

OFFICE OF THE NEW YORK STATE COMPTROLLER



DIVISION OF LOCAL GOVERNMENT  
& SCHOOL ACCOUNTABILITY

# Albany Leadership Charter High School for Girls

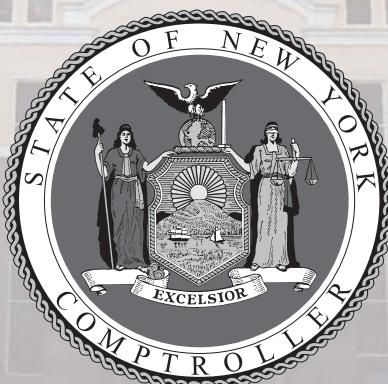
## Professional Service Contract

### Report of Examination

Period Covered:

July 1, 2011 — May 31, 2013

2013M-283



Thomas P. DiNapoli

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# **State of New York**

## **Office of the State Comptroller**

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### **Division of Local Government and School Accountability**

January 2014

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 Board governance. Audits also can identify strategies to reduce school costs and to strengthen controls intended to safeguard school assets.

Following is a report of our audit of the Albany Leadership Charter High School for Girls, entitled Professional Service Contract. 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 is governed under 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, fiscal/financial management plans and the *Financial Oversight Handbook* for those schools that are authorized by the State University of New York (SUNY).

The Albany Leadership Charter High School For Girls (School), located in the City of Albany, Albany County, is governed by a Board of Trustees (Board) which comprises six voting members. The Board is responsible for the general management and control of the School's financial and educational affairs. The Principal of the School is the chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the School under the direction of the Board. The School Accountant is the chief accounting officer and is responsible for maintaining custody of, depositing and disbursing School funds; maintaining the financial records; and preparing the monthly and annual financial reports.

The School was established in 2009 under SUNY authorization and provides secondary education for 325 students in grades nine through 12. The School's budgeted operating expenses for the 2012-13 fiscal year totaled approximately \$4.7 million. These expenses were funded with revenues derived from billing the area school districts<sup>1</sup> for resident pupils and from certain State and Federal aid attributable to these pupils. The School's facility was built by the Brighter Choice Foundation<sup>2</sup> (Foundation) and is leased to the School by the Foundation.

## Objective

The objective of our audit was to evaluate the effectiveness of the School's compact<sup>3</sup> contract with the Foundation. Our audit addressed the following related question:

- Did the School receive all the services from the Foundation as outlined in the compact agreement and is the fee structure of the compact agreement reasonable?

<sup>1</sup> The School bills various local school districts tuition charges to provide educational services to students residing in the respective districts.

<sup>2</sup> The Foundation, a nonprofit organization, provides school facilities, technical assistance and other services to several public charter schools in the City of Albany.

<sup>3</sup> An official contract or formal agreement between two or more parties

## **Scope and Methodology**

We examined various financial records and financial operations of the School for the period July 1, 2011 through May 31, 2013. During the same period, we also reviewed the School's lease agreement and compact contract with the Foundation.

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 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 findings and recommendations in this report, and to forward the plan to our office within 90 days. For more information on preparing and filing your Corrective Action Plan (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 Clerk's office.

## **Professional Service Contract**

Schools require a number of services to adequately conduct business. Professional services generally include services requiring specialized or technical skills, expertise or knowledge, the exercise of professional judgment or a high degree of creativity. A school can choose to obtain these services in a variety of ways, including receiving a service from an employee or hiring an independent service provider. Ultimately, it is the Board's responsibility to choose a method that provides the School with the required services in the most cost efficient manner possible. When acquiring services through a written agreement, the agreement should provide all parties with a clear understanding of the nature and extent of the services to be provided, provide for a means to measure/monitor service quality and establish the level of compensation for those services.

The School entered into a three-year compact agreement with the Foundation in April 2013. During the 2012-13 fiscal year, the School paid the Foundation a fee of \$32,218 to become a member of the charter school network and receive services stated in the compact. The Foundation's described goals and objectives were broadly stated in the agreement, such as "create, influence, and/or maintain a positive regulatory, public and legislative environment," "enhance the impact of Albany's charter schools on the broader community," "ensure high quality boards," and "ensure effective, coordinated management of external threats, via both strong responses and thoughtful anticipation."

We reviewed the compact document and did not identify a specific declaration made by the Foundation that clearly defined what activities it will engage in to achieve the stated goals and objectives. Also, the compact did not contain a specific performance measure to determine whether the services had been received by the School to warrant the School's payment of the \$32,218. The compact does not provide sufficient detail of the activities the Foundation will engage in or how delivery of services will be measured. In addition, we asked the Board President to describe the services the School is receiving from the Foundation, but the Board President could not provide specific details regarding such services. Therefore, because School officials are not certain of the services they should be receiving under the compact, they cannot determine if the School is actually receiving the services it has paid for.

The compact requires payments to be made to the Foundation based on a percentage of the per pupil revenue as of June 30 of the prior year.

