having first proposed it earlier this year as part of a package of reform initiatives directed towards changing the New York State Education Law. Those proposals stemmed, in large part, from our report on corruption in Community School District 12, entitled, *Power, Politics, and Patronage: Education in Community School District 12*, and our report on the 1993 school board elections, *From Chaos to Corruption: An Investigation Into the 1993 Community School Board Election*.

Central Inventory Control Unit

There is currently no central unit responsible or accountable for inventory policy at the Board. When inventory problems arise, in schools, district offices or divisions, solutions are developed on an ad hoc basis, leading to a lack of uniformity in the Board's inventory rules and policies. Furthermore, our investigation revealed that there is little compliance with, or enforcement of, the few inventory regulations that the Board has implemented. In addition, the Board's Office of the Auditor General does not conduct surprise inventory checks.

The Comptroller recently recommended,⁷⁷ and we concur in that recommendation, that the Board create a central inventory control unit, whose responsibilities would encompass all areas of inventory policy within all levels of the Board. This unit would be responsible for conducting training sessions for school staff on proper inventory procedures, as well as performing a well-publicized surprise inventory check of all Board sites at least once every two years.

Certified Purchasing Agent

The inefficiencies in the BOE's purchasing system are made worse by the fact that many of the employees who make purchases have not received sufficient formal training. Indeed, many purchasing agents commonly assume the job without any introduction to the BOE's regulations; training often consists of simply being told to do exactly whatever one's immediate predecessor did. As such, purchasing agents are left completely unprepared to essentially assume the responsibility for managing budgets that can run easily into the hundreds of thousands of dollars. In fact, many of the employees we investigated were drawn into a corrupt relationship with Sales in the first place because they had trouble filling out BOE purchasing documents and thus allowed Sales to complete the paperwork. Of the vast number of other BOE employees who can make purchases -- purchasing agents, principals, teachers and other administrative employees -- it appears from our cases that few, if any, have been provided with the necessary skills, training and experience to make efficient purchasing decisions. By failing to fully professionalize this position, the BOE makes clear that it does not consider purchasing to be important. Thus, individuals

77. Office of the NYC Comptroller, *Audit of the Board of Education's Inventory Controls Over Audiovisual Equipment in Its High Schools*, June 16, 1994.

with BOE money to spend, but without any training in how to spend it, become easy prey for corrupt vendors.

An individual already on staff at each district, division and central office should be designated as the certified purchasing agent for that unit. The mere fact that a single person would be accountable for procurement in a particular unit should lead to more responsible purchasing decisions. The certified purchasing agent would undergo mandatory training, testing and certification, and would be responsible for purchasing in the entire district, division or office. Certified purchasing agents would know how to get the best prices in those instances that there was no existing contract for a particular item with the BOS. The agents would help ensure timely delivery and payment, specify quality, and be involved in research, inventory control and value analysis. These agents would also be positioned to thoroughly understand the needs of their district, division or office, and would be able to accomplish future forecasting, all of which will lead to substantial subsequent savings.

Designated Receiving Coordinator

During our investigation, we heard numerous complaints regarding the length of time that it took to obtain goods when they were purchased in compliance with the BOE's regulations. This perception, in turn, led many of our subjects to circumvent the rules in order to get what they wanted in a speedier, less cumbersome manner. While the manual, paper-driven nature of BOE purchasing has a great deal to do with how long it takes to buy goods through the BOE, our investigation revealed that a large part of the problem with delays also lies in the receiving end of the purchasing process. All too often, there is no single person, at the receiving end, responsible for accepting and documenting delivery, checking invoices, spotting problems with the order, and promptly distributing the goods to the individual who has ordered them. Because of this problem, goods are often misplaced or delivered to the wrong person, poor inventory records are kept, pilferage occurs, and additional lengthy delays ensue.

For these reasons, we recommend that each school, district office, and other receiving site designate at least one person, already on its staff, to be responsible for all receiving functions. This person should undergo mandatory training and workshops, as well as testing in proper

receiving procedures. For purposes of internal control, this responsibility should be rotated every few years, and should be segregated from any responsibility for maintaining inventory records and, obviously, from ordering goods.

