

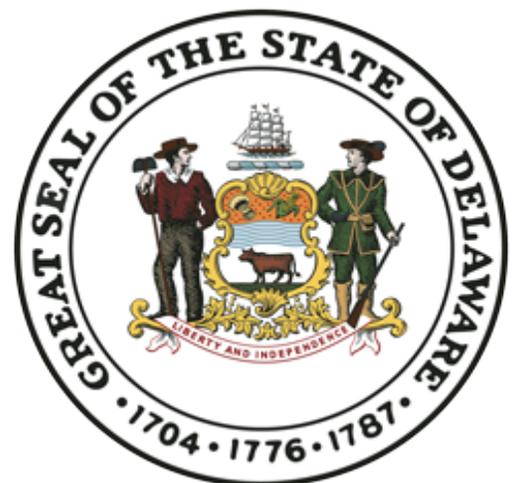
State of Delaware
Office of Auditor of Accounts

Providence Creek Academy Charter School

Inspection

Issuance Date: January 27, 2016

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

Working Hard to Protect YOUR Tax Dollars

Why We Did This Inspection

In the fall of 2014, AOA received notification about suspicious activity at Providence Creek Academy Charter School (PCA). The Department of Education had also contacted AOA. In January 2015, representatives from PCA met with AOA to discuss inappropriate handling of school funds by Shanna Simmens, the former Finance and Human Resources Manager.

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

For further information on this release, please contact:

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What We Found

From July 1, 2011 through December 31, 2014, Providence Creek Academy Charter School (PCA) lacked sufficient controls to prevent or detect various improprieties and non-compliance in purchasing and payroll.

Oversight bodies passed on transactions that were in conflict with State policy simply because “local funds” were used for payment. There was no mention of any issues by SB & Company, LLC, the CPA firm contracted by PCA to perform the financial statement audits. SB & Company, LLC issued unqualified opinions with no findings on internal control or compliance over financial reporting for fiscal years 2012, 2013, and 2014.

AOA found PCA’s deficient fiscal operations and close network of personnel led to a misuse of school funds. More than \$11 thousand in transactions proved to be for personal purchases such as utility payments, collections agencies, and timeshare payments. An additional \$20,609 remained unsubstantiated as legitimate business purchases, but lacked definitive characteristics of personal purchases.

Other areas of concern include unsupported salaries worth more than \$215 thousand for individuals described as having a close relationship with the former Finance and Human Resources Manager and direct reimbursements that were entered or approved by an individual no longer employed at PCA.

Work is needed to improve PCA’s operations. 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 and help to deter fraud, waste, and abuse.

A clear and consistent message is needed from all state agencies about fiscal accountability over charter school funds, including local funds.

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Abbreviations

AOA	Auditor of Accounts
ATM	Automated Teller Machine
BAM	Budget and Accounting Manual
CMO	Charter Management Organization
CSAC	Charter School Accountability Committee
CSTAM	Charter School Technical Assistance Manual
DCSN	Delaware Charter School Network
DOA	Division of Accounting
DOE	Department of Education
DSBA	Delaware School Board Association
FSF	First State Financials
JPMC	JPMorgan Chase
NSF	Non-Appropriated Special Funds
OMB	Office of Management and Budget
PCard	State Procurement Card
PE	Personal Expense
PHRST	Payroll/Human Resource Statewide Technology

Background

Providence Creek Academy Charter School, Inc. (PCA), a charter school within the State of Delaware (State), offers instruction for students, grades kindergarten through eighth. PCA focuses on academics, athletics, and arts for their students, allowing teachers to educate the “whole child.” PCA’s website proclaims that “PCA is a close-knit family in which communication is constant and always evolving.”¹

PCA opened its doors in 2002, upon approval of its charter by the State Department of Education (DOE). PCA’s charter authorizes the school to enroll up to 669 students.²

According to their Bylaws, PCA shall not have less than five or more than seven members on the board. The directors, with the exception of the parent and educator Directors, are appointed for a five year term, or until resignation or removal. Terms shall be staggered so that no more than 1/3 of the Board shall be up for appointment in any year, unless a vacancy (ies) needs to be filled. The board should include at least one parent of a student enrolled at the school and at least one educator currently employed by PCA. The parent and educator Directors’ are for one year and may be reappointed by a majority vote of the Board of Directors. The Board of Directors annually elects the officers (e.g. President, Vice President, Secretary, and Treasurer).

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), for assistance. PCA has not employed a CMO to manage the school’s financial information since July 2003.

PCA 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. PCA may also receive federal funding directly from the federal government or as a pass through from the State, as well as private gifts and donations.

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

<i>Table 1: Revenue Received Reported by PCA³</i>			
Source	FY 2012	FY 2013	FY 2014
<i>Revenues from School Districts</i>	\$ 694,575	\$ 832,121	\$ 937,939
<i>Payments from Primary Government</i>	4,715,279	4,823,730	5,094,018
<i>Operating Grants and Contributions</i>	543,025	307,643	239,777
<i>Charges for Services</i>	687,704	653,675	516,736
<i>Other Revenue</i>	295,900	-	-
Total	\$ 6,936,483	\$ 6,680,169	\$ 6,788,470

¹ This information was obtained from Providence Creek Academy’s website at <http://www.pcasaints.org/>.

