
Audit Report

Charter School of Educational Excellence

For the Period

July 1, 2009 – June 30, 2010

CH-0911-01

June 15, 2012

**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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June 15, 2012

Mr. Eduardo LaGuerre, Chairman
Charter School of Educational Excellence
260 Warburton Avenue
Yonkers, New York 10701

Dear Mr. LaGuerre:

Enclosed is the final report (CH-0911-01) for the audit of the Charter School of Educational Excellence for the school year July 1, 2009 through June 30, 2010. The audit was conducted pursuant to Section 2853 of the Education Law.

I appreciate the cooperation and courtesies extended to the staff during the audit. If you have any questions or require additional information regarding the audit, please contact me or Stewart Hubbard at (518) 473-4516.

Sincerely,

James A. Conway

Enclosure

c: J. King, V. Grey, S. Cates-Williams, K. Slentz, J. Delaney, J. Conroy, C. Szuberla, C. Chuang, A. Timoney (DOB) K. Sifontes (OSC), C. Castillo, R. Dunn (NYCDOE, Office of Charter Schools)

Executive Summary

Charter schools are publicly funded and open to all students in New York State through a non-discriminatory admissions lottery. Each charter school is a not-for-profit organization governed by a board of trustees which may include educators, community members, and leaders from the private sector. Charters have freedom to establish their own policies, design their own educational program, and manage their human and financial resources. Charter schools are accountable, through the terms of a five-year performance contract, for high student achievement.

Charter School of Educational Excellence (CSEE) is located in Yonkers, New York and currently operates under its second five-year charter. During the 2009-10 school year they incurred \$5 million in expenditures and provided education services to approximately 375 students in grades K through 6.

The Office of Audit Services conducted an audit to verify the adequacy and reliability of the School's internal controls including the policies and procedures for collecting and reporting financial data. We examined records to determine: if there was adequate governance over school management and operations, the appropriateness of the management company relationship with CSEE, whether the school was in compliance with certain requirements, if there was adequate supporting documentation for expenditures, and whether the school maintained an adequate accounting system for the period July 1, 2009 through June 30, 2010.

Audit Results

The audit found that in general CSEE had adequate internal controls and was in compliance with its Charter. We did identify the following areas in need of improvement as follows:

- The Board of Trustees was not in compliance with all of the Charter provisions by not setting up an escrow account and by not posting their Annual Report on their website. There is also a lack of transparency with Board minutes and Trustee Disclosures of Financial Interests
- CSEE did not adequately document journal entries.
- 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.

Comments of CSEE Officials

CSEE officials' comments about the findings and conclusions were considered in preparing this report. Their response is included as Appendix B to this report. Auditor Notes are included in Appendix C of this report.

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Introduction

Background

Charter schools are publicly funded and open to all students in New York State through non-discriminatory admissions lotteries. Each charter school is a not-for-profit organization governed by a board of trustees which may include educators, community members, and leaders from the private sector. Charters have freedom to establish their own policies, design their own educational program, and manage their human and financial resources. Charter schools are accountable, through the terms of a five-year performance contract, for high student achievement.

The Charter School of Educational Excellence (CSEE) is located in Yonkers, New York and currently operates under its second five-year charter. During the 2009-10 school year they incurred \$5 million in expenditures and provided education services to approximately 375 students in grades K through 6.

Objectives, Scope, and Methodology

The audit examined selected management practices, records, and documentation for the period July 1, 2009 through June 30, 2010. The objective of the audit was to assess the CSEE's internal controls including the policies and procedures for collecting and reporting financial data, which are designed to help ensure:

- there was adequate governance over school management and operations,
- the management company relationship with CSEE was appropriate,
- that CSEE was in compliance with its Charter, laws, and regulations,
- there was adequate supporting documentation for expenditures, and
- that the school maintained an adequate accounting system.

To accomplish our objective, we reviewed applicable laws, regulations, policies and procedures, and the Charter; interviewed State Education Department (Department) and CSEE management and staff; examined records and supporting

documentation; sampled transactions on a non-statistical basis; and reviewed its audited financial statements.

We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records, and applying other procedures considered necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions, and recommendations.

Comments of CSEE Officials

CSEE officials' comments about the findings and conclusions were considered in preparing this report. Their response is included as Appendix B to this report. Auditor Notes are included in Appendix C of this report.

Governance

A charter approved by the Board of Regents establishes the legal authority for a charter school to exist. The board of trustees of a charter school has ultimate responsibility for the overall management and operation of the school subject to the limitations of law. CSEE opened in September 2005. The Board of Regents issued a five-year charter renewal on January 12, 2009.

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. In addition, two Trustees failed to properly disclose organizational conflicts of interests.

