

**State of Delaware  
Office of Auditor of Accounts**

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**Academy of Dover Charter School**

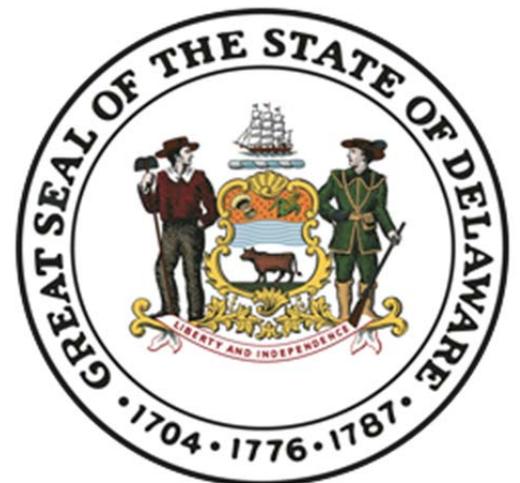
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**Inspection**

Issuance Date:

**June 23, 2015**

R. Thomas Wagner, Jr., CFE, CGFM, CICA  
Auditor of Accounts





State of Delaware  
Office of Auditor of Accounts  
R. Thomas Wagner, Jr., CFE, CGFM, CICA  
**At a Glance**

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This inspection was performed in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*.

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**What We Found**

The Office of Auditor of Accounts (AOA) received a tip on our fraud hotline about the Academy of Dover (AOD) in August 2014. Subsequently, the AOD Board of Directors and Department of Education contacted AOA regarding irregularities at the school.

We learned that AOD had longstanding fiscal mismanagement that led to the former Principal, Noel Rodriguez making \$127,866 in personal purchases and an additional \$129,458 in purchases that could not be validated for either personal or school use over more than a three-year period beginning in July 2011.

The former principal, whom left the school in September 2014 at the Board's request, created a control environment with an unapproachable, "no questions asked" tone at the top. He also knew the weaknesses in the State's oversight efforts and used them to his advantage as indicated on page 5 of the report. Oversight bodies passed on transactions that were in conflict with State policy simply because "local funds" were used for payment.

AOD's misuse of school funds occurred for more than three fiscal years without action from any oversight body and no mention of any issues by the CPA firm contracted by AOD to perform the financial statement and single audits.

The AOD Board of Directors, whose members are appointed by a majority board vote, are influenced by the groupthink<sup>1</sup> mentality, led by the former principal and undetected by the lax internal controls at the school and statewide levels. Thus, the Board was led astray by the former principal and the Board did not verify information he provided. During our inspection, certain employees of the school were open and honest about the inappropriate purchases.

In addition, the Board was not adequately trained or involved in day-to-day operations.

Significant work is needed to improve AOD's operations. In general terms, all Charter Schools should utilize the Committee of Sponsoring Organizations (COSO) internal Control Framework as a guide to developing strong internal controls that support good fiscal operations that helps to deter fraud, waste, and abuse. Further, the process used to establish and train Charter School Boards should be reviewed and revised to ensure appropriate oversight. A clear and consistent message is needed from all state agencies about fiscal accountability over all charter school funds including local funds.

<sup>1</sup> Merriam Webster defines groupthink as "a pattern of thought characterized by self-deception, forced manufacture of consent, and conformity to group values and ethics." Retrieved from <http://www.merriam-webster.com/dictionary/groupthink> on June 17, 2015.

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## *Background*

### Academy of Dover

The Academy of Dover (AOD) is a charter school within the State of Delaware (State) offering instruction for students, grades kindergarten through fifth. AOD opened in 2003 after their charter was approved by the Delaware Department of Education (DOE) and State Board of Education. The average class size at AOD is approximately 19 students, with a student to adult ratio of 10 to 1. As with many public schools, in addition to the basic curriculum of math, science, language arts, and social studies, AOD also offers education in Spanish, art, music, and physical education/health.<sup>2</sup>

According to their Bylaws, AOD shall not have less than three or more than nine members on the board. The directors serve for a three year term, or until resignation or removal. The board of directors annually elects the officers (e.g. President, Vice President, Treasurer, Secretary). The board should include at least one parent or guardian of a child attending the school, at least one professional educator, preferably a person with school administrative experience, and other representatives from the community, business and industry.

Although the Board of Directors has responsibility for the management of a charter school, they may elect to contract with an outside Charter Management Organization (CMO), to assist in the management of a charter school. AOD has contracted with Innovative Schools, an organization which assists Delaware public schools with services such as staffing, school models, and school solutions. Innovative Schools provides support "...in the form of managing the school's budget, preparing financial reports, and handling the accounting functions with First State Financials (FSF)<sup>3</sup>; human resources support and accounting with Payroll Human Resource Statewide Technology (PHRST)<sup>4</sup>; and, support with information technology."<sup>5</sup>

AOD receives State and local funds appropriated through the Annual Appropriations Act (Budget Bill), and from local school districts based on an annual pupil count performed every September 30. AOD may also receive federal funding, as well as private gifts and donations.

Refer to Table 1 below for a list of funding received by AOD as stated in their annual financial statement audit reports.

<i>Table 1: Revenue Received by AOD</i>			
<b>Source</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014<sup>6</sup></b>
<i>Revenues from School Districts</i>	\$ 329,463	\$ 401,552	\$ 444,665
<i>State Aid</i>	2,115,845	2,199,559	2,604,395
<i>Federal Aid</i>	531,891	347,162	374,475

<sup>2</sup> This information was obtained from the Academy of Dover website at [http://www.aodcharter.org/content\\_pages/view/aod\\_at\\_a\\_glance](http://www.aodcharter.org/content_pages/view/aod_at_a_glance).

<sup>3</sup> FSF is the Statewide accounting system.

<sup>4</sup> PHRST is the Statewide system used for all human resources, benefits and payroll information.

<sup>5</sup> AOA located Innovative School's management duties for AOD on page 3 the school's 2013 Annual Report at <http://www.aodcharter.org/files/fckfiles/201213annualreport.pdf>.

<sup>6</sup> The revenue amounts for FY2014 were obtained from the independent CPA firm contracted for the FY2014 financial statement audit.

<i>Earnings on Cash and Investments</i>	1,531	1,759	1,451
<i>Federal Grants for School Lunch Services</i>	174,064	224,724	236,470
<i>School Lunch Services</i>	41,161	236	159
<i>Miscellaneous</i>	34,797	52,148	35,068
<b>Total</b>	<b>\$ 3,228,752</b>	<b>\$ 3,227,140</b>	<b>\$ 3,696,683</b>

**Charter School Oversight and Governance**

DOE has the authority to define the application and approval criteria for charter schools.<sup>7</sup> DOE is required by 14 Del. C. §511(a) to present applicants seeking a charter with a “charter contract that clearly defines the respective roles, powers, and responsibilities of the school and the approving authority and incorporates the provisions of the performance agreement entered into between the charter school and its approving authority...”

In addition, 14 Del. C. §510 also states that DOE:

- (a) ...shall distribute information announcing the availability of the charter school program, explaining the powers and responsibilities of a charter school contained in this chapter, and describing the application process to each school district and public post-secondary educational institution, and through press releases to each major newspaper in the State.
- (b) ...shall provide technical assistance to potential charter school applicants upon request.
- (c) ...shall provide technical and other forms of assistance to charter schools on the same basis as to school districts.
- (d) ...shall, in concert with the approving authority and the applicant, apply for available federal or foundation grants providing funding for the planning and start-up of charter schools and DOE shall administer such funds as may be appropriated by the General Assembly for the purpose of assisting in the planning and start-up of charter schools.

