



Western New York Maritime Charter School Financial Operations

Report of Examination

Period Covered:

July 1, 2013 – March 27, 2015

2015M-124



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2015

Dear School Officials:

A top priority of the Office of the State Comptroller is to help charter school officials manage school financial operations efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support school operations. The Comptroller audits the financial operations of charter schools outside of New York City to promote compliance with relevant statutes and observance of good business practices. This oversight identifies opportunities for improving school financial operations and Board 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 Western New York Maritime Charter School, entitled Financial Operations. 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 of the New York State Education Law, as amended by Chapter 56 of the Laws of 2014.

This audit's results and recommendations are resources for school officials to use in effectively managing financial operations and in meeting the expectations of the taxpayers. 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. Charter schools have fewer legal operational requirements than traditional public schools. Most of the regulations for a charter school are contained in its bylaws, charter agreement and fiscal/financial management plans. The Western New York Maritime Charter School (School) is located in the City of Buffalo. The oversight for School operations is provided by the Board of Trustees (Board) which is composed of nine members. The Board is responsible for the general management and control of the School's financial and educational affairs. The Board appoints the Commandant who is responsible, along with other administrative staff, for the day-to-day management of the School under the direction of the Board. The School contracts with an accounting firm (Firm) to perform various financial duties, including preparing the billing to the respective school districts of residence.

The School's 2013-14 fiscal year operating expenses totaled approximately \$4.8 million. These expenses were funded primarily with revenues of approximately \$4.1 million derived from billing the area school districts for resident pupils.

Objective

The objective of our audit was to examine the School's student enrollment and billing processes and purchasing practices. Our audit addressed the following related questions:

- Are student enrollment and billings to school districts of residence accurate and supported?
- Did the School purchase goods and services in accordance with its policy?

Scope and Methodology

We examined student enrollment and billing and purchasing practices from July 1, 2013 through March 27, 2015. We extended our scope back to February 1, 2004 for Board approval of vendors.

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 are 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

generally agreed with our recommendations and indicated they planned to initiate 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 forward the plan to our office within 90 days. For more information on preparing and filing your corrective action plan, 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 School Board Secretary's office.

Student Enrollment and Billing

New York State Education Law provides for the funding of charter schools' operating budgets. A charter school derives most of its operating revenues from the public school districts in which its students reside. Charter schools are required to keep an accurate and up-to-date attendance record of student enrollment and to report such data to the school districts of residence in a timely manner. Based on enrollment and full-time equivalent¹ attendance, a charter school bills school districts of residence for providing services to the students enrolled. School districts of residence are required to directly pay charter schools for each student enrolled in the charter schools who reside in their respective school districts. The amount paid per student is based on reimbursement rates established and subject to adjustment by the New York State Education Department (SED).

We verified relevant factors² used to calculate the invoiced amounts to all school districts of residence³ and did not identify any discrepancies in the School's calculation, with the exception of special education rates. While the Firm that the School contracted with to prepare billings did review the original rates as established by SED prior to issuing the original bills, the Firm did not calculate revised bills after the rates were adjusted by SED. As a result, three school districts were underbilled by a total of \$2,260.⁴

We then selected 15 students for further testing to determine if billings to the school districts of residence were accurate and supported.⁵ Overall, we found that the billings were accurate. However, we identified control deficiencies with the School's residence verification process. There are no written policies or procedures to specify which types of documents are acceptable or requiring them to be current, to verify student residence. School officials stated they require proof of residence to be submitted before a student is admitted to the School. Additionally, School officials stated they rely on parents/guardians to

¹ Full-time equivalent (FTE) is the decimal expression of the enrollment of a student in the charter school compared to the length of the annual school session. A student who is enrolled for the full school year has an FTE of 1.0, while a student who is only enrolled for half of the school year has an FTE of 0.5.

² Those factors included the manner in which FTEs were calculated, student attendance, SED-approved operational expenses and special education services provided.

