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August 2, 2012

Kim Oliveira  
Executive Director  
Greater Lawrence Educational Collaborative  
480 Broadway  
Methuen, MA 01844-2048

Re: Special Education Transportation Costs

Dear Ms. Oliveira:

The Office of the Inspector General (OIG) reviewed reported overcharging for special education (SPED) transportation services by the Greater Lawrence Educational Collaborative (GLEC). During school years 2007-2008 and 2008-2009,<sup>1</sup> GLEC charged school districts almost \$5.2 million for SPED transportation services. The OIG reviewed a sample of 11 of the 35<sup>2</sup> GLEC-managed bus routes for this two-year period. The 11 sampled routes comprised \$852,000 (or 16 percent) of the total \$5.2 million in GLEC transportation charges. The OIG found that GLEC overcharged school districts \$321,860 (or 38 percent) of the \$852,000 in sampled charges.<sup>3</sup> As the OIG findings are based on a sample of GLEC charges, the potential overcharges could be greater. This is likely given that the OIG found overcharging issues with all 11 sampled routes.

The OIG review found that GLEC overcharging stemmed from inflated route rates, double-billing for on-board bus monitors and nurses, charging for non-existent routes, inefficient bus routes, and paying for a no-show vendor employee in a potential conflict of interest situation. These overcharges resulted in school districts paying more than necessary for SPED transportation services. The OIG also found a lack of adequate contracting and recordkeeping practices at GLEC and what appeared to be the arbitrary setting of SPED transportation rates that contributed to overpayment by school districts. To its credit, new management at GLEC has made significant improvement in GLEC business practices.

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<sup>1</sup> Fiscal years 2008 and 2009.

<sup>2</sup> The total number of bus routes is an approximation because of frequent bus route changes and a lack of adequate recordkeeping by GLEC.

<sup>3</sup> Because of poor GLEC recordkeeping, the OIG used a judgmental sample based, in part, on the available data. As a result, the identified overcharges could be greater. (A judgmental sample is a non-random sample chosen based on the professional judgment of the reviewer.)

The following chart illustrates the types of overcharges identified by the OIG in its sampling of SPED transportation bus routes:

<b>Summary of Findings</b>		
<b>Finding</b>	<b>Estimated Dollar Values</b>	<b>Examples</b>
<b><u>Transportation Overcharges</u></b>		
Route rate overcharge	\$ 164,593	
"Private" bus route		\$ 32,443
Route overcharge		17,670
<b><u>Employee Overcharges</u></b>		
Overcharging for Monitors and Nurses	101,225	
Overcharge [Example I]		4,379
Overcharge [Example II]		19,530
Overcharge [Example III]		35,911
Administrative fee on overcharges	14,492	
Employee "incentive" payments	41,550	
<b><u>Administrative Issues</u></b>		
Billing for absent students	11,435	
<b><u>Conflict of Interest</u></b>		
Cost of "No-Show" job	3,840	
<b>Total</b>	<b>\$ 321,860</b>	

### **The Greater Lawrence Educational Collaborative**

M.G.L. c.40B, §4E allows school districts to form educational collaboratives to increase efficiency through joint purchasing, cost and resource sharing, and other initiatives. GLEC was formed in 1974, and according to its website, provides "educational, vocational and therapeutic programs for mentally, emotionally and physically challenged children...in-service training and other professional development activities to teachers and administrators; assists districts in management services such as cooperative purchasing of goods and services; and provides special needs transportation...[and] multicultural enrichment programs...." to its 15 member school districts (Amesbury, Andover, Georgetown, Greater Lawrence Technical School, Hamilton-Wenham Regional, Haverhill, Ipswich, Lawrence, Lowell, Methuen, Newburyport, North Andover, Pentucket Regional, Triton Regional, and the Tri-Town School Union.) GLEC also provides services to non-member school districts, including

some in New Hampshire. Not all member districts used GLEC provided transportation services.

