



Buffalo City School District Professional Services

Report of Examination

Period Covered:

July 1, 2001 — June 30, 2006

2006M-109



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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

March 2007

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where school districts can improve their operations and provide guidance and services that will assist school district officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school districts' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the Buffalo City School District — Professional Services.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by school district officials.

If we can be of assistance to you, or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government Services
and Economic Development*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Buffalo City School District (District) is governed by the Board of Education (Board), which comprises nine elected members and is an independent body responsible for the general management and control of the City of Buffalo's educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The District operates various special aid programs which are supported primarily by the proceeds of State or Federal grants. Most of these are accounted for in the District's special projects fund, which had a 2005-06 budget of approximately \$150 million financed by grants. A grant is a contribution of cash or other assets whose use is restricted to specific purposes or activities (as opposed to an entitlement, whereby the District is provided unrestricted revenues pursuant to an allocation formula). The District also operates a number of special aid programs supported by contributions from corporations and foundations. These funds must be used in accordance with the terms set forth by the contributor.

The District routinely engages professional service providers to address certain of its needs, including certain activities funded by grant proceeds. We concentrated our audit effort on those programs for which the District engaged the services of the Center for Applied Technology in Education (CATE) and the Education Innovations Consortium (EIC). Between 2002 and 2005, the District paid CATE and EIC a total of \$8.3 million.

Scope and Objective

The objective of our audit was to examine the District's internal controls relating to professional services provided to the District for the period July 1, 2001 to June 30, 2006. Our audit addressed the following related question:

- Were services to be performed by CATE and EIC appropriately authorized, were claims for payment itemized and were services rendered sufficient to justify the money spent?

Audit Results

We tested 30 payments to CATE and EIC, totaling \$6.3 million and found that contracts stipulating specific services to be provided, as well as the timing of payments to the service providers, were not executed between the District and either vendor. In addition, in many instances claims submitted

and approved for payment did not sufficiently itemize the work that was performed, and in certain instances, the District paid the vendors before they provided services to the District.

We found that, for certain programs, the vendors provided documentation that services were performed on requested initiatives, which were subsequently discontinued by the District despite the investment already made. For example, a prototype decision support system (DSS) for assessing student literacy skills was developed. The pilot project was completed in June 2005 and it was expected that the system would be ready for implementation in September 2006. However, the District put the project on hold and has never used the system.

We also found that for a number of programs the District did not document specific deliverables to indicate the level of service they expected to receive. For example, between 2002 and 2005, the District paid more than \$2 million to CATE for the development of the “NYLearns” web portal.¹ The largest payment to CATE for NYLearns was made in January 2003 in the amount of \$739,237 for the continued development of NYLearns. No specific services were identified for this payment, other than continued development of the website and its content, as well as training and technical assistance in the use of the site. A contract or purchase order should have detailed the specific tasks to be completed during that period, such as a listing of new content areas.

In a number of cases we could not determine from available documentation what services were actually provided. For example, the District paid CATE \$585,529 in October 2003 from grant proceeds for the ATLAS initiative.² District officials were unable to provide documentation of the services that the District received.

Finally, in some instances the services that were provided to the District differed from those identified in the authorizing Board resolution, grant narrative, or purchase order. For instance, in November 2002, the Board authorized a payment of \$515,000 for technology integration training for teachers and administrators throughout the District. The District paid CATE on March 21, 2003, before most training was provided, and the level of service provided was in some instances far short of what was identified in the Board resolution.

The District’s Chief Financial Officer (CFO) provided us with a document, dated October 25, 2005, which indicates that he had completed “...a compilation of every purchase order issued and paid to CATE/EIC from 2002 to date together with supporting documentation.” Among the “basic findings” that were listed on this document were “No contracts found for any of the work”, “No proposals from CATE/EIC found,” and “Invoices from CATE/EIC do not provide any detail to explain how the amount billed was derived.” The CFO told us that he had suggested improvements to the District’s controls and that Board members endorsed the actions he planned to take. The most significant corrective action to be implemented was a change in the District’s contracting process, most notably a tracking system to ensure that contracts are properly approved. This change occurred in early 2006 when the CFO established procedures for all contractual relationships. In addition, a contract checklist was

¹ NYLearns is a standards-based educational website that offers resources to students, parents, teachers and school administrators to enhance teaching and learning, and is being used by a number of other school districts in New York.

² Refer to Appendix B for a description of Project ATLAS.

designed to ensure that a number of key elements have been addressed before the contract is executed by District officials.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix D, have been considered in preparing this report. Except as specified in Appendix D, District officials generally agreed with our recommendations and indicated they had initiated corrective action. OSC comments on the District's response can be found in Appendix E.

Introduction

Background

The Buffalo City School District (District) is governed by the Board of Education (Board), which comprises nine elected members and is an independent body responsible for the general management and control of the City of Buffalo's (City) educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District is responsible for the education of more than 37,000 students who currently attend classes at 60 school buildings located throughout the City. The District is the State's second-largest school district, employing more than 3,300 teachers.

The District's general fund budget for the 2005-06 fiscal year totaled \$525 million. The District's major revenue sources include State aid, real property taxes and sales tax, while employee salaries and related fringe benefits represent its most significant costs.

The District operates various special aid programs which are supported primarily by the proceeds of State or Federal grants. Most of these are accounted for in the District's special projects fund, which had a 2005-06 budget of approximately \$150 million. A grant is a contribution of cash or other assets whose use is restricted to specific purposes or activities (as opposed to an entitlement, whereby the school district is provided unrestricted revenues pursuant to an allocation formula). The District also operates a number of special aid programs supported by contributions from corporations and foundations. These funds must be used in accordance with the terms set forth by the contributor.

When applying for grant funds, District officials must prepare a budget, detailing and classifying all anticipated expenditures for a program, as well as a narrative which describes in-depth the scope of services for the various planned activities of the programs, including services to be performed by vendors. Generally, for State or Federal funded grants, the State Education Department (SED) reviews and approves all aspects of the grant application before funds are committed to the District. SED verifies that the narrative sufficiently describes planned activities, and that such activities are in line with the Department's criteria for the particular grant. Any deficiencies in the application information must be addressed by the District before SED will approve it; thus, applications are sometimes not approved until later in the grant period and SED may or may not amend the grant period as a result. Certain changes to planned activities during

the grant period must be submitted as an amendment to SED for approval.

In June 2003, the Board, by resolution, established a five-year technology initiative known as “Project ATLAS” (Accessing Technologies for Local Academic Success). Two other technology initiatives approved by the Board were the “Push-In Technology Training Program” and the “BRIDGES” (Building Resource Information Digitally for Guiding Educational Success) program. The Push-In Program was designed to deliver technology integration training to teachers, parents, and administrators on-site in all Buffalo school buildings. The BRIDGES program was intended to be a comprehensive staff development program consisting of technology training workshops for instructional, administrative, and clerical staff. This program was intended to train staff in various technologies including using the Internet; document preparation and formatting; creating and using databases, software presentation, and spreadsheet software; and using other formats, all of which were designed to improve the efficiency of interoffice communications, reporting, and the use of technology in office- and school-based venues. The majority of these programs were funded with State or Federal grant proceeds.

