



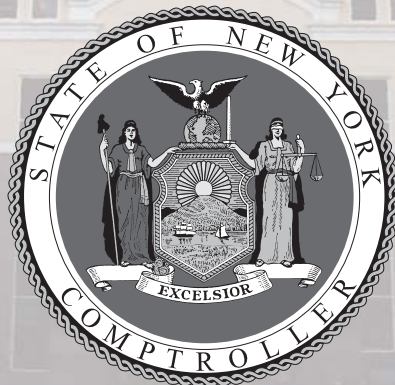
King Center Charter School Purchasing

Report of Examination

Period Covered:

July 1, 2011 — July 12, 2013

2013M-215



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2013

Dear School Officials:

A top priority of the Office of the State Comptroller is to help school officials manage their schools efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support school operations. The Comptroller oversees the fiscal affairs of charter schools statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and School governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard School assets.

Following is a report of our audit of the King Center Charter School, entitled Purchasing. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Section 2854[1][c] of the Education Law, as amended by Chapter 101 of the Laws of 2010.

This audit's results and recommendations are resources for School officials to use in effectively managing operations and in meeting the expectations of taxpayers, students and their parents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

A charter school is a public school, financed by local, State, and Federal resources, that is not under the control of the local school board and that is authorized by Education Law Article 56. Charter schools have less legal operational requirements than traditional public schools. Most of a charter school's requirements are contained in its by-laws, charter agreement, and the fiscal/financial management plans, which are part of its application and renewal processes.

The King Center Charter School (School) was established in 2000 as the first charter school to open in the City of Buffalo. The School is governed by a Board of Trustees (Board) which comprises 12 members, including two parent representatives. The School leases a former Roman Catholic Church (Church) building from King Urban Life Center, which leases the building from the City of Buffalo. The School also leases an adjacent building owned by the Church. The School currently offers classes through Grade 6 and recently received its five-year renewal with authorization to add Grades 7 and 8 for the 2013-14 and 2014-15 school years, respectively. The School Director is responsible for overseeing the day-to-day operations, including approving purchases. The School contracts with an accounting firm to handle financial accounting and reporting activities.

The School's 2013-14 fiscal year budgeted operating expenses total approximately \$3.7 million. These expenses are funded primarily with revenues derived from billing school districts for resident pupils (89 percent), State and Federal aid attributable to these pupils (9 percent), and other miscellaneous sources (2 percent). The School had approximately 260 enrolled students and 40 employees as of June 2013.

Objective

The objective of our audit was to examine the School's purchasing process and addressed the following related question:

- Did School officials establish adequate procedures to ensure goods and services are purchased at the lowest cost and at the desired quality?

Scope and Methodology

We examined the School's purchasing practices for the period July 1, 2011, through July 12, 2013. We also reviewed information related to the School's building renovation projects back to January 2010.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on

such standards and the methodology used in performing this audit is included in Appendix B of this report.

**Comments of School
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with School officials and their comments, which appear in Appendix A, have been considered in preparing this report. School officials agreed with the recommendations and indicated that they have taken, and/or will take, corrective action.

The Board has the responsibility to initiate corrective action. We encourage the Board to prepare a plan of action that addresses the recommendations in this report and to forward the plan to our office within 90 days. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Board Secretary's office.

Purchasing

School officials are responsible for establishing policies and procedures to ensure the procurement of the desired quality of goods and/or services at the lowest price. The State University of New York (SUNY) Charter Schools Institute provides fiscal operation guidance to charter schools, including recommended best practices. The guidelines indicate that the Board should establish a purchasing policy that clearly identifies purchasing responsibilities and functions, and the use of bids and State contracts. A comprehensive purchasing policy should include detailed procedures that include authorization and approval processes, purchase amount thresholds and required approval authority, and procedures to verify the condition, quantity, and quality of the goods prior to paying vendors. The written policies and procedures should also describe the procurement methods to use when competitive bidding is not required, including how these purchases and price quotations are documented. Using a request for proposal process or obtaining written or verbal price quotations is an effective way to obtain the desired quality of goods and/or services at the lowest cost.

We found that the School's purchasing policy does not provide appropriate guidance as to when written or verbal price quotes should be obtained and when items must be competitively bid. The policy also does not address threshold amounts under which approval can be made by management, versus large purchases that would require Board approval. Additionally we found that, although the policy requires the use of purchase orders, School officials are not routinely using them to initiate the acquisition of goods and/or services. These weaknesses in the purchasing process expose the School to the risk of poor purchasing decisions, which may result in the School paying more for goods and services than necessary.

We judgmentally selected and examined 39 disbursements, totaling more than \$1.8 million, to determine if such purchases complied with School policy and/or met standard guidelines prescribed by SUNY. We found that 27 of the disbursements totaling \$552,000 were properly supported and approved and appeared to be proper School expenses. However, we found that School officials often did not properly document verbal or written price quotations when making purchase decisions. For example, we found that School officials spent \$11,346 on computers but did not have adequate documentation to demonstrate they performed a price comparison to ensure the lowest price was obtained.

The other 12 disbursements we reviewed were associated with three capital projects and totaled approximately \$1.3 million. We found that one of the three project contracts was not properly approved by the Board and there is no evidence that change orders totaling approximately \$63,000 were approved by the Board.