³ Twenty-one districts in 2013-14 and 24 districts in 2014-15

⁴ During 2013-14

⁵ We had no expectation that more or fewer errors would occur with the students selected for testing.

notify them if a student's address changes during the school year and they do not periodically verify student residency information on file.⁶

We found the School did not have sufficient documentation of residency for eight of the 15 students tested. Four students had residency documentation that was dated and/or issued prior to our audit period, three students had no documentation and one student had report cards on file which contained an undated student address. Because the School does not verify student information by periodically requiring new proof of residence and instead, relies on parents/guardians to notify the School of a student's address change, there is an increased risk the School could bill a school district of residence incorrectly for students who no longer reside in that district.

Recommendations

The Board and School officials should:

1. Ensure the Firm recalculates and issues revised bills if rates are subsequently adjusted by SED.
2. Ensure that adjusted billings are provided to the three school districts of residence that were underbilled.
3. Develop written policies and procedures that:
 - Specify the types of residency documentation acceptable for students enrolling or moving.
 - Require new proof of residence documents when students move and the periodic verification of the residence of students.

⁶ School officials stated they accepted proof of evidence such as a: utility bill, rental lease, property tax bill, mortgage bill, payroll stub or driver's license.

Procurement

The Board's purchasing policy was last adopted as part of its 2008 charter renewal. The policy states that the purchase of goods and services over \$5,000 requires three written quotes and Board approval.

Our prior audit of the School addressed fraud regarding the procurement of \$95,525 in goods and services.⁷ However, although recommended in the prior audit, the Board has not adopted a comprehensive purchasing policy that describes methods and procedures for purchasing, including the specific information required in the written quotes to ensure the School is receiving the best price for goods and services. Such information could include a detailed description of the goods and/or services, costs and delivery and/or service provision timing. It could also include the vendor's signature attesting to the validity of the information presented, the vendor's name, address and contact information, and any other factors that the Board would like to consider when awarding a contract. Further, although also recommended in the prior audit, the Board has not periodically evaluated the existing policy in order to ensure Board expectations are met and that purchases are properly procured. As a result, the School continues to be at risk for improper use of school resources.

We reviewed the School's purchases from all 15 vendors⁸ that were subject to the Board's purchasing policy requirements. These vendors were paid approximately \$433,000. We found the Board did not obtain the Board policy-required three written quotes from 11 vendors⁹ that were paid \$297,176¹⁰ and did not approve contracts with 11 vendors totaling \$332,515.¹¹ As a result, we reviewed one claim voucher from each vendor. Although we found no significant exceptions, by not obtaining quotes in accordance with Board policy or approving contracts, there is an increased risk that goods and services will not be obtained at a reasonable cost and in accordance with the terms as previously agreed to and authorized by the Board.

⁷ *Western New York Maritime Charter School — Internal Controls Over Selected Financial Activities (2007M-307)*

⁸ Vendors selected provided the following goods and services: dry cleaning, accounting, technology, human resources, transportation, painting, janitorial services and supplies, student camps and building maintenance.

⁹ Some audit samples had both exceptions, while others only one.

¹⁰ These vendors provided professional services (\$189,706) and other goods and services (\$107,470).

¹¹ These vendors provided professional services (\$189,706) and other goods and services (\$142,809).

Recommendations

The Board should:

4. Approve all contracts and ensure three written quotes are obtained, in accordance with Board policy.
5. Annually review, and update if needed, its purchasing policy to ensure it is comprehensive. The policy should require specific information in the written quotes, such as a description of the goods and/or services, costs, and delivery and/or service timing. It should also require a vendor's signature, vendor's name, address and contact information, and any other information designated by the Board.

APPENDIX A
RESPONSE FROM SCHOOL OFFICIALS

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



Western New York Maritime Charter School
266 Genesee Street
Buffalo, New York 14204
(716) 842-6289 Fax: (716) 842-4241

September 17, 2015

Mr. Jeffrey D. Mazula
Chief Examiner of Local Government and School Accountability
State of New York Office of the State Comptroller
110 State Street
Albany, New York 12236

Dear Mr. Mazula:

The Board of Trustees of Western New York Maritime Charter School has reviewed your draft report of Financial Operations Report of Examination for Charter School for the period from July 1, 2013 to March 27, 2015. We appreciate your input and welcome the opportunity to strengthen the existing internal controls of our School.