We reviewed the payment made and calculated the potential future payments required by the School to determine if the fee structure appeared to be reasonable. The payment for the 2012-13 fiscal year was equal to 1 percent of the per pupil revenue as of June 30, 2012. Based on enrollment projections used for budgeting purposes for the following two years, the fee payable to the Foundation will increase to \$72,450 for the 2013-14 fiscal year and \$110,584 for the 2014-15 fiscal year, potentially negating all or a significant portion of any cost savings achieved through renegotiating the building lease with the Foundation.<sup>4</sup> School officials indicated that the Foundation established the per pupil fee structure and would use revenues derived from the increased fee to benefit the Foundation's charter school network members. However, they could not provide details regarding how the Foundation intended to use increased revenues to benefit its members, such as specific services or programs that the Foundation would offer. The compact's fee structure based on the percentage of per pupil revenue does not appear to be reasonable, as the services being provided will not increase based on the number of students at the School or the per pupil tuition rate established by the State Education Department.

When the School enters into contracts that do not provide sufficient detail about the services being provided, and do not have a reasonable fee structure, the School is susceptible to incurring costs that are greater than necessary for the services it receives.

## Recommendations

1. The Board should ensure that the contract with the Foundation contains sufficient descriptions to determine the benefits, rights and responsibilities of all parties to the contract, and the School should use this information to monitor compliance with the contract.
2. The Board should ensure that service contracts have reasonable fee structures based on the measurable value of the services provided.

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<sup>4</sup> During the School's first two years of operations, the 2010-11 and 2011-12 fiscal years, the School's expenditures exceeded revenues by \$321,166 and \$464,612, respectively. To mitigate these operating deficits, the School renegotiated the building lease with the Foundation. In November 2012, the School renegotiated its building lease with the Foundation to achieve an average annual savings of \$62,000 over the lease term from 2013-2016.

## **APPENDIX A**

### **RESPONSE FROM SCHOOL OFFICIALS**

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



December 17, 2013

Mr. Jeffrey Leonard  
Chief Examiner  
Office of the State Comptroller  
Division of Local Government & School Accountability  
One Broad Street Plaza  
Glens Falls, New York 12801

Re: Albany Leadership Charter High School for Girls Audit Professional Services Contract Audit  
2013M-183

Dear Mr. Leonard:

Please accept this letter as our official written Response Letter relative to the above-referenced draft Report of Examination dated November 2013. The Report was received electronically as an attachment on November 26, 2013 and this response is intended to satisfy your office's 30-day response requirement. Please note that due to the limited Report findings, the Albany Leadership Charter High School for Girls Board of Trustees has chosen to combine our Response and Corrective Action Plan into this one document.

The Board of Trustees welcomed the opportunity to have this review from the Office of the State Comptroller. We were pleased that, after evaluating various financial records and financial operations of the School for the period of July 1, 2011 through May 31, 2013, the only finding and recommendation relates to one professional services contract entered into by the Board.

**Comptroller Report Recommendation:** *The Board should ensure that the contract with the Foundation contains sufficient descriptions to determine the benefits, rights and responsibilities of all parties to the contract, and the School should use this information to monitor compliance with the contract.*

**School Response:** As discussed during the exit conference held on December 4, 2013, the Board of Trustees joined this compact with the understanding it was a membership fee in a trade association. With that perspective, the Board made trustees and the leadership team aware that the array of services offered through the compact were available for utilization, much as any dues paying member of a chamber of commerce or school-related trade organization would be entitled to receive as a condition of membership.

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**School Corrective Action Plan:** While we differ in opinion with how the Comptroller believes the deliverables for a professional organization membership fee should be measured, the Board in conjunction with the Business Manager will develop a means by which to measure the value of the services received from its membership fee in the compact. The Board will also amend the Compact with the Foundation to include more detailed descriptions of the service deliverables ALH will receive. This will allow the Business Manager and the Board to more closely monitor the use of those services by the Board and school leadership to ensure we are receiving maximum value for our membership fee.

**Comptroller Report Recommendation:** *The Board should ensure that service contracts have reasonable fee structures based on the measurable value of the services provided.*

**School Response:** The Board believes strongly that it has taken all due diligence in carrying out its fiduciary responsibility related to service contracts and will continue to do so. The Board was not a party to setting the methodology by which the Foundation set the membership fee for participation in the Compact but the Board did evaluate and deliberate over many months the value of joining the Compact as a dues paying member.

**School Corrective Action Plan:** The Board, in concert with the Business Manager, will continue to exercise due diligence on all contracts, to ensure maximum value is received. As we amend the Compact to include more descriptive deliverables, we will ensure that the fee structure for membership can be measured against those deliverables which will permit the Board to ensure it is receiving the best value.

We appreciate the courtesy and professionalism extended by the audit team to the Board and the ALH staff as they conducted their review.

Sincerely,

James Vallee, Chair  
ALH Board of Trustees

cc: Board of Trustees  
Business Manager

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

The objective of our examination was to assess the School's financial operations. 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 (including resident school district billing), cash disbursements, purchasing, inventory control, payroll and personal services 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, the SUNY *Financial Oversight Handbook*, Board minutes and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and that limited risk existed for most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected the compact agreement between the School and the Foundation for further audit testing. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed the Principal, Board members and the Accountant to gather information on the compact agreement between the School and the Foundation.
- We analyzed the compact agreement to determine if the services provided in the agreement were measurable and the fees were reasonable.

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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# APPENDIX D

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