We found that the payments to one of the vendors exceeded the contract amount. The Board minutes for March 24, 2011, indicate that the Board awarded the contract to the low bidder for building renovations and window replacement not to exceed \$350,000. There is no further documentation or discussion in the Board minutes relating to this contract. However, we found that the contractor was paid a total of \$360,530. Although the application and certificate for payment indicates that the contract amount was increased to \$360,530, School officials could not provide appropriate supporting documentation that evidenced Board approval for the expenditure of \$10,530 more than originally authorized.

We found no evidence that a building renovation contract was approved by the Board for another vendor and noted that payments exceeded the apparent contract amount. Based on the application and certificate for payment, the contract amount was \$573,991. However, actual payments exceeded that amount by more than \$52,000 as a result of two change orders of \$48,215 and \$3,789. We also found no evidence that these change orders were authorized by Board action. Although the change order form requires the signatures of the architect (who was also the project manager), the contractor, and the School Director, the forms were not signed by any party. In the Board minutes dated February 23, 2012, the Board awarded another contract to this vendor, who was the low bidder, for a window replacement project totaling \$315,000. We reviewed the related payments and found they agreed with the contracted amount and the related change order was approved.

As a result of these internal control weaknesses, the Board and School officials cannot be certain that the School is receiving appropriate quality goods and services at the lowest cost and that payments are made in accordance with properly approved contracts. Furthermore, these control weaknesses could result in unauthorized purchases or other errors and irregularities occurring and not being detected and corrected in a timely manner.

Recommendations

1. The Board should adopt a more comprehensive purchasing policy to provide detailed guidance for School officials and employees.
2. The Board should ensure that School officials use purchase orders as required.

3. The Board should ensure that School officials obtain verbal or written price quotes, when applicable, before procuring goods and/or services and maintain such documentation.
4. The Board should approve all contracts including any amendments or change orders and document such action in the minutes of its proceedings.

-

APPENDIX A
RESPONSE FROM SCHOOL OFFICIALS

The School officials' response to this audit can be found on the following pages.



King Center
Charter School

October 3, 2013

Mr. Robert E. Meller
Chief Examiner of Local Government and School Accountability
State of New York Office of the State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Dear Mr. Meller:

The Board of Trustees has reviewed your draft report of Purchasing for King Center Charter School for the period from July 1, 2011 to July 12, 2013. We appreciate your input and are pleased that it aligned with the Board's recent decisions to strengthen the existing internal controls of our School and the prior actions detailed below taken by the Board.

We recognize and appreciate the need to revisit and evaluate the effectiveness of our internal controls on an on-going basis. We also appreciate the opportunity to have met with you at the exit conference on September 19, 2013, which afforded us the opportunity to address findings and further clarify certain items noted in your preliminary report.

Over the last 12 months, as the Board of Trustees continued to re-evaluate all aspects of School operations, the Board restructured the school's business office and rewrote the job description of the business manager. The business manager position was renamed Director of Finance and Operations with full responsibility to manage the day-to-day operations of the school, including all non-academic personnel. The qualifications for the position were upgraded to include significant not for profit experience and advanced degrees and certifications. In May of 2013, an experienced non-profit business professional, was hired to direct the school's financial operations. In addition, in October 2012, the Board elected a new Treasurer with banking and financial experience.

We believe the following responses address the matters reported in the preliminary draft and we are committed to developing a corrective action plan within 90 days of the date of the preliminary report. We now present for you our responses to the State Comptroller's recommendations:

1. The Board should adopt a more comprehensive purchasing policy to provide detailed guidance for School officials and employees.
2. The Board should ensure that School officials use purchase orders as required.

3. The Board should ensure that School officials obtain verbal or written price quotes, when applicable, before procuring good and/or services and maintain such documentation.
4. The Board should approve all contracts including any amendments or change orders and document such action in the minutes of its proceedings.

The Board of Trustees for King Center Charter School accept the recommendations as written in the report.

Very truly yours,

Catherine Wettlaufer, President – Board of Trustees

cc:

Keith Frome, Head of School

Carl Morgan, Treasurer – Board of Trustees

Barbara Lindaman, Director of Finance and Operations

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our examination was to assess the financial operations of the School. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: general governance, financial oversight and condition, cash receipts and disbursements, purchasing, payroll, and information technology.

During the initial assessment, we interviewed appropriate School officials, performed limited tests of transactions, and reviewed pertinent documents, such as School policies, procedures, by-laws, Board minutes, and financial records and reports. After reviewing the information gathered during our initial assessment, we then decided on the reported objective and scope for the area with the greatest risk. Our audit included various procedures to gather relevant evidence concerning our stated objective, as follows:

- We interviewed School officials and staff from the School's contracted accounting firm to gain an understanding of the School's purchasing and disbursement operations and reviewed related School records.
- We reviewed 39 disbursements to determine if such payments were properly documented, supported, approved, and were appropriate School expenses. When applicable, we evaluated whether School officials obtained bids and/or verbal or written price quotes.
- We reviewed the Board minutes relating to bids and contracts for three capital projects for building renovations and window replacement.
- We reviewed all payments made to contractors for the capital projects dating back to January 2010 to determine if they were accurate, supported, and approved.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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