The charter school applications are submitted to and approved by either public school districts or DOE.<sup>8</sup> The approving authority is then charged with oversight of the charter school and is also required to conduct financial, programmatic, or compliance reviews no less than every three years.<sup>9</sup> This was confirmed by a DOE representative who stated, “Pursuant to 14 Del. Code § 515(a), the Department of Education is responsible for the oversight of the charter schools it approves. This responsibility includes review of financial transactions and board oversight.”

Each year DOE “...shall prepare a report for the Governor, the General Assembly, and the State Board of Education on the success or failure of charter schools and propose changes in state law necessary to improve or change the charter school program.”<sup>10</sup>

***Charter School Accountability Committee (CSAC)***

The CSAC is formed by the approving authority of a charter school after the approving authority has reached a decision to review an application or has initiated a formal review of a charter school. As outlined in 14 Del. C. §515, the CSAC functions as follows:

<sup>7</sup> Per 14 Del. C. §505(b)

<sup>8</sup> Per 14 Del. C. §511(c)

<sup>9</sup> Per 14 Del. C. §513(c) and 14 Del. C. §515(a)

<sup>10</sup> Per 14 Del. C. §514

- (b) "... the approving authority may notify a charter school of potential violations of its charter and submit the charter to formal review to determine whether the charter school is violating the terms of its charter and whether to order remedial measures pursuant to [14 Del. C. §515 (f)].
- (c) "...an accountability committee appointed by the approving authority shall conduct the initial review pursuant to [14 Del. C. §515 (b)]. The accountability committee's reports to the approving authority shall address the relevant criteria set forth in [14 Del. C. §§512 and 516]. The committee shall meet with the applicant in the course of its investigation and provide the applicant the opportunity to review and comment on the committee's initial report 15 days before it is issued to the approving authority. The committee's final report shall be provided to the applicant, the approving authority, and made available to the public.
- (d) "If the accountability committee's report presents probable grounds for remedial measures, the approving authority shall hold public hearings to assist in its decision whether the criteria set forth for remedial action in [14 Del. C. §516] have been satisfied, after giving the charter school 15 days' notice. The school shall be given the opportunity to respond to the accountability committee's final report at the hearing. Members of the public shall be given the opportunity to comment at the hearing.
- (e) "If the accountability committee's report asserts that the school has complied with its charter and the criteria set forth in [14 Del. C. §512], the approving authority shall approve or disapprove the final report's conclusion at a public meeting after giving the charter school 15 days' notice. If the approving authority disapproves the report, it shall identify the reasons for that decision with particularity. Thereafter, the approving authority shall hold a hearing, within 30 days, to assist in its decision of the appropriate remedy pursuant to [14 Del. C. §515 (f)]."

According to DOE personnel, each approving authority has their own CSAC; therefore, if DOE holds the charter, they select the members of the committee. Likewise, if Red Clay Consolidated School District holds a charter, they have their own CSAC. DOE personnel also stated that they generally try to hold at least one public hearing for a particular charter school in the county where the school is located.

### ***Technical Assistance from DOE***

Prior to July 2014, DOE provided charter schools with a Charter School Technical Assistance Manual (CSTAM), detailing DOE programs and services, State administrative and financial systems, charter school law, evaluation of charter schools, and more. In July 2014, DOE replaced the CSTAM with the Charter School Reference Manual, which provides, at best, contacts for various agencies and departments but does not provide sufficient guidance to charter schools with regards to day-to-day operations. DOE explained that this replacement was made in response to charter school leaders contacting DOE with questions regarding operations, as opposed to utilizing the large CSTAM, which DOE claimed was out of date at the time of replacement. DOE's Charter School Office stated that charter schools may seek guidance, comparable to that provided in the CSTAM, in DOE's Organizational Performance Framework Guidance, which has been in effect since September 2014.

### ***Organizational Performance Framework Guidance***

DOE's Organizational Performance Framework Guidance begins by stating that "Charter schools are public entities that must maintain the public's trust as they are implementing their education program, spending public funds responsibly, practicing sound governance, and adhering to laws and charter requirements regarding employees, students, and the school environment." In

addition, the Organizational Performance Framework Guidance provides requirements for charter schools with applicable Delaware Code references, including the following:

- “A check register shall be posted on the charter’s website in accordance with 14 Del. C. §1509.”
- “The charter school’s financial and administrative operations must meet or exceed the same standards, procedures, and requirements as a school district...and adhere to the accounting standards in the Budget and Accounting Manual.”
- “The charter school must develop a Citizen Budget Oversight Committee (CBOC) in compliance with the requirements of 14 Del. C. §1508...”
- “Board members must comply with training requirements of 14 Del. C. §512(15) which includes financial responsibility training required by 14 Del. C. §1803.”

DOE’s Delaware Financial Performance Framework report for the Academy of Dover provided an overall rating of 'Falls Far Below' the standard for Fiscal Year 2011, and an overall rating of 'Does Not Meet Standard' for Fiscal Years 2012 and 2013.

### ***Board of Directors***

As with public schools throughout the State, charter schools are managed by a Board of Directors, which should be independent of any school board. According to the State Administrative and Financial Systems section of the CSTAM, the Board of Directors for each charter school is to assume responsibility for the receipt and disbursement of public funds and all responsibilities associated with State employment.

When a charter school is organized, the approving authority reviews the charter to determine that the founding board is qualified to start and operate a charter school.<sup>11</sup> The Code is silent regarding how future board members are selected; however, this is usually specified in the school’s charter.

As stated in the CSTAM, all agreements between a charter school and a CMO require that a management agreement be used to articulate the relationship between the charter school and the CMO. The CSTAM also outlines that the management agreement will be reviewed by DOE and any other appropriate State agencies, including the Office of Management and Budget (OMB).

### **Charter School Legislation**

As stated in 14 Del. C. §501, charter schools were created to provide “...an alternative to traditional public schools operated by public school districts and improve public education overall by establishing a system of independent “charter” schools throughout the State.” Several requirements are listed in 14 Del. C. c 5 that explain how charter schools may operate. The requirements applicable to our inspection include, but are not limited to:

- Charter schools may not charge tuition. (14 Del. C. §506 (a)(1))
- Any public funds received by a charter school may be used for current operations, minor capital improvements, debt service payments or tuition payments. (14 Del. C. §509 (g))
- If State funds are allocated to a charter school for extra time, professional development, driver education or disciplinary programs, the school shall provide such programs. (14 Del. C. §509 (i))

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<sup>11</sup> 14 Del. C. §512(1)

- Charter school board members and founders shall be required to complete criminal background checks in a manner consistent with 11 Del. C. §8571 (a). (14 Del. C. §511 (r))
- All charter schools shall operate within the State’s official financial management system, which includes First State Financials (FSF) and Payroll/Human Resource Statewide Technology (PHRST), and be subject to all of the same policies and procedures which govern other agencies operating within such systems. (14 Del. C. §512 (9)) If a charter school chooses to operate outside of the State retirement system established by 29 Del. C. c. 55, they must execute a memorandum of understanding with specified parties. (14 Del. C. §512(9)) Charter school employees are considered State employees since their compensation is processed in PHRST. AOA confirmed with PHRST that all charter schools operate on the State’s retirement system.