Another major special aid program is “NYLearns,” which is a standards-based educational website that offers resources to students, parents, teachers and school administrators to enhance teaching and learning. Finally, the funding for other special aid programs, such as the Buffalo Teacher Resource Center Grant and the DeWitt-Wallace Urban Leadership Fund, came from corporations and foundations.

The District engaged the services of the Center for Applied Technology in Education (CATE) and the Education Innovations Consortium (EIC) for various special aid programs. CATE was founded jointly by the State University of New York at Buffalo Graduate School of Education and the District to identify, develop and use information and technologies to support teaching and learning. EIC is a non-profit organization that works with the District to support their reform movement. The mission of EIC is to identify, develop and help implement creative practical solutions to clearly defined problems associated with low performing schools. CATE and EIC are affiliated organizations; they share the same managing director and principal business office location. Between 2002 and 2005, the District paid CATE and EIC a total of \$8.3 million.

Objective

The objective of our audit was to examine the District's internal controls relating to professional services provided to the District by CATE and EIC. Our audit addressed the following related question:

- Were services to be performed by CATE and EIC appropriately authorized, were claims for payment itemized and were services rendered sufficient to justify the money spent?

Scope and Methodology

We examined the internal controls relating to certain Buffalo City School District professional services for the period July 1, 2001 to June 30, 2006.

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 F of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix D, have been considered in preparing this report. Except as specified in Appendix D, District officials generally agreed with our recommendations and indicated they had initiated corrective action. OSC comments on the District's response can be found in Appendix E.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the Secretary to the Board of Education's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Professional Services

Each fiscal year, District officials are responsible for disbursing millions of taxpayer dollars to vendors who provide goods and services to the District. Disbursements for services should be based on duly executed written contracts between the vendor and the District which clearly articulate the scope of the services to be provided, a timeframe for the delivery of the services, the cost of providing the services, and the timing and method of payment to the vendor. Contracts should be reviewed by legal counsel, approved by the Board, and executed before any of the related services are provided.

District officials should also routinely monitor the progress of activities of service providers during the contract term. For example, District officials should prepare status reports and distribute them to the Superintendent, other administrators and the Board of Education. Furthermore, claims submitted by service providers should fully itemize the actual services rendered to date, evidencing that the terms and conditions of the contract were complied with. Claims should be thoroughly reviewed by the audit department prior to payment to ensure that the payment is an appropriate use of taxpayers' money.

We tested 30 payments to CATE and EIC, totaling \$6.3 million, as noted in Appendix A. Contracts stipulating the services to be provided were not executed between the District and either vendor to support any of these payments, and in many instances there was no Board resolution to authorize the specific services to be provided either. Therefore, there was no clear documentation from the outset indicating what the District's expectations were for the scope and timeframe of services to be provided as well as the timing of payments to the service provider. In addition, in many instances, claims submitted and approved for payment did not sufficiently itemize the work that was performed. As a result, it is not clear on what basis the District approved these claims for payment. Also, because specific deliverables had not been properly identified and documented as benchmarks for measuring performance, even if the claims had been properly itemized, the District was not in a position to effectively monitor progress and hold the vendor accountable for work it was expected to perform.

Detailed evidence of deliverables should have been available at the District, for use by its audit department in approving claims for payment, and also for reference by the Board and administrators to determine whether funding for such programs should be continued. Because District officials did not have documentation for most of the

\$6.3 million paid to CATE and EIC, we relied on CATE and EIC to provide the majority of records we reviewed in an attempt to ascertain what was actually accomplished.

District officials indicated that this pattern of little or no documentation was inconsistent with the manner in which all other grant programs have been managed.³ This may be because District officials failed to understand the need to manage the relationship between the District and the two organizations, and treated it in a less than “arms-length” manner because CATE was jointly founded by the District and the University of Buffalo. Besides not requiring detailed contracts and deliverable expectations, in the 2001-02 fiscal year the District took another action that calls into question whether they fully understood their requirement to properly manage this contractual relationship. In the 2001-02 fiscal year, a former Superintendent appointed the Executive Director of CATE and EIC to be the District’s interim Chief Operations Officer (COO)⁴ while the District searched for a permanent replacement.⁵ The Board minutes for August 22, 2001 indicated that both the Finance and Plant Divisions reported directly to the COO. Therefore, all of the activity related to the management, accounting, and payment for grant programs was performed by staff, including the Special Projects Office, Audit department, and the Accounting department, which reported directly or ultimately to the interim COO. This placed the Executive Director of CATE/EIC in the extremely difficult situation of having to oversee the relationship and payments to the organizations that he also worked for. We found no evidence that the District put compensating controls in place to mitigate this potential control problem.

At a meeting of the District’s Finance and Operations Committee – held on November 30, 2005 and attended by seven of the nine board members, the Superintendent, other senior District managers, and the CEO of CATE – the District’s CFO presented the results of his review of payments to CATE and EIC. The CFO provided us with a document, dated October 25, 2005, which indicates that he had completed “...a compilation of every purchase order issued and paid to CATE/EIC from 2002 to date together with supporting documentation.” Among the “basic findings” that were listed on

³ We did not test other programs to substantiate the degree to which adequate controls were in place and operating effectively as this was beyond the scope of this engagement.

⁴ This individual was not compensated by the District for his service as COO, he voluntarily served in this position until the District was able to find a permanent replacement.

⁵ A permanent COO was appointed by the Superintendent in April 2002.

this document were “No contracts found for any of the work,” “No proposals from CATE/EIC found” and “Invoices from CATE/EIC do not provide any detail to explain how the amount billed was derived.” The CFO indicated to us that he had suggested improvements to the District’s controls and that the Board members in attendance at this meeting endorsed the actions he planned to take. The most significant corrective action to be implemented was a change in the District’s contracting process, most notably a tracking system to ensure that contracts are properly approved. This change occurred in early 2006 when the CFO established procedures for all contractual relationships. These procedures require Board of Education and, in some instances, Buffalo Fiscal Stability Authority Board approval for agreements over certain threshold amounts. In addition, a contract checklist was designed to ensure that a number of key elements have been addressed before the contract is executed by District officials.

We reviewed the available documentation and noted that for certain programs, the vendors provided documentation that services were performed on requested initiatives, which were subsequently discontinued by the District, despite the investment already made. In other cases, the District did not document the type and level of services it expected and therefore we could not determine whether the services that were paid for were appropriate. For certain programs, we could not determine from available documentation what services were provided by either vendor to justify the payments made to them by the District. Finally, in some instances the services that were provided to the District differed from those identified in the authorizing Board resolution, grant narrative or purchase order.

The District has the responsibility to establish and implement appropriate management controls to ensure that the grant moneys entrusted to them are properly expended. The District may be at risk of losing grant awards and renewals if it does not ensure that grant moneys are used only for purposes authorized by SED.

