

---

---

# Audit Report

---

---

Williamsburg Charter High School

For the School Year  
July 1, 2009 through June 30, 2010

CH-1110-01

April 18, 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

---

James A. Conway  
Director  
Office of Audit Services, Room 524 EB  
Tel. (518) 473-4516  
Fax (518) 473-0259  
E-mail: [jconway@mail.nysed.gov](mailto:jconway@mail.nysed.gov)

April 18, 2012

Ms. Lourdes Rivera-Putz  
Chairperson, Board of Trustees  
Williamsburg Charter High School  
198 Varet Street  
Brooklyn, NY 11206

Dear Ms. Rivera-Putz:

Enclosed is the final report (CH-1110-01) for the audit of the Williamsburg Charter High School 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

Attachments

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

---

# Executive Summary

---

## Background and Scope of the Audit

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.

Williamsburg Charter High School (WCHS) is located in Brooklyn, New York and currently operates under its second five-year charter. During the 2009-10 school year they incurred \$13.5 million in expenditures and provided education services to approximately 800 students in grades 9 through 12.

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 WCHS, 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 WCHS had a number of serious internal control issues, some of them are as follows:

- 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

Given the critical nature of these issues, WCHS should take immediate action to make improvements in these areas. A more detailed discussion of the results of the audit is presented in the report.

## **Comments of School Officials**

WCHS officials' comments about the findings and conclusions were considered in preparing this report and changes have been made to this final report as a result of them. School Officials generally disagreed with our findings and recommendations and also stated that any finding regarding the relationship with the management company is no longer valid since the relationship has ended. The WCHS response is included as appendix B, the exhibits to the response will be made available upon request.

---

# Table of Contents

---

<b>INTRODUCTION .....</b>	<b>1</b>
BACKGROUND .....	1
OBJECTIVES, SCOPE, AND METHODOLOGY .....	1
COMMENTS OF SCHOOL OFFICIALS .....	2
<b>GOVERNANCE .....</b>	<b>3</b>
MANAGEMENT COMPANY AGREEMENT .....	3
DISCLOSURE OF FINANCIAL INTEREST .....	4
ESTABLISHMENT OF ESCROW ACCOUNT .....	4
SCHOOL AT UNAUTHORIZED LOCATION .....	4
RECOMMENDATIONS .....	5
<b>MANAGEMENT COMPANY RELATIONSHIP .....</b>	<b>6</b>
MANAGEMENT FEE .....	6
DUPLICATION OF SERVICES .....	6
RECOMMENDATIONS .....	8
<b>COMPLIANCE ISSUES .....</b>	<b>10</b>
FEDERAL GRANT EXPENDITURES .....	10
RECOMMENDATION .....	11
<b>PROCUREMENT AND EXPENDITURES .....</b>	<b>12</b>
UNSUPPORTED PURCHASES .....	12
CREDIT CARD PURCHASES .....	14
UNSUPPORTED PAYMENTS TO FORMER CEO .....	15
RECOMMENDATIONS .....	15
<b>ACCOUNTING PROCEDURES .....</b>	<b>16</b>
FIXED ASSET/DEPRECIATION .....	16
INVENTORY .....	16
RECOMMENDATIONS .....	17

Appendix A – Contributors to the Report

Appendix B – WCHS Response

Appendix C – Auditor’s Notes

---

---

# 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.

Williamsburg Charter High School (WCHS) is located in Brooklyn, New York and currently operates under its second five-year charter. During the 2009-10 school year they incurred \$13.5 million in expenditures and provided education services to approximately 800 students in grades 9 through 12.

## 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 WCHS'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 WCHS was appropriate,
- that WCHS 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 WCHS 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 School Officials**

WCHS officials' comments about the findings and conclusions were considered in preparing this report and changes have been made to this final report as a result of them. School Officials generally disagreed with our findings and recommendations and also stated that any finding regarding the relationship with the management company is no longer valid since the relationship has ended. The WCHS response is included as appendix B, the exhibits to the response will be made available upon request.

---

# 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. The Board of Regents issued a provisional charter valid for a term of five years on February 23, 2004. A second Charter Renewal (Charter) was approved by the Board of Regents to be effective on July 28, 2009.

The WCHS Board of Trustees (Board) violated its Charter by entering into a management contract without approval, not annually filing a Disclosure of Financial Interest (DFI) form for each trustee, not setting up a required escrow account, and operating a school at an unapproved location.

## **Management Company Agreement**

The Charter allows the Board to contract with an outside entity to manage and operate the school. If the school elects to use a management company, the Charter states that they must enter into a legally binding agreement by August 15, 2009. However, thirty days before entering into such a contract the school must provide a copy of the contract to the New York City Department of Education (NYCDOE). The contract can not be executed until the school is notified by NYCDOE that it has been formally approved.

WCHS entered into a management agreement (Agreement) with Believe High Schools Network (Network) on August 1, 2009 to manage and operate the school from August 1, 2009 through June 30, 2014. However, a copy of the Agreement was not approved by NYCDOE. Further, on February 1, 2010, NYCDOE received a letter from WCHS requesting support to revise the Charter to add the Network as the management organization even though they had already been using the Network without approval for six months.

## **Disclosure of Financial Interest**

The Charter states that the Board of Trustees shall require that each Trustee who has served on the Board during a school year file a Disclosure of Financial Interest (DFI) annually with the NYCDOE Chancellor. These forms are filed as part of the school's Annual Report.

A DFI was not filed for each Trustee for the 2009-10 school year. WCHS submitted a Charter School Annual Report for 2009-10 with only one Trustee's DFI. In contrast, there were 11 DFIs submitted with the 2008-09 Annual Report.

## **Establishment of Escrow Account**

The Charter states that the school agrees to establish an escrow account of no less than \$25,000 to pay for legal and audit expenses that would be associated with dissolution should it occur.

WCHS has not yet set up the escrow account at the time of field work in violation of its Charter.

## **School at Unauthorized Location**

The Charter states the school shall be located at the Leonard Street and Varet Street sites. However, WCHS paid rent and other costs for space at 33 Nassau Avenue without approval to operate a school at that site. They paid \$149,426 in rent, utilities, trash, security, and other costs for the Nassau Avenue site. WCHS also paid \$37,985 in student transportation costs to that site. Such actions should have been pre-approved through a modification of the Charter. However, they did not obtain approval from NYCDOE thirty days prior to entering into the Agreement.