A legal opinion dated July 30, 2007, and reaffirmed in subsequent updates from the Attorney General’s Office, states, “...Delaware charter schools are subject to the State procurement laws set forth in Chapter 69 of Title 29 of the *Delaware Code*...” as there is no statutory provision that exempts a charter school from following these laws. Government Support Services, the State agency responsible for oversight of State procurement, established statewide central contracts with vendors who typically establish a listing of items available for purchase. However, there are times an item needed by a charter school is not available on the central purchasing list. For example, an art teacher is not likely to find specific art supplies purchased on the Staples purchasing list. If a purchase like this were to occur, it should not usurp the procurement requirements for professional services, sole source procurement, etc.

Also, 29 Del. C. §6505(c) prevents the use of State funding for purchases such as gratuities, greeting cards, flowers, or tickets to athletic events.

A charter is subject to revocation or probation, after the exercise of due diligence and good faith, for the following reasons:

- (1) The school, or its representatives, has committed a material fraud on the approving authority or misappropriated federal, state or local funds; or
- (2) The school fails to comply with its charter or to satisfy, in its operation of the school, the criteria set forth in 14 Del. C. §512.

**If the approving authority determines that the criteria for remedial action set forth above is satisfied, it may revoke the charter and manage the school directly until alternative arrangements are made.** (14 Del. C. §515 (f))

### **Charter School Funding**

Charter schools consistently receive instruction from DOE, Division of Accounting (DOA), and OMB that they may use their local funds as they deem appropriate, which is inconsistent with laws and regulations. In addition, we were provided with correspondence from DOA to a charter school stating that “if an agency does not meet an exception for food related purposes [in the BAM] but pays for the event out of local funds and not state funds,” that is an acceptable practice. In fact, DOA flagged several of the questionable transactions from a charter school (e.g. Christmas decorations), but accepted their response that “non-State monies” were used for payment.

The misconception that “local funds” received from the taxpayers are not considered State money is included in Section 3.2 of the BAM, issued by OMB, which states “donations, gifts, local school funds, and various trust funds are examples of [non-appropriated special fund<sup>12</sup> (NSF)] monies, and “NSF is not

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<sup>12</sup> Section 3.2 of the BAM defines NSF funds as “a special fund type with no legislative spending limits. Generally, any monies on hand may be expended, yet encumbrances may only be made against actual cash receipts.”

considered State monies.” However, these funds are all held in the State’s pooled cash account, maintained by the Office of the State Treasurer, and are therefore considered State money.

Regardless of the classification of the funds, charter schools have a responsibility to be fiscally prudent in their spending.

### **The Budget and Accounting Manual**

Section 1.7 of the State Budget and Accounting Manual (BAM) defines organizations as “[State] agencies (both merit and non-merit), school districts, charter schools, and higher education.” Given this definition, charter schools within the State are thereby required to abide by the policies and procedures in the BAM, unless otherwise specified in the Delaware Code or throughout the BAM. In addition, charter schools, as is with all departments and agencies within the State, should establish their own policies and procedures which include the school’s process for evaluating risk and monitoring compliance. No State organization can satisfy good internal controls by relying exclusively on the BAM.

#### ***State Procurement Card (PCard)***

The State, through DOA, has contracted with JPMorgan Chase (JPMC) Bank to provide State organizations with a Visa card program for procurement and/or travel purchases. The State is able to manage the PCard program through JPMC’s online card administration software.<sup>13</sup>

The State is liable for use of the PCard; therefore, only State employees are eligible to participate in the PCard program. Employees may enroll in the program, without the completion of a credit check, by completing a PCard Enrollment Request form and receiving proper approval from their organization.

Chapter 12 of the BAM provides rules governing the PCard, and all PCard transactions must comply with accounting procedures and State laws governing purchases. Section 12.4.1 places restrictions on PCard usage and specifically states that it is not to be used for personal or unauthorized purchases, such as alcoholic beverages or other expenses not authorized for State business. Splitting purchases into multiple charges, or combing charges from several PCards, to circumvent purchase limits or State procurement law is strictly prohibited. The BAM also states, “The PCard may not be used to charge expenses for family members or others who may be accompanying the employee on official State business, even if the intention is to reimburse the State”.

Any cardholder who intentionally makes unauthorized purchases or accidentally uses the PCard is liable for the total dollar amount of such unauthorized transactions and would be subject to both disciplinary and criminal actions for those transactions. Any personal or unauthorized transactions must be reimbursed by the employee within 30 days of the transaction, and a copy of the reimbursement check and deposit slip should be filed with the monthly PCard statements in case of an audit.

The BAM also details each organization’s PCard monitoring requirements. Regardless of the reason or type of purchase, all PCard receipts must be kept for reconciliation purposes. PCard activity is included in FSF and is also a part of a charter school’s monthly FSF reconciliation process.

During our work with DOA, we found that they perform various monitoring procedures over PCard data.

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<sup>13</sup> Section 12.1 of the BAM

***Travel Policy***

Chapter 11 of the BAM discusses the State's policies surrounding authorized travel expenses incurred while conducting State business. Each organization's management is responsible for control over and approval of travel-related expenditures. Organizations' internal controls must include policies covering the designation of approval authorities for travel expenditures. Chapter 11 of the BAM specifically exempts the Legislative Branch, Judicial Branch, and School Districts.<sup>14</sup> The scope of the State's travel policy, as stated in Section 11.1.2 of the BAM, does not specifically exempt charter schools; therefore, charter schools must follow all policies relating to travel for State business.

The travel policy discusses topics such as appropriate per diem expenses, meals and incidentals, and travel expense reimbursements. Further, all out-of-state travel that extends beyond one day shall be detailed on the Out-of-State Travel Authorization Form. The authorization form should be properly submitted and approved prior to traveling.

***Personal Expense Reimbursements***

Although the PCard is OMB's preferred choice for travel expenses, direct reimbursement is also acceptable. Delaware's travel policy states that in cases where the PCard was not used for travel-related expenses, those expenses would be reimbursed using a Personal Expense Reimbursement (PE) voucher.<sup>15</sup>

The BAM is silent on employee reimbursements for non-travel related expenses.

***Food Consumed In-State***<sup>16</sup>

State employees shall not be provided or reimbursed for food consumed in-State during normal working hours, with the exception of the following:

- Employees of State agencies who regularly receive wages-in-kind in addition to their salaries;
- Employees of the Delaware Economic Development Office;
- Food provided as part of employee recognition events as established by 29 Del. C. §5950;
- Food provided during agency training events held away from the agency's home location
- State Police recruits during the period of their training; or
- Circumstances where the Director of the Office of Management and Budget and the Controller General has granted approval.

***Gift Cards***<sup>17</sup>

Cash advances, which include any instance where funds are disbursed prior to the receipt of a good or service, are strictly prohibited. Examples of cash advances include, but are not limited to, Automated Teller Machine (ATM) withdrawals, money orders, and gift cards.

**Delaware Archives Guidance**

The Delaware Code<sup>18</sup> states that it shall be the responsibility of every public official and employee to:

1. Adequately document the transaction of public business and the services and programs for which such persons are responsible;
2. Retain and adequately protect all public records in their custody; and

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<sup>14</sup> AOA confirmed with an OMB representative responsible for the BAM that the school district exemption includes only the 19 Delaware public school districts because they are able to use local funds to cover travel expenses.

