



The Commonwealth of Massachusetts
Office of the Inspector General

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November 3, 2009

The Honorable Benjamin Swan
House of Representatives
State House, Room 127
Boston, Massachusetts 02133

RE: City of Springfield Transportation Contracting

Dear Representative Swan:

This Office reviewed your letter dated April 6, 2009 in which you raised concerns about the City of Springfield's 2005 procurement of a school bus transportation contract. We also reviewed the materials attached to your letter, which included the city's 2005 invitation for bid (IFB) and the submission of the winning vendor, First Student, Inc. (FSI). Finally, this Office reviewed the three renewals of the 2005 contract, a District Transportation Operations Review dated December 2008 ("*DTO Report*") prepared by the Massachusetts Association of School Business Officials,¹ and the IFB and addenda for the solicitation of bids for the 2009-10 school year.

Your letter is based on "comments by . . . public officials and the fact that the transportation account was under funded by nearly \$7 million by the Financial Control Board." The materials enclosed with your letter included allegations made against FSI in the press, statements by Springfield School Superintendent Alan Ingram that the school transportation budget estimates were "grossly inaccurate" and that the contract was characterized by "flawed bidding procedures, inadequate financial controls and insufficient invoicing and reconciliation."

¹ A copy of the *DTO Report* is enclosed with this letter.

This Office reviewed the IFB against the requirements of M.G.L. c.30B and found that it met all statutory requirements. The specifications contained in the IFB were incorporated into a five year contract (a one year initial term with four one year optional renewal terms) awarded to FSI and approved by the appropriate city officers on May 23, 2005.

It appears that problems arose on account of the funding of the contract over its initial and renewal terms rather than the procurement itself. Indeed, for the first two years of the contract term, funding for the contract matched its expenses. According to the *DTO Report*, however, the situation changed after FY 2007. After that year

extensive variances between budgeted amounts and actual expenditures became apparent. There were, for example, approximately \$1.45 million in unpaid invoices that were discovered at the end of the FY 2008 fiscal year. In addition, school transportation services for FY 2009 are now projected to be approximately \$7.4 million over the budgeted amount. (*DTO Report*, p. 2.)

The DTO lists several reasons for the overruns, which can be characterized generally as systemic problems in contract management and administration.

Your letter mentions two specific areas of concern: (1) overcharging by FSI on the 2005 contract; and, (2) excessively high rates the City of Springfield charges to the Town of Holyoke to transport schoolchildren to city schools from their residences in Holyoke.

With respect to first issue, the *DTO Report* (p. 9) states that “this year’s Summer School program was overcharged by a total of \$330,000.” While FSI may have submitted invoices that were higher than the contract allowed, they were approved by the city, apparently due to inadequate contract administration. Cities are prohibited by law from paying bills that are “fraudulent, unlawful or excessive.” This Office concurs with the *DTO Report* recommendation that FSI “should be notified immediately concerning reimbursing the school district” The *DTO Report* was presented to the city’s school committee on January 8, 2009, and the city’s Director of Internal Audit has requested copies of relevant invoices for review from the School Department.

With respect to the second issue, this Office contacted Mayor Michael Sullivan of Holyoke. According to him, under the McKinney-Vento Homeless Assistance Act of 1986, 42 U.S.C. § 11301 *et seq.*, the Town of Holyoke is obligated to reimburse the City of Springfield for the cost of certain school-related transportation services, just as the

City of Springfield is obligated to reimburse the Town of Holyoke for like services. Since each provided reciprocal services to the other, the two municipalities had never billed each other for these services, or even have contracts for services rendered. The *DTO Report* (pp. 4-5) noted the absence of contracts and any procedures to monitor the

eligibility of riders or the monitoring of routes. This year Springfield invoiced Holyoke for services for the first time at a rate that far exceeds what Holyoke pays under its own transportation contracts.² Holyoke has declined to reimburse Springfield for the inflated amount. Holyoke and Springfield are currently in discussions to resolve their differences, which are complicated by the fact that there is no written agreement between them.

Failure to set forth the services and their costs in a contract may not only violate federal law, but results in a situation like the present one, where a public entity has absolutely no idea what it will be asked to pay for supplies and services. This defies every principle of responsible public procurement. While this Office cannot evaluate or opine of the reasonableness of Springfield's invoice amounts, it cannot endorse a situation where a governmental body procures services without knowing their cost. An internal control system is an essential and fundamental management responsibility. Internal controls enable reliable financial reporting and help to ensure compliance with applicable laws and regulations. The system of controls provides the framework for efficient and effective operations. An organization's control environment provides the foundation for all other aspects of internal control. A critical element of an effective control environment is the existence of a well functioning system of oversight. Management is responsible for setting the tone for integrity within the organization and for leading by example by establishing sound policies and procedures and by abiding by them.

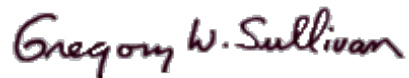
By necessity Springfield has recently procured new bus transportation services for the upcoming school year. While this Office suggested certain improvements to the most recent specifications so that the City would have a vendor under contract for the first day of school, without significant changes to the procurement and administration of the transportation services, many of the current problems may continue. To that end, this Office has offered to provide Springfield further recommendations for the procurement

² According to the City of Holyoke, the difference is a result of the way the two municipalities calculate and pay bus services providers. Holyoke pays per trip, i.e., it pays a flat fee regardless of the number of passengers. Springfield pays a fee based on per student per mile, currently \$6.30/student/mile. Thus for a 7 passenger round trip van ride from Holyoke to Springfield (9 miles), Holyoke pays \$78.00/day. Under the Springfield formula, the same trip for 7 passengers costs \$793.80/day. Holyoke cost shares with other towns, but Springfield wanted to procure its own busing services. Springfield has now asked Holyoke to reimburse it for Springfield's expenses, which Holyoke has declined to do.

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of transportation services for fiscal year 2011. If these and the suggestions provided in the *DTO Report* are accepted, and if the requirements of M.G.L. c.30B are followed, Springfield should be able to provide the services the school department requires within the scope of its budget.

Sincerely,

A handwritten signature in dark ink, reading "Gregory W. Sullivan". The signature is written in a cursive, flowing style.

Gregory W. Sullivan
Inspector General