



Westminster Community Charter School

Procurement of Professional Services

Report of Examination

Period Covered:

July 1, 2014 – May 18, 2016

2016M-375



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2016

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 money 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 financial operations of the Westminster Community Charter School, entitled Procurement of Professional Services. 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, 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. Charter schools generally have fewer legal operational requirements than traditional public schools. Most of the regulations for a charter school are contained in Article 56 of Education Law and its bylaws, charter agreement and fiscal/financial management plans. Charter schools are required to set both financial and academic goals, and a school's renewal of its charter is dependent on meeting these goals.

The Westminster Community Charter School (School) is located in the City of Buffalo in Erie County. The School is governed by an eight-member Board of Trustees (Board), which is responsible for the general management and control of the School's financial and educational affairs. The Board-appointed Chief Executive Officer oversees the School and is responsible, along with other administrative staff, for the School's day-to-day management under the Board's direction. The School contracts with a local financial institution for its central business office functions and for a variety of other business, accounting and management services.¹

The School was first chartered in 2004 by the Buffalo City School District (District). The charter has been renewed multiple times and the School is currently operating under its fourth charter, expiring June 30, 2021, after which time the charter may be renewed upon application to the District or another chartering entity.

The School had 540 enrolled students and 71 employees during the 2015-16 school year. The School's budgeted operating expenses totaled \$8.2 million. These expenses were funded primarily with revenues derived from billing school districts for resident pupils, federal and State aid attributable to these pupils, private donations and contributions, investments and other income.

Objective

The objective of our audit was to review the School's procurement and monitoring processes and procedures for professional service contracts. Our audit addressed the following related question:

- Did School officials use competitive methods when procuring professional services and ensure services were rendered as contracted?

¹ Pursuant to the agreement, the financial institution provides the School with accounting, financial and tax reporting, consulting, security, general administrative and other miscellaneous services.

**Scope and
Methodology**

We examined professional service contracts and the competitive procurement methods used by the School during the period July 1, 2014 through May 18, 2016.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**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 the recommendations and indicated they would 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 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.

Professional Services

Soliciting competition for professional services promotes efficiency, cost control, transparency and accountability. Competitive methods can include competitive bidding, sending out a request for proposals (RFP) and obtaining written or verbal quotes. Soliciting competition helps ensure that quality services are obtained at a reasonable cost and avoids the appearance of favoritism or impropriety. In addition, School officials should enter into written contracts with professionals to establish the services to be provided and the basis for compensation and to ensure that the professionals submit adequate documentation for any services for which they request payment.

The Board has not established adequate written policies or procedures for procuring professional services. The School's written purchasing procedures require School officials to seek competition for the purchase of commodities but specifically exempts the procurement of professional services from price competition requirements. As a result, School officials did not use competitive methods when procuring professional services.

We reviewed the procurement of professional services obtained from eight vendors who received payments totaling \$920,000 during our audit period and found that, although School officials did not seek competition, the Board entered into detailed written contracts with the service providers. The providers also submitted adequate documentation when requesting payment.²

A local financial institution which provides the School with various business and administrative support services received the majority of the payments we reviewed. The financial institution was paid more than \$810,000 in April 2016 for services rendered during the 2012-13 and 2013-14 school years. The financial institution has been providing the School with similar services since 2004. The Board renewed its service contract with the financial institution in March 2015 and approved a resolution to pay the financial institution for services previously rendered.³ According to School officials and Board meeting minutes, the Board chose not to seek competition prior to renewing the contract because it felt that no other vendor was capable of providing these services at the same level of quality.

School officials also procured insurance (\$56,000), payroll processing services (\$20,000), information technology support

² See Appendix B for detail on the sampling methodology used.

