
Audit Report

Charter School for Applied Technology

For the Period

July 1, 2011 through June 30, 2013

CH-0214-01

November 18, 2014

**The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
Albany, New York 12234**





THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

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November 18, 2014

Mr. J. Efrain Martinez
Superintendent
Charter School for Applied Technologies
2303 Kenmore Avenue
Buffalo, NY 14207

Dear Ms. Martinez,

I have enclosed the final report (CH-0214-01) for our audit of the Charter School for Applied Technologies' fiscal controls and propriety of its relationship with its two affiliated corporations, for the period July 1, 2011 through June 30, 2013. The audit was conducted pursuant to Section 215 of the Education Law.

Ninety days from the issuance of this report, School officials will be asked to submit a report on actions taken as a result of this audit. This required report will be in the format of a recommendation-implementation plan and it must specifically address what action has been taken on each audit recommendation.

I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

Maria C. Guzman

Enclosure

c: J. King, S. Cates-Williams, J. Delaney, W. Clarke, C. Szuberla, A. Timoney (DOB) K. Sifontes (OSC), R. Mikulec (Board President)

Executive Summary

The Charter School for Applied Technologies (CSAT) is located in Buffalo, New York and serves approximately 1,675 students (grades K-12) from 19 different school districts throughout Western New York. It is the largest charter school in the State and one of eight that offers a K-12 education. A recent audit by the Office of the State Comptroller (OSC) brought to light questions regarding CSAT's business practices, specifically those involving its formation of two wholly owned affiliates, Efficient Schools Team, LLC (EST) and eDoctrina Corporation (eDoctrina). EST is a management and consulting contractor and eDoctrina is a developer of web-based education software that aids in the assessment and tracking of student progress. The OSC audit report questioned the appropriateness of CSAT's relationship with the affiliates and recommended that the New York State Education Department look into the propriety of their relationships.

Our audit assessed the adequacy and effectiveness of controls at CSAT and its relationship with EST and eDoctrina during the 2011-12 and 2012-13 school years. We examined financial records and agreements between CSAT and its affiliates to determine if financial controls were in place and functioning, and the nature of the relationships amongst the affiliates.

Audit Results

We found that CSAT has controls in place to help safeguard their assets and promote accuracy, efficiency, and consistency within their accounting and financial operations. However, our testing of the implementation of these controls identified some deficiencies. Specifically, we found that purchase requisitions were not consistently prepared; service deliverables were not always delineated or tracked; some expenditure documentation lacked appropriate detail; contractual services were rendered and paid for on unexecuted contracts; leased space was paid for in full by CSAT and not allocated among all the occupants; and two substantial construction contracts were not competitively bid.

EST has a detailed Management and Consulting Services Agreement (Agreement) with CSAT but documentation to support the delivery of services outlined in the Agreement was not maintained. In addition, we found the Agreement is no longer up to date and does not reflect the current relationship between the two entities. Furthermore, CSAT paid EST \$862,319 and \$689,873 for the 2011-12 and 2012-13 fiscal years, respectively; however, their Agreement is for a \$300,000 annual payment. CSAT also paid eDoctrina \$25,814 in total for the same two fiscal years despite the lack of contract in place between the two.

The Operating Agreement between EST and CSAT states that EST's net profits and net losses will be allocated to CSAT. Our review of EST's financial records showed that it had a net operating loss of \$54,105 in the 2011-12 fiscal year and a net operating profit of \$208,207 in the 2012-13 fiscal year, but those allocations were not reflected in CSAT's financial records for either fiscal year.

Comments of CSAT Officials

CSAT officials' comments about the findings and conclusions were considered in preparing this report. Their response is included as Appendix B to this report.

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Introduction

Background

The Charter School for Applied Technologies (CSAT) was chartered in 2001 by the New York State Board of Regents under Article 56 of Education Law. The Board of Regents oversees CSAT to ensure compliance with all applicable laws, regulations, and charter provisions. A Board of Trustees (Board), which is comprised of nine members, governs CSAT. The Board is responsible for the general management and control of CSAT's financial and educational affairs.