Since the Nassau Avenue site was not an approved site as part of their Second Renewal Charter, WCHS should not have paid any costs associated with that site.

## **Recommendations**

1. Obtain NYCDOE approval and a Charter revision before continuing your relationship with the Network.
2. Comply with the terms of the Charter, including submission of DFI's, establishment of an escrow account, and school location site approval.

---

# Management Company Relationship

---

Although WCHS did not have approval from NYCDOE, it entered into an Agreement with the Network on August 1, 2009. This Agreement states the Network was to “perform certain educational management services in connection with the management of the Charter School, including but not limited to start-up, curriculum design, administration/operations, staff/leadership, recruitment, evaluation/assessment, and training/development.”

We found that WCHS overpaid the Network, and paid contractors for services that should have been provided or paid for by the Network.

## Management Fee

The Agreement states that WCHS will pay 20 percent of the per pupil operating expense for the services provided by the Network. The per pupil operating expense is the amount that districts pay charter schools based on student enrollment.

WCHS billed the NYCDOE every two months and received \$11,717,654 in per pupil operating expense and then paid the Network 20 percent of this amount (\$2,343,531). They submitted a year-end reconciliation report to NYCDOE and reported the number of general education and special education students enrolled for the 2009-10 school year. We found that WCHS should have billed NYCDOE \$11,310,116 for pupil operating expenses based on the 2009-10 year-end reconciliation report. Twenty percent of this amount (\$2,262,023) is what should have been paid to the Network. The difference of \$81,508 was overpaid to the Network and should be returned to WCHS.

## Duplication of Services

Article 3.1 of the Agreement states that the education and instruction-related services to be provided by the Network shall include the design and implementation of: educational programs; programs of instruction; rules and requirements relating to student admissions; bilingual education; student records; special education; student testing, etc.

The Agreement also states that the Network will provide management and operation services including:

- Management of the business administration including the preparation and maintenance of the operating procedures and facilitation of the financial, accounting, and bookkeeping functions;
- Management and facilitation of payroll functions;
- Negotiation with public and private entities and individuals on behalf of the school for the provision of services required by the school including transportation, custodial, and food services, that will be paid with school funds;
- Facilitation of the purchase of information technology including computers, wireless internet access, telephone service or equipment, student information systems, and file storage, that will be paid with school funds; and
- Coordination of the purchasing or leasing of material, supplies, and equipment that will be paid with school funds.

Article 3.2 of the Agreement allows the Network to subcontract any function or service it is obligated to provide, but it does not relieve or discharge the Network from any obligation or liability.

WCHS contracted with numerous entities that provided services that should have been provided by, or were the responsibility of the Network, under the terms of the Agreement.

*Frontier Educational Services (FES)* - WCHS entered into a contract on September 1, 2009 with FES at \$125 per hour to organize an on-going file of special education students, create an open dialog between regular and special education teachers, and to provide teachers with effective instructional strategies. The contract was from September 1, 2009 through June 30, 2010 with services not exceeding 707 hours or a total cost of \$88,375. FES was paid a total of \$97,000. The cost incurred for FES to provide these services should have been paid by the Network.

*Center of Educational Innovation Public Education Association (CEI)* – CEI submitted four invoices in the 2009-10 school year for services rendered October 2009 through January 2010 totaling \$72,800. The services rendered were teacher observations, teacher post conferences, conferences with administrators and CEO, mentor principal/ vice principal/

grade leaders, data analysis, and coach ancillary staff. A copy of the contract was not provided. The cost incurred for CEI to provide these services should have been paid by the Network.

*JPS Solutions* - WCHS paid \$15,000 to JPS Solutions on February 17, 2010 for grant writing research and preparation services to support the School Leadership Grant Program Proposal (\$10,000) and Elementary and Secondary School Counseling Programs Proposal (\$5,000). Grant writing services were the responsibility of the Network.

*Teach for America* – They submitted an invoice dated September 28, 2009 for \$16,000. The invoice indicated the services rendered were related to the recruitment, training, and support of teachers to be employed by WCHS. The total cost is questioned because the services rendered were the responsibility of the Network.

A summary of the payments is shown in Table 1 below.

**Table 1**  
**2009-10 WCHS Consultant Costs that**  
**Should Have been Paid by the Network**

<b>Consultant</b>	<b>Amount</b>
Frontier Educational Services	\$97,000
Center for Educational Innovation	72,800
JPS Solutions	15,000
Teach for America	16,000
<b>Total</b>	<b>\$200,800</b>

*Source: OAS analysis of management company Agreement and various consultant contracts*

WCHS entered into individual consultant contracts which essentially represented duplicate payments for functions that were part of the Agreement with the Network. WCHS paid \$200,800 to consultants for services that should have been provided by the Network.

## **Recommendations**

3. WCHS should recover \$81,508 from the Network due to overpayment of the management fee.

4. WCHS should recover \$200,800 from the Network that was paid to contractors for services that were the Network's responsibility.

---

# Compliance Issues

---

Charter schools are educational corporations organized to operate a school having all the corporate powers necessary for carrying out a charter school program in accordance with Education Law, and other applicable laws and regulations. Charter schools are sub-recipients of federal funds and as such are subject to compliance with federal regulations for administering those funds.

WCHS was seriously deficient in documenting the use of federal funds. As a result WCHS could not support the appropriateness of expenditures funded by federal grants.

## **Federal Grant Expenditures**

The Office of Management and Budget Circular A-122 establishes principles for determining costs of federal grants, contracts, and other agreements with non-profit organizations. This states that the total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits. To be allowable under an award, costs must be reasonable for the performance of the award and be adequately documented.

WCHS could not generate a report from its accounting system that listed all of the expenditures associated with any particular grant because grants were not accounted for separately. The files provided did not include support for grant expenditures. Expenditures associated with any particular grant could not be identified, and therefore, a determination could not be made regarding allowability.

WCHS received a total of \$807,854 in federal grants paid in flow-through funds from the Department for the 2009-10 school-year as shown in Table 2.