We recognize and appreciate the need to revisit and evaluate the effectiveness of our school operations and internal controls on an on-going basis. We also appreciate the opportunity to have met with your staff at the exit conference on August 31, 2015, which afforded us the opportunity to address findings and further clarify certain items noted in your preliminary report. 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:

Recommendation:

The Board and School Officials should:

1. Ensure the Firm recalculates and issues revised bills if rates are subsequently adjusted by SED.
2. Ensure that adjusted billings are provided to the three school districts of residence that were under billed.
3. Develop written policies and procedures that:
 - a. Specify the types of residency documentation acceptable for students enrolling or moving.
 - b. Require new proof of residence documents when students move and the periodic verification of the residence of students.

Response:

The School has consistently followed a procedure whereby rates for state aid billed to districts are verified at the beginning of each school year and at the end of each school year, prior to submitting the final bill. As such, the rates used to bill the districts are the published rates in effect just prior to the date of the final submission, July 31st. Additional verification of

state aid rates during August following the end of the school year and one year after the end of the school year will be added to ensure that all state aid allowed will be billed. Any and all updated bills will be sent to the respective district.

The School will update their policies and procedures with respect to residency documentation that articulates what is acceptable proof of residency for students enrolling or moving. The School will continue to require new proof of residency for students who move and periodic verification of residence of current students.

Recommendation:

The Board should:

1. Approve all contracts and ensure three written quotes are obtained, in accordance with Board policy.
2. Annually review, and update if needed, its purchasing policy to ensure it is comprehensive. The policy should require specific information in the written quotes, such as a description of the goods and /or services, costs, and delivery and /or timing. It should also require a vendor's signature, vendor's name, address and contact information, and any other information designated by the Board.

Response:

The Board is in the process of updating their procurement policy and will ensure that the requirements of the policy are followed and documented. When three written quotes are required pursuant to the updated policy, Management will ensure that the three quotes are obtained, reviewed, and memorialized in the Board minutes.

The Board will annually review and update their purchasing policy as necessary to ensure that it is comprehensive. The policy will require specific information in each quote consistent with best practices, and will include description of the goods and /or services, costs, and delivery and /or timing. It will require a vendor's acknowledgement (either signature or email), vendor's name, address and contact information, and any other information designated by the policy.

Very truly yours,

Lt. Col. Larry Aštyk, Commāndant

cc: Angelo Conorozzo, President – Board of Trustees
Joe Eicheldinger, Treasurer – Board of Trustees
Dave Comerford, Director of Administrative Services

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine the School's enrollment and billing process and purchasing practices.

We examined the School's enrollment and billing process from July 1, 2013 through March 27, 2015. We conducted the following procedures to gather relevant evidence concerning our objective:

- We interviewed School officials and those responsible for billing at the Firm to understand the School's general operations.
- We reviewed the School's charter agreement, bylaws, annual reports, Board meeting minutes and website and the Firm's related policies and procedures to obtain an understanding of the enrollment and billing processes.
- We reconciled the 2013-14 student billings to payments received and subsequently reported to determine whether amounts billed agreed with the amounts received and reported.
- We compared the various factors used by the School for billing the school districts of residence against factors established by SED for the 2013-14 and 2014-15 billings to determine whether correct billing rates were used.
- We recalculated FTEs based on reported enrollment and exit dates and the School calendar to conclude whether billings were accurately calculated.
- We selected 15 students to determine whether billings were accurate and supported.¹²

We examined the School's purchasing practices from July 1, 2013 through March 27, 2015. We extended our scope to February 1, 2004 as it related to Board approval of vendors in our sample. We conducted the following procedures to gather relevant evidence concerning our objective:

- We interviewed School officials and reviewed our prior audit of the School, financial records and reports, policies and Board minutes to obtain an understanding of the purchasing process.
- We selected all 15 vendors paid over \$5,000 in 2013-14 and 2014-15, with total payments of approximately \$433,000. We reviewed quotes and supporting documentation to determine if the purchases were made in compliance with the School's purchasing policy.
- We reviewed one claim voucher from each of the 15 vendors to determine if it was an appropriate expense and if it was paid according to contracts, quotes and invoiced amounts.

We conducted this performance audit in accordance with 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.

¹² We had no expectation that more or fewer errors would occur with the students selected for testing.

APPENDIX C

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