Disciplinary Referrals and Recommendations

In addition to systemic changes, we recommend that the Chancellor terminate the employment of, and/or bar from future employment, the individuals described in this report. We have also referred allegations concerning six BOE employees and a private vendor to the appropriate law enforcement agencies.

Joan Salvatore, currently on paid sabbatical from her position as acting director, Early Childhood and Development in District 12, stole thousands of dollars in BOE funds for personal luxury items including a trip to Puerto Rico. She should be immediately removed from her position and her employment with the Board of Education should be terminated. Allegations concerning Salvatore have been referred to the United States Attorney's Office for the Eastern District of New York.

Sandra Orter, until recently an administrative associate in its Division of Strategic Planning, stole thousands of BOE funds to pay for her rent and other personal expenses. In May 1994, Orter resigned from the BOE. She should be prevented from re-employment. Allegations concerning Orter have been referred to the United States Attorney's Office for the Eastern District of New York.

Robert Mazza, assistant principal, the High School for Leadership and Public Service, stole thousands of dollars in BOE funds for his personal enrichment. His employment with the BOE should be terminated. Allegations concerning Mazza have been referred to the United States Attorney's Office for the Eastern District of New York.

Ilisa Sulner, principal, P.S. 168 in the Bronx, engaged in purchasing fraud to buy a leather chair for her home. Ms. Sulner should be immediately removed from her position and her employment with the BOE should be terminated. Allegations concerning Sulner have been referred to the Bronx County District Attorney's Office.

Helen Stambler, currently the director of Curriculum and Instruction in District 1, engaged in purchasing fraud while an administrator with the Arts and Cultural Education Unit, to buy a Sharp Wizard computer and a home computer link for herself. Ms. Stambler should be immediately removed from her position and her employment with the BOE should be terminated. Allegations concerning Stambler have been referred to the Kings County District Attorney's Office.

Ronald Bleier, English teacher, Martin Luther King High School, stole BOE funds to purchase two laptop computers, one of which was delivered to his home, and the other to the home of another teacher. Mr. Bleier should be immediately removed from his position and his employment with the BOE should be terminated. Allegations concerning Bleier have been referred to the Kings County District Attorney's Office.

Last, we have referred allegations concerning **Howard Whitman**, a private vendor, to the Kings County District Attorney's Office. Whitman assisted Sales in his criminal venture by negotiating BOE checks in furtherance of the scheme.

The employment of the BOE employees listed below should be terminated, or, concerning those employees who have recently resigned, reemployment with the BOE should be barred.

Elise Rosenberg, Vicky Hoffman, Carmine Scerra, Pat Luce, Helen ("Betty") Hobbs, Judy Fein, Mimi Dessen, Lorraine Boyhan, Joanne Angelucci, Linda Bazarnik, Jack Cohen, Regina Zacker, Diane Nitzberg, Bebe Herman, Maureen Piccoli, Roy Ornelas and Phyllis Senatore.