³ The contract was approved retroactively, with an effective date of July 1, 2014.

services (\$17,000) and financial audit services (\$16,000) without seeking competition. Payments made to these vendors were rendered as contracted, claims for payment were adequately supported and the vendors were compensated appropriately. However, the Board has not sought competition for these types of services since the School's inception in 2004. School officials told us that they generally relied on the financial institution to obtain competitive quotes for professional services and recommend providers to the School. However, School officials did not review the process used by the service provider to obtain quotes and did not provide the Board with documentation to review. Without reviewing the quotes received or requesting quotes from the financial institution, the Board cannot be assured that the School is paying the lowest or most appropriate cost for these services.

Ultimately, it is the Board's responsibility to choose procurement methods that will ensure services of the right quality are obtained in the most efficient manner. However, because charter schools have fewer legal operational requirements than traditional public schools, it is imperative that the Board take an active oversight role and establish guidelines for School officials to follow when procuring professional services. When procurements are made without seeking competition, the Board does not have assurance that services were procured in the most economical way.

Recommendations

1. The Board should consider revising its procurement policy and procedures to require competition for the procurement of professional services and prescribe methods for soliciting competition for such services through the use of an RFP, written quotes or verbal quotes.
2. School officials should periodically solicit competition, through an RFP or another competitive process for all professional service contracts.

APPENDIX A

RESPONSE FROM SCHOOL OFFICIALS

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



December 21, 2016

Mr. Jeffrey D. Mazula
Chief Examiner
Buffalo Regional Office
Office of the NYS Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Re: Response to Report of Examination for Westminster Community Charter School by the Office of the State Comptroller (2016M-375)

Dear Mr. Mazula,

The Board of Trustees (BOT) of Westminster Community Charter School (WCCS) would like to thank the Office of the State Comptroller (OSC) for providing their input and expertise on the operational practices at WCCS. Below are responses to the recommendations in the Report of Examination for Westminster Community Charter School:

Recommendation #1:

The Board should consider revising its procurement policy and procedures to require competition for the procurement of professional services and prescribe methods for soliciting competition for such services through the use of an RFP and written or verbal quotes.

Recommendation #2:

School officials should periodically solicit competition, through an RFP or another competitive process, for all professional service contracts.

Response to Recommendations:

The Board of Trustees understands that it is responsible for overseeing the fiscal operations of WCCS and takes this responsibility seriously. Financial reports are reviewed monthly at Board meetings and all budgets and contracts are approved by the BOT. In addition, any expenditure over \$25,000 is reviewed and must be approved by the BOT. The WCCS staff also works hard to prepare and implement fiscally sound budgets and to ensure that good value is received for all purchased services. These measures have enabled WCCS to build a strong financial reserve and a positive economic position.

As noted in the OSC Report of Examination, the written purchasing policies in the NYS approved Charter for WCCS specifically exempt the procurement of professional services from price

competition requirements. However, the BOT recognizes that there may be value in obtaining quotes for professional services that meet specified cost thresholds in order to ensure that WCCS is paying the lowest or most appropriate cost for these services. Therefore, the BOT will review its policy and procedures regarding the procurement of professional services, including soliciting bids/quotes periodically, and will make revisions as appropriate. Based on this review, the BOT will submit a Corrective Action Plan within 90 days after the final Report of Examination for Westminster Community Charter School is released.

Again, the WCCS Board of Trustees appreciates this opportunity to work with the Office of the State Comptroller to identify areas for review that will help to ensure that WCCS continues to maintain a strong financial position.

Sincerely,

Rita Eisenbeis
Vice Chairman
WCCS Board of Trustees

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed School officials and key staff to gain an understanding of the procurement process as it relates to professional service providers.
- We reviewed Board minutes, the School's charter and bylaws and written policies relating to the procurement process.
- We selected a biased judgmental sample of professional service providers with contracts or payments of \$10,000 or more during our audit period.
- We reviewed Board minutes and vendor documentation and interviewed officials to determine if the School was seeking competition prior to awarding contracts for professional services.
- We reviewed all invoices and supporting documentation on file to ensure payments were properly supported, contained sufficient evidence that the services were rendered and were made in accordance with written contracts if applicable.

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.

APPENDIX C

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