Documentation of Board Meetings

The Charter identifies records that must be maintained including minutes of each meeting of the Board and documentation of public notifications of such meetings. In addition, the by-laws state that CSEE shall keep minutes of the Board meetings. CSEE could not provide minutes for January, February, March, and June 2010 even though documentation indicates that meetings were held in those months. In addition, 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.

Establishment of Escrow Account

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 has not complied with their Charter by failing to set up this escrow account.

Publication of Annual Report

The Charter requires that no later than August 1st of each year, the school must submit to the Regents an annual report. This report is required to be posted on the school's website. CSEE

had not posted the 2009-2010 annual report on its website at the time of field work.

Board of Trustees Disclosures

The Charter includes Trustee Disclosure of Information (DFI) forms. It is required that the DFIs be updated on an annual basis and be included within CSEE's annual report.

Trustees must identify, on DFI forms, any entity doing business with the charter school with which they have a financial interest. CSEE's Code of Ethics also requires Trustees to disclose when they have a financial, organizational, or personal interest in a matter before the Board.

Two Trustees are 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.

We could not determine if these two Trustees disclosed their relationship with CEI to the Board because of missing and incomplete minutes.

Recommendation

1. CSEE should comply with the terms of the Charter, which includes the full disclosure of organizational interests by Trustees, keeping minutes of all Board meetings, the completeness of Board minutes, establishing the required escrow account, and website posting of the annual report.

Internal Controls

Internal control is a process effected by an organization's structure, people, and management information systems, and is designed to help the organization accomplish specific goals or objectives. While the overall purpose of internal control is to help an organization achieve its mission, it also helps an organization to:

- promote orderly, economical, efficient and effective operations, and produce quality products and services consistent with the organization's mission;
- safeguard resources against loss due to waste, abuse, mismanagement, errors, and fraud;
- promote adherence to laws, regulations, contracts, and management directives; and
- develop and maintain reliable financial and management data, and accurately present that data in timely reports.

Trustees have the responsibility to monitor the charter schools' internal controls. Management should ensure that adequate accounting and reporting systems are in place so that accurate, timely, and complete financial records are maintained and can be reflected in periodic reports to the board, public, and State. Reports generated by the accounting system are the basis for many decisions made by the board and administration.

We found that generally CSEE had adequate control systems. However, we identified some areas in need of improvement such as sufficiently documenting the purpose of journal entries, and supporting grant expenses. In addition, we noted weaknesses in control over cash, asset inventory, and purchases.

Journal Entries

An important component of a system of internal control is the maintenance of adequate documentation to support accounting transactions. CSEE uses an accounting software system which is maintained by their management company, Victory Schools, Inc. (VSI). We found that CSEE did not adequately document journal entries within their accounting system.

Routine accounting entries are recorded in special journals, but a general journal is used for posting unique items. In the

general journal, the accountant enters the account to be debited and the account to be credited and the amounts. Documentation to support the journal entry includes an explanation of the purpose of the entry. This explanation/description can be documented on the software or on a supporting schedule.

We examined 265 general journal entries. Only 3 of the 265 had any information to describe the purpose of the entry. The remaining 262 entries lacked information such as name, description, and identifying number that would identify purpose. Subsequent to our field work, CSEE provided additional information that explained the purpose of the entries; however, it is important that explanation be incorporated into the accounting system.

Federal Grant Expenses

Office of Management and Budget (OMB) Circular A-87 states that the total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits. It also states that to be allowable under an award, costs must be reasonable for the performance of the award and be adequately documented.

We examined a sample of Elementary and Secondary Education Act Title IIa grant expenses to determine if they were allowable, reasonable, and adequately documented. It included a \$20,766 expense for professional development paid to VSI, but the documentation provided supported only \$15,200. The support provided for \$5,566 of the amount examined was not adequate.

In addition, CSEE paid \$13,300 to Future Tech Enterprise, Inc. but claimed \$13,893 for this purchase under two grants. Under the ARRA Title I grant, \$12,500 was claimed and under the Title IID grant, \$1,393 was claimed. Therefore, an excess of \$593 was claimed between the two grants.

The unsupported \$5,566 and the \$593 must be returned to the Department.

Cash Controls

Proper internal control over the receipt of cash requires a separation of duties. One individual, who does not have

access to the accounting software, should have the responsibility to open the mail. When checks are received, that individual should restrictively endorse each check, enter them on a log, and prepare a bank deposit slip. A different individual should go to the bank to deposit the checks. Then the deposit transaction is posted into the accounting records. The log should be compared to the transaction that was posted in the accounting records to ensure that it is accurate.

When CSEE receives checks, they are directly mailed to VSI without being restrictively endorsed or being entered onto a log. There is no verification that all of the checks went to VSI, that they were received by VSI, and that they were all deposited into the bank.

