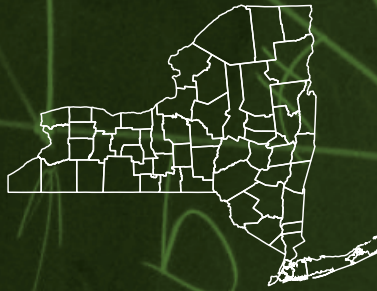


Risking Public Money: New York Charter School Fraud

Best Practices to Protect Public Dollars
& Prevent Financial Mismanagement



November 2014



ABOUT THE AUTHORS



The Center for Popular Democracy is a nonprofit organization that promotes equity, opportunity, and a dynamic democracy in partnership with innovative base-building organizations, organizing networks and alliances, and progressive unions across the country.



The Alliance for Quality Education is a coalition mobilizing communities across the state to keep New York true to its promise of ensuring a high quality public education to all students regardless of zip code, income or race. Combining its legislative and policy expertise with grassroots organizing, AQE advances proven-to-work strategies that lead to student success and echo a powerful public demand for a high quality education.

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The Alliance for Quality Education

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Executive Summary

Sixteen years following the passage of New York's Charter School Act, the number of charter schools in New York has grown dramatically. Over the last 10 years, charter student enrollment has increased by 530 percent.¹ Charter schools enroll over 90,000 students in New York State,² 80,000 of whom attend charter schools in New York City.³ For the school year 2014–15, New York charter schools will receive over \$1.5 billion in public funding.⁴

Despite the tremendous investment of public dollars, New York has failed to implement a system that adequately monitors charters for fraud, waste, and mismanagement. While charter schools are subject to significant reporting requirements and monitoring by oversight bodies, only the New York State Comptroller's Office (Office) audits charter schools with any regularity. While the Office has audited fewer than half of all charter schools, they have exposed some form of internal control deficiency or mismanagement in 95 percent of their audits.⁵ The majority of charter schools in New York are left to operate year in and year out without regulator-level audits, specifically audits that are designed to determine whether these publicly funded, privately managed schools are spending public dollars properly. Given the findings of the limited audits the State Comptroller has performed, this system of irregular regulator audits poses a serious problem. In all but three of the Comptroller audits, auditors exposed internal control deficiencies and various forms of mismanagement ranging in severity and form—from inappropriate trips to the Bahamas by charter school staff to undocumented spending of thousands of public dollars.

These findings indicate that many of the unaudited charter schools likely suffer from internal control deficiencies as well. Based on conservative estimates, **New York could stand to lose \$54 million in charter school fraud in 2014 alone.*** The vast majority of this fraud will go undetected because New York lacks the oversight necessary to detect it. In this report we identify two fundamental flaws with New York's oversight of charter schools:

- Oversight depends heavily on self-reporting by charter schools or the reports of whistleblowers. New York's oversight agencies rely almost entirely on audits paid for by

* Using the methodology employed by the Association for Certified Fraud Examiners 2014 Report to Nations on Occupational Fraud and Abuse to determine the total amount of fraud globally, we estimate New York's charter schools may have experienced \$54 million in fraud in 2014 alone. Assumes 5 percent of total revenues lost to fraud. Calculation uses total New York charter school revenue for 2014 at \$1.08 billion. Total revenue is derived from the 2013/2014 preliminary estimate for state aid published by the New York State Department of Education. Total fraud, waste, and mismanaged funds found in audits examined for this report totals \$28.2 million.

charter operators and complaints from whistleblowers. While important to uncover fraud, neither method systematically detects or effectively prevents fraud.

- General auditing techniques alone do not uncover fraud. The audits commissioned by the charter schools use general auditing techniques designed to expose inaccuracies or inefficiencies. Without audits specifically designed to detect and uncover fraud, however, state and local agencies will rarely detect deliberate fraud without a whistleblower.

To address these serious deficiencies in New York's system, we recommend the following reforms:

Mandate New Measures Designed to Detect and Prevent Fraud

- Charter school governing boards should be required to institute an internal fraud risk management program, including an annual fraud risk assessment.
- Charter school governing boards should be required to commission an annual audit of internal controls over financial reporting that is integrated with the audit of financial statements charter schools currently commission.
- Oversight agencies, including the Comptrollers' offices for New York State and City, should conduct audits on charter schools once every five years.
- Oversight agencies should conduct fraud audits, prioritizing charter schools with heightened levels of fraud risk.
- Auditing teams should include members certified in financial forensics trained to detect fraud.

Increase Transparency & Accountability

- Oversight agencies should create a system to categorize and rank charter audits by level of fraud risk they pose to facilitate public engagement.
- State and City Comptrollers should create a dedicated charter school fraud hotline for whistleblowers.
- Charter school governing boards should post the findings of their annual fraud risk internal assessments on their websites.
- Oversight agencies should determine what steps the nonprofit governing boards and executives of charter schools have taken to guard against fraud over the past 10 years and issue a report to the public detailing their findings and recommendations.
- Charter school authorizers should take fraud risk assessments into account when evaluating whether to renew a school's charter.
- Charter school governing boards should provide parents of students enrolled in charter schools free access to all materials related to their fraud risk management program.
- The state should impose a moratorium on new charter schools and refrain from increasing the charter school cap until the state oversight system is adequately reformed.

Given the rapid and continuing expansion of the charter school industry and the tremendous investment of public dollars, New York must act now to reform its oversight system. Without reform, the people of New York State stand to lose millions of dollars to charter school fraud, waste, and mismanagement.

Introduction

In December 1998, New York passed the Charter School Act, authorizing the creation of 100 charter schools across the state.⁶ Now, over 250 charter schools operate in New York. Since 2010, charter student enrollment has increase by 106 percent.⁷ Today, charter schools enroll over 90,000 students in New York,⁸ 80,000 of whom attend charter schools in New York City.⁹ This expansion shows little sign of slowing; the State recently approved the creation of 17 more charters in New York City.¹⁰ For the school year 2014–15, New York charter schools will receive over \$1.5 billion in public funding.¹¹

To help ensure that charter schools are held accountable to students, families, and taxpayers, state lawmakers have enacted laws that require monitoring of charter schools by oversight agencies and extensive reporting by charters to their authorizers and other government agencies. Under these regulations, every charter school is required to submit an annual report to its authorizer and the State Board of Regents. The annual report must include:

- A report card that measures the academic and fiscal performance of the school; and
- A certified financial statement summarizing the revenue and expenditure of the school for the previous year, including a copy of the school’s most recent independent audit and any audit conducted by the New York State Comptroller.¹²

The external monitoring of charter schools is conducted by authorizers,[†] the State Board of Regents,¹³ and as a result of recent amendments to the Charter School Act, both the New York City and New York State Comptrollers.¹⁴ Only the New York State Comptroller has exercised its authority with regularity.¹⁵ It should be noted that the New York City Comptroller did not have authority to audit charter schools until 2014. Notably, the State Comptroller exposed some form of internal control deficiency or mismanagement in 95 percent of their audits. These internal control deficiencies and various forms of mismanagement, catalogued in Appendix A, range in severity and form—from charter school staff using public dollars for inappropriate trips to the Bahamas to spending thousands of public dollars without documentation.

Given the relative infrequency of state-led audits and the consistent findings of internal control problems during the audits that are conducted, a large gap likely exists between the known amount of fraud, waste, abuse, and mismanagement and the true figure. Using the methodology employed by the Association for Certified Fraud Examiners 2014 *Report to Nations on Occupational Fraud and Abuse*, we estimate New York’s charter schools may have experienced \$54 million in fraud in 2014 alone.[‡]

New York is not alone. Recent reports of charter school fraud in other states, including states with stronger oversight systems than New York, have uncovered millions in fraud committed by charter officials. In May 2014, the authors of this report released a national study of 15 large charter school markets that found over \$136 million in losses to taxpayers due to fraud, waste and abuse cases that had already been detected and reported publicly.¹⁶ The millions being lost to fraud has not escaped the attention of the federal government. In 2010, the federal Department of Education’s Office of the Inspector General issued a memorandum to the Department of Education’s Office of Innovation and Improvement. The OIG stated that the purpose of the memorandum was to, “alert you of our concern

† An authorizer is the entity that grants a charter school their charter. Authorizers also monitor charter schools for compliance with the provisions within their charter.

‡ Using the methodology employed by the Association for Certified Fraud Examiners 2014 *Report to Nations on Occupational Fraud and Abuse* to determine the total amount of fraud globally, we estimate New York’s charter schools may have experienced \$54 million in fraud in 2014 alone. Assumes 5 percent of total revenues lost to fraud. Calculation uses total New York charter school revenue for 2014 at \$1.08 billion. Total revenue is derived from the 2013/2014 preliminary estimate for state aid published by the New York State Department of Education.

about vulnerabilities in the oversight of charter schools.”¹⁷ The report went on to state that the OIG had experienced, “a steady increase in the number of charter school complaints” and that state level agencies were failing “to provide adequate oversight needed to ensure that Federal funds [were] properly used and accounted for.”¹⁸ Some of the reports of abuse in New York include:

YEAR ¹⁹	DESCRIPTION
2007	KIPP Academy Charter School , located in the Bronx, paid nearly \$70,000 to send 49 staffers on a five-day trip to the Bahamas and 21 staffers on a five day trip to the Dominican Republic, with per-person costs as high as \$1,119. While school officials claimed that the trips were for educational purposes, they provided little to no documentation of any staff development activities during the trips. ²⁰
2008	At Amber Charter School , located in East Harlem, the State Comptroller found several troubling financial practices: a school official kept the school's petty cash funds in her personal bank account; school officials used incorrect ledger balances for a year, failing to properly reconcile bank statements and leading to monthly discrepancies in actual and reported balances as high as \$100,000; school officials paid the phone bill of an employee who made over 70% of calls during evenings and weekends. ²¹
2008	At Family Life Academy Charter School , located in the Bronx, auditors found control weaknesses in many areas and either noncompliance with procedures or a failure to establish sound basic control procedures over the operations. For example, auditors found that the Academy needs to better monitor controls over its equipment and the use of school computers by school staff and students. Auditors judgmentally selected 11 out of approximately 85 computers used by employees and students and found that individuals had accessed or attempted to access inappropriate and sexually-related Internet sites on three of them. ²²
2011	Brighter Choice Charter School for Boys in Albany failed to audit several claims, resulting in overpayment to vendors by almost \$9,000. ²³
2012	Brooklyn Excelsior Charter School agreed to pay \$46.23 per square foot to lease school building space obtained by its management company despite an independent appraiser's \$32 per square foot assessment and the fact that the building lacked a cafeteria or space for assemblies. As a result, the school paid over \$800,000 above market value for the space, ensuring that the management company recouped more than the full cost of its building acquisition and development in under ten years of the school's operation. ²⁴
2013	Albany Community Charter School's board failed to use an adequate process to identify and procure building space for the school—violating its fiduciary duty with disastrous results. According to the state Comptroller, the school could have saved anywhere from \$207,000 to \$2.3 million by purchasing the site for its elementary school rather than leasing it. ²⁵
2014	Oracle Charter High School , located in Buffalo, entered into a 15-year building lease with Oracle Building Corporation (OBC), a nonprofit affiliated with the school. Under the lease, the school agreed to pay OBC more than \$5 million at a 20% interest rate. Despite statements to the contrary, the board failed to produce documentation that it seriously considered alternate sites, including any of the potentially less expensive state-owned vacant sites listed annually by the New York State Office of General Services. ²⁶
2014	Eugenio Maria de Hostos Charter School , located in Rochester, failed to enter into any competitive bidding processes for several instruction contracts. Instead, the school awarded several contracts to board members, relatives, and other related parties. For example, the school agreed to pay a community nonprofit run by a board member \$220,000 to provide physical education classes, \$57,000 to a nonprofit run by a board member for music instruction, and \$13,000 to a construction company run by a close friend of the board president. ²⁷

Holes in the Current Oversight System

The State Comptroller’s audits reveal consistent and widespread weaknesses in the internal controls of New York’s charter schools. But, the annual independent audits charter schools are required to submit fail to catch these weaknesses because they are not designed to detect or prevent fraud. In those audits, independent auditors are charged to check the veracity and accuracy of the financial statements charter schools provide to them—but not to assess whether the schools’ internal controls are adequate or effective at preventing or detecting mismanagement, fraud, or other abuse. Indeed, in our review of the independent audits of every charter school in the state, we found that all of the reports contain the same disclaimer explaining that the auditors do not form an opinion on the efficacy of internal control mechanisms:

In planning and performing our audits, we considered [charter schools’] internal control over financial reporting as a basis for designing our auditing procedure for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the [charter schools’] internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of [charter schools’] internal control over financial reporting.³⁴

To deter and uncover fraud, waste, and mismanagement, charter schools, and oversight agencies must adopt audit methodologies and systems specifically designed to assess the effectiveness of internal control systems.