A recent audit by the Office of the State Comptroller (OSC) brought to light questions regarding CSAT's business practices, specifically those involving its two wholly owned affiliates, Efficient Schools Team, LLC (EST) and eDoctrina Corporation (eDoctrina). EST is a management and consulting contractor and eDoctrina is a developer of web-based education software that aids in the assessment and tracking of student progress. The OSC audit report questioned the appropriateness of CSAT's relationship with the affiliates and their lack of a written contract for services provided by eDoctrina. As a result of the audit, it was recommended that the New York State Education Department look into the propriety of CSAT's relationship with the two corporations.

CSAT is located in Buffalo, New York and serves approximately 1,675 students (grades K-12) from 19 different school districts throughout Western New York. It is the largest charter school in the State and one of eight that offers a K-12 education.

Objectives, Scope, and Methodology

The purpose of our audit was to assess the adequacy and effectiveness of controls at CSAT and its relationship with EST and eDoctrina during the 2011-12 and 2012-13 school years. To accomplish our objectives, we interviewed management and staff from each entity, and reviewed financial policies, procedures, and records.

We conducted our audit in accordance with Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence provides a reasonable basis for our findings, conclusions, and recommendations.

Comments of CSAT Officials

CSAT officials' comments about the findings and conclusions were considered in preparing this report. Their response is included as Appendix B to this report.

Financial Controls

Financial controls consist of policies and procedures that ensure transactions are authorized and properly recorded; disbursements are made only for proper purposes; financial reports are accurate, reliable, and filed in a timely manner; and compliance with applicable laws, rules, and regulations. Written support of these controls is essential to an organization because it provides its employees with guidance on how transactions should be processed and recorded. Management is responsible for making sure this system of controls has been developed, implemented, and communicated throughout the organization so that a level of assurance exists that information reported is accurate and reliable

CSAT's Board is responsible for safeguarding the school's assets, promoting accuracy, efficiency, and consistency within the accounting and finance operations, and ensuring the accountability of the school's finances. In carrying out this directive, they have developed financial and accounting policies and procedures related to revenues, expenditures, and financial reporting.

We reviewed CSAT's financial and accounting policies and found them to be complete and up to date; however, we did find opportunities for improvement in relation to their purchasing process, awarding/execution of contracts, allocation of expenditures that benefit other programs, and maintenance of supporting documentation for expenditures.

Expenditure Documentation and Contract Bidding

CSAT's purchasing policy states that purchase requisition forms must be completed and approved by a supervisor, and the accounting department, prior to the purchase of goods or services. Once approved, purchase orders, which contain terms and conditions of the agreement, are produced and maintained by the accounting department. CSAT's purchasing policy also encourages competitive bidding for purchases, leases, and contracts exceeding \$10,000. In such cases, at least three written bids/quotes should be obtained and evaluated, with awards going to the vendor whose bid or quote is most advantageous to the school with

consideration of price, quality, service, and specification conformance.

During the 2011-12 and 2012-13 school years, CSAT charged a total of 5,097 expenditures to other than personal services that amounted to \$24,059,113. We sampled 124 of these expenditures, which amounted to \$1,237,221. For each of the sampled expenditures, we reviewed voucher packet documentation to determine if they were appropriately charged to CSAT and well supported.

Our voucher review for the sampled expenditures showed that most were appropriately charged to CSAT and contained adequate documentation to support the expense, with the exception of the following:

- Purchase requisitions were not completed for seven of the sampled expenditures, which totaled \$4,250.
- An expenditure of \$2,115 was made for access to a web-based data collection system that tracks student and teacher assessment information. However, based on voucher documentation we could not determine the type of service(s) or whether they were provided.
- Documentation in support of a coaches dinner for ten staff did not include names of attendees.
- CSAT leases space that houses CSAT, eDoctrina, and staff from a family support center. The lease, which was increased from \$1,700 to \$4,700 per month on September 9, 2010, was unexecuted and monthly lease payments were not allocated amongst the occupants.
- Two construction contracts, one for \$135,000 and another for \$254,000, were not competitively bid (e.g., CSAT did not issue a request for proposal soliciting bids for either contract). In addition, one of the contracts was not fully executed, and the final payment of \$65,000 for the other was made on an invoice that did not contain documentation stating what work was completed.