² This information was obtained from DOE’s website at <http://dedoe.schoolwires.net/Page/1910>.

³ As stated in PCA’s audited financial statements.

Charter School Oversight and Governance

DOE has the authority to define the application and approval criteria for charter schools.⁴ 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.⁵ 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.⁶ 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.”⁷

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:

- (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)].

⁴ Per 14 Del. C. §505(b)

⁵ Per 14 Del. C. §511(c)

⁶ Per 14 Del. C. §513(c) and 14 Del. C. §515(a)

⁷ Per 14 Del. C. §514

- (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 Providence Creek Academy provided an overall rating of 'Meets Standard' for Fiscal Years 2013 and 2014.

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.⁸

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.⁹ PCA’s Bylaws speak to how future board members are selected.

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.

The misconception that “local funds” received from the taxpayers are not considered State money is included in Section 3.2 of the Budget and Accounting Manual (BAM), issued by the Office of Management and Budget (OMB), which states “donations, gifts, local school funds, and various

⁸ This section of the CSTAM provides DOE’s interpretation and summary of the 138th General Assembly’s Senate Bill 200, Chapter 179, also referred to as the Charter School Act of 1995, which created charter school legislation (14 Del. C., c. 5).

⁹ 14 Del. C. §512(1)

trust funds are examples of [non-appropriated special fund¹⁰ (NSF)] monies. NSF is not considered State monies.” However, allowing state agencies the latitude to manage these state funds that are not included in the State’s Operating and Capital Budget process¹¹ does not relieve the State from accounting for these funds. Local funds are all held in the State’s pooled cash account, maintained by the Office of the State Treasurer and accounted for in the State-wide Comprehensive Annual Financial Report 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

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 or collect fees not permitted to be assessed by other school districts. (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. 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 letter from the Attorney General’s Office dated July 30, 2007, which was reaffirmed in subsequent updates, 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

¹⁰ 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.”

¹¹ Also referred to as the Annual Appropriations Act or commonly referred to as the Budget Bill.

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:

- 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.¹²

The Budget and Accounting Manual¹⁸

Section 1.7 of the 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.¹⁴

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

¹² 14 Del. C. §515 (f)

¹³ The Budget and Accounting 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 1 version 2.9, Chapter 3 version 2.8, Chapter 7 version 4.24, Chapter 11 version 4.19, and Chapter 12 version 5.8.

¹⁴ Section 12.1 of the BAM

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”.¹⁵

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 to be reconciled in accordance with charter school policies and procedures.¹⁶

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.¹⁷ 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.

¹⁵ Section 12.4.1.4 of the BAM

¹⁶ According to section 12.2.3 of the BAM, organizations are required to indicate reconciliation procedures, including the frequency, which may be no less than monthly.

¹⁷ 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.

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.¹⁸ The BAM is silent on employee reimbursements for non-travel related expenses.

Food Consumed In-State¹⁹

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 Cards²⁰

Cash advances, which include any instance where funds are disbursed prior to the receipt of goods or services, 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 Code²¹ 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.”

¹⁸ Section 7.6.6.1 of the BAM

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

²⁰ Section 7.2.2 of the BAM

²¹ 29 Del. C. §504

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 Unit²²

Charter schools are organized as a separate legal entity under the Delaware Corporation Law;²³ however, they are fiscally dependent upon the State because they do not have the power to levy taxes or set tuition rates or charges.²⁴ As a result, the analysis performed by AOA in July 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)²⁵

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.

²² 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.

²³ 14 Del. C. §504(a)

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

²⁵ <http://www.decharternetwork.org/>, as of May 22, 2015

Delaware School Board Association (DSBA)²⁶

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 school needs and solicit the appropriate legislative support to provide those needs. The DSBA “...provide[s] 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:

Number of Units	Dues per Unit
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. There were no payments to the DSBA from charter schools during Fiscal Year 2013.

²⁶ <http://edsba.org/>, as of June 30, 2015

Procedures and Results

In the fall of 2014, AOA received notification about suspicious activity at Providence Creek Academy (PCA). The Department of Education also contacted AOA. In January 2015, representatives from Providence Creek Academy met with AOA to discuss inappropriate handling of school funds by Shanna Simmens, the former Finance and Human Resources Manager who was terminated in December 2014.

AOA identified a lack of controls surrounding the school's State Procurement Card (PCard), including Ms. Simmens' role in reconciling her own PCard transactions for a three month period, from January to April of Fiscal Year 2014.²⁷ Additionally, the school's PCard was not maintained in a secure location.

One employee also expressed concerns of the security of school records. The employee detailed the various ways to enter the school building without being recorded on the surveillance cameras, allowing individuals to remove items they do not want discovered.