Systems that Detect and Prevent Fraud

As noted previously, there are no oversight agencies that regularly audit charter schools in New York. The only audits charter schools routinely undergo are the ones they commission and pay for themselves. Many of the techniques used and areas covered by the charters’ independent auditors overlap with the methodologies that auditors employ during fraud audits, but the key difference is the purpose. “Traditional audits,” writes an expert on fraud audits, “can uncover fraud, but they don’t seek it out. Instead, they look at records to check if prices charged on contracts were reasonable or if contractors have compliant accounting systems in place.”³⁵ By contrast, fraud audits are specifically designed to look for and uncover instances of fraud, mismanagement, or abuse—and to assess

New York Charter Schools Challenge State Audits

In the last decade, New York lawmakers have made efforts to combat fraud in and improve fiscal oversight of the state’s education system by augmenting the New York State Comptroller’s audit authority.²⁸ Some of these efforts have been thwarted by the charter school industry, which has successfully challenged the State Comptroller’s charter school oversight authority in court twice.

- In 2005, state lawmakers passed legislation requiring the State Comptroller to audit all school districts and charter schools by March 31, 2010, to “help deter and expose fraud, theft and professional misconduct” by focusing on the adequacy of internal controls.²⁹ In response to this legislation, several charter schools filed a lawsuit challenging the authority of the State Comptroller to conduct audits. The Court of Appeals, finding in favor of the charter schools, held that auditing charter schools fell outside the scope of the State Comptroller’s constitutionally prescribed functions.³⁰
- In 2010, in response to the Court of Appeals’ 2009 decision, state lawmakers amended the Charter School Act to authorize the State Comptroller to audit charter schools at his or her discretion. Citing the earlier court decision, charter schools filed another lawsuit.³¹ A state Supreme Court ruled in favor of the charter schools, finding that charter schools were not political subdivisions subject to State Comptroller oversight.³²
- In 2014, in response to the most recent court decision, the state legislature amended the Charter School Act to define charter schools as political subdivisions subject to oversight by the State Comptroller and to authorize the New York State and City Comptrollers to audit charter schools within their jurisdictions at their discretion.³³

whether schools have adequately strong internal controls in place to prevent such misconduct. A detailed overview of fraud audit methodology can be found in Appendix B.

Regularly scheduled general audits conducted by authorizers would be a good first step to improving oversight of charter schools in New York. Fraud controls on the school level and targeted fraud audits by oversight bodies, however, would better protect the sizable public investment in charter schools.

Internal Control Systems at Charter Schools

Given the millions in charter school fraud that has likely gone undetected in New York and the large amounts of charter fraud occurring nationwide, the state should require the active participation of charter schools in identifying possible vulnerabilities. Notably, even in the absence of such a legal requirement, charter schools could also voluntarily implement an internal fraud prevention program.

Hallmarks of an effective, comprehensive fraud prevention system include:

- Taking proactive steps to educate all staff and board members about fraud;
- Ensuring that one executive-level manager coordinates and oversees the fraud risk assessment and reports to the board of directors, oversight bodies, and school community;
- Implementing reporting procedures that include conflict disclosure, whistleblower protections, and a clear investigation process;
- Undergoing and posting a fraud risk assessment conducted by a consultant expert in applicable standards, key risk indicators, anti-fraud methodology, control activities, and detection procedures; and
- Developing and implementing quality assurance, continuous monitoring, and, where necessary, corrective action plans, with clear benchmarks and reporting.³⁶

These internal measures would help contribute to a culture of vigilance that aligns with the public's interest in ensuring that all resources intended for children's education are appropriately deployed. It would also help identify areas in which each charter school is vulnerable to fraud and target areas for the oversight agencies to pay particular attention. As mentioned above, part of establishing an effective internal control system is conducting a fraud risk assessment. An effective fraud risk assessment:

- Identifies inherent fraud risk through the explicit consideration of all types of fraud schemes and scenarios; incentives, pressures, and opportunities to commit fraud; and information technology fraud risks specific to the organization;
- Assesses the likelihood and significance of inherent fraud risk based on historical information, known fraud schemes, and interviews with staff, including business process owners;
- Creates effective and appropriate responses to possible, existing, or residual fraud risks; and
- Performs a cost-benefit analysis of fraud risks to help the organization decide which controls or specific fraud detection procedures to implement.³⁷

Some of the fraud that has occurred in New York is likely a symptom of weak internal controls. Since hundreds of millions of public tax dollars flow into the charter system each year, it is important that all charter schools adopt strong internal control systems that assess the risk of fraud within

their schools. While it is incumbent upon charter school management and governing boards to establish strong internal controls, charter school oversight agencies must incorporate regular audits of internal controls and targeted fraud audits into their auditing protocols.

Fraud Audits

While state law requires charter schools to submit independent annual financial audits as part of their annual reports, oversight agencies can and should broaden the parameters of their oversight by conducting risk based targeted fraud audits that are designed specifically to detect asset misappropriation, financial reporting fraud, and corruption.³⁹ These fraud audits should begin with a review of the internal fraud-control system itself. While fraud can occur in organizations with strong or weak internal control mechanisms, studies show that the organizations with the best track record of preventing and detecting fraud are those with the strongest internal control fraud risk management programs.⁴⁰

For charter schools with stronger internal control systems, oversight agencies can use a fraud risk assessment to identify areas of particular vulnerability and target areas for the fraud audit. Where internal control systems are weaker, authorizers can conduct broader fraud audits. In order to facilitate fraud audits across oversight agencies, the agencies should coordinate to identify possible fraud schemes, how they occur, and what symptoms they exhibit.

In addition, we recommend that the New York City and State Comptrollers, who have authority to investigate the financial operations of charter schools within their jurisdiction, regularly conduct audits every five years.

Key Role Governing Boards Play

The three premiere auditing membership associations—the Institute of Internal Auditors, American Institute of Certified Public Accountants, and the Association of Certified Fraud Examiners—recently partnered to develop a fraud mitigation guide titled, *Managing the Business Risk of Fraud: A Practical Guide*. The *Guide* explains the key role governing boards play:

The board of directors should ensure that its own governance practices set the tone for fraud risk management and that management implements policies that encourage ethical behavior, including processes for employees, customers, vendors, and other third parties to report instances where those standards are not met. The board should also monitor the organization's fraud risk management effectiveness, which should be a regular item on its agenda. To this end, the board should appoint one executive-level member of management to be responsible for coordinating fraud risk management and reporting to the board on the topic.³⁸

Government Agencies Adopt Proactive Fraud Practices

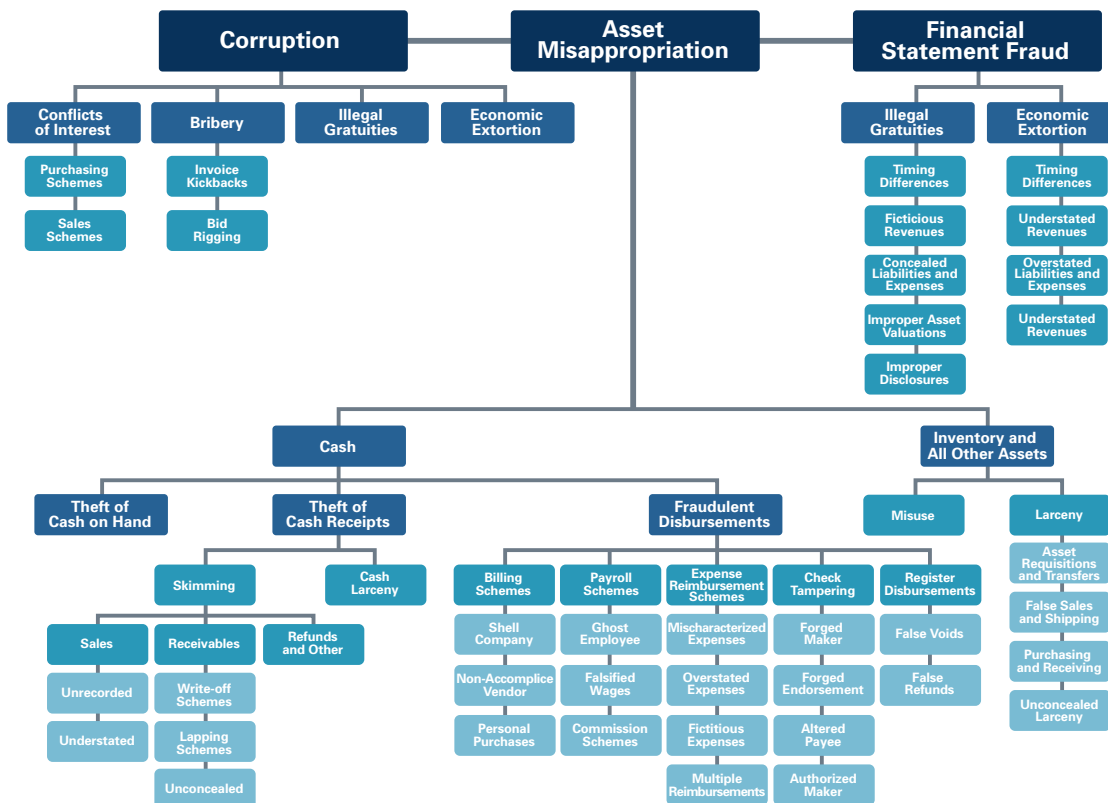
Recognizing the difference between traditional audits and fraud audits, the United States General Services Administration (GSA) inspector general's office recently established a five-person team devoted to using forensic auditing techniques to uncover evidence of fraud. They did this after other agencies, including the Department of Defense, NASA, and the EPA, brought on their own fraud auditing teams. The GSA and other agencies did this at the urging of the National Procurement Fraud Task Force, an interagency group that promotes the prevention, early detection and prosecution of fraud. The GSA explained their move in a press release stating,

"As new computer-based data-mining techniques have evolved, new possibilities have emerged for auditors to be more proactive in looking for improper activity such as fraud. Now, auditors have tools that can allow them to more easily and regularly analyze and compare vast sets of data to reveal patterns of behavior that would evade traditional audit reviews...Forensic auditors try to match symptoms of fraud, think about how perpetrators might defraud the system, and then run tests to see if the symptoms of that kind of fraud show up... By being more proactive—through regular forensic audits—auditors can help keep some fraud from ballooning into multimillion-dollar cases."

Source: <http://www.gsaig.gov/index.cfm/news/first-blog-entry/?keywords=proactive%20fraud%20detection>

Fraud Tree

The Association of Certified Fraud Examiners (ACFE) has diagrammed a ‘fraud tree’ to explain the distinction between the three major types of fraud.⁴¹ Asset misappropriation fraud is the most common type of fraud committed within corporations, and it is also the type of fraud most commonly found in charter schools. This type of fraud involves the misuse or theft of assets belonging to a company.⁴² According to a 2014 global fraud study conducted by the ACFE, 85 percent of all internal fraud schemes involved asset misappropriation.⁴³



Recommendations

Self-policing independent audits commissioned by charter schools routinely fail to identify deficiencies, and oversight agencies fail to routinely audit charter schools to ferret out fraud. As a result, significant risk is built into the current charter sector in New York. The limited number of oversight agency audits that have been conducted since New York passed its charter school law suggest that fraud, waste, and mismanagement may be widespread among charter schools. Oversight agencies must better protect the investments of over \$1 billion by State of New York and local school districts in charter schools.

The detection and deterrence of fraud—and the potential millions in taxpayer dollars auditors will likely uncover in past and current fraud—will likely offset the investment of resources in effective charter school oversight.

In order to uncover existing fraud schemes and deter future fraud, we recommend that every charter school be required to conduct a mandatory fraud risk assessment and update the assessment annually. Charter schools should be required to use an external fraud risk assessment consultant with expertise in applicable standards, key risk indicators, anti-fraud methodology, control activities, and

detection procedures to assist charter school governing boards and management in their fraud risk assessments.

We also recommend that charter schools be required to commission an annual audit of internal controls over financial reporting that is integrated with the audit of financial statements that charter schools are already required to do on an annual basis. These integrated audits should require auditors to provide an opinion on the quality of internal controls and financial statements. Charter schools should include the audit of internal controls in their annual report, which state law already requires them to post on their websites.

In addition to the above measures, we recommend every charter school institute a fraud risk management program, which will involve:

- Taking proactive steps to educate all staff and board members about fraud;
- Ensuring that one executive-level manager coordinates and oversees the fraud risk assessment and reports to the board, oversight bodies, and school community;
- Implementing reporting procedures that include conflict disclosure, whistleblower protections, and a clear investigation process;
- Undergoing and posting a fraud risk assessment conducted by a consultant expert in applicable standards, key risk indicators, anti-fraud methodology, control activities, and detection procedures; and
- Developing and implementing quality assurance, continuous monitoring, and, where necessary, corrective action plans with clear benchmarks and reporting.