Sound internal control over a petty cash fund requires policy and procedures which define the amount and type of expenses that can be paid from the fund, and the required supporting documentation to be retained for expenses. CSEE had adequate guidance from the policy and procedure manual, regarding the administration of the petty cash fund, however, the business manager and his assistant were not following this guidance.

CSEE added vending machine revenues to the petty cash fund and did not retain all petty cash expense receipts. Also, the petty cash fund could not be reconciled because the vending machine revenues were added to the fund without being counted, and therefore, represents a loss of accountability over the funds.

Inventory

Inventory controls over all assets are needed to safeguard property against loss, establish effective utilization, determine needs, and identify surplus items. Adequate controls include maintaining complete and accurate records; tagging assets with ownership and identification labels; and periodically conducting physical inventories typically on an annual basis. We were provided with three separate lists none of which were all inclusive.

CSEE does not maintain a comprehensive inventory list. Many items on these lists did not include the serial number, date placed in service, and the historical cost.

We selected a sample of six items (four computers, a printer, and a monitor), to verify their existence and the accuracy of the inventory list. Only two of the four computers were located. The printer and monitor could not be located.

We also found that CSEE does not always use asset tags and there is no evidence of any physical inventory.

Purchasing

The board and management of a Charter School are responsible for protecting its resources and ensuring that payments are for valid and legal purposes; obligations are incurred by authorized officials; goods are actually received or services rendered; and obligations do not exceed budgeted amounts. To determine if these requirements are met, schools should maintain complete and accurate documentation to support all payments. All purchases should be necessary, reasonable, and adequately documented.

We found that in some instances CSEE did not use purchase orders, paid sales tax, or lacked a contract for the purchase of many 'recurring goods and services'. It should be noted that CSEE contracted with VSI for the provision of management services, which included the purchasing function.

VSI has primary responsibility for the accounting function, processes the vast majority of CSEE purchases and also provides the school with their policy and procedure manual. This manual instructs staff on the methods that should be used for procurement activities and states that:

- purchase orders are the preferred method of obtaining goods and are to be used for procurement in every case possible;
- contracts are used for recurring provisions of goods or services such as food service, maintenance, and professional development; and
- the school is tax exempt.

CSEE incurred a total of \$2.5 million in non salary expenses, from which we sampled 39 purchases costing \$331,000 (13 percent). For these purchases:

- CSEE did not use purchase orders to authorize any of the purchases;

- eight vendors totaling \$68,000 did not have a service contract as required for ‘recurring goods and services’;
- CSEE paid more than \$1,100 in sales tax, which is not a necessary expense. Most of the sales tax paid was incurred in the purchase of four smart boards; and
- three of 39 purchases were for items not necessary for the daily operation of the school. One of the items was for the purchase of 100 boxes of chocolate for Christmas gifts for staff. Two of the purchases were for sympathy gifts. District officials indicated these were paid for with fundraising, however, the accounting system does not provide information to determine source of funds.

CSEE and VSI did not follow all the internal controls for purchasing that were in the policy and procedure manual.

Recommendations

2. Completely document all general journal entries.
3. Submit revised FS-10-Fs for both Title IIa and either ARRA Title I or Title IID grants to exclude the costs related to the professional development costs paid to VSI and Future Tech Enterprise. The revised FS-10-F long forms accompanied by a copy of this report or transmittal letter identifying this audit as the reason for the revision should be submitted within 30 days to:

The State Education Department
Grants Finance, Room 510W EB
Albany, NY 12234

Grants Finance will review the revised FS-10-F long forms and send Form FS-80 Notice of Overpayment to your District, confirming the amount overpaid and providing remittance instructions.

4. Strengthen internal controls over incoming checks, petty cash, inventory, and purchasing.
5. Ensure that all procurement transactions have adequate supporting documentation.
6. Ensure that CSEE does not incur the cost of sales tax and pursue recovery of sale taxes paid from all vendors when possible.

Special Educational Program Records

Charter schools provide special education services to students who do not make sufficient progress to meet age or State-approved grade-level standards in one or more specific areas. Evidence of the provision of special education services is found in documentation such as invoices for services rendered.

Special Education Program Records

Nine special education students were selected to determine if each had an IEP that was current. Each of these students appropriately had an IEP that was current.

Three of the nine special education students were selected to determine if the educational program described in their IEP was in fact provided. For one student, the educational program described in the IEP was provided by a CSEE employee and it was adequately supported. The educational program for another student was provided by the Yonkers City School District for which no supporting documentation was provided. The educational program for a third student was provided by a contractor. The contractor's invoices were not specific enough to determine if the educational program was provided. Therefore, there is no evidence that two of the three students received their IEP mandated services.

Recommendation

7. Maintain supporting documentation to show that all special education students are receiving their prescribed educational programs.