<sup>15</sup> Section 7.6.6.1 of the BAM

<sup>16</sup> 29 Del. C. §5112 and Section 7.6.6.2 of the BAM

<sup>17</sup> Section 7.2.2 of the BAM

<sup>18</sup> 29 Del. C. §504

3. Cooperate with the Delaware Public Archives and records officers in the establishment and maintenance of an active and continuous program for the economical and efficient management of public records.

A "public record" is defined by 29 Del. C. §502 (7) as “any document, ...paper, ...or other material regardless of physical form or characteristics, including electronic records ... collected or received in connection with the transaction of public business or in any way related to public purposes by any officer or employee of this State or any political subdivision thereof.”

Archives’ retention schedule for school districts states that the records related to the processing of accounting and financial records should be retained for five years. The retention instructions state that these documents are to be retained at the agency until a successful audit, and then are to be transferred to the State Records Center for the remainder of the retention period. After the fifth year, the records are allowed to be destroyed.

**Charter Schools’ Relationship to the State – Discretely Presented Component Unit<sup>19</sup>**

Charter schools are organized as a separate legal entity under the Delaware Corporation Law;<sup>20</sup> however, they are fiscally dependent upon the State because they do not have the power to levy taxes or set tuition rates or charges.<sup>21</sup> As a result, the analysis performed by AOA in July 2013 revealed that charter schools are considered a discretely presented component unit of the State. This means that while 14 Del. C. §513(a) requires each charter school to have an annual audit of their individual financial statements, the financial activities of all the charter schools are reported collectively in a separate column in the State’s Comprehensive Annual Financial Report.

**The Delaware Charter School Network (DCSN)<sup>22</sup>**

According to their website, the DCSN is a non-profit organization created in 2001 as “Delaware’s statewide charter support organization.” By collecting donations from foundations and members across the State, the DCSN is able to serve over 11,000 children in 21 charter schools and provide essential services to all levels of public charter schools – boards, leaders, staff, and parents. The DCSN strives to “...help improve and expand existing schools, encourage the creation of new charters, and ensure that all of Delaware’s charter schools remain accountable and high performing.”

According to FSF, the DCSN received the following amounts from charter schools throughout the State for each fiscal year ending June 30:

<b>Table 2: State Money Paid to DCSN</b>			
<b>Fiscal Year 2013</b>	<b>Fiscal Year 2014</b>	<b>Fiscal Year 2015<sup>a</sup></b>	<b>Grand Total</b>
\$ 90,082.50 <sup>b</sup>	\$ 79,009.00 <sup>c</sup>	\$ 140,602.50	\$ 309,694.00

<sup>a</sup> – Fiscal Year 2015 data was pulled through May 26, 2015.

<sup>b</sup> – Includes \$50.00 paid from the “Department of Education” department ID

<sup>c</sup> – Includes \$365.00 paid from the “Education Block Grants” department ID

<sup>19</sup> Per analysis performed in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 61. The detailed analysis is available on AOA’s website at [http://www.auditor.delaware.gov/gasb\\_61/Charter%20Schools%20-%20final.pdf](http://www.auditor.delaware.gov/gasb_61/Charter%20Schools%20-%20final.pdf).

<sup>20</sup> 14 Del. C. §504(a)

<sup>21</sup> 14 Del. C. §503 and 14 Del. C. §506(a)(1)

<sup>22</sup> <http://www.decharternetwork.org/>, as of May 22, 2015

AOA reached out to the DCSN to obtain more information regarding the services they provide and payments from the charter schools. However, as of the issuance of our report, the DCSN has failed to respond to our requests.

**Delaware School Board Association (DSBA)**<sup>23</sup>

According to their website, the DSBA is an association created “to encourage and foster equity of thought and action of Delaware school boards and to further educational interests in the State.” One of the primary duties of the DSBA is to study schools in need and solicit the appropriate legislative support to provide those needs. The DSBA website states that they also provide “on-going board member training, facilitates policy research, assists with superintendent selection processes, provides guidelines for board and superintendent evaluations, and serves as a liaison with other educational organizations.”

Membership to the DSBA is optional and members pay dues based on their September 30 unit count as detailed in Table 3:

<b>Number of Units</b>	<b>Dues per Unit</b>
1-50	\$52.00
51-100	\$39.00
101-150	\$26.00
151 or more	\$13.00

Based on payments in FSF, only a handful of charter schools participated with the DSBA during Fiscal Year 2014 and Fiscal Year 2015.<sup>24</sup> There were no payments to the DSBA from charter schools during Fiscal Year 2013.

<sup>23</sup> <http://edsba.org/>, as of May 22, 2015

<sup>24</sup> July 1, 2014 through May 26, 2015

## ***Procedures and Results***

In September, 2014, the Office of Auditor of Accounts (AOA) received information from the Academy of Dover (AOD) Board of Directors that the former school Principal, Noel Rodriguez<sup>25</sup>, misused school funds. For the period of July 1, 2011 through October 31, 2014, we inspected all credit card activity incurred on school accounts, as well as direct reimbursements to employees, payroll activity, and various other school expenditures. Given the magnitude of the problem at AOD, there may well be additional exceptions prior to July 2011.

**Overall, a lack of oversight and a complete disregard for internal controls provided the opportunity for significant misuse of school funds.** A major concern regarding the situation at AOD is the length of time that passed without any intervention from oversight parties including the Board of Directors, DOE, the independent auditors, Innovative Schools, the Charter School Accountability Committee (CSAC), and Division of Accounting (DOA). This report outlines questionable activity and an operating environment that allowed widespread mismanagement. Until August 2014, nothing in the Statewide process or the ongoing financial audit contracted to a CPA firm drew attention to the mismanagement at AOD. In fact, the CPA firm auditors, contracted by AOD, reported clean opinions (Unqualified Opinions) with no findings on internal controls during Fiscal Years 2012 and 2013 for both the financial statement and single audits. Further, **AOD personnel had no knowledge of any internal policy and procedure manuals over any financial process.**

The former school principal, who was referred to as a “bully” and a “manipulator”, used his position of authority to run school operations as he saw fit. In fact, he told one individual that he “had the Board in his back pocket.” His unapproachable demeanor was described as a “Dr. Jekyll and Mr. Hyde” scenario where he would be in a good mood one day and approve any school-related request from teachers, yet other days “when he didn’t get his way, he could act tough.” These factors united to create **a perfect storm of poor internal controls, which allowed the former school principal to act with misconduct** including the use of school funds to:

- Purchase personal items worth \$127,866.04 using AOD funds;
- Pay legal fees, with Board approval, for lawsuits spanning topics such as sexual harassment and neglecting to make payments to a vendor;
- Reimburse employees for purchases in violation of State policy, including the purchase of alcohol; and
- Reward teachers with stipends and bonuses without adequate justification or equitable distribution to all personnel and without proper Board approval or sufficient Board minutes to document Board approval.

### ***Purchases for Personal Use***

AOA identified \$127,866.04 worth of personal expenditures made by Mr. Rodriguez using a combination of the State funded credit cards and First State Financials (FSF) voucher payments to vendors like Verizon Wireless. Mr. Rodriguez opened five credit cards which he maintained at all times, including a State of Delaware (State) Procurement Card (PCard), and a Home Depot, Lowes, Sam’s Club, and Staples credit cards. The Board stated they only had knowledge of the PCard account. **Mr. Rodriguez was not only the authorized purchaser on all five credit cards, but also coded and approved all payments for the monthly statements through FSF.**

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<sup>25</sup> Mr. Rodriguez was employed at the Academy of Dover from July 2008 through September 4, 2014. He was placed on leave with pay through January 2015. The Board President approved that Mr. Rodriguez could use the remainder of his sick and vacation days before his resignation.