We recommend requiring the New York City and the New York State Comptrollers to be adequately resourced to conduct audits of charter schools once every five years, with audits posted on their websites within 60 days of completion. They should also design a system that indicates the level of risk uncovered at each school. Oversight agencies should also create a dedicated charter school fraud hotline for whistleblowers. In addition, the Comptrollers should determine what steps charter school nonprofit governing boards and executives have taken to guard against fraud. The investigation should involve requests for exhaustive information from each charter school detailing their fraud risk assessments and management program over the past 10 years. The investigation should be presented to the public in a report detailing the findings and recommendations based on the investigation.

We recommend that the Comptrollers' auditors assigned to charter schools be certified in fraud examinations by the Association of Certified Fraud Examiners and in financial forensics by the American Institute of Certified Public Accountants, or by an equivalent certification body. If current auditors do not have this certification, they should be provided the time and funding to acquire it. If auditors lack certain critical elements in their fraud auditing team, such as a forensic fraud computer expert, we recommend they be required to contract with an independent firm or be required to collaborate with another auditing body to fill that capacity need. Lastly, we recommend that charter school authorizers take fraud risk assessments into account when evaluating whether to renew a school's charter.

Conclusion

While New York has made some efforts to deter and uncover fraud, it needs to do more. As the limited number of audits by the New York State Comptroller demonstrate, there is systemic mismanagement among New York's charter schools that must be prevented and remedied. Charter schools, authorizers, and oversight bodies have not adopted and implemented systems specifically designed to expose fraud, waste and mismanagement. Until the recommendations found within this report are implemented, the state cannot bear the risk of adding new charter schools to an already inadequate oversight system. If the State of New York believes, taking the risk of undetected fraud detailed in this report into account, that continuing to authorize new charter schools is likely to lead to a worthwhile, quality-enhancing investment of limited taxpayer education dollars, we recommend lifting the moratorium 12 months after all charter schools have undergone a fraud risk assessment and established fraud risk management programs that conform to the recommendations found within this report.

Appendix A: Examples of Charter School Internal Control Deficiencies, Fraud, Waste, and Mismanagement[§]

ALBANY

Albany Leadership Charter High School for Girls City of Albany

State Comptroller Audit (2014)

Auditors found charter Board approves ill-defined contract.

- The School entered into a three-year compact agreement with the (Brighter Choice) Foundation in April 2013. During the 2012-13 fiscal year, the School paid the Foundation a fee of \$32,218 to become a member of the charter school network and receive services stated in the compact.
- Auditors reviewed the compact document and did not identify a specific declaration made by the Foundation that clearly defined what activities it would engage in to achieve the stated goals and objectives. Also, the compact did not contain a specific performance measure to determine whether the services received by the School warranted the School's payment of the \$32,218. The compact also did not provide sufficient detail of the activities the Foundation would engage in or how delivery of services would be measured.
- Auditors asked the Board President to describe the services the School was receiving from the Foundation, but the Board President could not provide specific details regarding such services. Therefore, because School officials were not certain of the services they should be receiving under the compact, they could determine if the School was actually receiving the services it has paid for.

Source: <http://osc.state.ny.us/localgov/audits/schools/2014/albanyleadershipcharter.pdf>

Brighter Choice Charter Middle School for Boys City of Albany

State Comptroller Audit (2014)

Auditors found charter Board approves ill-defined contract.

- The School entered into a three-year compact agreement with the Brighter Choice Foundation in June 2011. All Board members voted in favor of the compact agreement, except for the Board Chairman, who recused himself from voting because he is also the Foundation's Executive Director. The compact does not describe in detail the services that the Foundation will provide. The fee for the services is 1 percent of total pupil revenue from the prior academic year. The total 2012-13 fiscal year fee due to the Foundation was \$14,801. In January 2013, the School revised the compact contract with the Foundation. The revised compact provides further detail about the specific services that the Foundation could provide the School and increases the fee from 1 percent of total pupil revenue for the 2012-13 fiscal year to 1.5 percent for the following year, and 2 percent for the contract's final year. The fee structure, based on a percentage of per pupil revenue, does not appear to be reasonable, as the services being provided do not have any bearing on the number of students at the School or the State Education Department's Charter School Tuition rate.

Auditors found Board members failed to disclose information.

- During the audit period, two Board members were also officers or directors of the Foundation. While both filed financial disclosure forms, neither disclosed their relationship with the Foundation on these forms.

Source: <http://osc.state.ny.us/localgov/audits/schools/2014/brighterchoicecharterboys.pdf>

Brighter Choice Charter School for Boys City of Albany

State Comptroller Audit (2011)

Auditors found school officials failed to audit claims.

- Auditors found that the School paid claims totaling \$329,017 before they were audited. The failure to audit claims prior to payment resulted in the School overpaying two vendors by \$8,319, and it increases the risk that the School could pay for goods that are not received, services that are not rendered, and claims that are not legitimate, reasonable, or for proper

[§] Audit report findings include quotes from audit reports.

School purposes. Also, the School paid six claims totaling \$85,215, of 51 claims examined, later than the 60-day time period that its purchasing policy required claims to be paid within. For example, the School paid a \$15,462 invoice for health insurance 93 days after the invoice was dated. By not paying claims within the timelines outlined in the policy, the School risks missing vendor discounts associated with timely bill payment and/or risks incurring late fees for untimely payments.

Source: <http://osc.state.ny.us/localgov/audits/schools/2011/brighterchoice.pdf>

Brighter Choice Charter School for Girls City of Albany

State Comptroller Audit (2014)

Auditors found charter Board approves bad contract.

- On May 27, 2011, the Board approved a compact contract between the School and the Foundation that states that the Foundation will provide the School with access to legal and financial assistance, technical support and advocacy at State and local levels. The fee for these services is 1 percent of per pupil revenue from the prior academic year. On January 31, 2013, the Board approved a revised compact contract with the Foundation that supersedes the prior compact contract. The revised contract increases the fee from 1 percent for the 2012-13 school year, to 1.5 percent for the following year, and 2 percent for the final year of the contract. The increase in the fee percentage over the next two years will place an additional financial burden on the School. The fee structure of a percentage of per pupil revenue does not appear to be reasonable, as the services being provided do not have any bearing the number of students at the School or the State Education Department Charter School Tuition rate.

Auditors found charter school failed to budget properly.

- The School did not budget properly. The School failed to accurately budget a number of expense accounts, including failing to budget some account codes and using unrealistic amounts in others. In addition, the School does not modify its budget during the year. During fiscal years 2011-12 and 2012-13, School officials had budgeted for a \$650,362 surplus. However, the actual net income amounted to only \$89,497, a shortfall of \$560,865.

Source: <http://osc.state.ny.us/localgov/audits/schools/2014/brighterchoicechartergirls.pdf>

Albany Community Charter School City of Albany

State Comptroller Audit (2013)

Auditors found no evidence that the Board had fulfilled its fiduciary responsibility.

- Auditors found no evidence that the Board had fulfilled its fiduciary responsibility to the School by ensuring that it fully evaluated the choice of its site selection for the elementary school or middle school.
- School officials could have saved about \$207,000 to \$2.3 million if they purchased the elementary school by issuing a bond instead of continuing to lease the building.
- On May 26, 2011 the Board approved a compact contract between the School and the Foundation that states that the Foundation will provide the School with access to legal and financial assistance, technical support, and advocacy at State and local levels at a fee of 1 percent of per pupil revenue from the prior academic year. On April 18, 2013 the Board approved a revised compact contract with the Foundation that increases the fee from 1 percent in for the 2012-13 school year, to 1.5 percent for the following year, and 2 percent for the final year of the contract. With the increase in the fee percentage and the growth of the number of students over the next two years as the School expands to include middle school grade levels, the fee that the School pays the Foundation will increase three times from the 2011-12 school year payment which does not appear to be reasonable as the services being provided do not have any bearing the number of students at the School, nor the State Education Department Charter School Tuition rate.

Source: <http://osc.state.ny.us/localgov/audits/schools/2013/albanycharter.pdf>

Achievement Academy Charter School City of Albany

State Comptroller Audit (2012)

Auditors found the Board did not provide proper oversight.

- The Board does not provide oversight of the purchasing function as directed by the School's policy. Auditors reviewed payments to vendors in excess of \$5,000 for the 2010-11 school year and the 2011-12 school year through February 29, 2012. For the 2010-11 school year, the School made 62 individual payments to 13 vendors totaling \$1,118,991 that required Board approval. The Board did not approve 38 of these payments totaling \$521,882. For the period from July 1, 2011 through February 29, 2012, the School made 41 individual payments to 18 vendors totaling \$828,170 that required

Board approval. The Board did not approve 31 of these payments totaling \$507,878. School officials provided Board minutes from prior years showing the approval of certain purchases in the past; however, School officials could not provide us with Board minutes approving the purchases made during our scope period.

Source: <http://osc.state.ny.us/localgov/audits/schools/2012/achievementacademy.pdf>

Henry Johnson Charter School City of Albany

State Comptroller Audit (2014)

Auditor found that the school entered into contracts that did not provide sufficient detail.

- Auditors reviewed the compact agreement between Brighter Choice Foundation and the School and could not determine how the quality of the services provided would be measured because the compact was insufficiently detailed. Therefore, School officials do not have a means to determine whether the School received an adequate level of services to justify the fees it paid to the Foundation. The fee structure, based on a percentage of per pupil revenue, does not appear to be reasonable, as the services being provided do not have any relationship to the number of students at the School or the Charter School Basic Tuition rate. The fee structure was established by the Foundation and increases as a means to expand the services provided to the members of the network. When the School enters into contracts that do not provide sufficient detail about the services being provided, and do not have a reasonable fee structure, the School is susceptible to incurring costs that are greater than necessary for the services it receives.

Source: <http://osc.state.ny.us/localgov/audits/schools/2014/henryjohnsoncharter.pdf>

TROY

Ark Community Charter School City of Troy

State Comptroller Audit (2012)

Auditors found internal control deficiencies.

- Auditors found weaknesses in the internal controls over IT. The Board did not develop a disaster recovery plan to minimize disruption of operations in the event of a catastrophic event.
- Auditors found that the Board did not adopted policies and procedures for remote access and server room security.

Source: <http://osc.state.ny.us/localgov/audits/schools/2012/arkcommunitycharter.pdf>

BUFFALO

Oracle Charter School City of Buffalo

State Comptroller Audit (2014)

Auditors found that the Board did not demonstrate that it used an appropriate process to ensure it obtained a suitable building site at a reasonable cost.

- School officials did not document that the Board performed an appropriate cost analysis of the selected site or alternative sites. Consequently, the School agreed to an arrangement requiring it to pay more than \$5.1 million for the acquisition and renovation of its building financed at a 20 percent interest rate. Auditors found that the building was acquired and renovated for approximately \$1.4 million, and that a developer fee and interest costs will total more than \$3.7 million over the term of the School's 15-year lease. As a result of a recent decision to prepay a portion of the debt, the School was able to save approximately \$136,000.

Auditors found that charter school maintained inaccurate records.

- The business office did not maintain accurate and supported leave accrual records for all School employees. The School does not require that all employees submit leave request forms. Those employees required to submit forms did not do so consistently, and the forms did not always include evidence of required approvals.

Source: <http://osc.state.ny.us/localgov/audits/schools/2014/oraclecharter.pdf>

Charter School for Applied Technologies East Amherst, Buffalo

State Comptroller Audit (2014)

Auditors found charter Board possibly illegal transferred school funds; school officials refuse to work with state auditors.

- The Board approved transfers of School funds totaling \$425,000 to capitalize two wholly-owned private entities (EST LLC and Edoctrina) which the Board caused to be established for the purpose of enabling the School to engage in what are essentially commercial ventures. Auditors question whether the Board had authority to approve the transfers. Even if the Board had authority to approve the transfers, auditors were not able to assess the level of risk involved with the School's participation in these ventures because School officials refused to provide us access to either entity's financial records.

Auditors found charter school failed to establish a written contract for services paid for.

- The School made payments for services to one of the entities without a written contractual obligation to do so.

Source: <http://osc.state.ny.us/localgov/audits/schools/2014/charterappliedtechnologies.pdf>

Buffalo Academy of Science Charter School City of Buffalo

State Comptroller Audit (2013)

Auditors found Board did not ensure that it appropriately identified and evaluated available options before deciding to lease a building.