Through the 2009 school year GLEC provided daily year-round SPED transportation services for students for participating school districts. GLEC maintained a fleet of vehicles and contracted<sup>4</sup> with various private SPED transportation providers for this purpose. In 2009, another provider out-bid GLEC for these transportation services.<sup>5</sup>

Subsequent to this change in provider, the OIG was informed that GLEC may have overcharged districts for transportation and monitor/nurse costs. The OIG initiated a review and the review findings are contained herein. The OIG review was hampered by significant recordkeeping and accounting issues at GLEC pertaining to its transportation business. For example, many records could not be located, GLEC did not have contracts with its private SPED transportation providers, transportation staff no longer work for GLEC and route and scheduling information is incomplete. According to former staff, the former transportation coordinator maintained records on his personal computer, GLEC did not back-up these records on its computer system, and allegedly, the transportation coordinator erased his computer “hard drive” when he left GLEC service. The OIG had to obtain records from school districts and vendors to assist in this review. Recently, a change in GLEC management identified systemic management problems that are currently being addressed.

The member school districts should note also that according to a former GLEC official, the SPED transportation business was a “cash cow” for GLEC. The profit GLEC earned from its transportation business “subsidized” its special education programs and other services, according to the former GLEC official, who also stated that member school districts would be more likely to resist SPED tuition cost hikes than increased transportation costs. Therefore the overcharges identified by the OIG may have been GLEC’s attempt to cover costs in other areas. This notion is evidenced in a recent OIG letter to GLEC concerning GLEC’s retiree health claims trust fund and an investment of these trust funds. After GLEC lost the transportation business in 2009 it appears to have experienced a cash flow problem that prompted GLEC management, without the knowledge of the GLEC Board of Directors, to use these invested funds and other trust funds to support operating expenses. To the OIG’s knowledge, GLEC is still dealing with the loss of SPED transportation profits, possibly hundreds of thousands of dollars yearly, to support operating costs.

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<sup>4</sup> GLEC could not locate any contracts with private transportation vendors in its files. According to one vendor, it never had a contract with GLEC despite doing business with GLEC for at least a decade. GLEC may have done business with up to ten transportation vendors during the last decade.

<sup>5</sup> Through a bid process, a consortium of educational collaboratives (including GLEC) and school districts chose a new vendor, North Reading Transportation, Inc. to provide transportation services to a broader network. Many of GLEC’s member districts are part of this consortium.

## Findings

### Transportation Overcharges

#### 1) **GLEC charged more than private transportation vendors for bus routes.**

Based on the OIG sample, it appears that GLEC charged higher rates to school districts for routes it provided with GLEC vehicles and GLEC staff versus rates charged for bus routes GLEC subcontracted to private vendors. One private vendor charged rates that were approximately 20 percent lower than GLEC rates. Before billing school districts for these private vendor costs, GLEC marked-up the vendor rates by five percent to cover GLEC administrative costs.

According to former GLEC officials, GLEC route rates were determined by approximating transportation-related expenses and then adding an arbitrary increase of approximately 33 percent to this calculated amount.<sup>6</sup> This provided significant income for GLEC and, according to former officials, helped to defray other GLEC expenses and subsidize the cost of GLEC's tuition-based SPED programs. The OIG did not review how vendors determined their respective rates, but according to GLEC staff, GLEC asked vendors to "bid" on routes at the start of a school year. The bidding process consisted of GLEC asking vendors it did business with to provide a price quote on routes established by GLEC. GLEC then assigned routes as it saw fit. It is unclear whether price was a primary determining factor.

Having GLEC-owned buses provide routes rather than private vendors may have cost participating districts hundreds of thousands of dollars per year in excess costs. Poor recordkeeping and an unofficial vendor bid process does not guarantee that GLEC obtained the best vendor pricing which may have also cost participating districts more than necessary.