Section 7.5.8 of the BAM states that “Agencies and school districts may not use credit cards registered in the name of the employee, agency, school district, or State which could create an obligation of the State, except as specifically and duly authorized by the Secretary of Finance.” **AOA confirmed with Secretary Cook that the Department of Finance has not approved any charter schools to hold credit cards aside from the State PCard.** However, there may be some instances where a credit card (e.g. Home Depot) with a very small limit (e.g. \$200) is necessary for minimal purchases. Secretary Cook agreed that “there are certainly instances for latitude, but there needs to be a process in place and an accountability system [to ensure funds are spent properly].”

AOA reviewed all available receipts to determine the nature of the items purchased and confirmed with school personnel whether these items were utilized at the school. Table 1 below outlines the various categories of personal purchases and gives the dollar amount attributed to each category.

<i>Table 1: Confirmed Personal Purchases</i>	
<b>Category</b>	<b>Total per Category</b>
<i>Credit Card Purchases</i>	
Auto	\$ 2,474.64
Books	11.13
Camping	630.13
Cash Advance	773.35
Christmas Decor	2,044.78
Clothing & Bedding	1,857.80
Common Carrier (e.g. rental car)	1,405.25
Dog House	159.60
Electronics	39,499.99
Entertainment	1,605.12
Florist	1,098.81
Furniture	2,943.95
Gardening	1,103.55
Gas	4,089.31
Gifts & Collectibles	109.91
Groceries	1,767.81
High End Office Supplies	4,097.65
Home Improvement	3,113.12
Hotel	943.51
Household Items	7,287.98
Personal Accessories	2,510.08
Restaurant	11,433.48
Retail	3,412.40
Tools	8,854.20
Tuition & Text Books	436.00
Utilities	1,510.41
<b><i>Total Credit Card Purchases</i></b>	<b>\$ 105,173.96</b>
Verizon Wireless	17,819.28
Tiles Purchased from Local Artist	795.00
Electronic Purchases through Vouchers	4,077.80
<b><i>Total Personal Purchases</i></b>	<b>\$ 127,866.04</b>

- *Auto* – Since AOD staff confirmed that **the school does not own any vehicles**, all auto related items, including tires costing \$580.88 and a truck bed cover for \$599.95, are considered personal purchases.
- *Camping* – AOA identified a total of \$630.13 spent on camping equipment including a tent, sleeping bag, and air mattress. AOD staff confirmed that the school does not offer camping.
- *Christmas Decor* – Mr. Rodriguez was described by staff as a “**Christmas fanatic.**” We identified over \$2,000 worth of Christmas items such as ornaments and figurines.
- *Clothing and Bedding* – There were several purchases of mens’ and boys’ clothing items including shirts, pants, and swimwear, as well as, men’s and women’s underwear. There were also several bedding purchases, including sheets, comforters, and full bedding sets.
- *Common Carrier* – The common carrier total includes a rental car purchased in Puerto Rico during a personal trip, and a rental from a location in Dover, Delaware in which FLEET<sup>26</sup> services should have been utilized.
- *Electronics* – Electronics purchases include a treadmill for \$499, a camera lens bundle costing \$1,049, cameras, televisions including a 55” smart TV for \$729.99, a PlayStation 4 for \$399, and various laptops including one computer costing \$1,749.99.
- *Entertainment* – Mr. Rodriguez purchased a large amount of movies including The Heat, Red 2, Bad Teacher, Pain & Gain, Blade Trinity, Contraband, and several others. In addition, AOA found that Mr. Rodriguez purchased a Call of Duty: Ghost game, compatible with the new PS4 gaming system.
- *Furniture* – The school does not have any visible outdoor furniture with the exception of a bench in the school’s courtyard, yet we identified several outdoor furniture items and a futon purchased by Mr. Rodriguez.
- *Gardening* – Mr. Rodriguez purchased tiki torches and outdoor decorations which could not be located at the school
- *Gas* – Noel Rodriguez spent \$4,089.31 on gas during the period reviewed. AOD personnel maintained that the school did not own a vehicle nor any other piece of equipment that would require gas.
- *Groceries* – AOA concluded that Mr. Rodriguez was using the school’s Sam’s Club card to purchase groceries on a regular basis, including condiments, fish, meat, fruits, vegetables. The Cafeteria Manager at AOD has a petty cash fund to purchase kitchen items as necessary, so there is no need for Mr. Rodriguez to purchase items for the school cafeteria.
- *High End Office Supplies* – Mr. Rodriguez purchased several high end office supplies such as monogrammed pens, figurines, and leather brief cases which were extravagant and not essential to the school’s function.

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<sup>26</sup> FLEET is a division of OMB’s Government Support Services (GSS) and supplies vehicles to State employees for use when traveling locally on State business.

- *Home Improvement* – Mr. Rodriguez purchased over \$600 worth of home improvement items in Puerto Rico, such as a clothesline and electrical outlets. In addition, he also purchased weed trimmers, a lawn mower, light fixtures, and a ceiling fan from local home improvement stores which AOD staff confirmed was not for school purposes.
- *Household Items* – Household items include a washer and dryer costing \$798, several vacuums, one of which cost \$379.24, bath towels and wash cloths, an air conditioner, and several personal heaters.
- *Personal Accessories* – Mr. Rodriguez purchased items such as a leather wallet costing \$122.54, a luggage set costing \$149.98, and various other personal accessories.
- *Restaurants* – AOD personnel explained that Mr. Rodriguez consistently treated several employees to happy hour after school. Therefore, based on the receipts made available to AOA, and BAM section 12.4.1 (2)(c), all in-State restaurant purchases were classified as personal. Alcohol was included on a majority of restaurant purchases.
- *Retail* – The retail category includes all purchases at retail locations in which itemized receipts were available to validate the nature of the purchase (e.g. Wal-Mart). Some of the items purchased include flatware, DVD's, clothing, televisions, grocery items, and bicycle accessories.
- *Tools* – Items including a garbage disposal, generators, multiple drill sets, gas engine pump, and chainsaw were among the purchases made by Mr. Rodriguez that AOD staff was unable to locate at the school.
- *Tiles from a Local Artist* – Mr. Rodriguez purchased five hand painted tiles, with a sixth tile donated by the artist, costing AOD \$795.00, none of which were essential to the school's function.
- *Electronic Purchases through Vouchers* – Mr. Rodriguez purchased a multitude of electronics items using vouchers within FSF including computers, headphones, and speakers which could not be located at the school.

Mr. Rodriguez's employment contract permitted \$2,500 in purchases each fiscal year for "reasonable personal expenses associated with the duties of his employment, including, but not limited to the purchase of computer peripherals expenses, books, and meals..." The former principal was required to inform the Board of said expenses in advance.<sup>27</sup>

AOA obtained pictures of Noel Rodriguez's former office where he displayed figurines and decorative items purchased with school funds. Displaying such items at the school demonstrates a flagrant disregard for the trust invested in his position and sets a culture ripe for abuse. The 2014 Certified Fraud Examiners Manual states that "...the ethical tone of the organization must be clearly, openly, and consistently demonstrated in the actions of upper management, rather than simply being mandated to lower-level employees through ethics policies that do not apply to those at the top."<sup>28</sup> AOA highlighted figurines and decorative items purchased with school funds during the period reviewed in the pictures below.