**Table 2**  
**WCHS Undocumented Federal Grant Expenditures**  
**2009-10**

Federal grant	Project #	Amount Undocumented
Title I Parts A & D	0021104266	\$408,289
Public Charter Schools	0089109027	142,057
Title II A	0147104266	35,314
Title II D	0291101027	142,500
ARRA Equipment	5004100174	16,863
ARRA Title I Parts A & D	5021104260	62,831
<b>Total</b>		<b>\$807,854</b>

*Source: OAS review of WCHS general ledger and federal grant documents*

WCHS could not demonstrate that grant costs were reasonable for the performance of the awards and adequately documented. These funds should be returned to the Department.

## **Recommendation**

5. Return \$807,854 that WCHS received in grants funds to the Department. The Check should be made payable to the "Treasury of the State of New York" and should be mailed to Grants Finance, New York State Education Department, Room 510 EB West, Albany, New York 12234.

# Procurement and Expenditures

Charter Schools are responsible for protecting resources and ensuring that payments are for valid and legal purposes; obligations are incurred by authorized officials; goods are received and/or services rendered; and obligations do not exceed budgeted amounts. We found many instances of purchases that were not adequately supported, unallowable, and/or unreasonable and unnecessary. We also identified unsupported credit card charges. In addition, we found unapproved payments to the former Chief Executive Officer of WCHS.

## Unsupported Purchases

We selected a judgmental sample of other than personal service (OTPS) expenses. Many costs were not adequately supported, allowable, reasonable, or necessary. Support that was provided often included the payment of sales tax. WCHS is tax exempt and should not pay any sales tax. Table 3 below summarizes unsupported expenditures.

**Table 3**  
**Summary of Unsupported WCHS OTPS Costs**  
**2009-10**

Vendor Field	Post Date	Description	Amount
<b>Not Adequately Supported</b>			
Various Employees	06/30/10	Pension	86,482
Record Accruals	06/30/10	Accrue scholshp	79,500
Due to Network	06/30/10	Bkln Music Acd	33,022
Consultant AB	10/09/10	Consultant	32,062
McGraw Hill	09/14/09	Textbooks	23,265
New Furn & Laptops	12/31/09	Furn & laptops	15,761
Heimes Comm.	06/18/10	Web, Media Ser	15,000
Colson Services	09/14/09	Principal 5	13,644
Sunguard Public Sector	05/04/10	Prof dev	11,750
Geller Group	10/01/09	Pension	7,879
Due to Network	06/30/10	Princess Manor	7,855
HM Receivables Co.	12/03/09	Textbooks	6,494
Success by Design	06/30/10	Student planners	4,361
St Francis College	01/01/10	Class	3,270

<b>Vendor Field</b>	<b>Post Date</b>	<b>Description</b>	<b>Amount</b>
Business Card	06/16/10	Supplies	2,911
Blick Art Materials	01/05/10	Classroom supls	2,496
Due to Network	06/30/10	Conference	2,382
Harvard University	10/14/09	Class	1,850
Staples	09/15/09	Printing & Copy	1,623
Dell	05/24/10	Projector Lamps	1,350
Frenchmen TV	11/04/09	Air conditioners	1,254
School Food	04/06/10	Student lunch	1,232
HM Receivables Co.	12/11/09	Shipping	1,097
Wells Fargo	12/02/09	Copier lease	1,048
Princess Manor	06/30/10	Retreat	1,000
Key Equip Finance	01/12/10	Pmt copier	893
Staples	09/15/09	Supplies	839
Employee DH	12/01/09	Travel reimb	803
Employee DH	12/02/09	Travel reimb	803
Williamsburg News	11/24/09	Advertisement	800
Williamsburg News	02/01/10	Advertisement	750
NYC College of Tech	05/12/10	Class	650
Bespoken Education	12/02/09	Tutoring	650
Record Loan Fees	03/31/10	Loan Fees	417
Carmines's Pizza	09/09/09	Pizza	355*
Petty Cash	12/09-2/10	Jacobson	350*
Employee CF	12/17/09	Reimbursement	334
Employee EM	02/20/10	Reimbursement	316
Employee EC	05/20/10	Petty cash reimb	244
Employee JM	04/08/10	Travel	146
Employee EC	04/22/10	Petty cash reimb	106
Employee EC	12/16/09	Petty cash reimb	100
Consultant AB	12/21/09	Reimbursement	95
Transfirst	01/11/10	Equip rent	42
<b>Not Allowable</b>			
NYC Dept of Finance	01/05/10	Parking ticket	105
Employee HG	11/03/09	Parking ticket	60
<b>Not Reasonable or Necessary</b>			
Employee CJ	01/12/10	Teacher gifts	1,325*
George's Meat & Deli	07/08/09	Refreshment/hire	788

Vendor Field	Post Date	Description	Amount
<b>Total</b>			<b>369,559</b>

\* Includes Sales Tax

Source: OAS review of WCHS and Network payment documents

## Credit Card Purchases

Many expenses were charged to a WCHS credit card during the 2009-10 school year. We asked for supporting documentation for credit card statements with billing dates of August 4, 2009 and January 4, 2010. In many cases WCHS did not provide sufficient supporting documentation or, sometimes, no supporting documentation at all. Therefore, the appropriateness of the charges could not be assessed. The following purchases were made without sufficient supporting documentation:

- Equipment was purchased for \$4,549. The only supporting documentation was a cash register receipt that did not clearly identify the type of equipment. It was not supported with any internal documents, such as a purchase order, to indicate the intended purpose of the equipment. The equipment could not be located as part of a physical inventory. The receipt also contained \$371 in sales tax.
- Postage and shipping costs of \$4,856 were charged without any supporting documentation.
- A charge of \$850 was made to a Sheraton Hotel in Massachusetts without a bill or any justification for the charge. A \$45 charge was made to Manhattan Transit Authority for a subway toll card without any documentation.
- There were five \$25 charges for employee recruitment ads. Only two of these ads could be attributed to WCHS. Therefore, charges for three ads or \$75 were not adequately supported.

WCHS paid for some costs that were not necessary, reasonable, or adequately supported. Some costs included sales tax. Four costs were not supported with a contract. WCHS did not always provide adequate supporting documentation for all of the costs paid using a WCHS credit card. WCHS did not provide adequate supporting documentation for expenses totaling \$10,375 on those credit card statements.

## **Unsupported Payments to Former CEO**

Charter Schools are responsible for protecting their resources. All payments should be necessary, reasonable, and adequately documented.