#### 2) **GLEC's rate-setting methodology contributed to overcharging.**

As stated previously, former GLEC officials orally explained GLEC's rate-setting methodology for GLEC-provided SPED bus routes (this methodology does not exist in writing) to the OIG. The methodology consisted of determining GLEC's estimated expenses for using GLEC-owned buses and GLEC personnel route and then added an arbitrary 33 percent mark-up to the cost basis. GLEC then added mileage costs by calculating distances based on five mile increments from GLEC to the student's point of origin – almost always the student's home. The following fictional example illustrates this methodology:

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<sup>6</sup> According to former GLEC staff the mark-up was between 30 and 35 percent. The OIG is using a figure of 33 percent for discussion purposes.

<b>Estimated operational costs with 33 percent mark-up:</b>	\$150
<b>Mileage:</b>	
Up to five miles:	10
Up to 10 miles:	20
Up to 15 miles:	30
Up to 20 miles:	40
Up to 25 miles:	50
<b>Total route cost between \$160 (\$150+10) and \$200 (\$150+50)</b>	

GLEC informed the OIG that it billed a school district by equally apportioning the route rate to the school districts of the students on each route. For example, based on the above, if GLEC calculated a route cost of \$160 (\$150+\$10) and there were two students on the route with each being from a different school district, then each district would be charged \$80 (\$160/2) for each trip. GLEC stated that it calculated the rate by applying the highest mileage increment for the students on the bus route. For example, if GLEC transported three students on one bus route and these students travelled 9, 17, and 18 miles respectively, then GLEC would charge a route rate based on the highest mileage range, for this example the range for "up to" 20 miles or \$190/day. If all students were from the same school district, then that school district would be billed the full \$190. If the students were from three different school districts, then GLEC said it would divide the rate by the number of students on the bus (in this case three) and then bill each school district the per student rate (in this case \$63.33 per student).

The OIG found that GLEC overcharged school districts by ignoring its own methodology. The OIG tested GLEC's rate-setting methodology using a sample of 11 bus routes. The OIG used student home address and school destination address information for each route and charted mileage traveled using *Google Maps*. The OIG then compared the mileage results to the rates GLEC charged school districts for these 11 routes during the 2007-2008 and 2008-2009 school years. Based on the OIG review, GLEC appears to have consistently overcharged school districts up to 43 percent by:

- a. Apportioning charges that in the aggregate exceed the total cost of the route rate. For example, a route that cost \$150 and was billable to three districts should have been apportioned at \$50 per district. However, the OIG found that GLEC would consistently charge districts in excess of the \$50 per student and sometimes these charges would amount to a double or triple billing for the route.
- b. Charging a mileage increment rate in excess of actual route mileage. For example, based on the sample used above for the three students traveling 9, 17, and 18 miles, GLEC claimed it would charge an "up to" \$20 mile rate. The OIG found that GLEC would often use a higher increment such as 25 miles or more.

This created a marginal cost increase per route but at the end of the year the additive effect of this up-charge cost districts tens of thousands of dollars per route.

The OIG estimated this total overcharge for the 11 bus route review sample to be \$164,593.<sup>7</sup>

The OIG also notes that GLEC's policy of equal apportionment of rate charges meant that some districts with students who lived closer to GLEC may have subsidized students from districts who live further away. In the example used earlier, a student who traveled 9 miles paid the same rate as a student who traveled 18 miles. The school district with the student who traveled 9 miles would have paid significantly less per day had GLEC billed on a per mile basis for that student rather than on a shared basis pursuant to GLEC's rate setting methodology. In this specific case, GLEC billed based on an "up to" 20 mile rate. Had the route been charged on a per mile basis, the district with the student who travelled 9 miles would have paid thousands of dollars less in a given school year. However, the other districts with students on the bus would have paid thousands more.

**3) GLEC created a "private" route for one student that cost one school district more than \$32,000.**

Special education students are often assigned by the school districts they are enrolled in to programs outside the district (to private schools or educational collaboratives) for specialized instruction. The school districts pay for these programs and the cost of transporting these students to these programs. The OIG review found that GLEC created what amounted to a private bus route for one student traveling to such a private special education school.<sup>8</sup> GLEC used a private vendor to manage this route. The OIG took issue with this route because GLEC already had a bus route to this private school for two other students. The two routes cost approximately \$126,772 in total over two school years (2007/2008 – 2008/2009) with the one student route costing \$60,989, nearly as much as the \$65,783 for the two student route.