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<sup>27</sup> AOA did not find Board approval for these expenses in meeting minutes.

<sup>28</sup> Association of Certified Fraud Examiners *Fraud Examiners Manual*, 2014 US Edition, Page 4.814



Jiminy Cricket figurine \$44.95

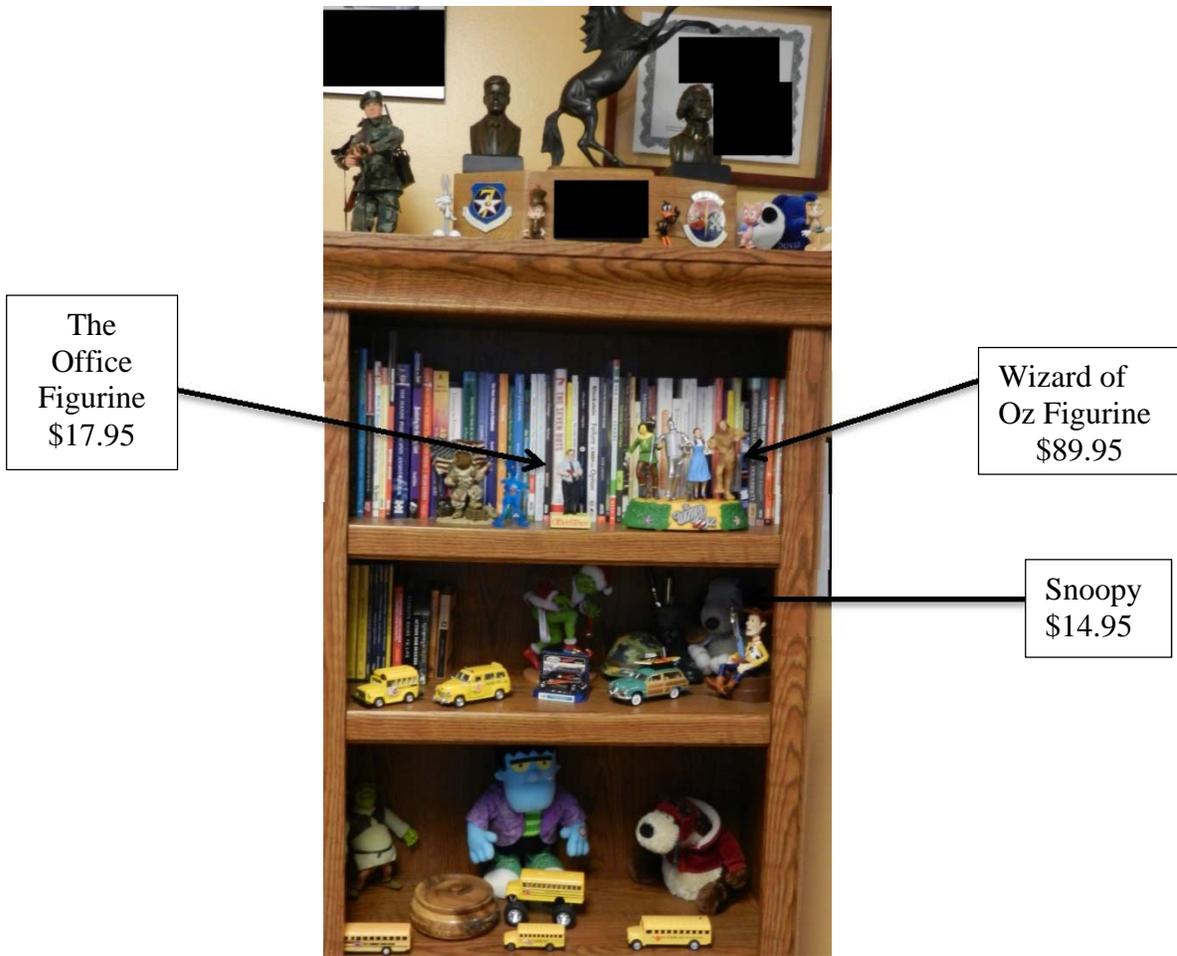
Goofy figurine \$37.95

Jiminy Cricket Cut-Out \$12.95

Hakuna Matata Cut-Out \$12.95



\$175 (1 of 5 hand painted tiles)



Finally, AOD paid \$1,264.88 in late fees and \$680.87 in interest incurred on the AOD credit cards issued to Noel Rodriguez. These amounts are not included in the total amount of personal purchases.

*Payments to Verizon Wireless*

We identified \$17,819.28 in unsubstantiated payments to Verizon Wireless. In total, AOD made payments to three Verizon Wireless accounts, hosting 18 phone and internet lines, from July 2011 through April 2015.

*Transportation Account*

One account, listing 10 users, was for AOD’s transportation section and provided cell phones to five bus drivers for emergencies<sup>29</sup> and one for the Transportation Supervisor. **There were four users, on the transportation account, that could not be validated by AOD personnel costing the school \$6,401.66.** These unknown users include two phone lines, a PC card, and an iPad card. We expanded our review of the activity on this account through April 2015 to see if the lines were cancelled after Mr. Rodriguez’s school privileges were revoked in September 2014.

<sup>29</sup> The five school bus emergency cell phones incurred little to no usage from July 2011 until they were cancelled in September 2013.

We found the four unknown users were active during this period and AOD incurred an additional cost of \$731.64.

*School Office Account*

AOD personnel confirmed the land line account covered the main office phone and was used for a valid school purpose.

*Noel Rodriguez's Account*

The third account, used by AOD's former principal held seven phone numbers. We considered the number issued to Mr. Rodriguez as a legitimate business expense to fulfill his duties as the former principal. A second phone line was issued to AOD's music teacher. Despite our efforts, **we could not determine why the music teacher was the only teacher at AOD who received a phone**; however, we learned that the former principal had a close relationship with this teacher since he used AOD funds to purchase Kindles for her children. Therefore, \$8,268.40 was used for purposes that could not be explained or validated by AOD personnel.

We also expanded our review for this account through April 2015 and found that Noel Rodriguez's phone was not cancelled until March 2015 when his school privileges were revoked in September 2014, incurring additional charges of \$1,686.87. The Board explained that the school had difficulties cancelling this account because it was in Mr. Rodriguez's personal name.

We also found that several payments to Verizon Wireless were either overpaid or underpaid each month compared to the invoice amount, netting an overpayment of \$730.71 during the period reviewed. AOD personnel could not provide support for the overpayment; therefore, this amount is included in the personal purchases amount.

*Items Returned to the School*

**Once Mr. Rodriguez received word that our Office was performing this inspection, he began to return items purchased with school funds to the school.** Table 2 below provides a listing of items returned to AOD by Mr. Rodriguez and purchased during the period reviewed.