In several instances, we noted that payments were made to CATE and EIC before all services were apparently provided. For example, CATE had been paid in full, in September 2003, to provide training for a laptop computer initiative. CATE provided the corresponding laptop training in February and March 2004. This practice eliminates the most effective means of ensuring that services are delivered in a manner acceptable to the District. Only after services have been delivered, and determined to be in compliance with what was agreed to, should payment be made to a vendor.

**Services Provided
Which the District
Did Not Use**

There are a number of payments to CATE and EIC for technology development services which the District subsequently abandoned. As such, the District spent more than \$1.1 million⁶ on services that it did not receive the expected benefit from.

Decision Support System (DSS) — The District initiated the Buffalo Literacy Profile Project (BLPP) and the Accelerated Pathways to Literacy and Numeracy program (APLN) and made a payment to CATE of \$609,655 in September 2003 related to these and other initiatives.⁷ This project was described as a prototype decision support system (DSS), which was initially developed and tested for assessing student literacy skills during the spring of 2005. The expectation was for the system to use student test results to assess and modify a student’s curriculum with the objective of improving the student’s performance. The pilot project was completed in June 2005, and the reading department presented the process and the results of the testing to the Board. Although CATE expected to have the system ready for implementation in September 2006, the District put a hold on the project, and has never used the system. The District is now using another assessment tool that they had purchased at a cost, with related hardware and wireless connectivity charges, of more than \$500,000. District staff had indicated that the use of this other assessment tool was mandated as part of the three-year Reading First Grant program, and that District officials preferred a scientifically proven and tested system, rather than an unproven system developed for the District.

Personal Education Plans — A Personal Education Plan (PEP) survey was designed to identify the technology skill levels and needs of District staff and to develop and deliver customized training, based on identified needs, to groups of teachers with similar skill levels. The grant narrative was silent relative to the details of its “first phase” goals. Officials from CATE indicated that during the first year the only intention was to develop and implement use of the PEP survey form. Yet, this explanation seems to contradict the Board’s understanding. The minutes of its June 23, 2004 meeting indicated that 350 survey-driven PEPs for technology training for teachers and administrators in eight buildings were developed and had already been implemented, and that workshops and technology training had been developed and

⁶ With the possible exception of laptop computer training that we can not quantify the value of.

⁷ In September 2003, the District paid CATE \$609,655 for services relative to DSS, Personal Education Plans (PEPs), and a laptop initiative. The grant narrative did not indicate the cost of each of the three initiatives, so we were unable to determine the portion of the cost attributable to DSS, the PEPs, and the laptop initiative. For the laptop initiative, the District purchased 315 laptop computers and CATE provided training in February and March 2004 to 336 participants.

already offered in accordance with the PEP survey data. Documents indicated that only 318 surveys were administered to participants of laptop training held in February and March 2004. Another 239 PEP surveys were administered during the 2004-05 fiscal year.⁸ The use of PEPs was eventually dropped by the District during the 2005-06 fiscal year. A CATE official indicated that the process never progressed beyond the survey stages and technology training was not provided in response to the needs identified from the survey results anyway.

Student Information System (SIS) — The ATLAS initiative included the identification of a new web-based SIS to replace the current system (provided through BOCES) in use at the District, as well as the development of an implementation plan to facilitate the conversion from the old to the new SIS. A CATE official indicated that they participated on behalf of the District, with 18 other school districts, in a study conducted by a local BOCES in 2002 to identify a new SIS that could be used by the BOCES, and perhaps the affiliated school districts as well. CATE was paid \$383,011 in October 2003 to provide these services to the District. However, the District ultimately chose, for its own use, a system other than the one selected by BOCES as a result of the study. The CATE official indicated that they were unsuccessful in working with District officials to develop a formal implementation plan for the new SIS selected by the District. The failure to develop a successful implementation plan is evidenced by the fact that a new SIS is currently not operational. District officials expect both the old and new systems to be running concurrently during the 2006-07 fiscal year. A CATE employee is currently working on the SIS project at the District offices.

Technology Training Tracking System — The District budgeted grant funds for the development and implementation of a computer system to track teacher continuing professional education certification hours. The District paid EIC \$175,000 for this service in July 2003. According to an EIC official, they developed a working model of a web-based staff development tracking system, but the project was discontinued when the District's Director of Staff Development retired. EIC also indicated that the system is presently available, but the District is not using it; however, CATE uses the system to track all professional development activities it conducts for the District. The District's Executive Director for Human Resources (HR) indicated that HR staff is currently working on a staff development tracking system using a module available for use with their own information systems, and was not aware of what EIC had done.

⁸ This activity was funded as part of a separate grant award.

Expectations Not Documented by the District

For a number of programs the District did not document the type and level of services it expected for certain payments. For example, normally a contract or purchase order for training would detail the number of training courses and how many employees are expected to receive the training. Therefore we could not determine whether the services that were paid for were appropriate.

NYLearns — Between 2002 and 2005, the District paid more than \$2 million to CATE for the development of the NYLearns web portal. The largest payment to CATE for NYLearns was made in January 2003 in the amount of \$739,237⁹ for the continued development of NYLearns. No specific services were identified for this payment, other than continued development of the website and its content, as well as training and technical assistance in the use of the site. Additionally, the Board resolution which authorized this payment required an independent evaluation of the website. District and CATE officials could not demonstrate what specific services or deliverables were provided and there was no indication that the required independent evaluation had been conducted.

In the spring of 2004, the Buffalo City School District and the Niagara Falls City School District formed a partnership and submitted a plan to implement a variety of educational technology activities, which resulted in a grant award for the 2004-05 fiscal year.¹⁰ The District paid CATE \$587,500 for Project Coordination (\$166,250), Leadership and Coordination (\$143,750), and Customization and Continued Development of NYLearns (\$277,500). District and CATE officials did not provide detailed documentation to indicate what specific services were provided. Again, the lack of more specific deliverables in a written contract precluded us from evaluating the District's performance and the extent to which it received services in keeping with its expectations. CATE officials further indicated that, despite the grant narrative that called for the purchase of hardware and software, no additional hardware or software was purchased, and that the total allotment of \$277,500 for this purpose was used for salaries and benefits for CATE staff.

Technology Training: BRIDGES/Push-In (2001-02, 2003-04 and 2005-06) — In January 2002, the Board authorized payment of \$185,000 to CATE, from grant proceeds for the BRIDGES staff development

⁹ This payment was funded with \$489,237 in proceeds from the District's Title III Technology Literacy Challenge Grant for the period July 1, 2002 through September 30, 2003, and with \$250,000 from the District's general fund.

¹⁰ The Enhancing Education Through Technology (EETT) Act of 2001 provided funding to implement and support a comprehensive system to effectively use technology in elementary and secondary schools.

program. The resolution did not specify the level of training that had been or was to be provided, or the number of staff that had been or were to be trained, to justify this amount. The only specific item in the resolution was that the program was being conducted during the entire 2001-02 fiscal year, offering full-day workshops three times weekly. The District provided us with documentation indicating that 983 employees attended training sessions under this program which were provided between September 2001 and June 2002.