The OIG notes that the two student bus route passed the home of the student using the one student route and could therefore have easily added this student to the pre-existing route. The OIG could not identify any documentation, medical or otherwise, in the GLEC files to support the need for the separate bus route for one student. Moreover, a former GLEC employee informed the OIG that GLEC's former transportation coordinator created this extra route simply to give more business to a favored vendor.

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<sup>7</sup> This is an estimated amount based on the OIG sample of 11 of the 35 bus routes.

<sup>8</sup> The school is located approximately 15 miles from GLEC's main campus.

The former employee stated that in 2008 GLEC management questioned the cost efficiency of the one-student route and forced the transportation coordinator to transfer the student back to the pre-existing GLEC bus route that already passed by the student's home. The former employee stated that in response to this management directive the transportation coordinator urged the parents of the student one the "private" bus to "complain" about the impending elimination of the "private" route to GLEC. The former employee reported that in response to parental demands, GLEC restored the one-student bus route.

The following chart illustrates how GLEC could have saved \$32,443 for the school district involved had GLEC merged these routes.

<b>Cost of Route Splitting</b>			
	<b>School Year 2007/08</b>	<b>School Year 2008/09</b>	
<b>Bus</b>	<b>Billed to Districts</b>		<b>Totals</b>
GLEC subcontractor (for one student)	\$ 34,567	\$ 26,422	\$ 60,989
GLEC owned (for two students)	34,823	30,960	65,783
Total billed (actual)	69,390	57,382	126,772
Total cost for a combined route	53,289	41,040	94,329 <sup>9</sup>
<b>Potential Savings</b>	<b>\$ 16,101</b>	<b>\$ 16,342</b>	<b>\$ 32,443</b>

**GLEC also overcharged for the route rate by nearly \$18,000.**

As referenced previously, GLEC inappropriately "up-charged" school districts by using a mileage based rate that exceeded the actual mileage of a route. The OIG discovered that GLEC did this for the pre-existing two-student route creating an overcharge of \$17,670.

<sup>9</sup> Based on three students billed at an \$80/day rate during school year 2007-2008 and a \$95/day rate for 2008- 2009.

## Employee Overcharges

### 4) **GLEC overcharged school districts by more than \$100,000 for bus monitors/nurses.**

Some special needs students required a monitor or nurse to accompany them during transportation. School districts identified this need and communicated this requirement to GLEC, in writing, before the start of a school year. GLEC was responsible for providing the appropriate on-board bus staff and charged districts accordingly for the level of service provided. GLEC provided the necessary nurses and depending on who managed a bus route, either GLEC or GLEC's private vendors supplied monitors. During the 2007-2008 school year GLEC charged school districts approximately \$31.50/hour for nurses and \$13.75/hour for monitors. Regardless of actual time worked, GLEC paid on-board staff a minimum of two hours for each shift (morning and afternoon) for a total of four hours each day. According to former GLEC officials, GLEC paid nurses and monitors per shift rather than on a per hour basis "as a means to entice them to work bus routes." When billing school districts, GLEC added an administrative fee or mark-up to the daily rate for each nurse or monitor. During the two-year period sampled by the OIG, GLEC charged school districts a total of \$124,510 for monitors and \$178,680 for nurses for a total of \$303,190.

