

State of Delaware Office of Auditor of Accounts

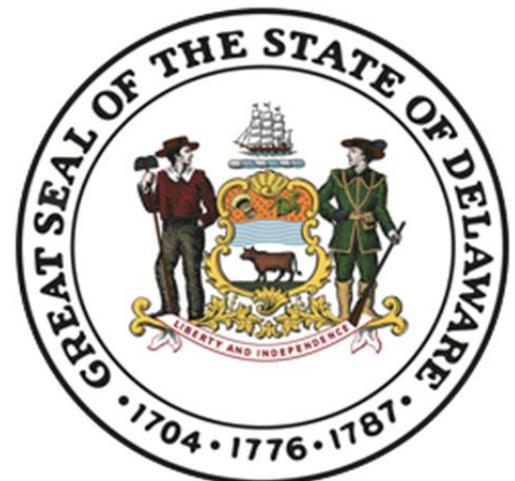
Charter School¹ PCard and Personal Reimbursement Expenditures Inspection Fiscal Year Ended June 30, 2014

Inspection

Issuance Date: September 30, 2015

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

¹ MOT Charter School, Thomas A. Edison Charter School,
Delaware College Preparatory Academy, and Kuumba Academy Charter School





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

Working Hard to Protect YOUR Tax Dollars

Why We Did This Inspection

This engagement was performed as a result of ongoing data analysis and monitoring performed by staff at the Office of Auditor of Accounts.

We are very pleased with the results of our procedures at MOT Charter School and Thomas A. Edison Charter School and appreciate their cooperation and patience throughout this engagement.

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) is pleased to report that MOT Charter School and Thomas A. Edison Charter School consistently got it right by establishing and following internal controls, which helped ensure compliance with rules and regulations. The same cannot be said for Delaware College Preparatory Academy (DCPA) and Kuumba Academy Charter School (KACS.)

The DCPA Board President claimed she made an unrecorded related party loan to the school. As part of her response to the otherwise untraceable arrangement, she provided a letter dated in August 2011 in which she approves her loan to the school. The lack of appropriate accounting and related party disclosure aside, she stated she was not aware of the “why and how’s of the [\$11,252.87 in] transactions” for which she was reimbursed. The Board President’s reimbursements were highly questionable as legitimate business expenses given the nature of the transactions and the missing or poor quality supporting documentation. The Executive Director of DCPA also received \$18,025.78 of which \$11,740.87 (65%) lacked supporting documentation to justify the reimbursement. At one point DCPA’s Board President writes “...I am not following why DCPA needs to justify expenses incurred to run its business...”

Kuumba Academy Charter School (KACS) processed payments made in addition to the employees’ salaries for the same work already included in their job descriptions. This arrangement took place for the Head of School, the Assistant Head of School, and a custodian. In the case of the custodian, his contract exceeded his salary as a full-time employee, bringing his overall compensation to more than \$68,000 per year. During the same period, a Managing Director of a CPA Firm held a contract to perform the “Financial Director” responsibilities for the School at a cost of \$4,000.00 per month.

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Background

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...”

Charter School Oversight and Governance

The State Department of Education (DOE) has the authority to define the application and approval criteria for charter schools.² 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.³ 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.⁴ 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.”⁵

² Per 14 Del. C. §505(b)

³ Per 14 Del. C. §511(c)

⁴ Per 14 Del. C. §513(c) and 14 Del. C. §515(a)

⁵ Per 14 Del. C. §514

The following charter schools were active during the 2013-2014 school year.⁶

Table 1: Charter Schools Active During 2013-2014 School Year

	Charter School	Grades Serviced*	Location	Approving Authority
1	Academy of Dover Charter School	K-5	Dover, DE	DOE
2	Campus Community School	K-8	Dover, DE	DOE
3	The Charter School of Wilmington	9-12	Wilmington, DE	RCCSD**
4	Delaware Academy of Public Safety and Security	9-12	New Castle, DE	DOE
5	Delaware College Preparatory Academy	K-5 ⁷	Wilmington, DE	RCCSD
6	Delaware Military Academy	9-12	Wilmington, DE	RCCSD
7	East Side Charter	K-8	Wilmington, DE	DOE
8	Family Foundations	K-4	New Castle, DE	DOE
9	Gateway Lab School	3-7	Wilmington, DE	DOE
10	Kuumba Academy Charter School	K-6	Wilmington, DE	DOE
11	Las Americas Aspira Academy	K-7	Newark, DE	DOE
12	Maurice J. Moyer Academic Institute	6-12	Wilmington, DE	DOE
13	MOT Charter School	K-8	Middletown, DE	DOE
14	Newark Charter School	K-9	Newark, DE	DOE
15	Odyssey Charter School	K-6	Wilmington, DE	DOE
16	Positive Outcomes Charter School	7-12	Camden, DE	DOE
17	Prestige Academy	5-8	Wilmington, DE	DOE
18	Providence Creek Academy Charter School	K-8	Clayton, DE	DOE
19	Reach Academy for Girls	K-8	New Castle, DE	DOE
20	Sussex Academy	6-9	Georgetown, DE	DOE
21	Thomas A. Edison Charter School	K-8	Wilmington, DE	DOE

* "K" indicates Kindergarten

**RCCSD refers to the Red Clay Consolidated School District

Further information regarding the four charter schools AOA selected for review can be found below.