- The Board did not ensure that it appropriately identified and evaluated available options before deciding to lease a building. The process used to select a firm to acquire and renovate a building on the Board's behalf was not transparent, and auditors question whether it was an arm's length transaction. The Board selected an unlikely firm, a nonprofit educational services corporation (Corporation) from the New York-New Jersey metropolitan area that did not have any apparent real estate experience. Auditors also found that the terms and conditions of the lease agreement appear to benefit the Corporation more than the School. Auditors estimate that the lease payments could exceed the Corporation's costs by more than \$4.4 million.

Source: <http://osc.state.ny.us/localgov/audits/schools/2013/buffaloacademycharter.pdf>

Elmwood Village Charter School City of Buffalo

State Comptroller Audit (2013)

Auditors found internal control deficiencies.

- Auditors identified control deficiencies with the School's residence verification process. The School does not verify student information by periodically requiring new proof of residence, such as a utility bill, or requiring that a new proof of residence be submitted when a student's address changes.

Source: <http://osc.state.ny.us/localgov/audits/schools/2013/elmwoodvillagecharter.pdf>

Health Sciences Charter School City of Buffalo

State Comptroller Audit (2013)

Auditors found internal control deficiencies.

- Auditors found the School's Business Office was unable to provide procurement procedure documentation and inconsistencies were found in the purchasing practices/competitive bid process outlined in the School's charter agreement and the procurement policy.
- Both policy documents were silent on other key provisions such as when written contracts are required or whether professional services should be procured in a different manner. The documents did not clarify whether thresholds were for individual or aggregate purchases and if quotes should be written or verbal.
- Even though the School is in its third year of operation with a Principal and a fully functioning Business Office, School officials continue to rely on certain service providers to obtain bids or quotes and select vendors for goods and services such as janitorial services, school uniforms and kitchen supplies.

Source: <http://osc.state.ny.us/localgov/audits/schools/2013/healthsciencescharter.pdf>

King Center Charter School City of Buffalo

State Comptroller Audit (2013)

Auditors found internal control deficiencies regarding purchasing.

- Auditors found that the School's purchasing policy does not provide appropriate guidance as to when written or verbal price quotes should be obtained and when items must be competitively bid. The policy also does not address threshold amounts under which approval can be made by management, versus large purchases that would require Board approval.
- Although the policy requires the use of purchase orders, School officials are not routinely using them to initiate the acquisition of goods and/or services.
- School officials often did not properly document verbal or written price quotations when making purchase decisions. For example, School officials spent \$11,346 on computers but did not have adequate documentation to demonstrate that the lowest price was obtained.
- Auditors reviewed 12 disbursements associated with three capital projects that totaled approximately \$1.3 million. Auditors found that one of the three project contracts was not properly approved by the Board and there is no evidence that change orders totaling approximately \$63,000 were approved by the Board.

Source: <http://osc.state.ny.us/localgov/audits/schools/2013/kingcentercharter.pdf>

The Tapestry Charter School City of Buffalo

State Comptroller Audit (2013)

Auditors found internal control deficiencies.

- The School's credit card policy does not define how many credit card accounts may be established, limit the number of credit cards to be issued, and address to whom the cards may be issued. The policy also does not define credit limits. Auditors also found that the School did not ensure that all employees who were issued a credit card signed the policy to acknowledge their awareness of the procedures, as required by the policy. Auditors found that, of the 12 employees issued credit cards, only seven had signed a copy of the policy. In addition, School officials did not ensure that credit card accounts were established in a manner that complied with the policy provision prohibiting cash advances.

Source: <http://osc.state.ny.us/localgov/audits/schools/2013/tapestrycharter.pdf>

Buffalo United Charter School City of Buffalo

State Comptroller Audit (2012)

Auditors question whether the Board can sufficiently monitor management the company.

- The Board relies almost exclusively on National Heritage Academies (NHA) to handle the School's finances. Auditors question whether the Board can sufficiently monitor NHA. With almost all financial duties and responsibilities assigned to NHA, the Treasurer cannot adequately fulfill certain duties as prescribed in the by-laws.
- NHA's failure to fully disclose detailed information about its internal costs and how they are allocated to the School limits the Board's ability to verify that these charges are accurate and appropriate.

Source: <http://osc.state.ny.us/localgov/audits/schools/2012/buffalocharter.pdf>

Community Charter School City of Buffalo

State Comptroller Audit (2012)

Auditors found Board did not follow the school's conflict of interest policy.

- The former Board President engaged in business transactions with the owner of a construction company to which the School has paid \$2.4 million since 2007. The Board, however, did not follow the School's conflict of interest policy because it did not determine whether this relationship resulted in a conflict of interest as the policy requires.
- School officials did not use competitive procedures to obtain these construction services, and did not produce a written contract that stated the scope of the work or the basis of payment.

Source: <http://osc.state.ny.us/localgov/audits/schools/2012/communitycharter.pdf>

Aloma D. Johnson Fruit Belt Community Charter School City of Buffalo

State Comptroller Audit (2012)

Auditors found that the Board did not fulfill its fiduciary responsibility.

- The Board did not fulfill its fiduciary responsibility to the School by ensuring that it fully evaluated the choice of its school building. In fact, the Board selected a building that was owned by an organization that it had extremely close ties to with no evidence that it is paying market value.
- The terms of the building lease were not complied with as it appears that the School had been occupying and possibly renovating space that was not included in the lease agreement and without prior State Board of Education approval.
- The terms and conditions of the lease, including the cost of leasehold improvements, directly impacted the School's financial condition, initially resulting in cash flow problems to the School, while also providing a significant financial benefit to the landlord.

Source: <http://osc.state.ny.us/localgov/audits/schools/2012/fruitbeltcharter.pdf>

The West Buffalo Charter School City of Buffalo

State Comptroller Audit (2013)

Auditors found the School did not fully develop its residence verification process.

- Auditors found nine students' files did not contain the required proof of residency; three instances where no date was on the address verification document or the date was several years old; and one instance where the address did not agree with the address on the billing record. The School has not fully developed its residence verification process.

Source: <http://osc.state.ny.us/localgov/audits/schools/2013/westbuffalocharter.pdf>

Global Concepts Charter School Lackawanna

State Comptroller Audit (2012)

Auditors found Board did not use an appropriate process to ensure it obtained a suitable site for the school.

- The Board did not demonstrate that it used an appropriate process to ensure it obtained a suitable site at a reasonable cost. School officials did not provide evidence that the Board performed an appropriate cost analysis of the selected site or alternative sites. As a result, auditors estimate that the School will pay \$2.3 million more than necessary over the next five years for this school building.

Source: <http://osc.state.ny.us/localgov/audits/schools/2012/globalconceptscharter.pdf>

Western New York Maritime Charter School Buffalo

State Comptroller Audit (2008)

Auditors found internal control deficiencies.

- The board failed to establish adequate controls to ensure that school assets were properly safeguarded. This resulted in numerous improprieties including the employment of an individual with a criminal record, the misappropriation of school funds and the awarding of contracts to employees where it was unclear whether the school received value for the money spent. However, once the board and school officials were notified of the improprieties by their accounting firm, they took corrective action by terminating employees who violated school policies and referred the matter to law enforcement agencies.
- In addition, the audit found that former school officials and employees exploited weaknesses in the internal control system and manipulated the purchasing system. As a result, the school paid for goods or services totaling more than \$95,000 that were either not delivered to the school or were misappropriated after they were delivered. Finally, auditors found that the board did not review the claims paid by the school and had not established an independent claims audit function.

Source: <http://osc.state.ny.us/press/releases/apr08/042908.htm>

NIAGARA

Niagara Charter School Town of Wheatfield, Niagara County

New York Times (2010)

A report by the New York State Education Department concluded that the Niagara Charter School in Buffalo suffered from “the pervasive appearance of financial mismanagement and less-than ethical behavior on the part of the Board of Trustees and the school administration.” Public funds provided to the school during its first years were apparently spent on plane tickets, restaurant meals and alcohol. More than \$100,000 was spent on no-bid consulting contracts. The investigation also questioned the school’s relationship to another local charter—Enterprise Charter School—which apparently shared the same chief executive and several board members.

Source: http://www.nytimes.com/2010/05/26/education/26charters.html?_r=0&adxnnl=1&pagewanted=all&adxnlx=1397606483-HRfkrEDtpvRD/2RLuUadhA

Niagara Charter School Town of Wheatfield, Niagara County

State Comptroller Audit (2014)

Auditors found that charter School maintained inaccurate records and overbilling of school district.

- Certain billings were not accurate and enrollment was not always adequately supported. In some instances, for students with less than full-time enrollment, School officials incorrectly calculated the full-time equivalents (FTEs), which resulted in over-billing school districts by more than \$10,200. Auditors also reviewed the 2012-13 fiscal year FTE report prepared by School officials and found that the School may be owed approximately \$13,500 from one of the school districts. However, due to the incorrect calculations of FTEs identified in our testing, it is unclear whether this amount owed to the School is entirely accurate.
- Auditors found that the School’s system of collecting and reporting student data could be improved.
- Of the 22 students’ files sampled, the proof of residency on file for five students was either inaccurate or missing.

Source: <http://osc.state.ny.us/localgov/audits/schools/2014/niagaracharter.pdf>

ROCHESTER

Eugenio Maria de Hostos Charter School City of Rochester in Monroe County

State Comptroller Audit (2014)

Auditors found School entered into the leases without any process for determining the fair rental value of the buildings.

- Auditors reviewed four building leases and 12 service contracts entered into by the School and found that the School entered into the leases without any process for determining the fair rental value of the buildings. Similarly, although competitive bidding is not required, auditors found that the School only sought competition for one of the service contracts. These findings are of particular concern because the leases and contracts were entered into with organizations having various types of business or occupational relationships with members of the Board or their family or friends. Under these circumstances, it is questionable whether the leases and contracts were in the best interest of the School.

Auditors found charter School failed to establish a written contract for services paid for.

- The School paid for use of a building and for certain services without having entered into written agreements.

Auditors found charter School lack IT infrastructure.

- The School also lacked appropriate information technology (IT) policies and procedures. The School did not properly control user access rights to the IT system and did not properly establish a disaster recovery plan.
- The School lacked accurate IT inventory records.

Source: <http://osc.state.ny.us/localgov/audits/schools/2014/eugeniomariadehostoscharter.pdf>

True North Rochester Preparatory Charter School City of Rochester

State Comptroller Audit (2014)

Auditors found Board and School officials entered into contract that lacked critical details.

- Auditors identified significant concerns with the lack of detail contained in the memorandum of understanding (MOU) in the School's contract with the Charter Management Organization (CMO). Without clear and concise contract language, the School does not have a firm agreement detailing what services are included.
- School officials entered into a MOU whereby the School will annually pay a CMO nearly \$700,000 for services and an additional \$300,000 for expenses. This contract does not clearly define each party's responsibilities for certain costs and allows one party—the CMO—to train the Directors of Operations, who are responsible for overseeing the School's interests in the contract.

Source: <http://osc.state.ny.us/localgov/audits/schools/2014/truenorthrochestercharter2.pdf>

True North Rochester Preparatory Charter School—West Campus City of Rochester

State Comptroller Audit (2014)

Auditors found that the School did not consistently comply with the law and guidance regarding fingerprint-supported criminal background checks.

- The School has a policy entitled "Fingerprint Process" in their Onboarding Guide, which stated that "All school employees must be fingerprinted before they are authorized to work in a school in New York State." Auditors requested documentation to support that all adults working on site have been properly fingerprinted. Two of the 25 workers tested did not have complete background checks performed prior to working at the School. For one worker, School officials did not obtain clearance specifically for their School. A School official told us that because the worker was previously cleared at another charter school, School officials believed they did not have to obtain clearance. In addition, the former CEO did not have fingerprint records on file with OSPRA at the time of our testing. Fingerprint records were obtained subsequent to our request and auditors were provided documentation that on June 14, 2013 the former CEO's fingerprints were filed with OSPRA and cleared.

Source: <http://osc.state.ny.us/localgov/audits/schools/2014/truenorthrochestercharter.pdf>

University Preparatory Charter School for Young Men City of Rochester

State Comptroller Audit (2014)

Auditors found School did not maintain adequate supporting documentation regarding students' residency.

- Auditors selected a random sample of 25 students and found that the School did not maintain adequate supporting documentation regarding students' residency. Auditors found that seven students' files did not contain a proof of residency. In addition, three of the students had moved and their files had a different verified address than the School used when it billed RCSD.

Source: <http://osc.state.ny.us/localgov/audits/schools/2014/universityprepcharter.pdf>

Genesee Community Charter School City of Rochester

State Comptroller Audit (2013)

Auditors found internal control deficiencies.

- Auditors found that the School has not developed procedures to segregate the collecting, recording, and reconciling of School meal and field study revenues. Monies received are held by the Coordinator of School Operations who also prepares the deposits and reconciles the bank statements without independent review of the deposits or reconciliations.