The former CEO of WCHS submitted a resignation letter on March 31, 2009 that stated he was to begin the transition to the position of President and CEO of the Network. Three individual payments of \$4,806 each (total \$14,418) were made on July 15, 2009 with the following memos: Advance Payroll on July 31, 2009, Advance Payroll August 15, 2009, and Advance Payroll on August 31, 2009. WCHS provided a copy of Board minutes for a meeting that took place on August 2, 2009 to support these costs. They stated that the former CEO requested an extension to his existing contract to ensure a more seamless transition to the Network. However, they do not include motions made or a vote to approve this extension. Therefore, the total amount of \$14,418 is disallowed and should be returned to WCHS.

## **Recommendations**

6. Ensure that all expenditures have adequate supporting documentation.
7. Ensure that WCHS does not incur the cost of sales tax.
8. The total amount of \$14,418 was the result of inappropriate payments and should be recovered by WCHS from the former CEO.

---

# Accounting Procedures

---

Education Law requires charter schools to maintain a fiscal accounting system consistent with Generally Accepted Accounting Principles. Specifically, they must be in compliance with standards for not-for-profit institutions. We found WCHS did not comply with appropriate accounting principles as it relates to fixed assets, inventory, and allocation of costs.

## Fixed Asset/Depreciation

Schools purchase many items termed “fixed assets” that cost significant amounts of money and have a useful life of more than one year. These assets should be accounted for in a manner that is consistent with accounting standards. As such, these items should be capitalized on the balance sheet, the useful life estimated, and the cost of the item depreciated.

WCHS did not always account for fixed assets in a manner that is consistent with accounting standards. For instance, WCHS did journal entries to move the following from the Technology/Development expense account to a capital asset account:

- \$32,062 paid to Employee AB for services rendered, and
- \$46,642 paid to E-Rate for grant related services.

The Depreciation Schedule included an item purchased for \$6,180 with the description “due from North,” three items had purchase prices of \$1,492, \$872, and \$607 with a question mark for the description field and no other information. One item had a purchase price for \$229,787 with “various vendors” in the description field.

## 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 conducting physical inventories annually. The maintenance of adequate asset records and the fair reporting of fixed assets enable schools to

conform with generally accepted accounting principles and provide management with tools for establishing appropriate controls.

WCHS provided a copy of the inventory listing of items purchased and on order. This list showed 20,531 items on hand and 879 on order. Of the more than 20,000 items on hand, 19,860 were valued at less than \$500. About 3,800 items were valued at less than \$10. The list did not show date of purchase, location, serial number, funding source, or reference any purchasing records.

We selected four equipment items from the general ledger and five items from the property and equipment depreciation list. These items were located; however, there were no asset tags on any of the items selected, and documentation provided failed to indicate when the last physical inventory was taken.

WCHS has an inventory list that is inadequate, asset tags are not used, and the dates of physical inventories are not documented.

## **Recommendations**

9. Account for fixed assets in a manner that is consistent with accounting standards.
10. Ensure that the inventory list is adequate, asset tags are used, and the dates of physical inventories are documented, as well as their results.

Contributors to the Report  
Williamsburg Charter High School

- T. Stewart Hubbard III, Audit Manager
- Susan DuFour, Auditor-in-Charge, Associate Auditor



February 24, 2012

**VIA ELECTRONIC MAIL**

[jconway@mail.nysed.gov](mailto:jconway@mail.nysed.gov)

Mr. James A. Conway  
Director  
The State Education Department  
Office of Audit Services, Room 524 EB  
Albany, New York 12234

Dear Mr. Conway:

Thank you for your January 6, 2012 letter enclosing the draft audit report (CH-1110-01) for the audit of Williamsburg Charter High School ("WCIS," also sometimes referred to herein as the "School") conducted by the Office of Audit Services (the "Report"). On behalf of the Board of WCIS, we have reviewed the preliminary results and recommendations made in the Report, and respectfully submit our responses.

Below are our responses to each part of the Report's preliminary findings. For convenience, we have grouped these responses under the same headings used in your letter. We ask that you please take into consideration our comments in the preparation of the final report. In addition, you will note that in certain instances, we are still looking into the validity of your findings so that we can properly ameliorate. In such instances, I hope to provide a status update in a timely fashion. Please call directly if you have any questions.

Very truly yours,

  
Ellen Kimatian Eagen, Esq.  
Hiscock & Barclay, LLP (315) 425-2857  
Attorney for WCIS

Lourdes River-Putz  
President of Board of Trustees

cc: J. Delaney  
Cliff Chuang  
Recy Benjamin Dunn (NYCDOE, Office of Charter Schools)

Williamsburg Charter High School  
198 Varet Street  
Brooklyn, NY 11206  
(718) 782-9830

**Williamsburg Charter High School**  
**Responses to Draft Audit Report**  
**July 1, 2009 - June 30, 2010**



Williamsburg  
CHARTER HIGH SCHOOL

Submitted: February 24, 2012

---

Williamsburg Charter High School  
Responses to Draft Audit Report  
For 2009-2010

---

**GOVERNANCE**

---

The preliminary findings contained in the Draft Audit Report For the School Year July 1, 2009 through June 30, 2010 ("the Report") address a number of issues under the "Governance" category for the 2009-2010 audit period. For the reasons set forth below, Williamsburg Charter High School ("WCHS" or the "School") respectfully disagrees with the preliminary findings of the Report and offers the following responses. More importantly, it is to be noted, at this time the governance issues relating to the management company have been addressed in full and, as such, the issues are now moot.

**Management Company Agreement**

WCHS disagrees with the preliminary finding that it entered into a management contract without prior or proper approval. Nevertheless, the issue is now moot because WCHS has now ended its management contract and severed all ties with Believe High Schools Network ("BHSN").

See Auditor's Note 1
----------------------------

WCHS began the process of engaging Believe High Schools Network for the express purpose of managing the School at least two years before its second Charter Renewal. In fact, WCHS was actively involved in the founding of BHSN as a management company to serve both the School and other charter high schools, such as Believe Northside Charter High School and Believe Southside Charter High School. The New York City Department of Education ("NYCDOE") was aware at all times of WCHS' relationship with BHSN and its plans to engage BHSN to manage and operate the School as further discussed below.