MOT Charter School (MOT)⁸

MOT opened in September 2002 and is located on Levels Road in Middletown.⁹ MOT’s mission is to provide “a challenging curriculum in a safe and nurturing environment where all children learn and flourish.” They have also committed to a vision “where parents are truly in partnership with the staff and administration, are welcomed into the school, and have a strong connection to the school.”

The school is comprised of 29 regular classrooms, a library, art room, music room, middle school science lab, middle and lower school computer labs, and a cafeteria. There were 639 students enrolled in

⁶ According to DOE’s list of active charter schools found on their website at <http://dedoe.schoolwires.net/Page/1910>, as of May 20, 2015.

⁷ The information referenced from footnote 6 states this school operates for grades kindergarten through fourth grade. However, the original charter document found on Red Clay Consolidated School District’s website at <http://www.redclayschools.com/files/teBjw/e4adfe624ebc147f3745a49013852ec4/dcpaoriginalcharter2008.pdf> states the school shall be grades kindergarten through fifth grade, as does the school’s website.

⁸ Background information obtained from various links within the school’s website at www.motcharter.com.

⁹ Information regarding locations and grades serviced for all charter schools in this report were obtained from DOE’s website located at <http://dedoe.schoolwires.net/Page/1910>.

kindergarten through eighth grade during Fiscal Year 2014.¹⁰ Each grade has 3 classes per grade, and approximately 25 students per class.

MOT also opened a new high school in the fall of 2014 with ninth grade students. The high school will offer an Academy of the Arts and an Academy of Science and Technology – both designed for self-motivated student engagement.

According to their Fiscal Year 2014 audited financial statements, MOT received approximately \$7.2 million in funding for the operation of the school. The breakdown of these funds is detailed in Table 2.

Local Funding from School Districts	\$	1,037,056
State Funding		5,808,669
Federal Funding		107,165
Other Miscellaneous Revenues		295,692
Total Revenues	\$	7,248,582

Thomas A. Edison Charter School (TECS)¹¹

TECS, located on Locust Street in Wilmington, was established in September 2000 with the goal of “providing a rigorous education to the historically underserved families of the east side of Wilmington.” TECS’ mission is to “provide a world-class education to students despite race, gender, and socio-economic status.”

In 2007, TECS’ Board of Directors voted to discontinue their relationship with their founding management partner, Edison Schools, Inc. This allowed the school to implement changes to their curriculum and student opportunities, including adding the “Leader in Me” learning improvement program and the “First Move” chess program. According to TECS’ website, the chess team won the United States Chess Federation’s National Elementary Chess Championship in Dallas, Texas in May 2014.

There were 697 students enrolled in kindergarten through eighth grade during Fiscal Year 2014.

According to their Fiscal Year 2014 audited financial statements, TECS received approximately \$9.5 million in funding for the operation of the school. The breakdown of these funds is detailed in Table 3.

Local Funding from School Districts	\$	2,715,165
State Funding		4,609,268
Federal Funding		2,143,850
Other Miscellaneous Revenues		65,371
Total Revenues	\$	9,533,654

¹⁰ Actual enrollment figures for all the charter schools in this report were obtained from the “September 30th Student Enrollment and Unit Allotment 2013-14” report on DOE’s website at <http://www.doe.k12.de.us/Page/1495>.

¹¹ Background information obtained from TECS’ 2013-2014 Annual report (located at <http://www.doe.k12.de.us/cms/lib09/DE01922744/Centricity/Domain/151/TECS1314AR.pdf>) and 2012-2013 Charter Renewal Application (located at http://www.doe.k12.de.us/cms/lib09/DE01922744/Centricity/Domain/151/Edison_Ren2013_Appl.pdf).

Delaware College Preparatory Academy (DCPA)¹²

DCPA, located on West 28th Street in Wilmington, DCPA opened in August 2008 with a mission to “eliminate the achievement gap by providing a high-quality elementary education to urban students.”

DCPA touts a two-teacher model for students in kindergarten through second grade, as well as an average of 15 students to every teacher. In addition to academics, the school also focuses on building “attitudinal characteristics” to aid in their students’ success “in school and in life.” There were 212 students enrolled in kindergarten through fifth grade¹³ during Fiscal Year 2014.

According to their Fiscal Year 2014, audited financial statements, DCPA received approximately \$2.8 million in funding for the operation of the school. The breakdown of these funds is detailed in Table 4.