In April 2004, the District paid CATE \$190,000 for “Push-In and On-site staff development and continuation of BRIDGES staff development.” We received documentation for Push-In training sessions provided between January and December 2004, and BRIDGES sessions held between October 2003 and June 2004. Such documentation indicated that approximately 675 individuals attended BRIDGES training sessions. We received various records from CATE and the District which each indicated a different number of attendees, but we concluded that approximately 900 staff attended two, 90-minute, Push-In training sessions. We reviewed purchase orders, the Board resolutions, and grant narratives to determine the level of training the District anticipated receiving for these payments. However, there was insufficient information in all of these documents to establish what was expected. Thus, we could not readily determine if the District received the level of services it anticipated, or whether it received appropriate value for the payment made.

For the 2005-06 grant year, the District did develop a contract; however, the copy we were provided was not signed or dated. In addition to other services, this contract indicated that CATE would provide support for the District’s distance-learning “CityNet” classrooms and the Cisco Regional Academy, neither of which were mentioned in the grant narrative, at a cost of \$187,700. The District gave us a list of the CityNet courses provided and a sample of a monthly invoice for the related telecommunication charges. Finally, both the grant and the contract provided for project coordination of services to the District, as well as collaboration with the Niagara Falls City School District, in the amount of \$133,000. For this component, the District provided us with a list of CATE staff members involved in project coordination and the general duties they performed. However, because the District did not identify in the contract the level of services it expected for these two components, we could not determine whether the level of services was appropriate for the total payment of \$320,700.

**No Documentation
That Substantial
Services Were Provided**

For a number of grant programs District officials did not maintain documentation indicating what services were actually received for the payments that were made to CATE and EIC. This failure of

District officials to properly document what they were paying for reflects poor stewardship of the grant funds entrusted to them. For nearly \$1.7 million in payments, we could not identify from available documentation what substantial services were received by the District to justify the payment made.

ATLAS Costs — The District paid CATE \$585,529 in October 2003 from grant proceeds for the ATLAS initiative¹¹ for September 1, 2002 through August 31, 2003, \$57,828 more than the grant authorization. There was no evidence of Board or SED approval for this increase. The grant narrative listed only the main goals of the five-year ATLAS initiative and did not specify the services that had been or were to be completed during this grant year. Also, neither the District nor CATE officials provided documentation of the services that were actually provided to the District. As a result, we were unable to perform any audit procedures with respect to this payment of \$585,529, as no documentation was provided to us to identify the District’s expectations for this funding, and there was no indication of what type of services, if any, were actually performed.

Decentralization Project — In March 2004, a Board resolution authorized payment of \$125,000 to EIC to “offset operational and program costs associated with the EIC’s assistance in the District’s Decentralization Pilot Project.” However, the grant that was referenced in this resolution provided for a payment of \$145,000 to EIC for the 2003-04 grant period. Further, the narrative in that grant did not include a description of services, so we could not verify that the original grant authorization was indeed intended for the purpose the Board-approved payment was for. Again, if EIC was providing consulting services for this project, we would expect to see a document describing what the consulting services would consist of, the amount of consulting hours that would be provided at what hourly cost. Hourly costs could vary depending on the title and level of the employee providing the required services.

An EIC report of its activities from 2002 to 2005 references this project. This report refers to a pilot program designed to decentralize the decision-making process from the District’s administrative level down to each school building. Principals from eight Buffalo schools were selected to participate in the design of a model for this pilot program. EIC officials indicated that the school principals were guided by a “Decentralization Pilot Project Concept Paper” which was dated January 2003. However, neither the District nor EIC officials provided us with a report of tasks completed by the group, or any models or recommendations developed for the District.

¹¹ Refer to Appendix B for a description of Project ATLAS.

EIC officials indicated that the District folded the Decentralization Pilot Project into a charter school study. We found no evidence that the Board or SED officially approved such a significant change for the use of grant proceeds. In an attempt to discern whether this charter school project had any relevance to the Decentralization Project, we reviewed a charter school study that EIC prepared for the Board, which was dated in 2003. We noted that this study referenced a concept paper prepared by EIC in February 2003 that described a proposed transformation of the District into a system of networked charter schools under an initiative called the “Renaissance Schools Project.” It also referenced a March 26, 2003 Board resolution which authorized a Charter School Feasibility Study, based on the concept paper.

The changes in program direction and the lack of clear Board approval for these changes makes it difficult to determine what services the District received for this program. No Board action apparently exists which evidences its authorization for any of this activity, and it is not clear what services were actually performed related to this payment.

Greater Buffalo Leadership Center/Council — In June 2000, the Assistant Superintendent of Curriculum created a Leadership Advisory Committee comprised of central office and building level administrators, representatives from SUNY, the Educational Fund for Greater Buffalo, and others. The committee was working to create the Greater Buffalo Leadership Center (GBLC) to provide professional development for administrators and aspiring leaders within the District and in the western New York region. The narrative for this three-year, \$300,000 grant from the Dewitt-Wallace Fund (through SED) included an action plan and timeline for a number of objectives to be completed between March 2001 and August 2003, including establishing, evaluating, and revising committee by-laws; professional development and program offerings and evaluations thereof; and summer institutes for leadership training.

The Year 1 payment of \$100,000 was received and used directly by the District in its 2001-02 fiscal year for the initial start-up of the GBLC. For the second and third years of the grant (the 2002-03 and 2003-04 fiscal years), the District paid EIC a total of \$205,207 (\$100,000 per year, plus a roll-over of \$5,207 from Year 1). No documentation was provided indicating that any of the work listed in the grant narrative was actually completed.

The former Assistant Superintendent of Curriculum, who is currently the Community Superintendent of the Office of School Performance, stated that he was involved in the first year of the project and that

when he left the Curriculum Department in August 2001, the GBLC did not move forward. No actual center was ever opened as originally intended. He added that the DeWitt-Wallace Fund was not satisfied with the activities charged to the grant in Years 2 and 3, and denied the 2003-04 payment to the District. He indicated that EIC appointed a new managing director of GBLC during 2004, who began reviving the GBLC goals with funding from other sources and convinced the DeWitt-Wallace Fund to release the Year 3 payment, for use for future leadership training. He further told us that the \$100,000 was placed in a separate account which he, as the Community Superintendent, manages for leadership-training costs that are not covered by other grant funding. As of July 24, 2006, approximately \$81,000 remained in this account. The Community Superintendent also told us that the GBLC recently launched its first two Leadership Academies for aspiring and new principals and administrators in January 2006, with plans to continue and expand their programs in the fall of 2006.

EIC officials indicated that 2002-03 funds were used to hire a managing director of GBLC who was employed from February to October 2003. They told us that other accomplishments during the two years included a two-day retreat with the Superintendent and 24 administrators, and follow-up with the participants throughout the year; participation of 100 Buffalo school staff at a University of Buffalo two-day Summer Institute; support for two District administrators in the Buffalo Leadership Program; and facilitation of all GBLC meetings.