At the time of the School's second Charter Renewal in 2009, the School specifically notified NYCDOE that it was intending to engage BHSN as its management partner. Because BHSN at the time had not yet received its authority to do business in New York State and did not receive such authority until May 20, 2009, the NYCDOE recommended that WCHS amend its Charter Renewal Application by eliminating any references to BHSN and then subsequently submitting a revision request to its Charter Application when BHSN finally gained authority to do business in New York State.

Following the NYCDOE's recommendation, WCHS did amend its Charter Renewal Application by eliminating all references to BHSN with the intention of submitting a revision request when BHSN had received its authority to do business in New York State. The NYCDOE, by prior notice and as evidenced by its recommendation to WCHS, was at all times aware of WCHS' intention to contract with BHSN as its management organization.

Per the requirements of section 2.13 of its Charter Renewal Agreement with the Department of Education, WCHS did enter into a legally binding and enforceable agreement with the BHSN prior to the August 15, 2009 deadline contained within the Charter Renewal Agreement. Please refer to **Exhibit A** for a copy of the Agreement between WCHS and BHSN (the "Management Agreement").

A copy of the Management Agreement was also forwarded to the Office of Charter Schools, Department of Education, to the attention of Michael Duffy, 30 days prior to its execution as required by applicable law. While the Management Agreement was ultimately not included in the School's charter renewal of 2009 because, as discussed above, BHSN had not yet qualified for authority to do business in New York, it was, as requested, delivered in a timely fashion to the Office of Charter Schools ("OCS") who received the request as directed from the New York State Department of Education. In a letter dated September 1, 2009 to Michael Duffy, the WCHS board chair subsequently requested the addition of BHSN as its management organization once BHSN was qualified to do business in New York State. Please refer to **Exhibit B** for a copy of the letter.

WCHS did not receive any response to its September 1, 2009 letter until early 2010, when the NYCDOE Office of Charter Schools notified the School that it was initiating a review process in response to the September 1 request.

In a follow-up letter dated May 13, 2010 from Aaron Listhaus to Ms. Sally Bachofer, the NYCDOE OCS not only stated that School had properly vetted and had been thoughtful about partnering with the management organization but made specific statutory findings that such partnership met the requirements of the law, would allow the School to operate in a fiscally sound manner and would be likely to improve student learning and achievement. In addition, the letter went on to say that the NYCDOE was requesting action by the Board of Regents for approval of this change. Please refer to **Exhibit C** for a copy of the letter.

WCHS did not receive any further correspondence or other notice from the NYCDOE or the New York State Department of Education until December 6, 2010 – eight months after its receipt of the May 13, 2010 letter from NYCDOE supporting the partnership. Over a year after WCHS had begun the process of partnering with BHSN under the watch of NYCDOE, the School received notice that the NYCDOE was now denying WCHS' request to add the services of BHSN. Please refer to **Exhibit D** for a copy of the NYCDOE December 6, 2010 letter.

Given the fact that not only did the NYCDOE reverse its position in approving the partnership with BHSN but that the reason for the change in position appeared to assume several inaccurate facts, the School appealed to the NYCDOE by letter dated December 30, 2010 and specifically asked for a response in order to get clarification on its status with the management company. Please refer to **Exhibit E** for a copy of the December 30, 2010 letter. The School never received a response.

As a consequence of the foregoing, at that time WCHS was of the belief that it: (i) followed all instructions as provided by the New York State Department of Education, including, Section 2.13 of the School's Charter Renewal Agreement and the NYCDOE OCS' office staff in regards to the submission of a request to add the proposed services of BHSN; (ii) complied with the vetting process initiated by the NYCDOE OCS; and (iii) met all the conditions required to add the proposed services.

---

Therefore, we submit that WCHS has at all times acted properly to inform the applicable governing authorities of its intentions to contract with BHSN to manage and operate the School and has relied on the advice and written instruction of such governing authorities in entering into a management agreement with BHSN.

Nevertheless, at this time, the issue of whether or not WCHS entered into a management contract without prior or proper approval is moot. WCHS has severed all ties with BHSN as of February 1, 2012. Please refer to **Exhibit F** for a copy of the board resolution formalizing WCHS's severance with BHSN. Most importantly, in the future, WCHS will receive approval prior to entering into any management agreement, and, in the case that WCHS does not obtain clear direction from the NYCDOE, rather than rely on its assumptions, it will pursue explicit instruction and all necessary approval.

#### **Disclosure of Financial Interest**

WCHS disagrees with the preliminary finding that it did not annually file a Disclosure of Financial Interest ("DFI") form for each of its trustees. Nevertheless, at this time the trustees have resubmitted all appropriate disclosure forms.

See Auditor's Note 2
----------------------------

WCHS submitted all the required DFI forms with its 2009-2010 Charter School Annual Report. It is the School's position that it was never made aware, either in writing or by other communication, that the forms were not received or otherwise missing.

Upon receipt of notice and at the request of the auditor conducting the audit of the School, trustees were asked to sign or resubmit disclosure forms, which were without objection provided to the State Education Department's auditor on site.

WCHS is aware of the importance of updating disclosure forms. Going forward, all board members will submit disclosure forms in a timely fashion and will be periodically reminded of updating such forms. All procedures relating to the disclosure of financial interest will be clearly defined in the revised Fiscal Policies and Procedures Manual that is presently under review by the Board of Trustees of WCHS.

#### **Escrow Account**

WCHS acknowledges that for a period of time it did not have an established escrow account, but it has since remedied the matter and is in compliance with this requirement.

Due to financial hardship associated with construction delays and cost overruns associated with moving from a DOE space into a new facility, WCHS was unable to maintain the required \$25,000 balance in an escrow account for dissolution in the 2009/2010 fiscal year. However, WCHS has since remedied this matter and currently has an established escrow account. The escrow account was funded in September 2011 in excess of the revised required amount for NYCDOE authorized schools of \$70,000 when WCHS deposited \$75,000 in a money market account.

Please refer to the Williamsburg Charter High School Independent Audit Management Letter from the 2010-2011 fiscal year presented as **Exhibit G** evidencing the establishment and maintenance of the current escrow account.

#### **School's Unauthorized Location**

WCIS believes that at all times, it acted in the best interests of the School in occupying space at 33 Nassau Avenue and at no time was it given notice that a modification to its Charter was warranted as a result of such action.