Local Funding from School Districts	\$	812,009
State Funding		1,397,659
Federal Funding		525,167
Other Miscellaneous Revenues		16,842
Total Revenues	\$	2,751,677

Kuumba Academy Charter School (KACS)¹⁴

KACS, located in the Community Education Building on North French Street in Wilmington, opened in September 2001 with the mission to “provide an innovative learning environment focusing on the whole child.” The school’s core belief is that parents are the primary educators of our children and, together with the teachers, can create a circle of learning designed to produce high academic achievement.

KACS had 281 students enrolled in kindergarten through sixth grade during Fiscal Year 2014 and advertises “...small class sizes that focus on providing each student with the support and individualized attention they need. KACS also states they have a longer school day and full-day kindergarten to “provide more time for instruction.”

Per KACS’ website, the school has entered into a partnership with the Christiana Cultural Arts Center, which helps introduce the students to various art forms including visual and performing arts. KACS states they are the only elementary school to offer an elementary Dance curriculum.

According to their Fiscal Year 2014 audited financial statements, KACS received approximately \$3.9 million in funding for the operation of the school. The breakdown of these funds is detailed in Table 5.

Local Funding from School Districts	\$	1,081,995
State Funding		1,945,821
Federal Funding		455,436
Other Miscellaneous Revenues		118,872
Total Revenues	\$	3,856,060

¹² Background information obtained from various links within the school’s website at <http://dcpacademy.org/>.

¹³ DCPA’s website (<http://dcpacademy.org/>) states that the school operates for students in kindergarten through fifth grade, as opposed to ending in fourth grade as DOE’s website indicates (see also footnote 6).

¹⁴ Background information summarized from KACS’ website located at <http://www.kuumbaacademy.org/>

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 had initiated a formal review of a charter school. The CSAC functions as follows, outlined in 14 Del. C. §515:

- (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.”

According to DOE’s Delaware Financial Performance Framework report, DCPA, KACS, MOT, and TECS received the overall ratings detailed in Table 6:

Table 6: Delaware Financial Performance Framework			
	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013
DCPA	Does Not Meet Standard	Does Not Meet Standard	Falls Far Below
KACS	Meets Standards	Meets Standards	Meets Standards
MOT	Meets Standards	Meets Standards	Meets Standards
TECS	Does Not Meet Standard	Meets Standards	Not Available

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.¹⁵ The Code is silent regarding how future board members are selected; however, this is usually specified in the school’s charter.

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. 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 Funding

Charter schools receive 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. They may also receive federal funding, as well as private gifts and donations.

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 BAM¹⁶] but pays for the

¹⁵ 14 Del. C. §512(1)

¹⁶ Section 7.6.6.2 of the BAM

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 fund¹⁷ (NSF)] monies. NSF is not 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.

Charter School Legislation

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))
- 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 pension 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.

¹⁷ 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.”

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

- The school, or its representatives, has committed a material fraud on the approving authority or misappropriated federal, state or local funds; or
- 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.¹⁸

The Budget and Accounting Manual¹⁹

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.²⁰

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 combining 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.”²¹

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

¹⁸ 14 Del. C. §515 (f)

¹⁹ The Budget and Account Manual is updated frequently throughout the year without any notice to the users and the Office of Management and Budget does not maintain an archive of previous versions. Therefore, AOA used the following versions during our inspection: Chapter 2 version 4.9, Chapter 5 version 5.5, Chapter 7 version 4.22, Chapter 11 version 4.16, and Chapter 12 version 5.7.

²⁰ Section 12.1 of the BAM

²¹ Section 12.4.1.4 of the BAM

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.²² 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 procedures over PCard data.

Additional Credit Cards

Section 7.5.8 of the BAM states that credit cards may not be 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]."

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.²³ 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.²⁴ The BAM is silent on employee reimbursements for non-travel related expenses.

²² Section 12.2.2 of the BAM

²³ 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.

²⁴ Section 7.6.6.1 of the BAM

*Food Consumed In-State*²⁵

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 OMB and the Controller General has granted approval

*Gift Cards*²⁶

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 Code²⁷ 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
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 Unit²⁸

Charter schools are organized as a separate legal entity under the Delaware Corporation Law;²⁹ however, they are fiscally dependent upon the State because they do not have the power to levy taxes or set tuition rates or charges.³⁰ As a result, the analysis performed by AOA in July 2013 and updated as of August

²⁵ 29 Del. C. §5112 and Section 7.6.6.2 of the BAM

²⁶ Section 7.2.2 of the BAM

²⁷ 29 Del. C. §504

²⁸ 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/FY16/Entity%20Determination%20Memo%20-%20Charter%20Schools%2006_30_15.pdf

²⁹ 14 Del. C. §504(a)

³⁰ 14 Del. C. §503 and 14 Del. C. §506(a)(1)

2015 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)³¹

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:

Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Grand Total
\$ 90,082.50 ^a	\$ 79,009.00 ^b	\$ 141,991.50	\$ 311,083.00

^a – Includes \$50.00 paid from the “Department of Education” department ID

^b – Includes \$365.00 paid from the “Education Block Grants” department ID

DCSN’s Executive Director explained that Delaware’s charter schools are able to become a part of DCSN if they so choose. DCSN provides support for their member schools and advocates on their behalf.