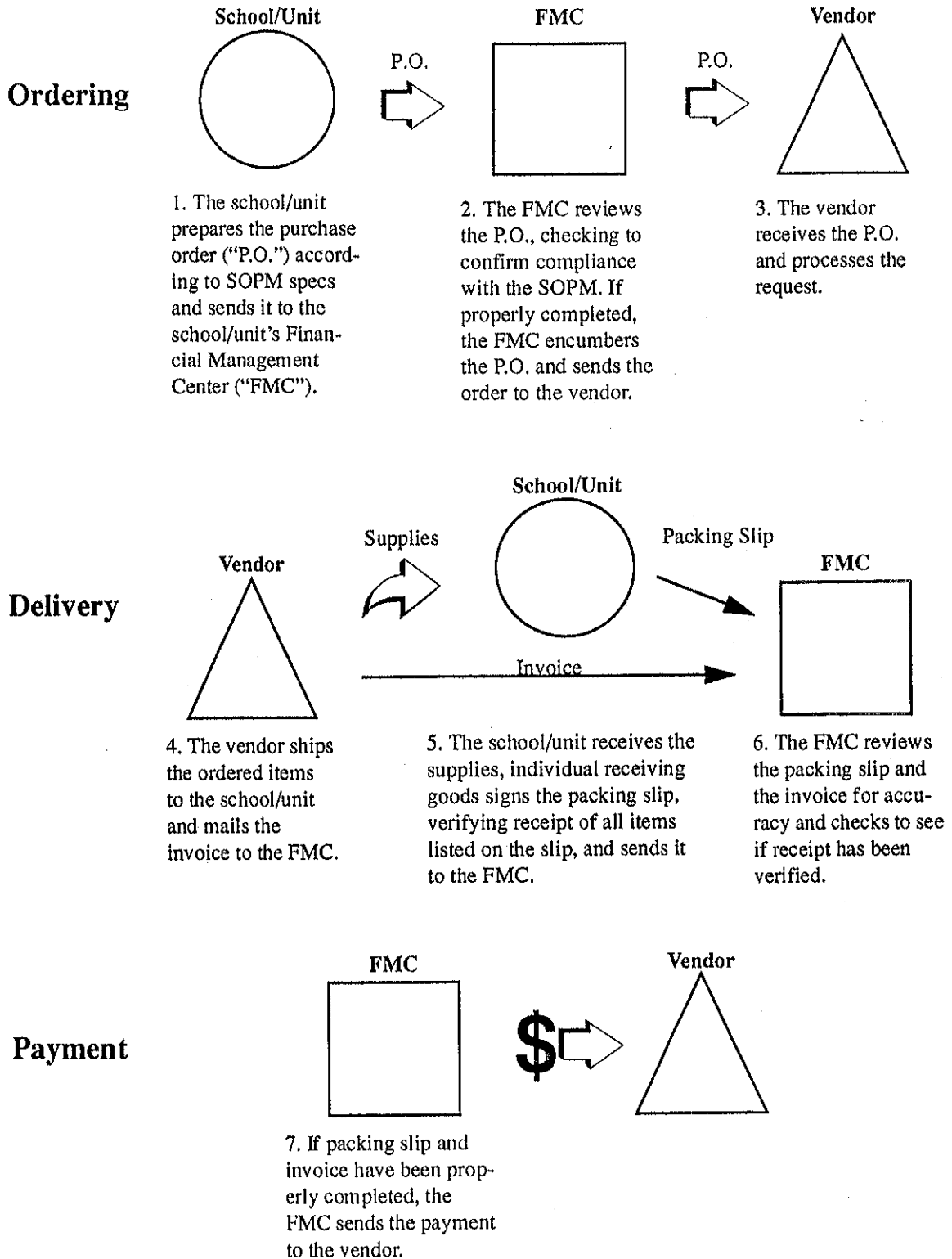
APPENDIX

Current Purchasing Procedures and Regulations



Purchasing from Vendors:*

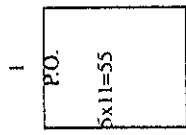
An Overview



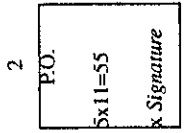
*The chart represents procedures for purchasing items worth over \$250.

The Purchase Order Flow Chart: Ordering

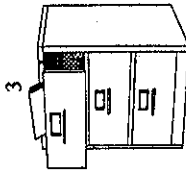
School/Office



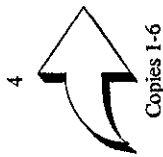
1 Purchaser completes Purchase Order for type, quantity, and price of desired item.



2 Authorized individual signs the Purchase Order.

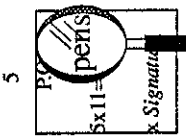


3 School/Office retains Copy 7 and files it in the Open Order File.



4 School/Office sends Copies 1-6 to FMC.

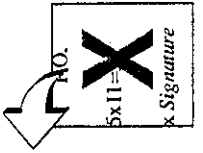
Financial Management Center



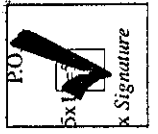
5 FMC reviews the Purchase Order for accuracy and completeness. FMC makes necessary corrections.



6 FMC verifies extensions and staples calculator tape to the Purchase Order.

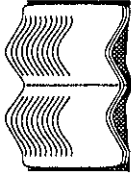


7 a. If the Purchase Order is judged unacceptable, the FMC returns the Purchase Order to the school/office.