**Table 2: Partial Listing of AOD Items Returned to School by Former Principal<sup>30</sup>**

<i>Item Returned</i>	<i>Purchase Price</i>
Camera Lens Bundle	\$ 1,049.00
Honda Generator	1,038.32
Neat Desk Wifi Scanner	499.99
Canon EOS Rebel T3 Camera	499.99
Maytag Dryer	399.00
Maytag Washer	399.00
Honda Lawn Mower	399.00
Sony HDR-CX290 HD Camcorder	279.99
Bose Soundlink Mini Travel Speaker	194.13
Two Ton Aluminum Car Jack	189.08
Black Wii Console w/ Wii Sport	149.99
Air Mattress	129.98
Outdoor Bench with Seat Cushion	122.55
Transfer Pump	88.00
Utility Pump	87.72
Polaroid Dual Screen Waterproof Camera	79.99
Wii - Michael Jackson the Experience	49.99
Bose Soundlink Mini Travel Speaker Case	43.67
Discharge Hose for a Washing Machine	35.23
Wii Slim Induction Charger	27.99
50' Red Extension Cord	24.87
50' Red Extension Cord	24.87
Wii - Are You Smarter than a 5th Grader?	19.99
Hamilton Beach Electric Can Opener	15.19
Siphon Pump	12.98
Lowepro Black Camera Case	11.99
Vivitar Mini Flexible Tripod	9.99
<b>Total</b>	<b>\$ 5,882.49</b>



AOA recommends that the AOD Board continually monitor organizational processes and controls to ensure all AOD employees complete their assigned functions properly, and fraud and waste is quickly identified to minimize loss. The Board must also assess the school’s risk on a continual basis since identifying risks may help identify areas of weakness that allow for fraud or waste to occur. AOD should utilize the Committee of Sponsoring Organizations (COSO) Internal Control Framework as a guide to developing strong internal controls within their organization to help deter fraud in the future.

**Purchases that could not be Validated for Personal or School Use**

Aside from the \$127,866.04 in personal purchases reported above, **AOA was unable to identify whether an additional \$129,457.70 worth of purchases were for personal use or a valid school purpose.** First, \$3,131.78 worth of vouchers used to purchase electronics could not be validated for either school or personal use due to a lack of support maintained by AOD. Next, in violation of BAM section 12.3.1(1), AOD did not maintain receipts for credit card purchases making it difficult for AOA to determine whether \$126,325.92 worth of items purchased by Noel Rodriguez during the period July 1, 2011 through October

<sup>30</sup> All of these items were included in the total of personal purchases listed in Table 1.

31, 2014 were for personal use or a valid school purpose. In an attempt to validate the PCard purchases, AOA contacted vendors and requested receipts for all transactions. Due to record retention limitations, we were unable to obtain receipts for a number of PCard purchases. We also made efforts to obtain itemized receipts through the subpoena process; however, the high volume of transactions caused a delay and we could not prolong the inspection further.

We were unable to classify some purchases based on the vague product description on the receipt. AOA attempted to research items purchased by Mr. Rodriguez based on receipt descriptions, but found that some items may have been discontinued or updated and could not be identified through a search of the vendor's website.

In addition, based on the disposable nature (e.g. bug spray, kitchen and bathroom cleaner, etc.), some items could not be accurately identified as being for a personal or school purpose.

AOA was unable to classify gift card purchases because AOD failed to maintain adequate documentation detailing the recipient of the gift cards, the date of distribution for the gift cards, or the purpose of the gift card purchase.

**Obviously, there were no internal controls or safeguards in place to ensure purchases were for valid school purposes.**

AOA recommends that the school require all itemized receipts be kept for all purchases in compliance with section 12.3.1 of the BAM. In instances where a receipt is unavailable the school should require that the purchaser sign an affidavit detailing the items purchased and asserting the purchase was made for a valid school purpose or require reimbursement of the purchase from the purchaser. AOD should also require monthly reconciliations of credit card purchases by an employee other than the purchaser. Finally, the Board should review the monthly reconciliations to ensure the reconciliations are complete and all purchases were incurred for school purposes.

#### ***Purchases Validated for School Use***

AOA confirmed \$26,523.23 of valid school purchases using credit cards authorized to AOD, including items such as a shed, chorus gowns, select laptops, office furniture, and sport equipment, which were purchased for the school and still remain at the school.

Although several items were classified as being for school use, AOD demonstrated that they were fiscally irresponsible with these purchases. For example, we found that one \$1,984.98 purchase of glass basketball backboards were purchased on the State PCard and located on school property, yet were not utilized by AOD due to their building's lease restrictions.

According to AOD personnel, the school did not have a contract with Innovative Schools for FY2014 and as of February 2015 the contract for FY2015 has not been signed due to billing issues in FY2014. AOA's review of FSF showed that AOD has not made a payment to Innovative Schools, although they have continued to receive services, since FY2013. This is out of compliance with procurement laws at 29 Del. C. c 69, setting up AOD for yet another legal battle.

#### ***Legal Fees***

The school has been plagued with lawsuits as far back as 2008, when their former Charter Management Organization filed a lawsuit for a breach of contract. As of June 12, 2015, the school entered into a settlement agreement with Mosaica for a total of \$650,000.

*Sexual Harassment Lawsuit*

In one instance, a former AOD employee filed a lawsuit against the Academy of Dover in response to Mr. Rodriguez's conduct. **According to the lawsuit, the employee was terminated in retaliation for denying Mr. Rodriguez's sexual advances.** AOD incurred legal fees of \$36,137.05, including a \$2,500 settlement cost, while AOD's insurance company paid the remaining settlement of \$97,027.

Article III Section D of Mr. Rodriguez's employment contract explains that he was responsible for all personnel decisions, subject to Board approval. The Board meeting minutes did not state whether the employee's termination was properly approved by the Board, and **one Board member confirmed that the Board was not informed of the termination.** The lawsuit alleges that school employees raised concerns regarding Mr. Rodriguez's conduct; however, AOA was unable to validate these claims through interviews with AOD personnel.

In response to a current Board member's statement that no sexual harassment claims have been filed with the Board, **AOA reviewed the school's sexual harassment policy and found the policy inadequately omits the Board of Directors from notification of sexual harassment claims.**

*Educational Services Lawsuit*

AOA reviewed a second case filed by an educational services provider which cost AOD \$12,237.70 in legal fees, and a settlement of \$42,305.66, of which \$27,305.66 was paid by the school's insurance company. According to the lawsuit, the vendor provided services in connection with the "No Child Left Behind" Act. The school represents that a contract was not in place for the services performed.

We determined that Article III Section F of Mr. Rodriguez's employment contract stated that he was to "assume responsibility for the administration of the affairs of the AOD, including but not limited to programs, personnel, and business management..." **Five AOD Board members, including the Board President, signed a document in October 2011 stating they agreed payment of the full invoice amount should be made by AOD for services rendered. The educational services provider then sent a letter to the Board President in January 2012 citing a non-payment for services provided. A formal filing with DOE was acknowledged in the school's March 2012 Board meeting, prior to the lawsuit filing in June 2012.** An AOD Board member represented that the school began to incur too many legal fees on the lawsuit, so they agreed to a settlement to prevent any further losses.

Finally, AOD incurred other miscellaneous legal fees totaling \$703 for various research projects. The school incurred these miscellaneous fees for the drafting of an audit response, research on a third possible lawsuit, and researching whether public schools can hire convicted felons.

*Direct Reimbursements<sup>31</sup>*

AOA found that \$4,218.18 of the \$16,546.70 direct reimbursement transactions reviewed violated State policies. Table 3 below discusses the State policies violated by AOD for the direct reimbursements reviewed and dollar value of each policy violation.

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<sup>31</sup> Direct reimbursements are reimbursements paid to State employees for services provided by the employee or travel expenses for State business.