Delaware School Board Association (DSBA)³²

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 8:

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

³¹ <http://www.decharternetwork.org/>, as of June 30, 2015

³² <http://edsba.org/>, as of June 30, 2015

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

Procedures and Results

As part of our ongoing monitoring of charter school activity, the Office of Auditor of Accounts (AOA) selected four charter schools to review for the period July 1, 2013 through June 30, 2014 (Fiscal Year 2014).³³ We did not take exception to situations where a school utilized funds to provide nourishment for the students and their families or to offer an educational experience the students may not otherwise have experienced (e.g. to teach dining etiquette). Our work at MOT Charter School, Thomas A. Edison Charter School, Delaware College Preparatory Academy and Kuumba Academy Charter School is described in the balance of the report.

MOT Charter School (MOT)

MOT personnel were very accommodating and knowledgeable in answering our questions during fieldwork. MOT did have a number of small purchases, such as food purchases for staff functions, that did not meet any of the permissible criteria identified in the BAM³⁴ to provide food to State employees during normal working hours. Overall, MOT's PCard transactions were consistently for the benefit of the students and followed the appropriate policies, procedures, rules and regulations, with the exception of the items described below.

Student Activity Accounts³⁵ Process

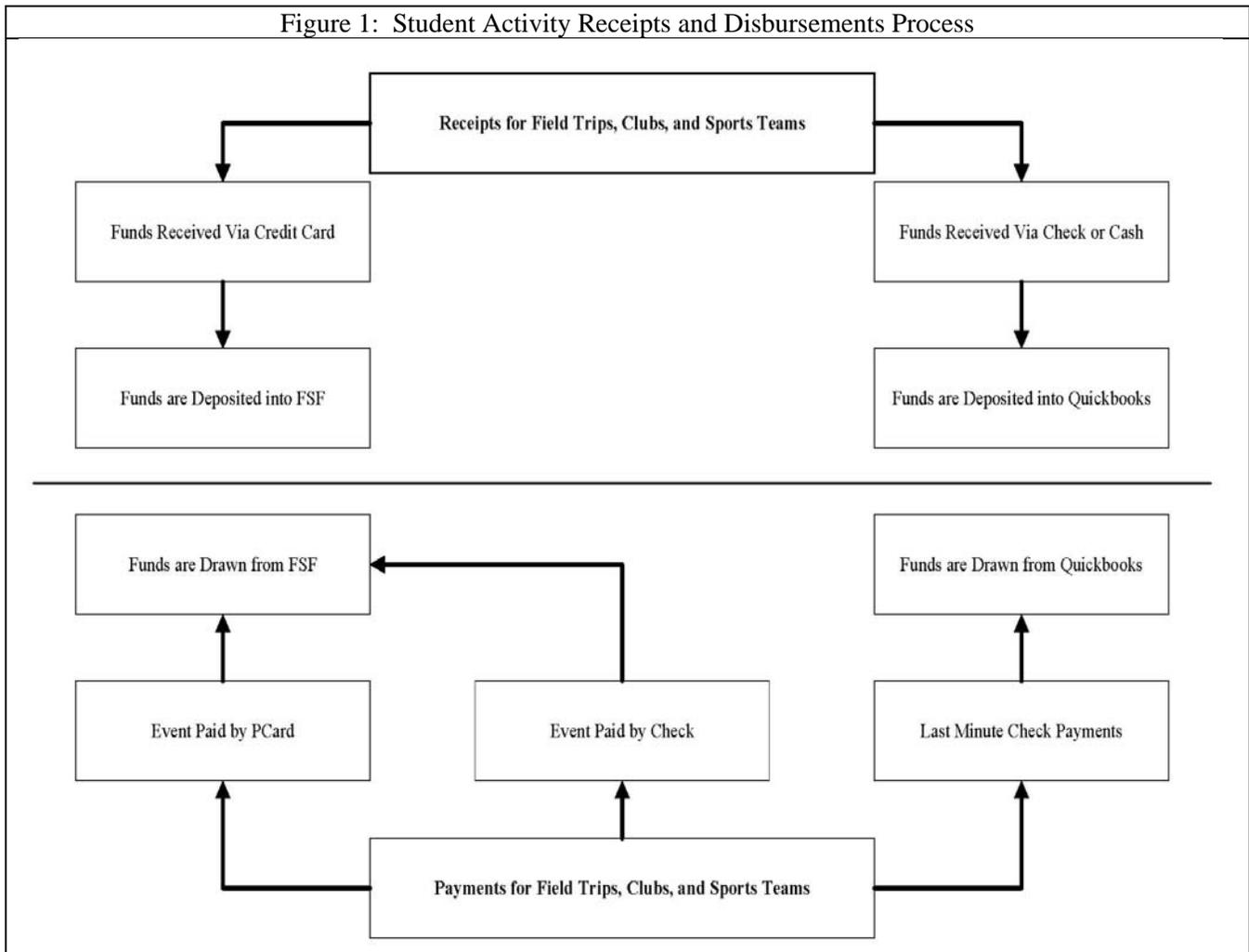
During the engagement we did find that MOT does **not** have a comprehensive policy specifically designed for student activity accounts.³⁶ As illustrated in Figure 1, MOT's fragmented accounting prevented AOA from generating a comprehensive schedule of funds received and expended for each student activity account. According to the school, First State Financials (FSF) is used for club and sports activities while QuickBooks is used for field trips and grade-level activities. However, in practice, and as demonstrated in Figure 1, only credit card payments are processed in FSF whereas checks and cash are processed through QuickBooks and its related checking account.