We noted that despite the fact that the grantor denied payment in the third year, the District paid \$100,000 to EIC from other District funds on April 2, 2004. This was an improper payment, as records indicate that the Board and the Buffalo Fiscal Stability Authority approved this payment from the DeWitt-Wallace Fund grant proceeds. There was no authorization to make this payment from District funds. We further noted that EIC was paid an additional \$200,000 in February 2003 from the District's Title II, Part A grant proceeds to "provide management of the work of the GBLC...to provide professional development opportunities for current and aspiring educational leaders..." Again, EIC and District officials did not provide documentation of the professional development programs or any other specific services that were provided to justify this payment.

Joint Performance Agreement — In October 2002, the District made a payment of \$300,000 to EIC based on two purchase orders dated September 26, 2002, and a Board resolution dated September 25, 2002, which recommended the "... transfer of funds to the EIC to be implemented in accordance with the stipulations for support provided

in the Joint Performance Agreement (JPA) between the District and EIC.” Specific services to be delivered were not identified. The first grant narrative referred only to “appropriate EIC initiatives” while the second indicated that funds would be dedicated to the provision of focused staff development and electronic interventions for the District’s staff, including concentration on performance indicators in Reading, English-Language Arts, and Math.

We found that invoices submitted for payment did not indicate which, if any, aspects of the JPA were completed. There was no documentation of specific services or staff development provided to the District. CATE officials simply indicated that its work consisted of daily support; meetings with, and document preparation for, the District’s Chief Planning Officer; attendance at quarterly meetings with SED officials; and providing updates to Board members. Because the applicable purchase orders, invoices, Board resolution and grant narratives did not provide sufficient information to establish what type or level of service was expected or delivered, we could not readily determine if the District received the level of services it anticipated, or whether it received appropriate value for the payment made.

Data Warehousing — The District authorized \$125,000 from a grant in 2002-03 to CATE to develop a data warehousing plan for all District data.¹² In August 2003, the District actually paid CATE \$175,000 for data warehousing services to be provided pursuant to a June 2003 Board resolution. There was no indication that the additional \$50,000 was authorized by a grant amendment filed with SED. While CATE officials indicated that they completed a pilot plan for a data warehouse and that District officials chose not to implement it, no documentation was provided to indicate that any substantial services were rendered in developing such a pilot plan. An integrated data warehouse, as described in the June 2003 Board resolution, is currently not in operation at the District.

On Line Application System — The District made two payments totaling \$107,250 to CATE and EIC with grant proceeds from a 2002-03 grant for an On Line Recruitment and Application System. The purchase orders indicate that the Board authorized this activity in June 2003 as part of the authorization for the ATLAS initiative. However, neither the Board resolution nor the grant narrative for the ATLAS initiative makes any reference to an On-Line Application System as described on the purchase order. The District paid CATE \$90,000 in October 2003 and EIC \$17,250 in November 2003 for

¹² The warehouse incorporates financial, student and employee information, as well as other unique District databases.

this system. However, we found no evidence that the District had an operating on-line application system for use by the District in its recruiting efforts.

District staff told us that such a system was a current goal of the District. The District's HR Executive Director told us that HR staff had recently developed an electronic employment application with fill-in capabilities that was available as of April 2006; CATE's only role was to post the form to the HR website for them. While the District still does not have a system for submitting applications on-line, candidates can complete the application electronically and attach it to an e-mail. Thus, the District paid in October 2003 for an on-line system that is not currently in place, and the minimal services that CATE provided were not performed until April 2006.

The District's CFO told us that he had previously made inquiry regarding the \$90,000 payment to CATE, as he was aware that no on-line application system was in use by the District. He said CATE officials told him that while an on-line application system was not developed with this \$90,000, \$45,000 had been used for improvements to the District's HR website. We found no indication of District approval or a request from CATE to change the scope of work. Thus, if this work had been performed, it would appear to be an unauthorized use of District grant funds. The CFO indicated that he intended to recover the remaining \$45,000.

Services Different Than Anticipated

At times, the District established specific expectation for deliverables for some of the projects it funded with grant proceeds. These expectations were specified in Board resolutions or grant documents. However, we found that the District did not ensure that the services subsequently delivered matched these stated expectations before payment was made.

Technology Training: BRIDGES/Push-In (2002-03, 2004-05 and 2005-06) — In November 2002, the Board authorized a payment of \$515,000 to CATE for technology integration training for teachers and administrators throughout the District. Technology staff development was to be delivered in two ways: large classroom formats with five teachers from each school receiving in-depth training (BRIDGES, \$225,000), and on-site at all school buildings to provide training for all teachers in each building (Push-In, \$290,000). The District paid CATE on March 21, 2003, before the majority of this training was provided. Furthermore, CATE did not provide training to as many staff as indicated in the Board resolution.

- BRIDGES – CATE provided documentation which indicated that only 278 teachers from 62 of the District’s 74 schools attended “Signature BRIDGES” training. Therefore, teachers from 12 schools received no training. The number of teachers per school that received training ranged from one to 12, with less than five teachers participating from 29 of the represented schools. CATE’s documentation also indicated that approximately 350 District staff attended 33 technology training sessions as part of the BRIDGES program (on e-mail, database, word processing, spreadsheet, and presentation software) provided by a subcontractor hired by CATE.
- Push-In – The District provided documentation indicating that Push-In training was delivered to 772 teachers in 13 schools, which only amounts to about a quarter of all teachers for the 2002-03 fiscal year, far short of the expectation that all teaching staff receive this training.

CATE also provided documentation indicating that 230 participants received training at a Phasing Summer Planning Workshop program, which was also funded from this grant. However, we did not find that such a program was intended to be funded from this grant, as it was not identified in either the Board resolution or grant authorization.

In November 2004, the Board authorized CATE to provide professional development through the BRIDGES and Push-In programs for \$310,197. The grant narrative identified various types of technology training to be provided to 400 Buffalo teachers during this grant period (November 10, 2004 to June 30, 2005). The training for all participating teachers was to include basic laptop training, a traditional Push-In training program, BRIDGES workshops, and a three-day workshop specific to NYLearns. We reviewed available documentation and noted that only 255 teachers received the authorized laptop training instead of the required 400. CATE also provided NYLearns training to 96 (instead of 400) teachers in a two-day (instead of a three-day) program. Furthermore, no documentation was provided to indicate that other Push-In program or BRIDGES training was ever offered, as indicated in the grant narrative.

We noted that the District began improving its payment procedures, relative to the services provided by CATE, for the 2005-06 grant period. We received a copy of a contract for this period; however, it was not signed or dated by the District. The checklist which accompanied it was dated June 14, 2006, which is near the end of the grant period. This contract specified that training of up to 1,200 teachers in 140 sessions for \$1,400 per session was to be provided

by CATE. In keeping with this provision, the District reduced its payment to CATE by \$28,000, as only 120 sessions were noted by District officials as having been provided during the contract period, which resulted in a payment of \$168,000.