The School acknowledges that it did pay for the use of space at 33 Nassau Avenue due to severe space constraints at 424 Leonard Street, but did so for the best interests of the School and its students.

By way of background, the School was prevented from moving to its 198 Varet Street facility in time for the 2009-2010 academic year due to construction delays at its facility. After requesting an adjustment to the foot print at the 424 Leonard Street school site, the School was instructed by the NYCDOE OCS that because Believe Northside and Believe Southside Charter High Schools were due to begin operations at the site, WCIS would not be able to obtain any more space. With no further direction from the NYCDOE OCS on how to address its space shortage, the School's Board secured additional space for the School use three blocks away from its current facility. The space was used only for after-school clubs and activities, office space for teachers, storage, tutoring, and the School's college office. With no further guidance as to how to resolve the untenable space issue, the action was taken to protect the integrity of the School's academic program in the best interests of the School and its students.

The issues and concerns regarding the space usage at 33 Nassau Street were first raised to the School by letter to Mr. Eddie Calderon-Melendez on August 19, 2010 from Ms. Sally Bachofer, the Executive Director of the NYSED Office of Innovative School Models. Please refer to **Exhibit H** for a copy of the letter. A response was sent to Ms. Bachofer on September 13, 2010 as requested. Please refer to **Exhibit I** for a copy of the letter.

The School at no time received any other indication from any government authority that a charter modification was required and, given the time pressures and dangers to the integrity of the School's academic programs if a space solution was not expeditiously reached, the School reached this solution to secure additional space for the best interests of the School and its students.

We want to emphasize that at all times the School took into consideration the safety of its students very seriously, even for the purpose of a trip of three blocks between the two facilities. Students and staff were given the choice to either walk to and from the sites for planned activities, or take a bus that was provided on a continuous, daily basis. Permission slips were required for travel by bus to and from the sites.

The School provided safe, secure, supervised space for critical school needs at an alternative space when no other space was available at its main location and when no alternative or support was

---

provided by the NYCDOE OCS. In so doing, the School is of the belief that it was acting to the best of its ability in the best interests of the School and its students.

In so acting, we further note that the School and its Board were guided by Mr. Joshua Morales, Director of Operations at NYCDOE OCS whom the Board deemed to be a credible and reliable authority. His guidance included assurances that the NYCDOE was in agreement with WCHS' proposed solution to the space crisis. He informed us that he had communicated the status of the situation and proposed solution to the then Director of the Charter Schools Office, Mr. Michael Duffy, and that the Office was comfortable with our plan. Mr. Morales was at the time, the BHSN Chief Operating Officer. As a former NYCDOE OCS official, and a senior officer of the BHSN schools' legally contracted management partner, the Board accepted and relied upon his guidance when no other guidance from NYCDOE was forthcoming.

---

## MANAGEMENT COMPANY RELATIONSHIP

---

### Management Fee

WCHS acknowledges and generally agrees to some extent with the Report's preliminary finding that it overpaid for management services, but provides the following explanation:

Per WCHS' Management Agreement with BHSN, BHSN calculates its management fees based on the actual per pupil funds received by WCHS from the NYCDOE and then bills 20% of the per pupil funds received at the time of each of six installments. It has been the policy of the Board of BHSN that management fees will only be derived from actual per pupil funds received and BHSN will not charge for "any and all excess costs funding" received in any fiscal year that could be charged for per the Charter Management Agreement.

See  
Auditor's  
Note 3

A reconciliation of the management fees for each fiscal year is made after the NYCDOE notifies the School as to the amount either due to the School, or in this case, owed by WCHS.

For the relevant time period, WCHS estimated the reconciliation amount to be \$407,537 owed to NYCDOE and recorded this liability on its books to properly reflect revenue for the fiscal year ended June 30, 2010. The independent auditor engaged by WCHS reviewed the calculation and determined the estimate to be reasonable and, therefore, did not make an adjustment to the amount.

The NYCDOE subsequently informed the School that the per pupil revenue adjustment amount owed by WCHS to the NYCDOE was actually \$392,282, which was \$15,255 less than projected.

The NYCDOE deducted this amount from subsequent per pupil revenues sent to the School after it completed its reconciliation in the 2010-2011 fiscal year, which in turn reduced the management fees billed by the BHSN and paid by WCHS in 2010-2011.

To calculate what is owed to WCHS after the NYCDOE adjustment, this response uses the same methodology contained in the audit finding:

WCIS per pupil funds received in 2009-2010 were \$11,717,654. After reducing the revenues by the NYCDOE provided reconciliation amount of \$392,282, the total per pupil revenues for 2009-2010 were \$11,325,372. Twenty (20%) percent of the reconciled amount is \$2,265,074. BHSN actually billed WCIS during the fiscal year 2009-2010 for the amount of \$2,343,531 (before the reconciliation), resulting in a balance owed to WCIS of \$78,457.

Since the NYCDOE simply reduced the 2010-2011 per pupil revenues (after notification to WCIS of the final balance) to recover the 2009-2010 amount due by WCIS, BHSN billings were in turn less than what they would have been had the reconciliation funds not been deducted.

We agree that BHSN owes WCIS the difference between the 20% fee for 2009-2010 and the reduced fee of 19% charged in 2010-2011 (per declining fee scale detailed in the Charter Management Agreement). The amount owed to WCIS is calculated based on the amount WCIS owed to NYCDOE for 2009-2010 and by the difference between the two fee rates:  $\$78,456.40 (\$392,282 * 20\%)$  less  $\$74,535.48 (\$392,282 * 19\%) = \$3,922.82$ . The records indicate that this amount has been paid to WCIS.

At this time, WCIS has hired an independent fiscal agent to review its financial records since July 2011 and it is WCIS' intention to obtain confirmation that WCIS has been properly reimbursed for any overpayment to the Network for the 2009-2010 period.

#### **Duplication of Services**

WCIS disagrees with the Report's preliminary findings that it paid for duplication of services.

Decisions regarding individual school services at WCIS are and have always been made on a case by case basis. It was always the practice of the School and BHSN to discuss and review all such requests and the decisions were made by the School as to which additional services the School was willing to pay for services outside of BHSN's responsibilities, as set forth in the parties' Management Agreement. The School, at all times, reserved the right to seek and contract for services at its discretion that it reasonably determined would benefit the School. When doing so, it is the School's understanding based on its interpretation of the Management Agreement, that it is responsible for the costs of such additional services.