Source: <http://osc.state.ny.us/localgov/audits/schools/2013/geneseecharter.pdf>

The Rochester Academy Charter School City of Rochester

State Comptroller Audit (2013)

Auditors found the School did not have sufficient Board-approved policies and procedures over the procurement process.

- The School did not have sufficient Board-approved policies and procedures over the procurement process. Such policies and procedures would provide guidance on when and how to solicit competition, documentation requirements to

support purchasing decisions and payments. As a result of this weakness, auditors reviewed 76 disbursements totaling \$320,000 to determine if the disbursements were for school purposes, properly supported by a detailed original receipt, and, where applicable, to ensure compliance with the School's charter. Auditors found that the School used restrictive practices in some of their purchases, which undermined the intent of true competition.

Source: <http://osc.state.ny.us/localgov/audits/schools/2013/rochesteracademycharter.pdf>

Urban Choice Charter School

City of Rochester

State Comptroller Audit (2013)

Auditors found internal control deficiencies.

- The Board has not established adequate internal controls over the School's IT system to ensure the School's computerized data and assets are safeguarded from internal and external threats.
- The Board has not established policies and procedures related to remote access, data backup, computer security, and data breach.
- The Board has not adopted a disaster recovery plan to address potential disasters.

Source: <http://osc.state.ny.us/localgov/audits/schools/2013/urbanchoicecharter.pdf>

SYRACUSE

Southside Academy Charter School

City of Syracuse

State Comptroller Audit (2014)

Auditors found that charter School Board of Directors approved budget without adequate information.

- The Board contracted with National Heritage Academies (NHA) to be responsible for the administration, operation and performance of the School in accordance with the School's Charter and subject to the oversight and authority of the Board. The agreement transfers all School revenues to NHA, and the revenues are to be expended by NHA in accordance with the approved budget, and as otherwise authorized by the Board. NHA provides the Board with projected budgets, budget amendments and quarterly financial statements for its review. Although the Board reviews and approves budgets and budget amendments, the budgetary information and the quarterly financial statements lack transparency to allow the Board to identify the fee for services paid to NHA and to distinguish indirect from direct costs, and how indirect costs are allocated by NHA to the School. For example, \$2.9 million in indirect costs have been allocated to the School by NHA but the Board has not received support for how the costs are allocated. As a result, this limits the Board's ability to adequately monitor NHA and verify indirect costs allocated to the School are accurate and appropriate.

Source: <http://osc.state.ny.us/localgov/audits/schools/2014/southsideacademycharter.pdf>

The Syracuse Academy of Science Charter School

City of Syracuse

State Comptroller Audit (2013)

Auditors question the prudence thousands of dollars in purchases.

- School officials routinely purchased school equipment and furnishings from a limited group of four vendors that were affiliated with one another. The required number of quotes was not always obtained, quotes were sometimes dated after the purchase was made, officials did not document verbal quotes, and officials received quotes for equipment and furnishings from vendors that did not specialize in such items. As a result, auditors question the prudence of \$383,390 in purchases which likely could have been obtained at lower prices.
- Some of the purchased items were resold to the School after an affiliated vendor purchased the items online and marked up the price. Had School officials purchased these items either directly from the original vendor or through State contract, they could have saved \$5,220 on total purchases of \$54,940.

Auditors found the Director of Operations does not ensure all student information is recorded accurately.

- The Director of Operations does not ensure all student information is recorded accurately prior to billing their school districts, and does not verify the accuracy of the year-end reconciliation of the School's student information system with billings, which should identify any moneys that the School owes to the resident districts (over-billings) or vice versa (under-billings).

Source: <http://osc.state.ny.us/localgov/audits/schools/2013/syracusecharter.pdf>

ITHACA

New Roots Charter School City of Ithaca

State Comptroller Audit (2012)

Auditors found School lacked Board approval documentation for transactions.

- Auditors identified six contracts and three purchases totaling approximately \$917,900 that required Board approval. However, no documentation exists to show the Board approved six of these nine transactions, totaling approximately \$172,000.

Source: <http://osc.state.ny.us/localgov/audits/schools/2012/newroots.pdf>

NEW YORK CITY

Amber Charter School New York City

State Comptroller Audit (2007)

Auditors found internal control deficiencies.

- Auditors reviewed Amber's monthly bank reconciliations for fiscal year 2006 and found they were not performed on a timely basis and were generally inaccurate. School staff prepared "preliminary" bank reconciliations using incorrect general ledger balances. Weeks later, "Amended" bank reconciliations were prepared, but some of these were still inaccurate. Amber has two imprest petty cash funds; one maintained by its bookkeeper and the Chief Financial Officer (CFO); the second by the Facilities Director.
- Auditors found that the petty cash fund maintained by the Facilities Director was kept in her personal bank account off school premises. Auditors reviewed 17 contracts totaling \$996,769, entered into by Amber during the fiscal year ended June 30, 2006, to determine whether school management complied with Amber's contract procedures. Auditors found that Amber officials did not obtain either, oral quotes or written bids for 14 of the 17 contracts.

Source: <http://osc.state.ny.us/audits/allaudits/093008/07s101.pdf>

Beginning with Children Charter School New York City

State Comptroller Audit (2006)

Auditors found internal control deficiencies.

- Auditors found eight instances totaling \$36,431 of payments for which certain of the required supporting documentation was not present (e.g. missing invoices and/or packing slips).
- Auditors found that pre-approvals were not obtained in 13 instances totaling \$19,995. Of the 13 instances: 3 were for purchases less than \$250; 9 were for purchases of more than \$250; and 1 was for a purchase of more than \$5,000. When required approvals are not obtained, there is increased risk that some purchases may not be appropriate.
- Auditors found that BwCCS does not maintain a perpetual inventory of equipment and does not perform an annual physical inventory. Instead, auditors found that various departments within BwCCS maintain separate equipment inventory listings. These are neither complete nor tested.

Source: <http://osc.state.ny.us/audits/allaudits/093007/06n4.pdf>

Bronx Preparatory Charter School New York City

State Comptroller Audit (2006)

Auditors found internal control deficiencies.

- Auditors found that BPCS needs to develop written procedures to cover many aspects of its financial processes and certain procedures need to be strengthened.
- Auditors found that there is a need for the Board to adopt comprehensive written policies in the areas of cash disbursement, payroll, credit card usage and equipment inventory controls.
- Auditors found that adequate inventory records were not maintained, and that a physical inventory had not been conducted. Auditors also found that BPCS's formal equipment control procedures are not adequate. As a result, there is a significant risk that equipment may have been lost or stolen without detection.

Source: <http://osc.state.ny.us/audits/allaudits/093007/06s50.pdf>

Brooklyn Charter School New York City

State Comptroller Audit (2006)

Auditors found severe internal control deficiencies.

- Auditors determined that the Brooklyn Charter School has not established and maintained an adequate system of internal controls over the basic financial operations they tested. The audit disclosed significant control weaknesses in nearly all areas they tested and there is either noncompliance with procedures or a failure to establish sound basic control procedures over the operations.
- Auditors found that Brooklyn's Board of Trustees (Board) and school officials need to improve their oversight of the school's fiscal operations and to strengthen compliance with the internal controls outlined in their Internal Controls of Assets—Policies and Procedures Manual (Manual), particularly in the areas of financial oversight, disbursements, payroll, and equipment inventory. Auditors noted that Board oversight at Brooklyn has been weak since the school's inception. Without improvement, assets remain at increased risk of misappropriation or misuse.
- Auditors found that individuals were not always complying with established procedures before making cash disbursements. For example, 27 of the 35 disbursements auditors tested, (77 percent) did not have adequate supporting documentation, such as pre-approvals, purchase orders, invoices, and/or receiving reports. Auditors also found that Brooklyn officials were not maintaining the petty cash fund in accordance with the Manual.
- Auditors found that payroll records were not being maintained properly or reviewed to ensure that employees were paid only for time worked. In addition, auditors identified three employees who were not paid the correct rate of pay and, as a result, were underpaid \$2,160 from September 2005 through June 2006.
- Auditors found that Brooklyn officials did not maintain adequate control over the school's equipment inventory. For example, the school neither maintained perpetual inventory records nor performed a physical inventory of its equipment at least once a year. Auditors also found that the school had no policies and procedures for the proper control of equipment.

Source: <http://osc.state.ny.us/audits/allaudits/093008/06n9.pdf>

Carl C. Icahn Charter School New York City

State Comptroller Audit (2007)

Auditors found severe internal control deficiencies.

- Auditors determined that controls could be strengthened to improve the school's financial management. The areas in need of strengthening included cash disbursements, procurement, and payroll. Furthermore, the Board should more closely monitor Icahn's transactions to ensure compliance with policies and procedures.
- Of 50 sampled disbursements, totaling \$185,902, six, totaling \$6,163, reimbursed the cost of staff parties. Of that amount, \$1,288 was spent on alcoholic beverages.
- Auditors found Icahn had no policies requiring competitive bidding for expenditures exceeding minimum cost thresholds. Only one of 18 contracts executed during the audit period was competitively bid. However, this contract was awarded to a relative of a school administrator. Icahn officials stated that four of the 18 contracts, totaling \$93,436, were executed with sole source vendors. However, there was no documentation to support the sole source classification. Icahn also had no policies or procedures governing the selection of sole source vendors. Additionally, six contracts were not signed by the school or the vendor.
- Auditors found Icahn's Assistant Principal for Administration handled all key payroll duties. These duties should be separated between different employees to ensure payroll transactions are appropriate.

Source: <http://osc.state.ny.us/audits/allaudits/093008/07s70.pdf#search=icahn>

Community Partnership Charter School New York City

State Comptroller Audit (2007)

Auditors found internal control deficiencies.

- Auditors found that two school employees had not been fingerprinted as required. Moreover, eight school employees who began working at the school before receiving fingerprint and background clearances did not receive Emergency Conditional Clearances by the Board of Trustees, as required by Law. Auditors also found no evidence of fingerprint clearance for one consultant who had direct contact with students.
- Auditors found that the school did not have a document in place to reflect the prior approval of purchases. Auditors also found that the school was not in compliance with its credit card procedures.

- Auditors found that School officials were not always soliciting multiple bids to ensure that the best value is obtained. For example, auditors found no evidence that required telephone or written quotes were obtained for 8 purchases the auditors tested. The total value of these purchases was \$8,432.

Source: <http://osc.state.ny.us/audits/allaudits/093008/07s103.pdf>

Explore Charter School New York City

State Comptroller Audit (2006)

Auditors identified certain weaknesses in Explore's controls over financial operations, particularly in the areas of procurement and disbursements, and equipment inventory.

- Auditors reviewed nine agreements for consultant services totaling \$214,043 and found Explore did not use a competitive procurement process for six of the agreements totaling \$182,553. As a result, school officials had no assurance the services were obtained for the lowest price available.
- Explore has no written policies and procedures addressing competitive procurement practices.
- Auditors found that the school's purchasing requirements often were not met. As a result, there was less assurance purchases were properly authorized and the school actually received what it paid for in all instances.
- Auditors found that disbursements from the Petty Cash Fund were not adequately accounted for, the purpose of the disbursements was not always documented, and the documented disbursements were not always for appropriate purposes.
- Equipment inventories were not adequately controlled because Explore does not maintain perpetual inventory records for its equipment and does not perform an annual physical inventory of its equipment. In fact, Explore has not established policies and procedures for equipment inventory control. Auditors attempted to locate 22 equipment items that were purchased in the 2005-06 and 2006-07 fiscal years, but were unable to find four of the items. The missing items included musical instruments and a printer/scanner.
- Auditors found that undelivered paychecks were not adequately safeguarded,
- Announcements about upcoming Board of Trustees meetings were not kept up-to-date on the school's web site.

Source: <http://osc.state.ny.us/audits/allaudits/093007/06n18.pdf>

Family Life Academy Charter School New York City

State Comptroller Audit (2007)

Auditors found control weaknesses in many areas and found that there is either noncompliance with procedures or a failure to establish sound basic control procedures over the operations.