The OIG review identified the following issues with GLEC's billing practices:

- **GLEC overcharged districts for on-board monitors and nurses:** The OIG analysis of the 11 sampled routes found that, in all cases, GLEC overcharged school districts on the base rate for these services. GLEC claimed it paid each monitor and nurse for four hours each day a bus route was in service. The OIG reviewed the number of routes, number of staff involved, and pay rates, and discovered that GLEC should have only charged \$201,965 for these services rather than \$303,190. Therefore GLEC overcharged districts by \$101,225. The following are specific examples of how GLEC overcharged for these on-board services:

#### **Example I**

During school year 2008-2009, one bus route transported two students, each student from a different school district. Student "A" required a monitor and Student "B" required a nurse during transport. GLEC assigned one nurse to the bus to serve both as a monitor for Student "A" and the nurse for Student "B." GLEC normally charged a daily rate of approximately \$130 for a nurse and approximately \$60 (2008-2009 rates) for a monitor (plus a mark-up). An equitable billing arrangement would have been for GLEC to either, a) charge each district for one-half of the daily nurse rate (or \$65 each), or b) charge one district one-half of the monitor rate (or \$30) and the other district the difference between \$30 and the full nurse rate of \$130 (or \$100). In any event, the districts should not

have been charged more than \$130 in total for the on-board service. Instead, GLEC billed each district the full rate for each service as if both a nurse and a monitor were on the bus; \$60 for a monitor and \$130 for a nurse—a total of \$193 per day for a total overcharge of \$4,379 during the 2008-2009 school year.

### Example II

During school year 2008-2009, one bus route transported three students, each requiring a nurse during transport. Two students were from District “A” and the third student was from District “B.” GLEC normally charged a rate of approximately \$130/day for a nurse. According to GLEC, GLEC policy was to apportion the cost of the nurse equally between the school districts. Therefore, pursuant to GLEC policy, District “A” should have paid for two-thirds (for two of the three students) of the daily nurse rate (or \$86.66) and District “B” should have paid for the remaining one-third (or \$43.34). The OIG review found that contrary to stated policy, GLEC charged District “A” \$75/day for each of the two students (or \$150). GLEC charged District “B” \$96/day. In total, GLEC billed \$246/day for what, according to GLEC policy, should have been a \$130/day service. This \$116/day overcharge resulted in a \$19,530 total overcharge. The OIG also found that GLEC invoices and bus route information provided to school districts did not identify when a cost was shared, making cost verification by districts difficult.<sup>10</sup>

### Example III

During school year 2007-2008, one bus route transported five students (from several different school districts) each requiring a monitor. GLEC assigned a single on-board monitor to the route. GLEC normally charged a daily rate of \$55 for a monitor (during 2007-2008). GLEC policy was to apportion the cost by the number of students requiring a monitor and then to charge each district accordingly, in this instance one-fifth of the total cost (or \$11/day) per student. Instead, GLEC billed the school districts \$55/day for each student on the bus or \$275/day, an overbilling of \$220/day. GLEC charged school districts a total of \$45,690 (during the 2007-2008 school year) for a service that should only have cost \$9,779, resulting in an overbilling of \$35,911.

**GLEC used an employee incentive that led to added costs:** As stated earlier, GLEC paid on-board staff for a minimum of four hours a day as an incentive to get staff to work on the buses. However, the OIG analysis found that on-board staff actually worked approximately three hours (including pick-up and drop off time).<sup>11</sup> As a result, GLEC paid each staff member for an extra hour each day. The OIG calculated that these extra “hourly” payments cost the school districts

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<sup>10</sup> Districts the OIG spoke with stated that they verified the names of the students that GLEC charged them for but not the transportation costs associated with these students.

<sup>11</sup> The OIG based this estimate on *Google Maps* information to chart route time and adding 15-minutes per route (morning and afternoon) for pick-up and drop-off time (based on an average of five-minutes per student and an average of three students per bus).

an additional \$48,161 for the two-year review period. Since the school districts paid these added costs, the OIG believes the “incentive pay” should have been fully disclosed to and approved by GLEC’s client school districts. The OIG found no such approval.

- **GLEC overcharges earned an administrative fee:** The OIG analysis identified that GLEC compounded the effect of its overcharges by adding a 5 percent administrative fee to all on-board staff charges. GLEC applied this fee to overcharges as well which added thousands of dollars to the overcharges paid by school districts. The OIG estimated this fee for on-board staff overcharges to be \$14,492.

