



**OFFICE OF THE NEW YORK CITY COMPTROLLER**

**TESTIMONY BY**

**WILLIAM C. THOMPSON, Jr.**

**NEW YORK CITY COMPTROLLER**

**Before the  
New York City Council's Education and Contracts Committees**

**New York City Council  
250 Broadway, 16<sup>th</sup> Floor Hearing Room  
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**Testimony of William C. Thompson, Jr.**

Chairpersons Jackson and James, private members and observers, and members of the City Council's Education and Contracts committees, good afternoon. I want to thank you for holding this hearing and inviting me to discuss the New York City Department of Education's contracting process.

As many of you know, I have consistently spoken out and used the tools of my office to work to improve the Department's persistent lack of transparency.

This is a subject of great concern to me, not only as a New Yorker, but because—among my many duties as Comptroller and the City's Chief Financial Officer—I am responsible for promoting transparency and accountability in the fiscal management of our City.

My office also enforces many of the regulations designed to ensure fair and open competition through my audits of City agencies and my office's role in registering City Contracts.

For almost eight years now during my tenure as New York City Comptroller, I have time and again strongly criticized the use of no-bid contracts and improprieties at the DOE.

In 2001, the Department had a total of 38 no-bid contracts, valued at nearly \$15 million. However, by the end of 2002, after the Board of Ed was transformed into the Department of Education, the number of those contracts doubled to 76, with a total value of over \$47 million. In the next year, the number of no-bid contracts expanded to 94, with a total value of nearly \$45 million.

Currently, the total cost of non-competitively-bid contracts doled out by the Department since Mayor Bloomberg took office is a staggering \$300 million.

The Department of Education's resistance to ending no-bid contracts and improving transparency and public accountability is this: the Department continues to follow no formal rules when purchasing goods and services, in direct contrast to the stringent requirements imposed on other New York City and New York State agencies.

Despite pressure from my office, good government groups, and concerned citizens, the DOE refuses to adopt a set of formal procurement rules similar to those followed by every other City agency.

This is neither good government nor good public policy.

One particularly alarming consequence of DOE's nontransparent operations was its ultimately failed contract with Snapple Beverage Group. As many of you know, my office filed a lawsuit to block this \$126 million boondoggle. Notably, as a result of this lawsuit, the New York State Court of Appeals found that marketing contracts must now be submitted to the City's Franchise and Concession Review Committee. As many of you may also know, the City Administration

recently terminated its contract with Snapple before it was set to expire due to abysmal performance.

Today, in anticipation of this hearing and in an attempt to shine a bright light on the lack of transparency in the Department's operations—which, at \$20 billion, accounts for nearly one-third of the total City budget—my office has conducted an investigation of purchases made against DOE requirement contracts. We released the results of this effort in a letter to schools Chancellor Joel Klein earlier today.

In the letter, I informed Chancellor Klein that, on average, one out of every five DOE contracts ending in fiscal years 2007 and 2008 exceeded its maximum contract amount by 25 percent or more. In fiscal year 2009, 27 percent of DOE's requirement contracts have already exceeded that percentage and there are still three months remaining before the close of this fiscal year.

As a result, taxpayer money continues to be squandered through an opaque process that does not take advantage of the competitive marketplace.

This is unacceptable.

Of even greater concern, however, is that the Department's purchases exceed contract amounts by such huge margins that it raises fundamental questions about the integrity of DOE's entire contracting process.

I have submitted a complete summary of our findings for your review, and I would like to now briefly highlight some of the more disturbing examples uncovered during the course of the investigation.

In one case, the Department contracted to lease copiers from the Xerox Corporation for an estimated \$1 million. My office, however, found that the final cost for this service to city taxpayers ballooned to over \$67 million—a more than 6,700 percent increase.

Similarly, the Department contracted with Ideal Restaurant Supply to purchase cafeteria equipment for \$15,418. But after all was said and done, DOE had spent over \$850,000 for this service—a more than 5,500 percent increase.

Finally, there is the case of the Department's contract with Meizner, Inc. to buy micro-computer software. This contract was to cost no more than \$135,000. Instead, it ended up costing taxpayers over \$5.5 million.

These are just three of the most outrageous examples of the Department's mismanagement.

Overall, in fiscal years 2007 and 2008 combined, the DOE issued 372 requirement contracts, totaling approximately \$325 million, which exceeded their contract amounts by 25 percent or

more. Incredibly, the DOE expenditures for these contracts ultimately amounted to more than \$1 billion.

In addition, 127 companies obtained requirement contracts from the Department with little or no competition. While those 127 contracts totaled almost \$196 million, the DOE actually spent more than \$525 million. One of these contracts amounted to a little over \$78,000, but the contractor was paid in excess of \$1 million.

The Department's failure to accurately project its expenditures prevents it from negotiating the best prices for goods and services, and wastes taxpayer money. It also provides an inaccurate picture of the Department's planned and actual expenditures to the public.

As I have insisted many times, the Department of Education must establish a transparent procurement process and demonstrate that it will spend the public's money responsibly. At the very least, the Department's contracting process should be subject to City Charter procurement rules, so that it is consistent with the contracting process of every other City agency.

Thank you.