- Auditors found that Academy's Board of Directors (Board) and school officials need to strengthen controls over Academy's financial operations.
- Auditors found that the Board needs to be more active in monitoring operations.
- Auditors found that most contracts were not competitively bid, yet Academy procedures required competitive bidding.
- The Board did not meet the required number of times and did not document all contract and/or budget related discussions in its meeting minutes. It also did not document actions taken by committees it had formed.
- All personnel who work at the school should be fingerprinted and subjected to background checks. However, auditors found that two security guards employed by the Academy's landlord had neither been fingerprinted nor subjected to background checks.
- Auditors found that the internal controls related to cash disbursements were not operating effectively. Records regarding most disbursements were not properly maintained. School officials were not able to locate any supporting documentation for three of 29 disbursements auditors tested totaling \$12,557. Of the remaining 26 disbursements, auditors found various problems with the documentation for 24 of them, totaling \$120,071. For example, 13 disbursements had no purchase orders and 19 had no written approvals. In addition, packing slips were not available for four of the ten purchase transactions where packing slips should have been received.
- Auditors identified that Academy had ten active contracts with various vendors worth approximately \$188,576. Auditors found that eight contracts totaling \$128,063 were entered into without the required prior approval of the Principal or the Board. Further, six of the ten contracts that exceeded \$10,000 should have been competitively bid but were not. Auditors found that four contracts were not signed by all parties, as required.
- Auditors reviewed the personnel files for 17 employees who received pay increases during the 2005-06 and 2006-07 academic years. While the computer system showed the 17 employees received pay increases, auditors could not find documentation showing the pay increases were approved by the Principal for 12 of the 17 employees, as required.

- Auditors found that Academy's Operations Manager has too many responsibilities in both the procurement and payroll areas and there is no independent oversight over these functions.
- Auditors found Academy needs to better monitor controls over its equipment and the use of school computers by school staff and students. Auditors judgmentally selected 11 out of approximately 85 computers used by employees and students and found that individuals had accessed or attempted to access inappropriate and sexually-related Internet sites on three of them.

Source: <http://osc.state.ny.us/audits/allaudits/093008/07s102.pdf>

Harbor Science and Arts Charter School New York City

State Comptroller Audit (2007)

Auditors determined that the Harbor Science and Arts Charter School needs to establish additional controls and that compliance with existing controls needs to be strengthened in several key areas.

- Auditors found that the Board needs to maintain more thorough minutes of its meetings
- Auditors found that all employees (and other personnel working in the school who have contact with children) were not be subjected to background checks.
- Auditors found that expenditures were not documented, competitive procurement methods were not employed and two employees were overpaid.
- Auditors found that Harbor's Board of Trustees (Board) and school officials need to improve their oversight of the school's fiscal operations and need to strengthen compliance with the internal controls outlined in their Accounting Policies and Procedures Manual (Manual).
- Auditors found that the minutes of the Board meetings did not fully identify the discussions by the Board members on all fiscal matters. Further, auditors found that some of the minutes of Board committee meetings had not been prepared or retained. Non-compliance with Harbor policies in other areas were also noted, supporting the need for greater Board oversight.
- All personnel who work at the school or who regularly come in contact with students on school premises should be fingerprinted and subjected to background checks. However, auditors found that 9 out of 41 school employees were not fingerprinted as required. In addition, auditors found that security personnel at the school had not been fingerprinted or subjected to background checks.
- Auditors found that internal controls related to cash disbursements were not properly maintained. School officials were not able to locate the invoices for 8 of 30 disbursements totaling \$15,974. In addition, school officials were not able to provide supporting documentation for \$1,097 in credit card purchases. Therefore, auditors could not determine whether the purchases were related to school business.
- Auditors identified that Harbor had five active contracts, worth approximately \$324,585. Auditors reviewed the five contracts and found that none of the contracts were awarded through a competitive bidding process. Auditors also found that four of the contracts were not approved by the Board.
- Auditors found that the internal controls related to payroll were not operating effectively. Two teachers had been paid as full-time employees even though they did not work full-time hours. This resulted in \$13,211 in overpayments during the 2005-06 academic year. Auditors also found that two former employees were paid \$2,828 in salary after they were terminated. This occurred because school officials did not remove them from the payroll in a timely manner.

Source: <http://osc.state.ny.us/audits/allaudits/093008/07s57.pdf>

KIPP Academy Charter School New York City

State Comptroller Audit (2006)

Auditors identified a number of weaknesses in KIPP Academy's internal controls over financial operations.

- Auditors found, contrary to the law authorizing the creation of charter schools, some of the individuals hired by the school did not undergo a criminal history record check. In fact, the required criminal history clearance was not documented for 7 of the 37 employees auditors reviewed.
- Auditors also found KIPP Academy paid \$67,951 to send 49 staff on a five-day trip to the Bahamas and 21 staff on a five-day trip to the Dominican Republic. School officials told auditors the trips were educationally related because staff development retreats were held at the two locations, but auditors were provided with very little documentation of staff development activities at the two locations. School officials also told auditors that donated funds were used to pay for the trips and such funds were theirs to spend without restrictions. However, auditors could not determine whether the trips were, in fact, paid for with donated funds, because such funds are not accounted for separately from the school's other funds (mainly State aid).

- Auditors also identified significant weaknesses in the controls over KIPP Academy’s payroll operations. For example, special bonuses, special stipends, pay increases, overtime payments and other types of payroll transactions were not adequately documented. As a result, there was less assurance such transactions were always authorized and appropriate.

Source: <http://osc.state.ny.us/audits/allaudits/093008/06n15.pdf>

Merrick Academy Charter School **New York City**

State Comptroller Audit (2006)

Auditors found internal control deficiencies.

- Auditors often found no documentation on file to support either the amount paid or the business purpose of disbursements from a checking account that was supposed to expedite purchases of \$500 or less. As a result, there was no assurance the disbursements were made for valid school purposes. Auditors were able to determine that two of the disbursements were not made for valid school purposes, including one payment for \$140 that enabled a member of Merrick’s Board of Trustees to attend a fundraising event for a State legislator. The other payment which totaled \$160 allowed a Merrick staff person to attend a NAACP fundraising event.
- Auditors also found that more than \$1,800 in petty cash disbursements could not be accounted for and auditors also identified weaknesses in the controls over procurement, payroll and personal services, and equipment inventories.
- Merrick uses a contractor to help manage and oversee its operations since the school opened in 2000. The contractor receives an annual management fee for its services. Auditors determined that the fee for the 2004–05 school year was calculated incorrectly by the contractor, as it should have been \$890,480 rather than the \$904,819 that was charged by the contractor—a difference of \$14,339.
- Merrick is governed by a Board of Trustees that is supposed to meet at least five times each school year. However, auditors found that the Board met just twice during the 2004-05 school year and just three times during the following school year.

Source: <http://osc.state.ny.us/audits/allaudits/093008/06s66.pdf>

Our World Neighbor Charter School **New York City**

State Comptroller Audit (2007)

Auditors found that OWNCS’s controls could be strengthened to improve the school’s financial management.

- Auditors determined that the areas in need of strengthening included fingerprinting, cash disbursements, and procurement. Furthermore, the Board should monitor OWNCS’s transactions more closely to ensure compliance with policies and procedures. All personnel who work at the school are required to hold a valid fingerprint and background clearance from the Commissioner of Education.
- Auditors found that four school employees and eight consultants did not have such clearances, as required. Moreover, 58 school employees began working at the school before receiving fingerprint and background clearances.
- Auditors found that school officials did not always use competitive bidding practices to ensure that they received the best prices for the goods and services they purchased. Auditors found no evidence that competitive bidding practices were followed in seven instances that involved \$381,636 in vendor payments. For example, one vendor was paid \$135,142 for repair, security, and cleaning services; however, auditors found no documentation that a competitive bidding process had been used to select that vendor.
- Auditors found that the school was disposing of computer equipment without keeping any records of the discarded items. According to school officials, some parents had donated items of computer equipment that were now of little value. However, without written records, auditor could not be assured that the items were indeed of little value or of the appropriateness of the method used to dispose of them.

Source: <http://osc.state.ny.us/audits/allaudits/093008/07s56.pdf>

Sisulu-Walker Charter School of Harlem **New York City**

State Comptroller Audit (2006)

Auditors found internal control deficiencies.

- Auditors found that Sisulu’s Board of Trustees and Victory, Inc., officials need to improve their oversight of the school’s fiscal operations and to strengthen compliance with the internal controls outlined in the school’s Financial Policies and Procedures Manual—particularly in the areas of disbursements, equipment inventory, revenues, and personnel services.
- Auditors found that school officials did not always follow established policies and procedures when making disbursements. For example, auditors noted that an unauthorized employee had signed the business manager’s

signature on certain checks valued at \$1,447 while the business manager was on leave. Although these expenditures were for school items, checks should be signed only by authorized personnel.

- Auditors found that payments for certain purchases were split so the employees at the school could circumvent the required purchase order process. To account for equipment properly, perpetual inventory records should be maintained and a physical inventory performed at least once a year.
- Auditors found that Sisulu officials neither maintained a complete inventory listing nor conducted an annual physical inventory. As a result, auditors testing found that eight items with a total value of \$10,628 were unaccounted for.
- If a student wishes to attend a charter school free of charge, the parents or legal guardians are required to reside within the district. Students who live outside the district may be able to attend such schools if the student's family pays tuition. Auditors found that one student continued to attend Sisulu free of charge even though her parents had relocated to New Jersey from New York State. The school had requested \$17,670 in State aid for this student even though her parents now lived in another state. In addition, auditors found that Sisulu officials failed to collect \$3,415 in school lunch charges because they did not bill students' parents in a timely manner.
- All personnel who work at the school should be fingerprinted and subjected to background checks. However, auditors found that security personnel at the school had not been fingerprinted nor subjected to background checks.

Source: <http://osc.state.ny.us/audits/allaudits/093007/06s52.pdf>

The Renaissance Charter School New York City

State Comptroller Audit (2006)

Auditors found significant internal control deficiencies.

- Auditors examined the composition of TRCS's Board of Trustees and found that it does not comply with SED's directive, as 8 of the 17 total Board members (47 percent) are TRCS employees. TRCS officials stated that they believed they were in compliance with SED's directive because some of the TRCS employees on the Board are non-voting members. They stated that this arrangement was verbally approved by SED staff. However, auditors discussed this matter with SED staff and they stated that the arrangement is not allowable. Accordingly, auditors recommended the composition of the Board be reconfigured to comply with SED's directive.
- The Board minutes did not indicate that the 2004-05 budget was approved by the full Board. A discussion of the budget was included in the meeting minutes of the Board's Financial Committee, but there was no resolution of budget approval in the minutes of the full Board. TRCS officials stated that the Board minutes did not accurately reflect the business conducted and that the budget was in fact approved by the full Board.
- The Board is required by TRCS policy to approve all contracts in excess of \$10,000. However, auditors identified five contracts in excess of \$10,000 that were awarded by TRCS in the 2004-05 school year but were not approved by the Board or even mentioned in the Board minutes.
- Auditors reviewed the work performed by TRCS's auditing firm. Auditors found that the school had been audited annually, as required. However, the audit reports did not affirm that the work had been conducted in accordance with government auditing standards, as is required by the standards. In addition, contrary to the standards, certain additional auditor reports had not been provided to TRCS in conjunction with the audits. TRCS's independent auditor stated that, in their opinion, the audit work met the requirements of government auditing standards.
- TRCS has three checking accounts. The bank statements for such accounts should be reconciled by someone who does not perform other cash receipt, cash disbursement or cash recordkeeping functions. If this basic internal control (i.e., the separation of related duties) is not in place, any loss or theft of funds will be more difficult to detect in a timely manner. TRCS's Director of Finance is responsible for reconciling the three bank accounts. However, this individual also performs other cash receipt, disbursement and recordkeeping functions. For example, this individual also receives and disburses cash, prepares cash deposit slips, and records all cash transactions on TRCS's accounting system. As a result, cash-related duties are not adequately separated among different employees.
- Auditors selected the 30 purchase transactions from the 2,259 total disbursement transactions processed by TRCS during the period July 1, 2004 through March 22, 2006. The auditor sample was judgmental. Auditors selected a variety of types of purchases in an effort to cover the major types of contract expenses. Auditors then reviewed the documentation relating to each selected purchase transaction. Auditors found that, in many instances, the sampled purchases did not comply with TRCS's disbursement and procurement guidelines. For example, according to these guidelines, purchases of office supplies and equipment between \$250 and \$1,000 must be approved by one of the five members of the TRCS management team (the Co-Director of Operations), and if such purchases exceed \$1,000, they must be approved by two members of the management team. However, in eight of the office supply/equipment purchases in the sample, none of the required approvals had been documented. Five of these eight purchases exceeded \$1,000, while three were between \$250 and \$1,000. Also, according to TRCS's disbursement and procurement guidelines, a formal purchase request must be submitted for approval before a purchase order is issued and a formal receiving report documenting the receipt of the goods or services must be submitted before payment is made. However, no purchase request was on file for 18 of the 30 purchases and no receiving report was on file for 21 of the 30

purchases. In the absence of a properly approved purchase request form or other required prior approvals, TRCS officials have less assurance purchase transactions are valid, appropriate and necessary. Further, in the absence of a receiving report, TRCS officials have less assurance the school has gotten what it paid for. These control weaknesses have additional significance, because TRCS's purchasing duties are not adequately separated among different employees due to limited staff (i.e., the individual responsible for issuing purchase orders also prepares the documents submitted for payment processing). It is therefore critical that TRCS officials ensure that all required prior approvals are obtained before purchase orders are issued and receiving reports are obtained before payments are made.

