



Rochester Career Mentoring Charter School Procurement

Report of Examination

Period Covered:

July 1, 2014 – July 29, 2016

2016M-406



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2017

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 moneys 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 Rochester Career Mentoring Charter School, entitled Procurement. 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 the school's 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 Rochester Career Mentoring Charter School (School) is located in the City of Rochester in Monroe County. The New York State Board of Regents first chartered the School in 2011. 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 had 209 enrolled students and 34 employees during the 2015-16 year. The School's 2015-16 operating expenses totaled \$3.4 million. These expenses were funded primarily with revenues derived from billing the area school districts for resident pupils and State and federal aid attributable to these pupils.

Objective

The objective of our audit was to review the School's procurement practices. Our audit addressed the following related question:

- Did School officials use competitive methods when procuring goods and services?

Scope and Methodology

We examined the School's procurement policies, procedures and records for the period July 1, 2014 through July 29, 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.

Procurement

Soliciting competition for purchases promotes efficiency, cost control, transparency and accountability. Competitive methods can include competitive bidding, sending out a request for proposals (RFP) and gathering written or verbal quotes. Soliciting competition helps ensure that quality goods and services are obtained at a reasonable cost and avoids the appearance of favoritism or impropriety. In addition, the Board should take an active oversight role and establish guidelines for School officials and other staff to follow when purchasing goods and services.

The School's charter requires School officials to obtain at least three quotes for the purchase of goods over \$10,000 and to obtain Board approval for any purchases that exceed \$20,000. However, the charter does not establish procedures for procuring services. The Board has not established adequate written policies or procedures for procuring services and has not provided adequate oversight of the procurement process. As a result, School officials did not use competitive methods when procuring goods or services.

We reviewed purchases from 32 vendors¹ who were paid approximately \$2 million and found that School officials did not seek competition when procuring goods, services and insurance from 21 vendors who were paid more than \$1.3 million during the audit period, as follows:

- School officials did not obtain written quotes, publicly advertise or request proposals when obtaining services such as student support (\$310,000), security (\$99,000), legal (\$64,000), computer support (\$42,000), staff training (\$38,000), financial audit (\$21,000) and temporary staffing (\$19,000). The School has not sought competition for these types of services since its inception in 2011. Because the Board did not request quotes or periodically seek competition it cannot be assured of paying the lowest or most appropriate cost for these services.
- The School also purchased insurance policies from various vendors through an insurance broker. These policies had a total cost of \$501,000 and included general liability and employee health and life insurance policies. School officials stated that they rely on the insurance broker to obtain quotes and to recommend the lowest cost provider of insurance, but

¹ See Appendix B, Audit Methodology and Standards, for sample selection methodology.

they do not request or review documentation from the broker or otherwise verify that the lowest cost provider was selected. We reviewed the documentation the broker provided for the School's health insurance policy, but the cost comparison was from 2011 and the broker has not sought quotes since then. Because the Board did not review quotes received or request quotes from more than one broker, it cannot be assured of receiving appropriate insurance coverage at the lowest cost.

- The School paid a construction company more than \$84,000 for various construction projects without obtaining quotes or proposals from other vendors. School officials told us that since the School leases the building, the leaseholder selects the company to perform any construction work. The lease agreement stipulates that the landlord must approve physical alterations to the property and the School must use a certified and licensed contractor. However, we did not find any stipulation that the landlord is responsible for selecting the contractor.
- The School purchased laptops and laptop carts totaling \$62,000 from one vendor, a projector and audio system totaling \$49,000 from another vendor and software totaling \$16,000 from a third vendor. Although each of these purchases exceeded \$10,000, School officials did not obtain three competitive quotes as required by the charter. Additionally, we did not find evidence in the Board minutes that the Board approved purchases exceeding \$20,000 as required. School officials told us they obtained quotes for computer equipment in 2012 but have not sought competition since that time and have continued to use the same vendor when purchasing computers and laptops. They also said they contacted four other vendors for quotes on the projector and audio system, but those vendors did not respond to the School's request. However, School officials did not document this process and could not demonstrate that they had attempted to obtain quotes.

The Board did not ensure purchases were made in compliance with charter requirements or require School officials to periodically seek competition for services. As a result, School officials did not take adequate measures to obtain competition in acquiring goods and services and the School may have incurred unnecessary costs.

For example, the School purchased 150 laptop computers for \$529 each without seeking competition. If the School had purchased the laptops using the applicable New York State bid contract, it could have saved \$30 per laptop, or \$4,500 in total.

Recommendations

The Board should:

1. Adopt a procurement policy with clear language addressing the procurement of services and prescribing methods for soliciting competition through the use of an RFP process and written or verbal quotes.
2. Require adherence to the charter's requirements and written procurement procedures and approve and document in the minutes any deviations for unique situations or extenuating circumstances.

School officials should:

3. Seek competition and obtain written quotes for purchases as required by the charter.
4. Periodically solicit competition, though an RFP or another competitive process, for service contracts.
5. Consider using New York State bid contracts when possible.

APPENDIX A

RESPONSE FROM SCHOOL OFFICIALS

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



We Care About Your Future

Rochester Career Mentoring Charter School
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Rochester, NY 14605
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Web: www.rcmcs.org

Date January 5, 2017

Office of the State Comptroller
Local Government and School Accountability
Buffalo Regional Office
295 Main Street, Room 1032
Buffalo, NY 14203

Office of the State Comptroller,

This letter is to inform you that we are pleased with the results of the audit held this past summer. We also appreciate the recommendations outlined for improving the process of procurement. The improvement recommendation has been duly noted and a process with specific protocols will be authorized, specifically for solicitation of multiple vendor bids. The Board of Trustees will adopt a more transparent policy that adheres to the recommendations provided in this audit report.

We thank you for your time and effort spent during the auditing process to improve the financial procedures of Rochester Career Mentoring Charter School.

Sincerely,

Kevin McCormick
President - Board of Trustees

Cc: Board of Trustees
Dennis Francione

[REDACTED]
[REDACTED]

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed the School's charter and written policies and procedures and interviewed appropriate personnel to gain an understanding of the procurement process.
- We selected a judgmental sample consisting of all vendors that received payments in excess of \$10,000 during our audit period.
- We reviewed Board minutes, contracts, quotes and other supporting documentation and interviewed School officials to determine the extent to which the School sought competition for the purchases reviewed.
- We reviewed all invoices and supporting documentation on file to determine whether payments were properly supported and contained sufficient evidence that goods were received and services were rendered as contracted.

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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