³³ The 2013-2014 school year is encompassed within Fiscal Year 2014.

³⁴ Section 7.6.6.2 of the BAM

³⁵ Student activity funds can be defined as funds raised for, by, or in the name of a school, class, or officially sanctioned student organization or activity. These funds include, but are not limited to, money received from fundraising activities, donations, and money collected from students.

³⁶ In response to concerns unrelated to this inspection, AOA distributed a template class funds policy to all school districts and charter schools in September 2014.



MOT had at least 59 clubs or sports teams³⁷ and 29 supplemental QuickBooks accounts for fieldtrips and grade-level activities. The process was complex. We encourage MOT to implement a comprehensive policy and consider revising their current method of accounting for student activities to alleviate the risk of error.

Thomas A. Edison Charter School (TECS)

TECS personnel were also very cooperative and the staff was very helpful in answering our questions during fieldwork. Once again we found a few issues related to food purchases that were not in compliance with the BAM and not in compliance with federal guidelines when federal funds were

³⁷ According to the After School Club Registration forms for each trimester and various registration forms for additional after school activities provided by MOT personnel, AOA totaled 59 activities available to students during Fiscal Year 2014.

involved.³⁸ We also identified and discussed the need to consistently follow Delaware Archives Record Retention Policies and the importance of documenting board approval of board member travel in the board meeting minutes. Overall, we found that TECS maintained itemized receipts for the PCard transactions tested.

Student Activity Accounts

For PCard transactions relative to student activities, we found that TECS does **not** have written policies and procedures for maintaining student activity accounts.³⁹ They also do not maintain internal ledgers to track or reconcile activity of these accounts maintained by the school in FSF. However, rather than lumping all activities into one appropriation, TECS does maintain 10 separate appropriations for their student activities as illustrated in Table 1.

Table 1: TECS Student Activity Appropriations

Student Activity	Appropriation in FSF	Beginning Balance	Revenue Collected	Expenses Paid	Ending Balance
Kindergarten	98225	\$ 7,052	\$ 4,487	\$(6,911)	\$ 4,628
First Grade	98238	-	1,373	(1,178)	195
Second Grade	98243	655	760	(293)	1,122
Third Grade	98227	12	1,469	(1,481)	-
Fourth Grade	98241	385	616	(488)	513
Fifth Grade	98242	895	1,525	(1,598)	822
Junior Academy	98226	3,922	4,432	(7,948)	406
Chess Club	98009	6,685	35,915	(32,218)	10,382
Art Department	98245	234	-	-	234
Music Department	98164	-	211	-	211
		\$ 19,840	\$ 50,788	(\$ 52,115)	\$ 18,513

Delaware College Preparatory Academy (DCPA)

During the period of our review, DCPA had unusual direct reimbursement activity for the Board President and the Executive Director.

Board President Direct Reimbursements

DCPA processed \$11,252.87 in reimbursements to the Board President during Fiscal Year 2014 for 37 different purchases. We took exception to the entire \$11,252.87 in reimbursements. The timing of the reimbursements is unacceptable since 15 of the transactions, worth \$7,437.74, were purchased approximately two years prior to the reimbursement. Of the remaining reimbursements, all but four worth \$955.00 occurred more than thirty days prior to the reimbursement.

³⁸ A June 2012 memo issued by the United States Department of Education states, “A grantee hosting a meeting or conference may not use grant funds to pay for food for conference attendees unless doing so is necessary to accomplish legitimate meeting or conference business.” However, additional guidance issued in December 2014 (after the occurrence of these events) states, “Generally there is a very high burden of proof to show that paying for food and beverages with Federal funds is necessary to meet the goals and objectives of a Federal grant.”