See Auditor's Note 4

The preliminary findings in the Report make reference to several examples of services the Report claims should have been provided by, or were the responsibility of BHSN. In response to those examples, we would like to take this opportunity to point out several errors of fact we believe exist in the Report. In addition, we note that the examples included in the Report reference the type of services WCIS believes falls outside the scope of responsibility of BHSN. Accordingly, such services were paid for by the School.

In regards to Frontier Educational Services ("FES"), the services were not provided by the President of FES as stated. The School has previously provided your office with a copy of the contract and the resume of the individual who did provide the services. Please refer to **Exhibit J** for a copy of the

contract and **Exhibit K** for a copy of the resume of the individual who provided the services. We have also provided the resume of the President of FES who clearly is not qualified to have provided the services. Please refer to **Exhibit L** for a copy of President's resume. The services were specifically of the type requested by the Board and which fall outside of the scope of the Management Agreement.

In regards to CEI-PEA, that individual entity had been directly contracted by the School for several years prior to any arrangement with BHSN. Its expert services had been retained year after year by the School as it grew. The individual providing these services was Vincent Caramico who was hired and paid for by CEI-PEA, not the School. While the individual is the head of his own consulting company, the School did not contract with him but with CEI-PEA which in turn contracted with him.

In regards to JPS Solutions, the School expressed interest in applying for two specific federal grants which required specialized services that were facilitated by BHSN and JPS Solutions, another long-term consultant of the School. The School preferred to use JPS Solutions at its discretion, and to pay JPS Solutions for these specific, one time applications. BHSN was directed to oversee the consultant, review its work product, and submit the applications as part of its contracted responsibilities. It did so at the Board's direction outside the scope of the Management Agreement.

In addition, WCIS does not agree with the Report's preliminary finding regarding Teach for America. While the contract at issue is between the Believe High Schools Network, on behalf of all its managed schools, and Teach for America, it is the individual school who (i) hires and contracts each teacher, (ii) must work directly with Teach for America regarding its candidates, and, therefore, (iii) pays Teach for America directly for each individual.

These services are specific to Teach for America and are required by Teach for America, and therefore cannot be provided by BHSN nor should they be billed to BHSN. In contrast, the additional non-Teach for America specific training and ongoing professional development outside the specific Teach for America model has been and continues to be the contracted responsibility of the BHSN.

In regards to Phyllis Siwiec, Phyllis Siwiec has never been, nor has she ever played a role in consulting with regard to fundraising activities. Ms. Siwiec, as is the case with JPS Solutions, was hired to provide services for all network schools at their cost and on their behalf as a former school superintendent. This expertise, which the schools needed and which each individual school agreed to, was not available by the existing staff of BHSN.

See Auditor's Note 5
----------------------------

In short, according to WCIS's interpretation of the Management Agreement, the School was of the belief that it (as opposed to BHSN) was responsible for certain services it determined would benefit the School and are not clearly called for in the Management Agreement. As a result of the Report's preliminary findings, the School immediately asked its then legal counsel to re-review the language of the Management Agreement. We thank you for calling this issue to our attention.

It is our contention that all of these issues are moot because as of February 1, 2012, WCIS has terminated its Management Agreement and severed all its ties with BHSN. In addition WCIS does not have any relationship with any independent contractors. WCIS has terminated its relationship with FES, CEI-PEA, JPS and Teach for America.

Moreover, going forward WCIS intends to follow a procedure and protocol for contracting with any outside school services. The Board of Trustees is presently reviewing its policy for contracting with consultants as outlined in its existing Fiscal Policies and Procedures Manual. A revised procedure will not only address cost and necessity but will strictly review all contracts for potential conflicts of interest. Most importantly, strict adherence to the revised policy will be enforced.

---

## COMPLIANCE ISSUES

---

### Federal Grant Expenditures

WCIS acknowledges and agrees with the Report's preliminary finding that its past documentation of expenditures funded by Federal grants was imperfect. WCIS has addressed this issue by implementing corrected procedures.

If permitted the opportunity, WCIS proposes to demonstrate that grant costs were reasonable for the performance of the awards despite not having properly recorded these costs on the School's general ledger in 2009/2010. WCIS has located manual schedules and support for the majority of its 2009/2010 grant activity. It is the position of WCIS that this sourcing supports the appropriateness of expenditures funded by Federal grants, and thereby would significantly support a reduced amount of any funds that may need to be returned to the Education Department, as recommended in the Report. WCIS appeals that the \$807,854 repayment recommendation is incorrect and would put an unfair burden on the School's current fiscal health.

See  
Auditor's  
Note 6

The Board of Trustees will consider hiring an independent fiscal agent to review this issue if necessary.

---

## PROCUREMENT AND EXPENDITURES

---

### Unsupported Purchases & Sales Tax

WCIS respectfully requests additional information regarding issues raised regarding the alleged unsupported purchases to address whether the sample of personal services were adequately allowable, reasonable or necessary. Since the audit period, WCIS has followed its guidelines in supporting and allowing reasonable and necessary expenditures. These guidelines will be reviewed as part of the Board of Trustees' revision of the Fiscal Policies and Procedures Manual and guidelines will be strictly enforced in the future.

See  
Auditor's  
Note 7

WCIS' policy as a sales tax exempt entity is not to pay sales tax and has reiterated this to its fiscal staff. The amount of sales tax paid by WCIS as indicated in the Report's preliminary findings amounted to approximately \$178, which while unfortunate and preventable, is not material when viewed against total expenditures for the year. Consistent with the Report's recommendations, WCIS is taking measures to ensure that it does not incur the cost of sales tax in the future.

#### **Credit Card Purchases**

WCIS acknowledges and agrees with the Report's preliminary finding that credit card purchases have in the past sometimes been made without sufficient supporting documentation. However, in an effort to alleviate this problem in the future, WCIS has reinforced strict adherence to its credit card use policy and procedures and has taken measures to eliminate use of the credit card by any third-party entities, which, unfortunately, was necessary with the start up of the School.

WCIS' credit card policy provides that all requests for authorization to use the WCIS credit card must be accompanied by appropriate approvals, both for the user and the expenditure.

WCIS previously entrusted BHSN, as the School's management company, to ensure that credit card transactions were properly monitored and reconciled and that adequate support and approvals were obtained.