The OIG also notes that many on-board nurses worked for GLEC’s SPED education programs. As a result, they received the benefit of free transportation to work in addition to being paid for their time on the bus. There is also the possibility that the bus shift for which they were paid (four hours per day) overlapped their salaried GLEC staff position. This may have created pension and benefit issues since the former GLEC executive director informed the OIG that the five percent administrative fee or mark-up for on-board services was to cover benefits such as pensions and health insurance. It is possible that some employees may therefore have received undeserved pensionable time when credited with an extra four hours of work per day. GLEC should review this matter and, if necessary, discuss the situation with appropriate pension system authorities. The OIG also questions whether GLEC needed to mark-up these costs at all to pay for benefits that districts already paid for through tuition payments for the SPED programs where the nurses were salaried employees. A review of GLEC records fails to indicate whether school districts were aware of how GLEC charged for nurses and monitors or the fee that GLEC assessed or how GLEC applied these administrative fees to operating expenses.

## **Administrative Issues**

### **5) Transportation “contracts” between GLEC and its participating school districts lacked specific pricing details.**

The special education transportation contracts between school districts and GLEC contained few details concerning price, billing methodology, fees/surcharges or the responsibilities of the parties. In effect, the contract was simply a purchase order that included a maximum or “do not exceed price.” As an example, one contract stated: “the contract price paid to the contractor...is: Not to exceed \$775,000.” The contract offered no specific details with respect to the number of students, buses, or price structure. Some school districts informed the OIG that they did not review specific route costs because GLEC had to provide the requested transportation within the contracted

amount.<sup>12</sup> They appeared to believe that setting a contract maximum protected the district against fraud, waste, and abuse and eliminated the responsibility they had to ensure that they were receiving a fair price for the service provided.

The lack of detail provided in GLEC invoices to school districts makes cost verification or an audit of costs extremely difficult. The “not to exceed” contract clause appears to have given GLEC opportunity and motivation to charge school districts to meet the “maximum” contractual amount rather than to meet actual costs. Since transportation budgets were based on the prior year’s costs, overcharges from the year before became part of the cost basis for subsequent budgets. This type of contracting failed to include any incentives for efficiency and led to rates that do not appear based on actual costs. As mentioned earlier, educational collaboratives are intended to provide efficiencies through cost and resource sharing. GLEC should have offered rates based on actual transportation-related expenses (presumably based on the best prices available) plus a reasonable mark-up, determined by the Board of Directors, to cover GLEC administrative expenses and overhead. Instead, districts paid for arbitrary mark-ups, overcharges, and inefficiencies.

The OIG review also identified that GLEC charges to school districts for a number of routes decreased in the last quarter of the fiscal years reviewed. It appears that the routes themselves remained unchanged from prior quarters, yet route charges decreased. GLEC records contained no information to explain how bus routes that cover the same mileage and handle the same number of students become less expensive near the end of each school year. The OIG theorizes that GLEC lowered its charges at the end of the school year in order to stay within the amounts budgeted by school districts.

**6) GLEC routinely added a five percent mark-up to all transportation vendor billing rates.**

As mentioned previously, GLEC added a five percent administrative fee or mark-up to all private vendor transportation costs ostensibly to cover overhead costs. As noted in the finding above, the contract between GLEC and its participating school districts failed to denote this mark-up and there is no documentary evidence that school districts were ever aware of it. Adding this mark-up may be a legitimate element of service pricing. However, the districts should have been aware of it, and the GLEC Board of Directors should have approved the mark-up based on funding needs. For example, if the mark-up was intended to cover GLEC overhead expenses (i.e., utility costs for GLEC’s offices) that had not been included in the calculation of route rates, then the mark-up should have been reasonably calculated to pay for these costs. Based

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<sup>12</sup> The contracted amount was often based on the prior year’s transportation cost with an increase for inflation, cost of living, etc.

on OIG calculations, this mark-up earned GLEC approximately \$65,000 per year.<sup>13</sup> This surcharge is for vendor route rates only and does not include mark-ups added to bus monitor or nurse rates which accounted for approximately \$35,000 per year.