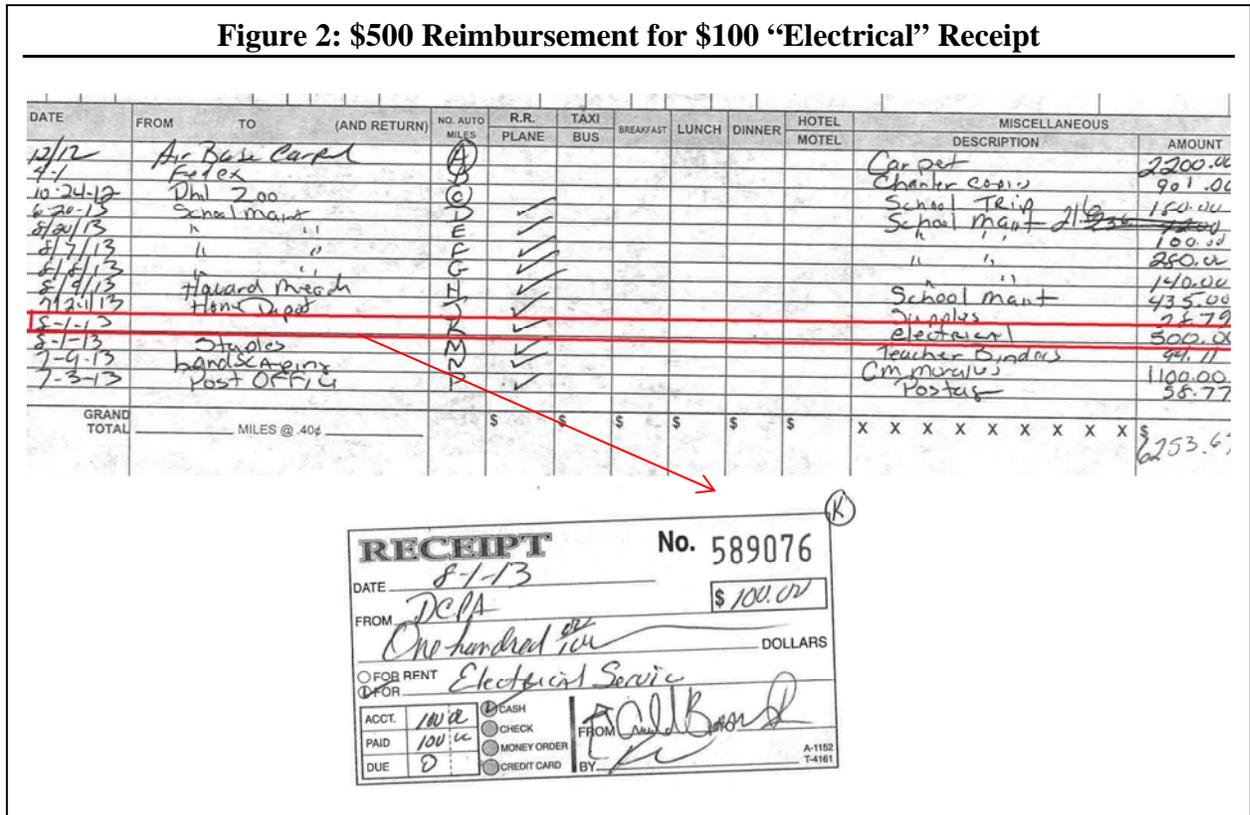
³⁹ In September of 2014, AOA distributed a template class funds policy to all school districts and charter schools. TECS should revisit this policy and tailor it to their specific programs.

Of the Board President’s reimbursements, \$11,054.18 were highly questionable as a valid school purchase given the nature of the transactions and the quality of supporting documentation, as described below.

Unsupported Reimbursements

Two transactions were reimbursed for \$470.00 higher than the supporting documentation indicated. In one instance, \$500.00 was reimbursed for a \$100.00 “electrical service” receipt demonstrated in Figure 2. The second instance was for a \$280.00 reimbursement with only \$210.00 in support. The \$470.00 is also included in the Questionable Documentation section below.

Figure 2: \$500 Reimbursement for \$100 “Electrical” Receipt



Two additional reimbursements for \$435.00 in “school maintenance” and \$1,100 in “landscaping” had absolutely no documentation aside from the Board President’s reimbursement form.

Lack of Itemized Receipts⁴⁰

Ten purchases only had an itemized receipt showing the total amount spent rather than the details of items purchased. As a result, we were unable to determine if purchases to Amazon, a pizza restaurant, Target, Home Depot, and Airbase Carpet totaling \$2,805.44 were a valid use of school funds.

Questionable Documentation

Eight transactions totaling \$1,241.00 for “school maintenance” and “landscaping” were supported by documentation that could easily be self-generated in Microsoft Office.⁴¹ In addition, half of these eight transactions totaling \$736.00 were supported by an invoice that contained no business address.

⁴⁰ Section 12.4.2 of the BAM

⁴¹ These transactions are in addition to the unsupported reimbursements reported above.

AOA attempted to validate the vendor names and phone numbers on the invoices without success. We also searched for Delaware business licenses and found nothing. Further, proof of payment was not provided for any of these transactions.