Source: <http://osc.state.ny.us/audits/allaudits/093007/06n5.pdf>

Brooklyn Excelsior Charter School New York City

State Comptroller Audit (2012)

Auditors found significant internal control deficiencies.

- Auditors could not fully determine the extent to which Excelsior officials exercised their fiscal oversight because auditors were unable to verify the true cost of Excelsior's operations or the extent to which the \$10 million of annual public funding benefited students. The reason for these limitations is that National Heritage Academies (NHA) officials did not provide support for \$1.7 million of costs allocated to the school. NHA officials claimed the information was private and proprietary.
- Auditors noted other areas where the Board has been lax in fulfilling its fiduciary responsibility. Auditors question whether the Board exercised due diligence and care in approving NHA's related party lease of the school building at a rate almost \$800,000 per year above market value. As a result, NHA has already recovered its full \$16.3 million cost of purchasing, renovating and outfitting the entire facility in less than 10 years of operation.
- Auditors identified conflicts of interest that exist because NHA employed a Board member at a salary of more than \$138,000, as well as the Board's failure to comply with certain provisions of its adopted by-laws.

Source: <http://osc.state.ny.us/audits/allaudits/093013/11s14.pdf>

Williamsburg Charter High School New York City

New York the State Education Department, Audit Office of Audit Services (OAS) (2012)

The audit found that WCHS had a number of serious internal control issues.

- The Board did not follow its Charter by entering into a management contract (Agreement) without approval, not setting up a required escrow account, and operating a school at an unapproved location.
- WCHS overpaid its management company and paid contractors for services that should have been provided or paid for by its management company.
- WCHS could not support the appropriateness of expenditures paid from federal grant funds. There were many instances of purchases, including credit card purchases, that were not necessary, reasonable, and/or adequately documented. There were other unapproved payments to the former Chief Executive Officer of WCHS.
- WCHS did not comply with appropriate accounting principles as they relate to fixed assets and inventory

Source: http://www.oms.nysed.gov/oas/Audit_Report/Charter_Schools/Reports/WilliamsburgCHSFinalReport_CH_1110_01.pdf

Harriet Tubman Charter School New York City

New York the State Education Department, Audit Office of Audit Services (OAS) (2007)

The audit found that the School has a number of serious internal control issues, some of them are as follows:

- The increasing negative fund balance in the School's general fund is an indication of serious fiscal stress. As of June 30, 2004, the fund balance in the general fund reported in the audited financial statements was negative \$250,371. As of June 30, 2005, this amount had increased to a negative \$757,888. In the audited financial statements as of June 30, 2006, the fund balance was a negative \$971,772.
- The School maintained a Petty Cash Fund of \$1,000. In a 15-month period, over \$20,000 in checks were written to reimburse the Fund. Current receipts were not available and a number of the receipts furnished included sales tax. The Executive Director was the custodian of the Fund even though she was seldom at the School.
- Bank reconciliations were not prepared, reviewed, or presented to the Board of Trustees (Board).
- Checks were written to the Executive Director and Director of Operations and signed by these two individuals.
- Two credit cards issued to the Executive Director and the Director of Operations were used to charge over \$75,000

between July 2004 and May 2006. There was no evidence of a review or approval process for charges, no receipts were available, explanations were minimal or missing, and the bills were paid directly from the statements.

- The Board did not routinely receive the required reports to effectively monitor the financial condition of the school. For example, the Board did not review and approve the budget, approve any budgetary transfers, or receive budget status reports. It also did not discuss audit findings of the independent auditor or approve corrective action plans to address specific findings; did not discuss and authorize conference attendance; and did not review bank accounts annually, authorize required accounts, or recommend closure of unneeded accounts.
- The School's Director of Operations is responsible for many functions, which raises some concerns with the adequacy of controls, including separation of duties. This individual opens mail; handles all cash receipts; is solely responsible for the internal accounting system; preparation of financial statements; monitoring of staff attendance for payroll purposes; and preparing, signing, and mailing checks.

Source: http://www.oms.nysed.gov/oas/Audit_Report/Charter_Schools/Reports/HTCSFinalReporCH-0106-1withresponse.pdf

Our World Neighborhood Charter School New York City

New York the State Education Department, Audit Office of Audit Services (OAS) (2006)

Auditors found internal control deficiencies.

- The Board of Trustees (Board) meeting minutes did not show the Board routinely received the required reports to effectively monitor the financial condition of the school. For example, the Board minutes did not show review and approval of the budget, approval of any budgetary transfers, or receipt of budget status reports. The Board minutes also did not show discussion of audit findings or approval of corrective action plans to address specific findings; did not show discussion and authorization of conference attendance; and did not show review of bank accounts annually, authorizations of required accounts, and recommendations for closure of unneeded accounts.
- The School's fiscal year and the actual number of school days provided are inconsistent among the School's Charter, the by-laws, and the School calendar. This may create some confusion as to what actual practice should be. The School should resolve these inconsistencies and obtain the State Education Department's (Department's) approval for any changes to the Charter.
- The School can improve controls over bank reconciliations by delivering unopened bank statements to the reconciliation preparer before delivery to the Chief Administrative ES-1ES-2 Officer (CAO)/Principal for review, and by requiring signatures of both the preparer and the reviewer on the monthly bank reconciliation.
- The Parent Teacher Organization (PTO) is not independent of the School in financial matters. The CAO/Principal is a signer on the PTO checking account and the PTO is using the School's tax-exempt identification number. While the PTO provides benefits to the School, its finances should be separate.
- The audit found several questionable expenditures paid from the Petty Cash Fund including payments for printing (\$157) and custodial services (\$240) that should have gone through the School's purchasing process, a \$60 loan to the PTO, \$18 for a personal expense (birthday cake), and \$68 in sales tax for 37 reimbursements. The audit found the School does not have specific procedures to define the types of expenditures that are appropriate and the documentation required for reimbursement from the Petty Cash Fund.
- Personnel files do not contain all necessary information, such as, documentation of reference checks and evidence of certification. Without this documentation, the School has less assurance it is hiring the most qualified individuals.
- The School did not establish adequate controls over the \$2.8 million in assets that it owns. Fixed assets, specifically about \$200K of furniture and equipment, were not labeled with School identification tags, the fixed asset inventory did not contain sufficient identifying information, and a physical inventory was not taken within the last year.

Source: http://www.oms.nysed.gov/oas/Audit_Report/Charter_Schools/Reports/OWNCSFinalReportCH-1005-1withresponse.pdf

East New York Preparatory Academy New York City

New York Times (2010)

In New York City, the schools chancellor, Joel I. Klein in 2010 ordered the closing of East New York Preparatory Charter School in Brooklyn at the end of this academic year following revelations that the school's founder and principal had named herself superintendent and granted herself a \$60,000 raise.

Source: http://www.nytimes.com/2010/05/26/education/26charters.html?_r=0&adxnnl=1&pagewanted=all&adxnnlx=1397606483-HRfkrEDtpvRD/2RLuUadhA

YONKERS

Charter School of Educational Excellence City of Yonkers

New York the State Education Department, Audit Office of Audit Services (OAS) (2012)

Auditors found significant internal control deficiencies.

- The CSEE was not in full compliance with all of the terms of the Charter. The Board of Trustees (Board) did not maintain sufficient documentation of Board meetings, did not establish a required escrow account at the appropriate level, and did not always publicly post its annual report.
- Two Trustees failed to properly disclose organizational conflicts of interests.
- The Board minutes that were available did not always indicate the Trustees that were not present and did not always note how particular Trustees voted on resolutions.
- The Charter states that the school agrees to establish an escrow account of no less than \$75,000 to pay for legal and audit expenses that would be associated with dissolution should it occur. The Board did not comply with their Charter by failing to set up this escrow account.
- Two Trustees were directors in an educational firm that does business with CSEE. In their June 2008 DFIs, which were part of the renewal charter, these Trustees indicated that they were affiliated with the Center for Educational Innovation (CEI)—a firm that provides professional development and other services for CSEE. However, neither Trustee disclosed this relationship with CEI in their annually updated DFIs which were signed on August 10th and October 18th of 2010 and included in the annual report. Both individuals are listed on CEI's current website, one as a Senior Fellow and one as a Director. Auditors could not determine if these two Trustees disclosed their relationship with CEI to the Board because of missing and incomplete minutes.
- CSEE could not support \$6,159 in federal grant expenses.
- Internal controls were weak for incoming checks, petty cash, inventory, and purchasing.
- CSEE does not have supporting documentation that all special education students received their prescribed educational programs.

Source: http://www.oms.nysed.gov/oas/Audit_Report/Charter_Schools/Reports/CSEEFinalReport_CH_0911_01.pdf

HUDSON

Austin L. Carr Charter School Columbia County (Hudson)

New York the State Education Department, Audit Office of Audit Services (OAS) (2001)

Auditors found significant internal control deficiencies.

- The audit found that the School's financial position is unstable.
- The School does not have any material source of funds other than its planning grant, the School's accounting records are incomplete and inaccurate, and the School has an operating deficit.
- The audit also found that the School's Board did not implement the necessary management controls, has not fulfilled its governance role and has not adhered to its Charter.
- The Board did not collectively possess or obtain the fiscal expertise to ensure the School's resources were being used efficiently and effectively and properly safeguarded, nor did it monitor the School's financial status or prevent conflict of interest transactions.
- The School did not comply with the terms of its grant, incurred non-reimbursable and questionable expenditures, overspent grant funds, and must make restitution of \$14,582 to the Department representing overpayment of grant funds.

Source: http://www.oms.nysed.gov/oas/Audit_Report/Charter_Schools/Reports/AustinLCarrfinal_CH-1101-1.pdf

LONG ISLAND

Roosevelt Children's Academy Charter School

Roosevelt New York, Nassau County

State Comptroller Audit (2014)

Auditors found charter school board of directors did not adequately monitor the schools operations.

- The Board did not adopt realistic budgets or routinely monitor financial operations. School officials created an expenditure code entitled "building fund" and budgeted \$4.8 million in the 2010-11 fiscal year, \$5.2 million in 2011-12, and \$2.6 million in 2012-13 even though School officials had no expectation of any outflow of cash for such expenses.
- The Board is not monitoring the annual budget and has not established a Budget and Finance Committee as required by School by-laws.

Auditors found charter school paid board members violation of by-laws or policy.

- The School also paid for Board member expenditures that were not authorized by the School by-laws or policy. Of \$31,630 in Board expenditures, \$26,444 was not authorized.

Auditors found the charter school failed to competitive bid out projects.

- The School paid four vendors a total of \$521,197 for significant public work and purchase contracts without fair competition, did not seek competitive price quotes when procuring goods and services totaling \$16,028, and engaged six professional service providers, paid a total of \$478,264, without soliciting competition. The School paid an information technology consultant \$118,182 more than the agreement provided, and did not have an applicable agreement for paying \$25,713 for security services.

Source: <http://osc.state.ny.us/localgov/audits/schools/2014/rooseveltchildrensacademy.pdf>

Child Development Center of the Hamptons Charter School

East Hampton New York

State Comptroller Audit (2013)

Auditors found that the Board needs to improve its monitoring of the management corporation to ensure School funds are used effectively and efficiently.

- The Agreement between the management corporation and the School states that Family Residences and Essential Enterprises, Inc. (FREE) will provide the Board with financial reports including quarterly and annual balance sheets, monthly statements of revenue and expenses, and monthly banking transaction reports. The Board did not receive quarterly and annual balance sheets and monthly banking transaction reports, as required by the Agreement. Instead, the financial reports provided to the Board contained only budget-to-actual revenue and expenditure reports for on average, a two-month period. The management corporation did not present the Board with bank statements or cancelled checks and a list of all moneys received and paid each month—documentation that supports information in the financial reports.