**7) GLEC did not have a formal written policy to address billing school districts for absent students.**

The OIG identified one case where GLEC billed a school district the full cost for a five-day bus route when a student only attended school two days per week for two full school years. These appear to have been planned absences for the student. GLEC staff informed the OIG that GLEC's practice was to charge school districts for the occasional absence (such as a student's sick day), and that long-term absences or absences that GLEC was informed of in advance would lead to billing adjustments. GLEC explained that the pricing for a bus route was fixed based on the number of students assigned to the route. Adjustments to the rate could only be made if GLEC was given advance notice of an absence so that GLEC could adjust a route for possible cost efficiency. The OIG review did identify cases where GLEC adjusted billings to account for absences.

The OIG understands that in some cases, school districts pay for absent students to maintain the financial viability of a route. In total, this particular school district paid \$11,435 over the two year period (school years 2007/2008 and 2008/2009) for days when the student was absent. GLEC files contain no documentation that the school district agreed to the charges. The OIG suggests that the decision to charge a district for long-term or routine student absences should be a mutual decision between GLEC and the school district otherwise districts will be paying for services they have not received. In the case cited above, the student absences appear to have been planned possibly for medical reasons. As a result, GLEC might have been able to make route adjustments to avoid these charges.

### **Conflict of Interest Issues**

**8) Between October 2008 and June 2009, a transportation vendor paid the spouse of the former GLEC transportation coordinator \$3,840 for "no show" shifts as a bus monitor.**

The spouse of the former GLEC transportation coordinator worked for one of GLEC's private bus vendors as a school bus monitor. According to the vendor, for the entire time period between October 2008 to June 2009 (approximately 35 weeks), the coordinator's spouse was paid for a full week of shifts even though she did not work the

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<sup>13</sup> GLEC staff stated that the mark-up was applied to vendor costs that accounted for approximately one-half of transportation costs. Total transportation costs during the period under OIG review amounted to \$5.2 million. Five percent of half these costs amount to \$65,000 per year.

afternoon shift Monday through Thursday. In effect, the vendor paid the spouse \$3,840 for not working. The vendor informed the OIG that it paid the spouse for the missed time “out of appreciation” for the business the GLEC transportation coordinator had given to the firm. According to records, GLEC had paid this firm more than \$600,000 annually.

The vendor informed the OIG that the GLEC transportation coordinator was fully aware that his spouse continued to receive payment for these “no show” shifts. The vendor stated that it had to hire a replacement bus monitor for the route and that it billed GLEC for this replacement monitor and that GLEC paid these charges. The OIG review of bus attendance records indicates that the spouse and the replacement monitor were both listed by and billed for by the vendor. The route only required one monitor, not two. GLEC was able to tack on an administrative fee for these charges when billing the school districts involved.

**9) GLEC also paid the vendor for “no show” routes.**

The vendor that paid the spouse of GLEC’s former transportation coordinator for “no show” shifts also stated that GLEC paid the vendor for “no show” routes. (This same vendor was also the beneficiary of the “private” one-student route discussed previously in Finding 3.) According to the vendor, during the 2007-2008 school year GLEC paid the vendor for an afternoon route that GLEC provided with its own bus. In effect, GLEC incurred the cost of the route but the vendor was reimbursed for it. When asked to explain this, the owner stated that she did not question the transportation coordinator’s motives but speculated that it was a way to compensate her for another route that was not profitable.

The vendor also stated that during the 2008-2009 school year the transportation coordinator allowed the vendor to drop a late pick-up<sup>14</sup> on the afternoon route for which the coordinator’s spouse had a “no show” shift. A GLEC bus assumed this responsibility. According to the vendor, it told the transportation coordinator that to make the afternoon route financially viable, the vendor needed to continue to receive full payment for the route. The vendor continued to get paid for the entire afternoon route including the late pick-up even though GLEC assumed the cost of and responsibility for the late pick-up.