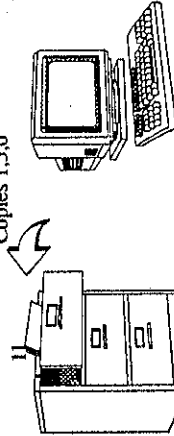
7 b. If the Purchase Order is accepted, then the FMC posts the Purchase Order in the Encumbrance Ledger.

8

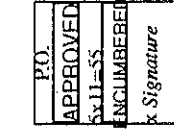


8 FMC enters the Purchase Order information into the Purchase Order Log Book.

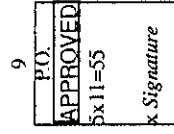
Copies 1,5,6



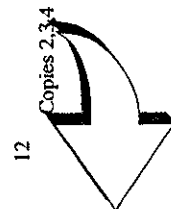
9 FMC files: Copy 1 in the Approved Encumbrances Copies file; Copy 5 in the Open Vendor file; Copy 6 in the School/Office file.



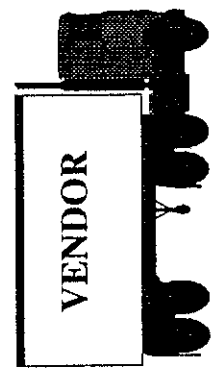
10 FMC encumbers the purchase order using the on-line system. FMC stamps "Encumbered" on the Purchase Order.



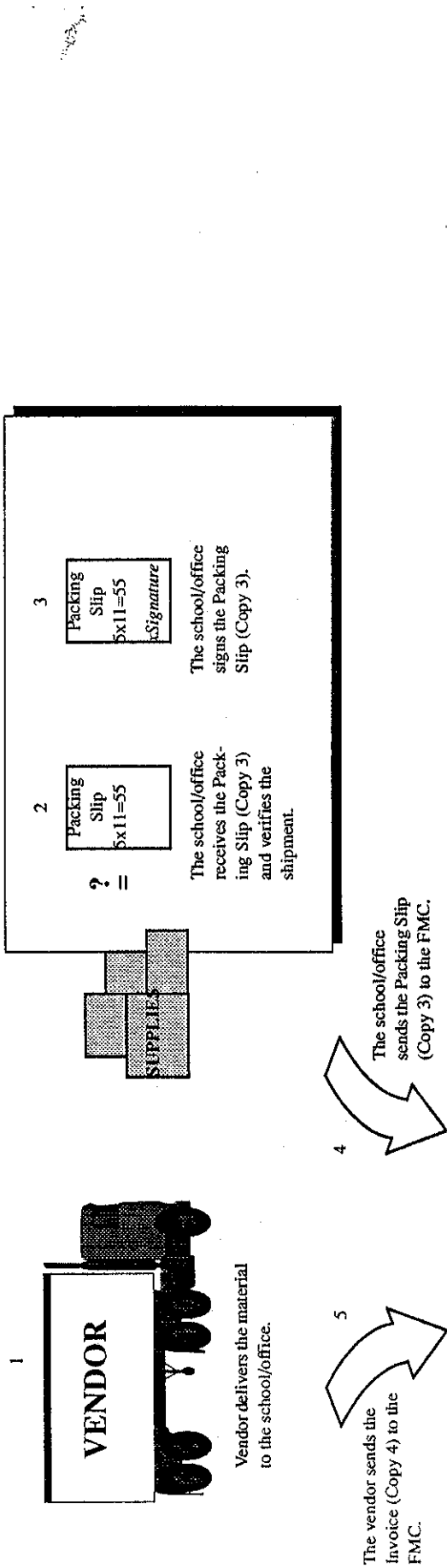
11 FMC stamps the approved Purchase Order.