Based on these observations, CSAT may be paying for expenses that are not allowable or related to school operations, and cost savings may have been realized if construction contracts were competitively bid. Additionally, if issues arose with either of the unexecuted contracts, CSAT may not have been able to seek timely recourse, and unexpected legal fees could have been incurred.

Recommendations

1. Ensure all CSAT personnel submit purchase requisitions, with expenditure justifications prior to making purchases.
2. Maintain supporting documentation that identifies deliverables or other measurable outcomes for all service provision related expenditures.
3. Obtain RFPs, when appropriate, for all contracts exceeding \$10,000. When RFPs are not sought, document rationale within voucher packet.
4. Execute all formal contracts prior to payment.
5. Allocate rent amongst occupants sharing leased space.

Relationship with Affiliated Corporations

The New York State Board of Regents granted CSAT its charter in 2001. At that time, it was under contract with an education management consultant (EMC) to provide administrative and operational services. The contract initially amounted to \$1.1 million and was to increase to \$2.1 million by the 2005-06 school year. As time passed, the EMC proved unable to provide the level of service required by the contract. By 2004, CSAT was performing many of the EMC's functions, and at the same time they were trying to expand. As a result, CSAT's Board sought financing to buy out their contract with the EMC and to capitalize the anticipated expansion. The Board was successful in securing financing, but the terms required that they have an EMC. CSAT was able to obtain the services of another EMC for \$300,000 per year, which fulfilled its financing obligation. At the end of their first year's contract with the new EMC, CSAT investigated the possibility of forming their own EMC, which was ultimately approved by the bonding agency and EST was established in 2007. We found that EST has provided the majority of its management and consulting services to CSAT and eDoctrina.

In 2010, CSAT created another corporation, eDoctrina, which develops and sells student assessment software to schools for the purpose of analyzing student data. eDoctrina has grown since inception and is now serving schools in eleven states and two provinces, and is projected to be profitable in the coming years.

Our review of EST's Management and Consulting Services Agreement (Agreement) with CSAT showed that it is no longer up to date and does not reflect the current relationship between the two entities. In addition, expenditure documentation showed CSAT paid EST more than the contracted amount in the 2011-12 and 2012-13 fiscal years, and they made payments to eDoctrina in the same two fiscal years even though there was no contract in place. Furthermore, CSAT's financial records did not reflect operating profits/losses from its affiliates for either of the fiscal years.

CSAT's Agreements with its Affiliates

CSAT entered into the Agreement with EST on July 1, 2007. The Agreement contains specific service provision relating to school operations and support services, which amounts to \$300,000 annually. It also includes some of the following deliverables:

- Provide direct supervision for administrators and managers.
- Provide all teachers with curriculum for their respective subject/grade.
- Provide all teachers and staff with professional development sessions.
- Provide school leadership/Board members with input gained from classroom observations and data analysis to aid in performance assessment improvement planning.
- Train all teachers to use eDoctrina and provide information and technology services support and database development.
- Present progress reports at regular Board meetings.

In order to substantiate service provision outlined in CSAT's Agreement with EST, we selected a sample of deliverables and requested documentation to support service delivery. CSAT management provided an explanation as to how service deliverables were accomplished for most of the sampled services but they did not have documentation to support their assertions. In addition, they stated that the Agreement between EST and CSAT needs to be updated to reflect the current relationship between the two entities.