Buffalo Teacher Center (BTC) Website — Over a six-year period from 2001 to 2006, the District paid a total of \$118,000 to CATE for the design, implementation, and maintenance of a website for the Buffalo Teacher Center. These costs were covered by a Buffalo Teacher Resource Center Grant. The Board resolutions for the first four payments contained identical language as to the scope of services, and required the comprehensive website to include, at a minimum, 18 identified content areas. As of the end of our fieldwork in June 2006, only seven of the 18 required content areas are complete and accessible on the website. Two other areas exist on the website, but the BTC staff is responsible for all updates to these sections. CATE was fully paid for the development of this website as of June 2002, and continues to be paid for its maintenance. We further note that during the 2005-06 fiscal year, the District negotiated a contract with CATE for the annual maintenance of the website, in which the annual payment for this service was reduced from \$12,000 to \$5,000. District officials told us that this decrease resulted from the failure of CATE to deliver on one of the higher priority content areas, which was to provide for on-line registration for teacher workshops. After five years of full payment to CATE for annual maintenance, the District is currently seeking another provider for this service. Additionally, the contract provided to us for our review was unsigned, undated and did not list specific services or content areas that CATE was now responsible for.

Recommendations

1. The Board should engage professional service providers only pursuant to written contracts in which the District and provider agree to specific services to be delivered, a timeline for deliverables, compensation for each of the services, and the timing of payment to the vendor.
2. District officials should routinely monitor the activities of professional service providers while the providers are delivering agreed-upon services to the District. For all major initiatives, District officials should prepare periodic status reports and distribute them to administrators and the Board for their review.
3. District officials should require that all claims submitted by service providers fully itemize the services rendered and the percentage of completion.

4. The District's claims auditor should thoroughly review all claims prior to payment to ensure that itemized services are supported by documentation evidencing that services were indeed delivered, and that the terms and conditions of the contract were appropriately followed.
5. District officials should establish, by whatever means practicable, the level of services actually provided by CATE and EIC, and compare this with what the Board and administration expected to be achieved for the funding provided. In all instances where the level of service provided is not commensurate with funding, the District should initiate action to recover such overpayments from both CATE and EIC.

APPENDIX A

SCHEDULE OF PROGRAMS TESTED

Program	Vendor	Amount	Grant Period	*BOE Resolution
BRIDGES	CATE	\$185,000	10/1/01 - 9/30/02	1/23/2002
BRIDGES/Push-In	CATE	\$515,000	9/1/02 - 8/31/03	11/6/2002
BRIDGES/Push-In	CATE	\$190,000	9/1/03 - 8/31/04	6/11/2003
BRIDGES/Push-In	CATE	\$310,197	4/1/04 - 6/30/05	11/3/2004
BRIDGES/Push-In	CATE	\$488,700	7/1/05 - 6/30/06	2/22/2006
Decision Support System (DSS)	CATE	part of \$609,655 and \$19,500 addit.	1/1/03 - 9/30/03	6/11/03 ATLAS resolution
Personal Education Plans (PEPs)	CATE	part of \$609,655	1/1/03 - 9/30/03	9/9/2003
Laptop Initiative	CATE	part of \$609,655	1/1/03 - 9/30/03	6/11/03-ATLAS resolution
Student Information System (SIS)	EIC	\$383,011	1/1/03 - 9/30/03	6/11/03-ATLAS resolution
Data Warehousing	CATE	\$175,000	9/1/02 - 8/31/03	6/11/03-ATLAS resolution
Technology Training Tracking System (TTS)	CATE	\$175,000	9/1/02 - 8/31/03	No Board resolution noted
On Line Application System	CATE/EIC	\$107,250	9/1/02 - 8/31/03	6/11/03-ATLAS resolution
Other ATLAS Costs	CATE	\$585,529	9/1/02 - 8/31/03	6/11/03-ATLAS resolution
Buffalo Teacher Center Website	CATE	\$118,000	2001 - 2006	2/14/01, 2/13/02, 1/8/03, 12/3/03, 3/1/05, 3/3/06
Decentralization Project	EIC	\$125,000	9/1/03 - 8/31/04	3/22/2004
Greater Buffalo Leadership Council (GBLC)	EIC	\$205,207	4/1/02 - 4/30/03; 5/1/03 - 4/30/04	6/26/02; 2/25/04
GBLC (Title II Part A Grant)	EIC	\$200,000	9/1/02 - 8/31/03	1/22/2003
Joint Performance Agreement	EIC	\$300,000	10/1/01 - 9/30/02	9/25/02; 6/26/02
SURR Schools Pilot Project	EIC	**\$80,000	9/1/04 - 8/31/05	12/15/2004
NYLearns	CATE	\$739,237	7/1/02 - 9/30/03	12/18/2002
NYLearns	CATE	\$587,500	4/1/04 - 6/30/05	11/3/2004
Waterford Reading Program				
Hardware/Software	CATE	**\$108,339	9/1/03 - 8/31/04	11/19/2003
Summer Work on IT/Staff Development	CATE	**\$19,000	N/A	N/A
Adult Education Study	CATE	**\$46,000	N/A	N/A
Total of Programs Tested		\$6,272,125		

* These resolutions are all the ones identified as relating to the specific programs listed. In some cases, the resolutions were authorizing the program initially. In most cases, the resolution was authorization for payment after work was initiated or completed.

** These payments, of less material amount, were not discussed in detail in the report.

APPENDIX B

ATLAS PROJECT GOALS AND DELIVERABLES

The broad goals of the ATLAS project were to leverage technology to improve student achievement, better organize technology training to have an impact on teaching and learning, and to allow teachers and administrators to perform their duties more efficiently. Essentially, we were told the District's technology infrastructure would need to be completely revamped to meet these goals.

The specific expectations for the ATLAS program included the following:

- Development of an electronic “warehouse” for District data, and creation of a web-based interface for the data. Data warehousing allows integrated data to be sorted, disaggregated, and analyzed to facilitate decision making by District staff.
- The creation of a decision support system (DSS), a computer-based system that aids teachers and administrators in the process of decision making relative to assessing student performance and needs.
- The replacement of the existing Student Information System (SIS) with a new web-based integrated system.
- The implementation of a laptop computer project to provide enhanced access for teachers and administrators to critical information and instructional resources.
- The development and implementation of survey-driven Personal Education Plans (PEPs) for technology training for all teachers and administrators, and development and appropriate training in response to identified needs. PEPs were to be based on a survey showing individuals' level of skill in various technical areas. Training was to be developed and provided to address common needs.
- The development and implementation of a web-based technology training tracking system (TTS) to account for required professional education credits.

APPENDIX C

SUBSEQUENT EVENT

Subsequent to the completion of our fieldwork, CATE/EIC officials notified the District that they had 27 boxes of records which they believed addressed the findings in the draft. Additionally, the Dean of the Graduate School of Education from the University of Buffalo, prepared a 19-page draft “response” to the District. On October 26, 2006, we visited CATE’s offices to review this documentation, and met with various CATE staff, as well as counsel for the University of Buffalo. The vast majority of the information contained in these boxes we had already reviewed during fieldwork. In the rare instance where additional relevant information was provided, we amended the draft report accordingly.

APPENDIX D

RESPONSE FROM DISTRICT OFFICIALS

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



BUFFALO PUBLIC SCHOOLS

James A. Williams, Ed.D.