In addition, the Board President supported three transactions totaling \$238.88 by a *copy* of a receipt that was folded to hide the details of purchases to Staples, a post office, and Pat's Pizza. The Board President also provided the support shown in Figure 2 as support for a \$500.00 payment for electrical services.

Finally, one purchase worth \$1,558.00 was only supported by a copy of the Board President's original check with "construction" in the memo. AOA searched for the individual's Delaware business license with no result. When questioned, the Board President could only provide that the Executive Director⁴² at the time hired the individual to perform building repairs in the school's facility.

Purchases that could be Personal in Nature

In addition to the questionable documentation mentioned above, AOA identified eight purchases totaling \$2,024.86 that could be for personal use such as \$901.00 at FedEx for copies, \$78.38 at grocery stores, \$96.24 at Home Depot, \$56.94 at Dunkin Donuts, and \$892.30 at Amazon for a printer and cartridge.

Gift Card Purchase

Ten Wawa gift cards were also purchased for a total of \$50.00 with an explanation of "Gift Cards – Recruitment." As stated on page 10 of the Background section, gift cards are strictly prohibited.

Staff Luncheon

Food was often provided to staff during normal working hours, including one lunch at Firestone Roasting House for 30-40 guests totaling \$1,100, which is in violation of 29 Del. C. §5112.

The Board President provided vague details to AOA's inquiries on the transactions detailed above including that she "cannot answer the why and how's of the transactions." She also wrote "...I am not following why DCPA needs to justify expenses incurred to run its business..." She further stated "due to a change in leadership structure and the lack of financial stability in the Administrative staff, the Board of Directors agreed that I, the Board President, would temporarily assist DCPA with its funding needs until the appropriate accesses were granted and/or P-Card application(s) were approved."

During the course of our fieldwork the Board President provided us with a letter from herself to the Interim Executive Director, dated August 1, 2011, stating, "...I am temporarily providing authorization for use of my personal credit card and my personal checkbook in order to help facilitate the business of [DCPA]..." This directly conflicts with 29 Del. C. §5805 (a), which states that no state employee, state officer, or honorary state official may participate in the review or disposition of any matter in which that individual has a personal or private interest. Further, the Board President could not provide Board meeting minutes to support the Board's approval.

Neither the payments to the Board President or the arrangement referred to above were mentioned in the school's Fiscal Year 2014 financial statement audit as related party transactions. In addition, the financial statements did not include the liability owed to the Board President.

⁴² The Executive director in this instance is different than the Executive Director whose reimbursements were evaluated during our inspection.

Executive Director Direct Reimbursements

The Executive Director incurred \$18,025.78 in reimbursements, many of which were coded to travel and office supplies. We took exception to \$11,740.87 of the Executive Director's reimbursements. During our entrance conference with DCPA on February 9, 2015, we requested support for the Executive Director's \$18,025.78 in personal reimbursements; however, due to inadequate record keeping, DCPA staff indicated they could not locate the records. After making two subsequent written requests, we finally received the supporting records from DCPA on March 10, 2015. The details of the exceptions are described below.

Inadequate Support

An itemized receipt was not provided for 15 transactions, totaling \$6,431.01.⁴³ In addition, 10 transactions totaling \$5,309.86 were either supported by a personal credit card statement or nothing at all was provided for reimbursement. In one example, the reimbursement voucher stated a \$214.99 iPod touch was purchased for a fundraiser. According to the voucher details, the majority of these purchases were travel related, but were not supported by an Out-of-State Travel Authorization form as required by Section 11.1.3 of the Budget and Accounting Manual.

PCard Purchase Submitted for Reimbursement

Among the \$5,309.86 in unsupported reimbursements was one transaction for \$132.30 which was processed on the school's PCard, but also paid as a personal reimbursement. This payment was to a restaurant with "staff lunch" on the reimbursement form and had no support.

Reimbursement Amount Did Not Agree to Support

In one instance the Executive Director was over-reimbursed by \$104.48. This amount was also included in the unsupported reimbursements identified above.

PCard Transaction Testing

We also tested 29 PCard transactions, totaling \$8,792.00, and identified the following issues:

Lack of Itemized Receipt

The school could not provide an itemized receipt for a \$185.90 purchase made by the Executive Director at a pharmacy.⁴⁴

Travel Cancellations

We identified six instances, totaling \$2,896.80, in which an airline vendor issued airline credits to the six individuals, one of which was the Executive Director, who booked the flights rather than processing the refunds on the PCard.

Gift Card Purchase

We identified one instance where DCPA purchased a \$25.00 gift card to Staples. DCPA personnel stated that this was for a staff member to purchase school supplies and was purchased from the fundraiser appropriation code. However, the purchase was charged to a local funds appropriation code. As stated on page 10 of the Background section, gift cards are strictly prohibited.

⁴³ Section 12.4.2 of the BAM requires a detailed receipt for reimbursement.