We also reviewed CSAT's financial statements to verify that payments to EST did not exceed the contract amount of \$300,000. The financial statements showed that CSAT paid \$862,319 and \$689,873 for the 2011-12 and 2012-13 fiscal years, respectively. CSAT management stated that the contractual overpayments resulted from increased staffing levels at EST. In addition, we also noted that CSAT made payments to eDoctrina, which totaled \$25,814 for the same two fiscal years for software training. However, no contract exists between CSAT and eDoctrina, and EST was already being paid to provide software training as part of their Agreement with CSAT.

CSAT also entered into an Operating Agreement with EST. This agreement differs from the Management and Consulting Services Agreement in that it addresses the overall organization, management, and financials of EST. In the financial portion of the Operating Agreement, it states that EST's net profits and net losses will be allocated to CSAT. In addition, CSAT officials stated that surplus revenues from the activities of both entities would be remitted to CSAT to support its educational programs.

For the two years in our audit scope period, we found that EST's net income was \$(54,105) and \$208,207 for 2011-12 and 2012-13, respectively, and eDoctrina's net income was \$(36,280) and \$46,232 for the same two years, respectively. However, our review of both affiliates' financial records did not show any transfers of profits/losses for either of the years. CSAT officials contend that because the financial statements are consolidated, the affiliates do not need to transfer funds.

It is important that agreements and/or contracts that CSAT enters into with its affiliated corporations are up to date and contractual deliverables are tracked. In doing so, CSAT has greater assurance that it is getting the appropriate level of service and is paying only for those services that are needed, and that contract provisions have been met. CSAT should also ensure that operating profits realized by its affiliates are remitted to CSAT at the end of the year, as the transfer would aid in supporting CSAT's educational programs.

Recommendations

6. Review, revise, and update all agreements with affiliates to reflect current organizational relationships.
7. Allocate/remmit annual surplus revenues from affiliates to CSAT.

Contributors to the Report
Charter School for Applied Technologies

- Andrew Fischler, Associate Auditor
- Mark Finlayson, Senior Auditor

Charter School for Applied Technologies

Mr. J. Efrain Martinez, Superintendent
Mr. Andrew Lyle, Principal – CSAT, CMSAT
Ms Ann Morgante, Principal - CHSAT



November 4, 2014

Andrew B. Fischler
New York State Education Department
Office of Audit Services
Albany, NY 12234

Dear Mr. Fischler

Thank you for an opportunity to formally respond to findings from your audit of Charter School for Applied Technologies (CSAT). We support your recommendations and will fine tune our internal controls to address the comments listed. More specifically -

- *Ensure all CSAT personnel submit purchase requisitions, with expenditure justifications prior to making purchases.*
- *Maintain supporting documentation that identifies deliverables or other measurable outcomes for all service provisions related expenditures*

CSAT will seek to continue to comply with implementation of its policies and make every attempt to address the 0.3% shortfall of incomplete Purchase Requisitions as identified within the sampled tested.

- *Allocate rent amongst occupants sharing leased space*

We also agree with your finding and would like to provide an update –

As of July 1, 2013, one third of the monthly lease amount is currently being paid by eDoctrina. CSAT pays the remaining two thirds for the space leased at 317 Vulcan St.

- *...In the financial portion of the Operating Agreement, it states that EST's net profits and net losses will be allocated to CSAT. In addition, CSAT officials stated that surplus revenues from the activities of both entities would be remitted to CSAT to support its educational programs. ...we found that EST's net income was (\$54,105) and \$208,207 for 2011-12 and 2012-13, respectively...*
- *Allocate / remit annual surplus revenue from affiliates to CSAT*

Please note, the audited Financial Statements for CSAT are consolidated to include the financial transactions of CSAT and its subsidiaries. Published net income or losses reflect an aggregate total and as such could be classified as being allocated to CSAT as the parent of its subsidiaries. It should also be noted, in the event of dissolution of EST, LLC, all assets and liabilities would transfer to CSAT.

Charter School for Applied Technologies

Once again, we thank you for this opportunity to reply, and the extended deadline.

Sincerely,



Tanya Moore
Chief Financial Officer