BHSN, at the Board's direction did review the issue of credit card purchases and significantly reduced credit card use over the past 18 months (thru 1/31/2012), limiting credit card use to specific purposes and only by authorized users.

In January 2012, BHSN's Board informed the WCIS Board of its proposal to pay off the entire credit card balance of approximately \$17,500 as a demonstration of its commitment to WCIS' fiscal policy adherence and in response to concerns over misuse or poor record keeping. This payment occurred in January 2012 and has enabled WCIS to reserve the entire credit balance for future uses.

Furthermore, in keeping with the Report's findings, WCIS has maintained restricted access to the School's credit card – with which there has been minimal purchases in the last eighteen months.

#### **Unsupported Payments to Former CEO**

WCIS continues to investigate and review the Report's preliminary finding that it made unsupported payments to its former CEO.

While the former CEO of the School did submit a letter of resignation dated March 31, 2009 to the School, he continued to provide transition services to the School at the Board's specific request until the end of August, 2009. As a consequence, he was paid for such services during the months of July and August. Because the former CEO was retained by the School for the time periods in question, and completed the services requested of him to the Board's satisfaction, the School is of the belief that payments made to the former CEO were appropriate; however, the Board of Trustee is investigating

---

whether indeed the CEO was overpaid for services during this period of time and is also looking into any related legal recourse.

---

## **ACCOUNTING PROCEDURES**

---

### **Fixed Asset/Depreciation & Inventory**

WCIS acknowledges and agrees with the Report's preliminary finding that it had not always accounted for fixed assets in a manner consistent with accounting standards and it has taken measures to remedy this issue.

WCIS refers to the Independent Auditor Management Letter for 2010/2011 (Exhibit G), which notes the corrective action taken to the independent auditor findings regarding Capital Assets. See Exhibit G, page 5.

Please note that WCIS has amended its fiscal policies related to capitalization of assets to items over \$5,000 from its previous policy of \$1,000. In addition, WCIS worked with its former management company to complete the improvement of its inventory software and has set up procedures to meet accounting standards as evidenced in the Management Letter referenced above. The School has also tagged all School assets and now conducts regular periodic physical inventories of School assets and has instituted additional loss prevention controls in order to comply with appropriate accounting principles as they relate to fixed assets, inventory and allocation of costs.

### **Allocations**

WCIS disagrees with the Report's preliminary finding that certain costs benefitting multiple entities were not allocated between those that benefitted. The Report specifically makes reference to a certain expenditure in the amount of \$109,774 paid to Network Outsource Business and Educational Technology Solutions to provide certain technical support at certain locations. First, WCIS contends that such services constitute additional services not covered by the School's Management Contract. Second, WCIS was one of the entities located at the locations where these technology services were provided and all entities that benefitted paid an allocated portion for the services. Of note, the projector bulbs at a cost of \$900 were determined to be used by WCIS since they were for new projectors specific only to WCIS.

See  
Auditor's  
Note 8

Prior to severing ties with its management company, WCIS took measures, with the cooperation of the other two schools mentioned in the Report, Believe Northside Charter High School and Believe Southside Charter High School, to greatly reduce any joint purchases where an economy of scale would not be realized and to develop a consistent and appropriate allocation calculation where applicable.

WCHS respectfully requests additional information upon which this finding is based to further support its position above.

---

### CONCLUSION

---

As set forth above, Williamsburg Charter High School agrees, in part, and respectfully disagrees, in part, with the Report's preliminary findings. WCHS has actively taken steps to remedy or address all of the concerns addressed in the Report, regardless of WCHS' approval or disagreement with the findings. We ask again that you consider our observations and responses in shaping your final findings document. Further, WCHS acknowledges that there are common themes in the Report including properly reporting, making certain disclosures to the NYCDOE and obtaining certain approvals from the NYCDOE prior to taking certain actions. Now and in the future, WCHS intends to fully disclose and request the requisite approvals from the NYCDOE before taking certain actions. In addition, WCHS is presently doing an internal audit of all of its reporting procedures so that it is in full compliance with its charter and fiscal governance requirements. Finally, WCHS has engaged the services of an independent fiscal audit agent to review accounting and reporting from July 2011 to July 2012. WCHS anticipates that this audit will provide the School information and assessment with regard to its fiscal policies, accounting procedures and fiscal health so that any and all needed changes and improvement in governance and fiscal procedures can be made.

---

## Auditor's Notes

1. WCHS' Second Renewal Charter, section 2.13, states, "The Charter School shall not enter into any contract for comprehensive school management services to be performed in substantial part by any other entity not identified as such in the renewal Application without receiving prior written approval from the Chancellor and the regents in accordance with education Law 2752(7)." WCHS did not obtain prior approval from NYCDOE to enter into a management company agreement.
  2. WCHS submitted a Charter School Annual Report for 2009-10 on December 7, 2010 with only one Trustee's DFI. When the auditor asked for an explanation the forms were provided on January 28, 2011. We can not determine why they were not filed.
  3. We calculated the management fee for 2009-10 based on student enrollment. WCHS' response indicates that the fee was recalculated using offsets from the subsequent year enrollment. These factors were outside of the 2009-10 school year that was not considered in our calculation.
  4. Article 3 of the Agreement between WCHS and the Network identifies education and instruction related services as well as management and operation services to be provided by the Network. The services Frontier Educational Services, Center for Educational Innovation, and JPS Solutions provided to WCHS were, in our opinion, within the services that were the responsibility of the Network.
  5. WCHS' response in regard to an individual consultant is accepted and has been removed from the final audit report as well as the associated disallowance.
  6. WCHS was given ample opportunities to provide documentation to support the \$807,854 in grant expenses over the course of the audit. However, what was provided did not support grant expenses. Specifically, grant documentation was requested during the two weeks the auditor was at WCHS. The Preliminary Audit Findings and the Draft Audit Report restated the lack of grant documentation and both gave WCHS the opportunity to provide supporting documentation to support grant expenses. We will review any additional information that is provided to us as part of the closing.
  7. WCHS was provided information explaining what documentation was needed to adequately support the costs selected in the sample and why some were not allowable or not reasonable or necessary throughout the audit process.
  8. WCHS' response in regard to allocated costs is accepted and has been removed from the final audit report as well as the associated disallowance.
-