The vendor stated that the transportation coordinator never specifically authorized billing for “no show” work he just made the route changes and informed the vendor. The vendor continued to invoice GLEC for the “no show” routes, and according to the vendor, the transportation coordinator never questioned the charges. The vendor noted that the transportation coordinator was very diligent in reviewing monthly vendor invoices and required the vendor to provide two invoice copies because of the many

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<sup>14</sup> A late pick-up meant that the bus had to return to GLEC after completing the route to pick-up a student who had remained beyond normal school hours.

corrections he would make. The vendor stated to the OIG that it appeared strange that the coordinator failed to question charges for “no show” work while questioning many other charges. The vendor did not question this and stated that it took this lack of questioning for the “no show” work as tacit approval of the charges.

**10) Potential violation of M.G.L. c.268A—the conflict of interest law.**

Under M.G.L. c.268A, public employees are required to disclose “the nature and circumstances” of a potential conflict of interest, if their duties would otherwise require them to interact with a company for which an immediate family member is employed or has a financial interest. The former GLEC transportation coordinator approved vendor payments that compensated the vendor for his spouse’s services. Moreover, there is testimonial evidence that the coordinator was directly involved in ensuring that the vendor would be able to continue to compensate his spouse for “no-show” shifts. GLEC files also do not appear to have any written documentation to indicate that the former transportation coordinator disclosed his spouse’s employment with the vendor or that GLEC management approved the coordinator’s involvement in approving payments for his wife. The OIG review also found that before his GLEC employment, the transportation coordinator owned the transportation provider’s company that his spouse subsequently worked for. According to GLEC officials, the coordinator was required to relinquish his ownership interest in the vendor to obtain his position with GLEC. According to the current owner (the second owner since the coordinator sold the business), the prior owner had been “paying out” the coordinator for the purchase of the business over a number of years and that doing business with GLEC ensured that the firm would have income to continue to pay the coordinator. In other words, the coordinator gave the vendor GLEC work to ensure that the vendor could pay the coordinator the money the vendor owed him. The OIG will forward this matter to the State Ethics Commission for their review.

**Conclusion**

The OIG review of a sample of 11 bus routes identified a pattern of overcharging by GLEC for special education student transportation services. Since GLEC no longer provides a significant amount of transportation to school districts, the issue remains more a retrospective than prospective issue. If they wish to pursue cost recovery, the GLEC member school districts might consider having a forensic financial audit performed to determine the full extent to which they might have been overcharged for SPED transportation services prior to 2009.

Moreover, the Board of Directors should review its contract practices with member districts to ensure complete accountability and transparency in these arrangements. The Board should also ensure that services provided by the collaborative are truly cost effective and benefit member districts to the fullest extent possible

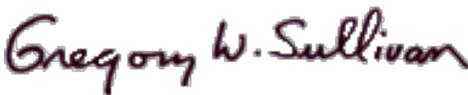
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financially and operationally. As stated earlier, the legislature established educational collaboratives like GLEC to financially benefit school districts by creating cost savings through economies of scale. In the case of SPED transportation, GLEC appears to have failed to accomplish this mission. Rather than obtaining the lowest possible prices for school districts, GLEC simply charged what it needed to fund itself as management saw fit. However, this funding came at the expense of the school districts with which it was doing business. The Board should ensure that other GLEC services are cost effective and relate to the agency cost of providing the service.

SPED transportation is an exempt item under M.G.L. c.30B—the Uniform Procurement Act. As such, districts and collaboratives have great latitude in how they can procure these services. This latitude creates significant vulnerability to fraud, waste and abuse in the procurement and operations of these services. The OIG highly recommends, despite the procurement exemption, that school districts competitively procure these services through fair and open bidding processes. Districts should not rely on undocumented processes, arbitrary pricing schemes, and haphazard invoicing when trying to obtain the best value for taxpayers and the best services for students with special needs.

The OIG appreciates GLEC's assistance in this review. If you have any questions please do not hesitate to contact my office.

Sincerely,



Gregory W. Sullivan  
Inspector General

cc: Judith Scannell, Chair, GLEC Board of Directors and Methuen School  
Superintendent