Superintendent

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Buffalo, New York 14202

Phone (716) 816-3575

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February 13, 2007

Office of the State Comptroller
Buffalo Regional Office
295 Main Street
Room 1050
Buffalo, NY 14203

Dear Officials,

We wish to thank you and the staff of the Office of the State Comptroller for the observations and recommendations included in your Buffalo City School District Professional Services, Report of Examination ("Audit Report") which concentrated on the services provided by the University of Buffalo's Center for Applied Technology ("CATE") and Education Innovations Consortium ("EIC").

As Superintendent, I am responsible for responding to the Audit Report. This has proven to be challenging since the audit issues originated prior to my administration. To further complicate matters, the District administrators responsible for the transactions with CATE/EIC have either retired or are no longer employed by the District

As the new Superintendent, upon reviewing the circumstances surrounding the services provided by CATE/EIC before my arrival, I can see how the District and the University of Buffalo, as two non-profit public agencies sharing a common mission of education with a very strong collaborative relationship, may have departed from what would be considered best practice in the business world. It is important that we make extremely clear to the general public that the District made significant improvements to its business practices long before the OSC audit for reasons which have nothing to do with CATE/EIC. This important fact receives no attention in the Executive Summary of the Audit Report. Beginning in early 2005, the District began reviewing the manner in which professional services were being procured by District personnel. Thereafter, the District updated regulations and/or procedures and reviewed them with Division Heads and Grant Managers to ensure compliance with Board policies. All District personnel received a comprehensive package of updated procurement and contracting procedures together with the related Board policies and regulations.

See
Note 1
Page 37

I would like to note some of the more significant improvements implemented in the last 18 months to ensure compliance with Board policies regarding professional services:

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1

- Requests for Proposals (“RFP”) are required, with limited exceptions (such as grants to the District where specified contractors are named), to ensure that services are competitively procured.
- Contracts are required for all services with detailed descriptions of services to be provided. Reliance on purchase orders or grant documents is no longer acceptable.
- Contracts cannot be executed until the Division Head with ownership of the services has submitted a contract check list which requires, among other things, the contract, a summary of the RFP results, the Board recommendation and approval for the services, and the Buffalo Fiscal Stability Authority contract approval where applicable.
- No deposits or prepayments for services are permitted without the prior approval of the Office of the Chief Financial Officer.
- Vendor invoices must detail the services provided and the amounts billed for each of the services.

As noted by the Audit Report (but not in the Executive Summary), the District conducted an internal review of CATE/EIC professional service transactions. On November 30, 2005 these transactions were reviewed with Board members at a Finance and Operations Committee meeting. The Board was provided with a summary of every transaction between the District and CATE/EIC dating back to fiscal year 2002, and further was informed that payments to CATE/EIC stopped in July 2005. To ensure that Board policies were followed in the future and to deal with any earlier variances from these procedures, a corrective action plan was presented to the Board. This plan was accepted and implemented.

See Note 1 Page 37

For 2005-06, the Audit Report makes a few observations that require clarification.

“Technology Training: BRIDGES/Push-in”

- The Audit Report indicates that the support services for the “CityNet” and the Cisco Regional Academy are not mentioned in the grant narrative. There is a simple explanation for this. Because the District reduced the contractual amount payable to CATE by \$28,000 for training sessions that were not held (this was cited by the Comptroller’s office as evidence of the District’s improved payment procedures), there were funds available to redirect to the “CityNet” and the Cisco Regional Academy initiatives. This training, which was not contemplated in the original grant and therefore did not appear in the narrative, was in fact included in a subsequent grant amendment which was approved by the New York State Education Department.
- The Audit Report also alleges that the level of services expected for project coordination between the Buffalo and Niagara Falls

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2

Districts were not identified in the contract. The contract does in fact contain five bullet points describing the nature of the services. It may be that the OSC would prefer far more detailed descriptions than those provided in the contract. However, there is sufficient evidence that the services, which were not paid for until they were completed to the Grant Manager's satisfaction, were in fact rendered to the District. This evidence includes minutes of all the project management meetings that were held. Furthermore, the services supported the training sessions which the Comptroller's office was able to verify took place. The fact that 120 sessions were successfully held is further evidence to support the payment for the project management services.

Contracts

- The Audit Report acknowledges that there was a contract between the District and CATE for 2005-06 but states that the contract provided to the Comptroller's office was not signed or dated. The District is not aware of the source of the contract provided to the Comptroller's office; however, the contract on file at the District's offices is signed and dated March 2, 2006. The Audit Report also states that the annual maintenance services to be provided by CATE per the contract for the Buffalo Teacher Center website did not list specific services or content areas that CATE was responsible for. We believe that the corresponding purchase requisition and purchase order contains sufficient information which includes the following description: "To update, maintain, host and support the Buffalo Teacher Resource Center Website with the following features: Technical Support, Link to email Teacher Center Announcement Board and page updated bi-monthly, searchable course brochure ability to post downloadable forms, Interactive Calendar, Link to Online Catalog of Library Resources" There is also a completed and signed Contract Check List as required by the new procedures which the District implemented as described on page 2 of this letter.
- While it is true that, prior to 2005-06, no document carrying the moniker "contract" was signed for the bulk of the transactions between the District and CATE/EIC, legal counsel advises that there is sufficiently detailed and executed written documentation, including grant applications and approvals that funded the services, to create a legal contract between the District and CATE/EIC.

See
Note 2
Page 37

With respect to the specific observations pertaining to the years prior to 2005-06, I am not in a position to respond to specifics in as much as I was not Superintendent during this period. As stated earlier, the former District administrators involved have retired or are no longer employed by the District. However, in an effort to be responsive, I have included a report provided to me from the University of Buffalo addressing the detailed audit findings. You will note that the University of Buffalo takes exception to many of the findings in the Audit Report. You will note further that CATE/EIC staff has compiled a comprehensive set of back-up documentation, over 20,000 pages in all, covering each of the projects referenced in the Audit Report. These materials represent information from CATE's files that either was identified in the draft Audit Report as being non-existent, or contradicts specific factual assertions in the Audit Report.

See
Note 3
Page 37

See
Note 4
Page 37

Although the report from the University of Buffalo addresses this issue in more detail, I also feel it necessary to respond to the circumstance outlined in the Audit Report regarding the appointment of Dr. Don Jacobs as interim Chief Operating Officer. It is my understanding that Dr. Jacobs's short tenure as interim Chief Operating Officer of the District, which went uncompensated, was driven by the needs of the District and the common mission of the District and the University of Buffalo. Further, I have been told that Dr. Jacobs was not in a position to alter or influence the District's relationship with CATE/EIC. In this regard, I would like to direct your attention to the letter, attached to the University's report, from Paul Buchanan, former Board of Education President, and Marion Canedo, my predecessor, attesting to the absence of any conflict of interest as a result of Don Jacobs's service as interim, volunteer Chief Operating Officer for the District.

See
Note 5
Page 38

With respect to the specific recommendations in the Audit Report, each recommendation is restated below followed by the District's Corrective Action Plan ("CAP").