⁴⁴ Section 12.4.2 of the BAM

Miscoded Transaction

The school charged a federal grant for a \$50.00 fee to rent a submersible pump. DCPA personnel stated this was to pump water out of the building due to a flood, and the coding of the transaction to the 21st Century Community Learning Centers grant was in error.

Kuumba Academy Charter School (KACS)

During Fiscal Year 2014, KACS paid two administrators, the Head of School and Assistant Head of School, a total of \$9,500 for services provided to the after-school and summer camp programs via vendor checks and not through regular payroll processing. These payments were classified using the “consultants” or “other professional services” codes. KACS also entered into a separate contract⁴⁵ with the school’s custodian to provide cleaning services totaling \$37,500 that was paid during Fiscal Year 2014. These payments exceeded the custodian’s base compensation for Fiscal Year 2014 of \$31,083.

Assuming all of these services were warranted as a separate expense and approved by the Board, 29 Del. C. §5805 (c) states that no State employee⁴⁶ shall enter into a contract, in excess of \$2,000 per year, unless such contract was made after public notice and subject to competitive bidding. AOA saw no evidence of either public notice or competitive bidding and confirmed with KACS officials that they did not bid out or offer public notice for the work performed.

\$7,500.00 to Head of School (HOS)

The HOS is a 12-month position, and according to her employment contract, is responsible for the “overall academic program and management of the school,” including to “oversee all programs, services, and activities to ensure that program objectives are met.” On top of her \$83,200 base salary, the HOS received an additional \$7,500.00 in payments to oversee the summer and after-care programs. While the programs are funded by a federal grant, her consulting fees were paid from revenue generated from fees charged to parents whose children participated in these programs.

According to the Board President, the Board approved and discussed the consulting payments paid to the HOS, but was unable to provide meeting minutes supporting those discussions. This is not in compliance with Delaware Archive Record Retention Policies.

\$2,000.00 to Assistant Head of School (AHOS)

The AHOS is also a 12-month position, whose essential responsibilities per her employment contract include “collaborate with grade/subject teams to plan units, lessons and assessments; regularly share feedback,” and “performs other duties and administrative functions as assigned by the Principal.” In addition to her base salary of \$73,475, the AHOS received a \$2,000.00 payment “for work completed related to the summer wrap-up for 21st [Century Community Learning Centers] grant.” The AHOS was paid from the school’s general operating appropriation received from the State.

The federal budget for these summer and after-school programs identifies additional personnel, such as teachers, nurses, and the two administrators, who are needed to support the program. With the exception of the two administrators’ payments identified above, KACS paid the additional personnel in PHRST, the State’s payroll system, using the summer school earnings code. In our experience with other charter schools and local school districts, processing these types of payments in PHRST is

⁴⁵ The contract and all payments were in the custodian’s personal name; however, the Delaware business license was in the name of his company, Rivera Cleaning Company.

⁴⁶ The Code section also includes any “or a private enterprise in which a state employee has a legal or equitable ownership of more than 10%” to this regulation.

the common practice. Using PHRST to process extra pay would classify the payments as wages and the appropriate federal and state tax withholdings would be deducted.

In addition, Section 7.11 of the BAM states, "...organizations must report ALL payments to individuals (including State employees and/or partnerships) for services regardless of the amount..." to Division of Accounting (DOA) so that an IRS form 1099-MISC⁴⁷ can be issued as required. DOA confirmed that KACS did not notify them of the payments made to the HOS or AHOS for the consulting services.

\$37,500.00 to Custodian for Additional Cleaning Contract

DOA confirmed that KACS did not notify them of payments made to their custodian for the cleaning services as they occurred during Fiscal Year 2014. However, DOA stated that on February 18, 2015 (approximately two weeks after the onset of our fieldwork and inquiries), KACS initiated a corrected 1099-MISC for calendar years 2013 and 2014 to include the contracted payments.

The school also confirmed that they do not request a copy of a valid Delaware business license for the cleaning services; however, we confirmed with the Division of Revenue that one existed for the services rendered. The HOS stated that she only renewed the cleaning contract each year, but her predecessor started the arrangement. She further stated that the contract no longer exists since KACS moved from its previous location on Market Street to its new location on French Street.

Consulting Services paid to CPA Firm

We discovered that the school's "Finance Director" per their website is actually the Managing Principal of a CPA firm contracted to provide various accounting services to KACS. These services include FSF, PHRST and HR records facilitation, plus Board and DOE Reporting. This type of arrangement is permissible per the Charter School Technical Assistance Manual. KACS paid the firm \$48,325 during Fiscal Year 2014 at the "standard fixed flat billing rate of \$4,000 per month" per the contract. Despite the consulting services provided by the CPA firm, KACS still struggles to comply with State policies and regulations.

⁴⁷ Per the Internal Revenue Service, a Form 1099-MISC is required for each entity paid during the year who, among other miscellaneous criteria, received at least \$600 in services, prizes and awards, and other income payments.