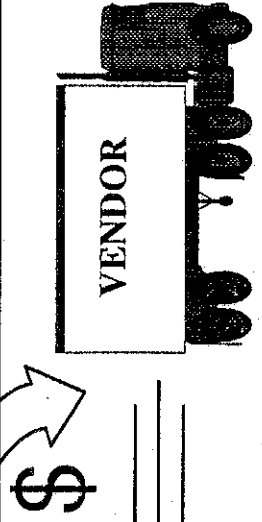
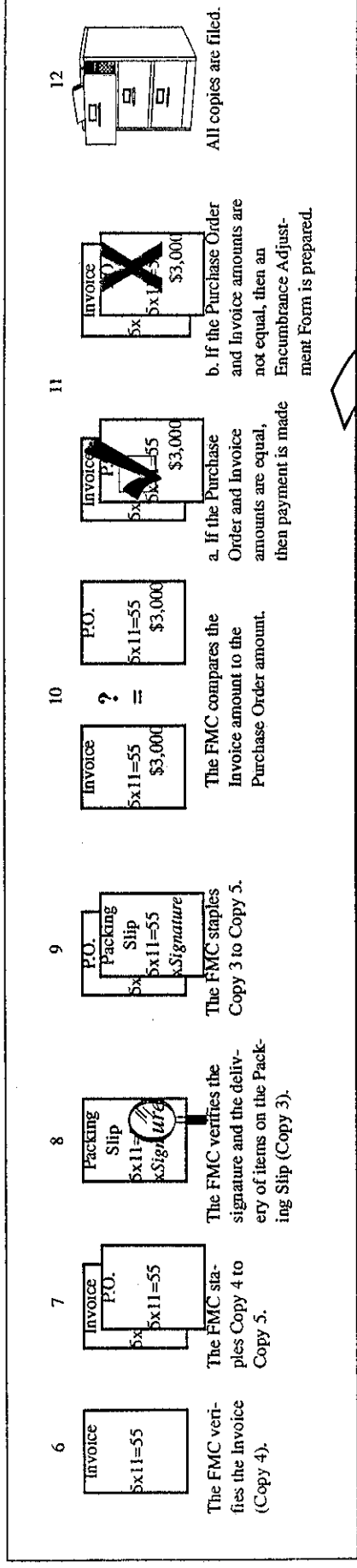
12 FMC sends Copy 2 (vendor order), Copy 3 (vendor's packing slip), and Copy 4 (vendor's invoice) to the vendor with a Vendor Processing Instruction Form.



The Purchase Order Flow Chart: Delivery and Payment



Financial Management Center



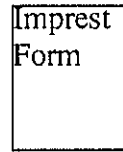
Bidding Procedures

Value of Goods

Procedures

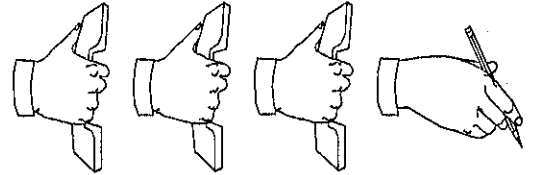
\$1-\$250:

Purchaser can process the order through the use of imprest funds. No solicitation of bids is required.



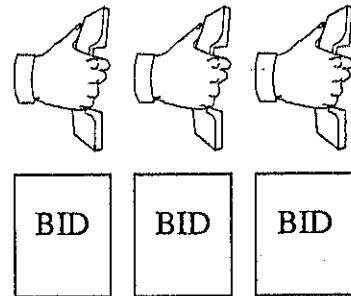
\$250-\$1000:

Three bids must be solicited and recorded. No written confirmation is necessary. Bids are usually solicited by telephone.



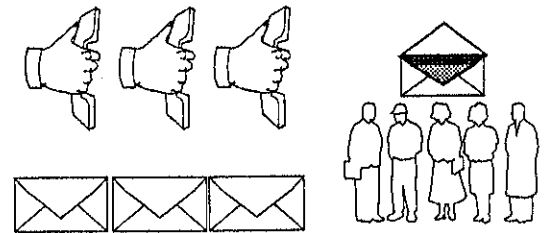
**\$1000
-\$10,000:**

Three bids must be solicited and confirmed by each bidder in writing.



**\$10,000
-\$15,000:**

Bids are solicited. Sealed bids are received and opened at a public reading. No public advertisement is required.



**\$15,000
or Greater:**

Solicitation of bids must be advertised to vendors in the City Record. Sealed bids are received and opened at a public reading. The Chancellor or Central Board must officially award the contract.