Recommendation #1

The Board should engage professional service providers only pursuant to written contract in which the District and provider agree to specific services to be delivered, a timeline for deliverables, compensation for each of the services, and the timing of payment to the vendor.

CAP #1

As mentioned previously, the District had already revisited its process for procuring professional services in early 2005. The Board policy for procuring professional services, including the requirement for a competitive procurement process, was reviewed with all Division Heads and Grant Managers and began to be strictly enforced. The District continued to make improvements in its overall procurement and contracting process. As you may appreciate, this involves cultural change which is still in progress today. In March 2006, all District personnel received a comprehensive package of updated procurement and contracting procedures and related Board policies, including a new internal control procedure to better enforce adherence to District policy. The new internal control procedure involves a check list which is required to be completed by the Division Head

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4

recommending the procurement of professional services. Among other things it requires, a contract for the services, a copy of the certified Board approval and BFSFA approval (when applicable) of the services and an RFP summary including the number of firms solicited and bid amounts. It requires that the absence of a competitive procurement of the services must be justified on the basis of the few exceptions provided for in District policy. It also requires stamped legal approval of contracts.

As evidenced by a contract that was executed with CATE in 2006, the specific services involved were clearly defined as were the timeline for such services, compensation and timing of payments to the vendor.

Recommendation #2

District officials should routinely monitor the activities of professional service providers while they are delivering agreed-upon services to the District. For all major initiatives, District officials should prepare periodic status reports and distribute them to administrators and the Board of Education for their review.

CAP #2

The District does monitor the activities of professional service providers. This is evidenced by the fact that the initial payment to CATE/EIC under the 2006 contract was reduced because certain deliverables were not met as of the date payment was due. The recommendation that the District prepare periodic status reports for distribution is a good one. While progress reports are given from time to time to the Board and committees of the Board, there is no formal process requiring periodic reports for major initiatives. The District will consider such a process.

Recommendation #3

District officials should require that all claims submitted by service providers fully itemize the services rendered and the percentage of completion.

CAP #3

The District has already implemented this recommendation.

Recommendation #4

The District's claims auditor should thoroughly review all claims prior to payment to ensure that itemized services are supported by documentation evidencing that services were indeed delivered and that the terms and conditions of the contract were appropriately followed.

CAP #4

The District administrator approving a vendor invoice for payment is responsible for obtaining documentation necessary to support his or her approval of the invoiced services and for ascertaining that such invoice and services are consistent

with the contract. The claims auditor will ensure that documentation is appropriate and contract terms are met.

Recommendation #5

District officials should establish, by whatever means practicable, the level of services actually provided by CATE and EIC and compare this with what the Board and administration expected to be achieved for the funding provided. In all instances where the level of service provided is not commensurate with funding, the District should initiate action to recover such overpayments from both CATE and EIC.

CAP #5

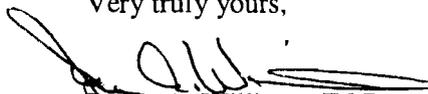
There was nothing noted in the Audit Report that provides any documentary evidence of unperformed services nor is the District aware of any specific unperformed services. To the extent that the District learns of any situation where the contracted services were not fully performed by CATE/EIC, the District will follow up with CATE/EIC regarding any unperformed services.

Audits of school districts all too often cover periods of time long past. This audit goes back to July 2001. Past deficiencies need to be addressed, no doubt. But in doing so, it is also important to make the public aware of corrective action taken by the District. This District took significant corrective action, on its own, well before your audit. It's important to the District's credibility that the public be made aware of this. While you make mention of this in the Audit Report, it seems to me that this corrective action deserves to be included in the Executive Summary which now only addresses the deficiencies. Many readers of this Audit Report may not read beyond the Executive Summary. They should know that corrective action was already taken.

See
Note 1
Page 37

This District is working hard to improve student achievement and restore its credibility. I am respectfully requesting that the OSC acknowledge in the Executive Summary, the corrective actions taken by the District which began early in 2005.

Very truly yours,



James A. Williams, Ed.D.
Superintendent

c: Board of Education members
Audit Advisory Committee members
Gary M. Crosby, CFO/COO

APPENDIX E

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

We revised the Executive Summary to acknowledge the improvements the District implemented in its business practices relative to the procurement of professional services, which were previously addressed only in the body of the report.

Note 2

Nevertheless, these documents should not be considered a substitute for a duly executed written contract between the vendor and the District, which clearly articulates the scope of the services to be provided, a timeframe for the delivery of the services, the cost of providing the services, and the timing and method of payment to the vendor. The District has already implemented improvements to its contract process which are intended to ensure that all of these concerns are adequately addressed.

Note 3

We did not append the letter from the University at Buffalo (UB), referred to here, to our report because this entity is not the auditee. Further, the letter fails to acknowledge the fact that we relied on a significant amount of documentation and discussions with CATE and EIC staff during the audit engagement. Staff from both of these entities – in providing us verbal representations, as well as documents, over this several month engagement – should have provided all relevant information. After reviewing the draft with District officials, we were notified that CATE/EIC had identified additional documentation. We reviewed some of the “20,000 pages” of material and determined that much of it had been reviewed during our fieldwork. Based on this subsequent review, we refined some of the findings from the original draft; however, the vast majority of this material did not materially affect the assertions in our draft.

Note 4

As we clearly indicate several times in our report, we relied on CATE and EIC to provide the majority of the records we reviewed – in an attempt to ascertain what services were expected as well as what was delivered – because District officials could not provide us with adequate documentation. We frequently communicated with CATE/EIC staff and carefully reviewed the documents that they provided to us during fieldwork. Much of the relevant documentation provided to us during fieldwork, on which we relied in drawing our conclusions, was contained in the “20,000 pages” of documentation referred to here.

Note 5

Our concern remains that the District's control environment was compromised by the mere fact that the interim COO (who also was the Executive Director of CATE and EIC) was in a position to exercise supervisory authority over those District employees who reviewed, approved and paid claims submitted by CATE/EIC.

APPENDIX F

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objectives, we interviewed various officials from the District and its professional service providers (vendors) to obtain an understanding of management controls being used by the District to authorize and monitor various program activities. We also reviewed pertinent documents obtained from the District, such as authorizing Board resolutions, purchase orders, and grant documents to determine what services the vendors had agreed to provide to the District. Finally, we requested and reviewed all other available documentation to determine the scope and level of services actually provided by the vendors.

Because District officials were unable to provide sufficient documentation to substantiate how various grant funds were ultimately used, we requested a significant amount of information directly from the vendors. Documentation that was initially provided was insufficient to support certain program costs, which necessitated re-requesting documentation as well as additional records to support payments made to the vendors for the programs we tested. These records were also used by us to determine if the programs or services were completed in accordance with Board of Education authorizations and/or SED-approved grant applications, as well as to determine the value of services delivered. Ultimately, for several programs, the information provided for our review was not sufficient to identify specific services provided.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those District operations within our audit scope. Further, those standards require that we understand the District's management controls and those laws, rules and regulations that are relevant to the District's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

APPENDIX G

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