Contributors to the Report
Charter School of Educational Excellence

- T. Stewart Hubbard III, Audit Manager
- Susan DuFour, Auditor-in-Charge, Associate Auditor
- Thomas Holland, CPA, Senior Auditor



Charter School of Educational Excellence

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(914) 476-5070 • Fax (914) 476-2858

May 25, 2012

Mr. James A. Conway
Director
Office of Audit Services
The State Education Department
Albany, NY 12234

Re: Draft Audit Report of the Charter School of Educational Excellence

Dear Mr. Conway:

The Charter School of Educational Excellence would like to express its appreciation to the New York State Education Department, Office of Audit Services, for its professional performance in the preparation of the Audit and examination report. In addition, we thank you for giving us the opportunity to respond to the findings and recommendations that your audit team has presented. While we are in agreement with most of them, there are others that we feel we had properly presented the supporting information to disprove the findings. It doesn't appear that this information was factored into the findings at all. Maybe we could setup a separate meeting to discuss these issues further before the final report is issued.

Audit Results – 1st Bullet Point – The Board of Trustees was not in compliance with all of the Charter provisions by not setting up an escrow account and by not posting their Annual Report on their website. There is also a lack of transparency with Board Minutes and Trustee Disclosures of Financial Interests.

School Response – The school agrees with this finding and will be setting up the escrow account shortly and posting the Annual Report on our web site. In addition, moving forward, the Board will be strengthening the transparency of the Board Minutes and Trustee Disclosures of Financial Interests.

Audit Results – 2nd Bullet Point – CSEE did not adequately document journal entries.

School Response – We disagree with this finding. Although many of the journal entries that were subject to your sample may not have included all of the information that you recommend, all of the school's journal entries are in fact fully supported by invoices or Excel worksheets and schedules. At the end of every accounting closing period, there are

See Auditor's Note 1

schedules fully supporting most balance sheet and profit and loss accounts. It is on these schedules that clearly show the adjusting amounts that are then recorded, via journal entries, into the accounting system. All of these entries documented (prior to June 2010) were from the old accounting system (Microsoft GP Dynamics). These should not have been issues with the new accounting system implemented in July 2010.

Audit Results – 3rd Bullet Point – CSEE could not support \$6,159 in federal grant expenses.

School Response – We disagree with this finding. What we provided to you and you have agreed to clearly supports the full amount of the federal grant for that period. However, there was additional professional development support provided by Victory throughout the entire school year (leadership coaching, math, science, special education services, etc) that are performed as part of our management agreement with Victory. We have attached a report detailing an additional 69 hours of professional development support provided during that year. This should overwhelmingly support the difference that you have noted.

See
Auditor's
Note 2

Audit Results – 4th Bullet Point – Internal controls were weak for incoming checks, petty cash, inventory, and purchasing.

School Response –

Incoming Checks - We agree that the process over the receipt of incoming checks at the school needs to be complied with as stated in the school's Financial Policies and Procedure manual. Beginning in November 2011, the school has been endorsing and coping all checks deposited into the bank or sent in to Victory for further processing. It should just be noted that there were never any issues with checks getting lost or stolen at the school.

Petty Cash - We agree with this finding. We have been in the process to ensure that the Director of Operations/Business Manager is handling the petty cash function in accordance with school's Financial Policies and Procedure manual that documents what is required for strong internal controls over petty cash.

Inventory - We agree with this finding. We will be working with the Director of Operations/Business Manager to make sure this process is done every year and that all of the pertinent information (serial #'s, location, service date, etc.) is properly documented.

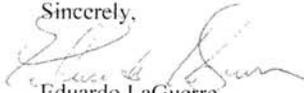
Purchasing – We disagree with this finding. The school is not required to issue a purchase order for everything. For the few instances where a purchase order is required, we believe we have been in compliance. Please provide us with a list of the items where you believe a purchase order is warranted and we can review and discuss this with you further.

See
Auditor's
Note 3

Audit Results – 5th Bullet Point – CSEE does not have supporting documentation that all special education students received their prescribed educational programs.

School Response – We agree for the services provided to our students from the Yonkers School District.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Eduardo LaGuerre', written in black ink.

Eduardo LaGuerre
Chairman of the Board of Trustees

Auditor's Notes

1. We continue to believe that information sufficient to explain the purpose of the transaction should be incorporated into the general journal entry.
2. CSEE claimed \$20,766 for a consultant who was paid \$800 per day to provide professional development. We were provided with documentation to support 19 professional development sessions for this individual. Schools must maintain supporting documentation for any expenditure claimed in grants.
3. Our analysis of the use of purchase orders was based on the CSEE policy which stated "Purchase Orders are the preferred method of obtaining goods and are to be used for procurement in every case possible".