<b>Table 3: Direct Reimbursement Findings for the Period July 1, 2011 through October 31, 2014</b>		
<b>Finding</b>	<b>Finding Criteria (BAM Section)</b>	<b>Total Dollar Amount</b>
<i>Missing Itemized Receipts<sup>32</sup></i>	All expenses must have an itemized receipt when requesting reimbursement. (11.5) Employees have the option of completing a Missing Receipt Affidavit if they were unable to obtain an itemized receipt. (11.5)	\$ 2,505.82
<i>Hotel Stay Exceeding 150% of GSA Rate without Proper Approval</i>	The BAM allows agencies to approve lodging expenses up to 150% of the GSA per diem rate for the date and location of travel but requires prior approval from both the Office of Management and Budget (OMB) and the Division of Accounting (DOA) for rates exceeding 150% of the GSA per diem rate. (11.4.2)	678.00 <sup>33</sup>
<i>Mileage Reimbursement Exceeds FLEET<sup>34</sup> Rental Rates and the Mileage Reimbursement Rate Exceeds the Rate Proscribed in 29 Del. C. §7102</i>	The BAM states that “in no case, should the total amount reimbursed for in-State mileage to an individual on a single day exceed the Delaware Fleet Services daily rental rate.” (11.3.2) The BAM also states that “reimbursement of private vehicles is at the rate proscribed by the Delaware Code...” (11.3.2). In addition, 29 Del. C. §7102 states that the State employee mileage reimbursement rate is \$0.40 per mile.	919.58
<i>Alcohol Purchased</i>	Alcoholic beverages are an unallowable expense, therefore, any instance of the purchase of an alcoholic beverage should have been excluded from an employee’s reimbursement request. (11.4.3)	79.80
<i>Unallowable Expenses (e.g. museum ticket and personal hygiene products)</i>	The BAM does not permit entertainment or personal hygiene purchases. (11.4.3)	34.98
<b>Total</b>		\$ 4,218.18

In addition, AOD provided travel reimbursements to 20 employees totaling \$10,552.05 for which no Travel Authorization Forms were completed. Section 11.1.3 of the BAM requires agencies to utilize a Travel Authorization Form providing the purpose, time period, destination, and anticipated costs of travel. This form allows transparency into the nature of the travel and allows organizations to estimate the cost of each trip.

We also found that the language in Noel Rodriguez’s employment contract conflicts with 29 Del. C. §7102 which requires a State mileage reimbursement rate of \$0.40 per mile. Noel Rodriguez’s

<sup>32</sup> There were 11 direct reimbursement transactions totaling \$824.13 that did not have any receipts. The remaining 66 direct reimbursements totaling \$1,681.69 contained only a charge receipt, which was not itemized as required by BAM Section 11.5.

<sup>33</sup> The \$678.00 represents the cost incurred beyond the 150% GSA rate.

<sup>34</sup> FLEET is the State Government Support Services (GSS) division providing transportation services to State agencies.

employment contract states that “the Board shall pay the Principal at the prevailing IRS rate<sup>35</sup> for all travel ... both out of state travel and in state travel of twenty five (25) miles or greater, as long as said travel is done in the performance of these duties under this employment agreement, exclusive of commutation to work.”

AOA recommends that the school require that anyone seeking reimbursement adhere to the following requirements:

- Require that a Travel Authorization Form be completed and submitted prior to any employee travel, regardless of the travel funding source.
- Require itemized receipts for all reimbursement expenses, or require that a missing receipt affidavit be completed in instances where an itemized receipt could not be obtained.
- Reconcile the estimated expenses to the actual expenses of each trip and provide an explanation for any variances that are not self-evident.
- Require the use of FLEET services vehicles for in-State travel in any instance where the FLEET rental rate would be less than the mileage reimbursement.
- Reimburse employees for mileage in accordance with the State mileage reimbursement rate as stated in 29 Del. C. §7102.
- Approve hotel reimbursement at a rate less than 150% unless proper approval is obtained from OMB and DOA.
- Exclude purchases of alcohol or personal products (e.g. deodorant) from expense reimbursement totals.

### *Payroll*

AOA pulled all payroll activity for the period of July 1, 2011 through October 31, 2014, and reviewed for outliers, mainly, earnings beyond regular salary and benefits.

#### *Bonuses and Stipends*

AOD paid \$81,496 in bonuses and stipends during the period reviewed. The former school Principal, Noel Rodriguez, sent e-mails instructing Innovative Schools to pay stipends to select teachers. The Board of Director’s meeting minutes documented the approval of one bonus payment to Mr. Rodriguez, and bonus payments in FY2014 for teachers meeting certain “criteria”. AOD personnel was unable to verify whether the school used a set criteria to determine which employees would receive the bonus payments nor could they provide support for bonuses and stipends in other fiscal years.

**Mr. Rodriguez rewarded a salary increase to one AOD employee without any basis for the payment.** This practice allows for preferential treatment of certain employees. In one instance, an AOD employee received a \$6,320 annual salary increase or a 20% increase over the prior year, while a 1% or 2% salary increase was suggested to the Board for other AOD employees. One AOD Board member confirmed that yearly raises are approved by the Board as an aggregate amount and awarded to individual employees at Noel Rodriguez’s discretion in accordance with article III section F of his employment contract, which states that he was “to assume responsibility for the administration of the affairs of the AOD, including but not limited to...personnel...” DOE’s Education Associate for Charter School Finance stated that DOE does not provide guidance or restrictions on the payment of bonuses or stipends to charter school employees. According to DOE, ideally the Board of Directors would approve these payments, but the decision is at the discretion of management of the school.

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<sup>35</sup> The IRS rate for mileage reimbursement was \$0.575 per mile as of 5/26/2015.

Mr. Rodriguez received approximately a 1% salary increase each fiscal year without any basis or support for the increase. He also received a \$21,957 raise when he entered into his new contract in FY14. The original contract was for \$98,043 in FY11, while the FY14 contract paid an annual salary of \$120,000. He also received a \$10,194.02 annual leave payout, made in accordance with his employment contract which permits a payout of annual leave at the contract expiration. The large payment for Mr. Rodriguez’s annual leave balance is not a prudent use of school funds, especially considering that his contract expired every three to five years.

*Overtime*

One AOD employee received overtime in addition to their regular contracted salary amount.<sup>36</sup> Table 4 below lists the percentage of overtime earned over the employee’s base salary amount as listed in their yearly employment contract. Although timesheets were present to support the hours worked, AOD personnel could not justify the reason for all overtime. This overtime was flagged as questionable because the individual knew of at least one personal purchase made by the former principal and had a friendly relationship with the former principal.

**Table 4: Overtime Percentage over Base Salary**

	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015<sup>37</sup></b>
<b>Dollar Value of Overtime</b>	\$4,596	\$6,850	\$2,800	\$2,851
<b>Percentage of overtime over base salary</b>	18%	27%	11%	9%

AOA recommends that the Board of Directors discuss and document approval of bonuses and stipends at AOD including the criteria and amount paid to each employee. The Board should detail the amount of each bonus, the date the bonus is to be awarded, and either the individuals who are to receive the bonus or specific criteria for selecting the employees which will receive a bonus. In addition, the Board should approve stipend payments annually and detail instances in which stipends are authorized and the criteria for authorizing a stipend. The Board should review stipend and bonus payments regularly to ensure payments are made in accordance with school policy. Finally, all overtime payments should have prior approval from the school head and include documentation detailing the reason and necessity for the overtime.

<sup>36</sup> According to AOD personnel, a portion of this overtime was received for covering two shifts while the school searched for a part-time replacement.

<sup>37</sup> The FY2015 overtime dollar value and percentage represents the overtime paid for the period July 1, 2014 through October 31, 2014.