Source: <http://osc.state.ny.us/localgov/audits/schools/2013/hamptonscharter.pdf>

Riverhead Charter School

Town of Riverhead

State Comptroller Audit (2012)

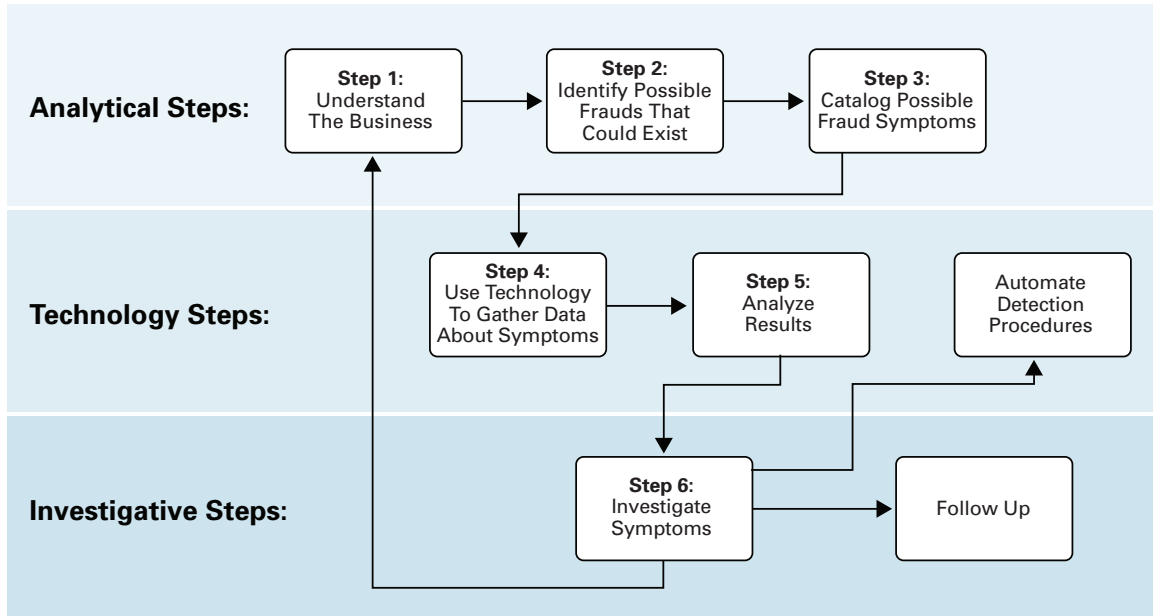
Auditors found internal control deficiencies.

- The Board did not approve the 2011-12 annual budget by June 1, 2011 as required, and the Director did not make any amendments to the budget to reflect variances in revenues and expenditures during the year.
- The Board did not receive and review quarterly balance sheets, budget-to-actual reports, or monthly cash receipts reports.
- Leave accrual balances maintained by the payroll clerk were not reviewed for accuracy or reconciled to leave balances on employees' pay stubs after processing by the School's payroll vendor.
- The School's financial software application has one user account and does not require the use of a password.

Source: <http://osc.state.ny.us/localgov/audits/schools/2012/riverheadcharter.htm>

Appendix B: Fraud Audit Methodology

Fraud audits involve six core analytical, technological, and investigative steps.⁴⁴ The below fraud steps are those taught by Dr. Conan Albrecht, a professor who teaches fraud auditing techniques at Brigham Young University. The first three steps are those performed during a fraud risk assessment. The targeted fraud audit would begin at Step four.



Step 1: Understand the Business—Develop a firm understanding of the business being examined. Having a detailed understanding of the business underlies the entire strategic fraud detection process.⁴⁵ This step includes:

- a. Inclusion of an experienced business employee on detection team
- b. Tour the business
- c. Interview key personnel
- d. Analysis of financial statements
- e. Work with auditors/security personnel

Step 2: Identify Possible Frauds that Could Exist—Once fraud examiners feel confident that they understand the business, they determine what possible frauds might exist or could occur in the operation being examined. This risk assessment step requires an understanding of the nature of different frauds, how they occur, and what symptoms they exhibit.⁴⁶ This step includes:

- a. Divide business unit into individual functions
- b. Determine the players
- c. Determine types of interactions between insiders and outsiders
- d. Ask questions such as:
 - a. How could employees commit fraud alone?
 - b. How could vendors commit fraud alone?
 - c. How could vendors/employees collude?
- e. Develop a list of possible frauds specific to this business unit

Step 3: Catalog Possible Fraud Symptoms—This step involves the cataloging of frauds identified in Step 2. A matrix, tree diagram, or brainstorming map can be created that correlates specific symptoms with specific possible frauds.⁴⁷

- a. Analytical anomalies
- b. Document or record symptoms
- c. Internal control symptoms

- d. Lifestyle symptoms
- e. Behavioral symptoms
- f. Tips and complaints

Step 4: Use Technology to Gather Data About Symptoms—Once symptoms are defined in Step 3, supporting data is extracted from company databases and other sources. While traditional audit procedures call for limited transaction tests, such as those currently employed by authorizer auditors, technology-based fraud-detection queries are run against full transaction populations. Because even significant frauds can occur in very few transactions, the use of sampling potentially misses fraudulent records (sampling error) and circumvents the ability of computers to quickly analyze full populations.⁴⁸ This step includes:

- a. Pulling data from company databases.
- b. Creating custom data warehouses to store data.

Step 5: Analyze and Refine Results—Once relevant data are retrieved, they are compared against expectations and models. Computerized algorithms examine records and highlight anomalies, unknown values, suggestive trends, or outliers that should be analyzed directly by examiners. This step includes:⁴⁹

- a. Analysis using time algorithms, statistical queries, and other tools.
- b. Conducting iterative runs to hone results.

Step 6: Investigate Symptoms—Once anomalies are highlighted and determined to be indicators of fraud, they are investigated either using traditional or technology-based approaches. Investigation of leads are only done on anomalies that cannot be explained through continued analysis. This step includes:⁵⁰

- a. Use computer-based analyses for efficiency
- b. Work with auditors and/or security personnel
- c. Refine algorithms and queries from steps 4 and 5

Additional Activities—After Process: Fraud examiners then follow up on all identified symptoms. While finding fraud is certainly the primary objective, the process often highlights control weaknesses, ineffective systems, undocumented policies, and data errors. Each of these anomalies should be corrected to make company processes more efficient and effective. This step includes:⁵¹

- a. Follow-up on suspected frauds
- b. Automate detection procedures
- c. Use lessons learned to cycle through the process again

Notes

- 1 National Alliance for Public Charter Schools, Estimated Number of Charter Schools & Students, 2013-2014, Feb. 2014 p. 3 *available at* <http://www.publiccharters.org/wp-content/uploads/2014/02/New-and-Closed-Report-February-20141.pdf> (accessed 10/25/14); Also, <http://dashboard.publiccharters.org/dashboard/students/page/age/state/NY/year/2014>
- 2 National Alliance for Public Charter Schools, Estimated Number of Charter Schools & Students, 2013-2014, Feb. 2014 p. 3 *available at* <http://www.publiccharters.org/wp-content/uploads/2014/02/New-and-Closed-Report-February-20141.pdf> (accessed 10/25/14)
- 3 New York City Charter School Center, Charter School Facts: 2014-2015, *available at* http://www.nyccharterschools.org/sites/default/files/resources/Facts_General_082214.pdf. (last visited 10/25/14)
- 4 New York City Department of Education, DOE Overview, *available at* <http://schools.nyc.gov/Aboutus/Funding/overview/default.htm> (10/25/14); outside of New York city charter funding derived from preliminary estimate for state aid published by NYSED.
- 5 This number is based on the number of audits made available on the Office of the State Comptroller's website. To arrive at this number, we counted the number of New York total charter schools, 259, and counted the number of charter school audits, which was 54. Excludes two audits that could not be located. Comptroller audits used were found on the following websites: <http://osc.state.ny.us/audits/auditAgencyList.htm> ; <http://osc.state.ny.us/audits/auditAgencyListOlder.htm> ; <http://osc.state.ny.us/localgov/audits/schools/index.htm>
- 6 N.Y. EDN. L. § 2850.
- 7 National Alliance for Public Charter Schools, Estimated Number of Charter Schools & Students, 2013-2014, Feb. 2014 p. 3 *available at* <http://www.publiccharters.org/wp-content/uploads/2014/02/New-and-Closed-Report-February-20141.pdf> (accessed 10/25/14); Also, <http://dashboard.publiccharters.org/dashboard/students/page/age/state/NY/year/2014>
- 8 National Alliance for Public Charter Schools, Estimated Number of Charter Schools & Students, 2013-2014, Feb. 2014 p. 3 *available at* <http://www.publiccharters.org/wp-content/uploads/2014/02/New-and-Closed-Report-February-20141.pdf> (accessed 10/25/14)
- 9 New York City Charter School Center, Charter School Facts: 2014-2015, *available at* http://www.nyccharterschools.org/sites/default/files/resources/Facts_General_082214.pdf. (last visited 10/25/14)
- 10 <http://www.nydailynews.com/opinion/james-merriman-finally-shred-charter-school-cap-article-1.1986372>
- 11 New York City Department of Education, DOE Overview, *available at* <http://schools.nyc.gov/Aboutus/Funding/overview/default.htm> (10/25/14); outside of New York city charter funding derived from preliminary estimate for state aid published by NYSED.
- 12 N.Y. EDN. L. § 2857(2)
- 13 N.Y. EDN. L. § 2853(c)
- 14 N.Y. EDN. L. § 2854(1)(c)
- 15 This number is based on the number of audits made available on the Office of the State Comptroller's website. To arrive at this number, we counted the number of charter school audits listed on the following websites: <http://osc.state.ny.us/audits/auditAgencyList.htm> ; <http://osc.state.ny.us/audits/auditAgencyListOlder.htm> ; <http://osc.state.ny.us/localgov/audits/schools/index.htm>
- 16 <http://populardemocracy.org/news/charter-school-vulnerabilities-waste-fraud-and-abuse>
- 17 Source: <https://www2.ed.gov/about/offices/list/oig/invtreports/x42k0002.pdf>
- 18 Source: <https://www2.ed.gov/about/offices/list/oig/invtreports/x42k0002.pdf>
- 19 Year refers to date in which the State Comptroller released its audit; the period the audit covers may differ from the year the report was released.
- 20 <http://osc.state.ny.us/audits/allaudits/093008/06n15.htm>
- 21 <http://osc.state.ny.us/audits/allaudits/093008/07s101.pdf>
- 22 <http://osc.state.ny.us/audits/allaudits/093008/07s102.pdf>
- 23 <http://osc.state.ny.us/localgov/audits/schools/2011/brighterchoice.pdf>
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- 25 <http://osc.state.ny.us/localgov/audits/schools/2013/albanycharter.htm>
- 26 <http://osc.state.ny.us/localgov/audits/schools/2014/oraclecharter.htm>
- 27 <http://osc.state.ny.us/localgov/audits/schools/2014/eugeniomariadehostoscharter.htm>
- 28 New York State Education Department, Fiscal Oversight Guidebook: A Guide for Charter School Leaders, Employees, and Boards of Trustees, May

- 2014 p. 37 available at http://www.p12.nysed.gov/psc/documents/NYSEDFiscalOversightGuidebook_FINAL.pdf (last visited 10/25/14)
- 29 New York State Education Department, Fiscal Oversight Guidebook: A Guide for Charter School Leaders, Employees, and Boards of Trustees, May 2014, http://www.p12.nysed.gov/psc/documents/NYSEDFiscalOversightGuidebook_FINAL.pdf page 37
- 30 Scott Waldman, "State Set to Audit Charter Schools for the First Time," *Times Union*, April 7, 2011, <http://www.timesunion.com/local/article/State-set-to-audit-charter-schools-for-the-first-1327107.php>
- 31 Marlene Kennedy, "Charter School Claims State Can't Audit It," *Courthouse News Service*, July 11, 2013, accessed November 5, 2014, <http://www.courthousenews.com/2013/07/11/59266.htm>.
- 32 Rick Karlin, "Judge Bars Comptroller Audit of Charter Schools," *Times Union*, March 14, 2014, accessed Nov. 5, 2014, <http://www.timesunion.com/local/article/Judge-bars-comptroller-audit-of-charter-schools-5319373.php>
- 33 N.Y. EDN. L. §§ 2853(1)(c), 2854(1)(c)
- 34 <http://www.newyorkcharters.org/wp-content/uploads/The-Academy-Audit-2010-11.pdf>
- 35 <http://www.gsaig.gov/index.cfm/news/first-blog-entry/?keywords=proactive%20fraud%20detection>
- 36 http://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/managing-business-risk.pdf page 8
- 37 http://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/managing-business-risk.pdf page 20
- 38 http://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/managing-business-risk.pdf page 8
- 39 https://ic.globaliia.org/SessionInformationDownloadDocuments/CS%205-2_Rasha%20Kassem_vs%202.pdf
- 40 https://ic.globaliia.org/SessionInformationDownloadDocuments/CS%205-2_Rasha%20Kassem_vs%202.pdf page 44
- 41 <http://www.acfe.com/rtnn/docs/2014-report-to-nations.pdf> page 11.
- 42 <http://www.fraudessentials.com/asset-misappropriation/>
- 43 https://ic.globaliia.org/SessionInformationDownloadDocuments/CS%205-2_Rasha%20Kassem_vs%202.pdf page 33
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