PCA paid SB & Company, LLC, an external audit firm from Hunt Valley, Maryland, a total of \$40,000 to perform the annual financial statement audits for fiscal years 2012, 2013, and 2014. These reports contain unqualified audit opinions and no findings on internal controls and compliance over financial reporting.

The balance of the report outlines additional problems found at PCA.

Questionable Purchases at PCA

<i>Table 1: Summary of Questionable Purchases</i>		
	Personal	Unverifiable
State Purchasing Cards (PCards)	\$ 11,743.10	\$ 17,958.93
Vouchers	-	2,650.44
Grand Total	\$ 11,743.10	\$ 20,609.37

Personal PCard Purchases

AOA identified \$11,743.10 worth of personal expenditures made by Ms. Simmens using the state PCard, as illustrated in Table 2 below. AOA reviewed all available receipts to determine the nature of the items purchased.

<i>Table 2: Personal PCard Purchases July 1, 2012 - December 31, 2014</i>	
<i>Category</i>	<i>Total per Category</i>
Collections Agency	\$ 590.83
Dental	600.00
Groceries	84.14

²⁷ The PCard was reconciled by one PCA employee from 7/22/13 until the end of their employment on 12/31/13. The next employee did not assume this role until 4/1/14, leaving Ms. Simmens to reconcile her own PCard transactions during this three month period.

In-State Meals ²⁸	859.97
Las Vegas Trip (see Table 3)	1,122.75
Rehabilitation Services	4,200.00
Timeshare	872.00
Traffic Violations	362.00
Travel	25.00
Utilities	3,026.41
Total Personal Purchases	\$ 11,743.10

Additional details on items from Table 2 are outlined below:

Collections Agency - The payment was for real estate taxes and other fees on an account that listed both Ms. Simmens and her relative as the consumer.

Dental - This amount entails a \$600.00 charge to an orthodontics business in Dover, Delaware.

Groceries - Grocery charges include various trips to Wawa convenience stores in Smyrna and Rehoboth Beach, Delaware.

Las Vegas Trip - Four PCA representatives attended the 2014 National Charter School Conference, and arrived in Las Vegas, Nevada three days in advance. The unallowable out-of-state travel expenses incurred are detailed in Table 3 below and were not properly approved through the State’s required Travel Authorization Form.²⁹ Further, the school could not provide a valid reason for extending their trip.

Category	Amount
Beach Admission	\$ 227.00
Beverages	517.03
Comedy Club Tickets	273.60
Surf Shop Retail	105.12
Total Unallowable Las Vegas Charges	\$ 1,122.75

Beach Admission- Payment for beach admission at the Mandalay Bay Resort and Casino.

Beverages - This includes \$314.03 in “beverages” from the hotel’s Bikini Bar and Island Lounge. The remaining \$203.00 is for alcohol charges at two restaurants for Sambuccas, Jimador Silvers, Captain Morgans, mojitos, Bud Lights, and Coronas.

Comedy Club Tickets - Purchase of 4 tickets to the MGM Brad Garrett Comedy Club.

²⁸ Prohibited by 29 Del. C. §5112 and Sections 7.6.6.2 & 11.4.4 of the BAM.

²⁹ Required by Section 11.1.3 of the BAM.

Surf Shop Retail - Souvenirs purchased at the retail gift shop.

Rehabilitation Charge - Ms. Simmens used the school’s PCard to pay \$4,200 for a current PCA employee’s inpatient rehabilitation treatment. PCA staff confirmed Ms. Simmens had a close relationship with this employee. Upon further review, AOA found the employee did not use any leave during this seven week period and also continued to receive routine bi-weekly payroll payments of \$1,790.89.

Timeshare - AOA confirmed Ms. Simmens spent \$356.00 on a timeshare renewal and an additional \$516.00 to upgrade to a platinum membership with a timeshare company.

Traffic Violations - This includes a parking violation Ms. Simmens received for parking her vehicle in a reserved handicap spot, resulting in a \$215.50 fine.

Travel - This charge is an overnight parking fee at a Philadelphia Doubletree Hotel. AOA confirmed Ms. Simmens and her relative stayed over the weekend; however, this was not a school-related trip.

Utilities - AOA identified \$3,026.41 in payments to Comcast³⁰ and Town of Clayton utility accounts that were not associated with PCA. After thoroughly reviewing the payments, AOA found Ms. Simmens’ personal address matched the service address on the Town of Clayton invoices.

Unverifiable Purchases

In addition to the \$11,743.10 in personal purchases reported above, AOA was unable to identify whether an additional \$20,609.37 worth of purchases were for a valid school purpose. Conversely, we were unable to obtain sufficient evidence to classify the purchases as personal. Table 4 below illustrates the total amount of unverifiable purchases between July 1, 2012 and December 31, 2014.

Table 4: Unverifiable Purchases
July 1, 2012 - December 31, 2014

<i>Category</i>	<i>PCard</i>	<i>Vouchers</i>	<i>Total per Category</i>
Auto Maintenance	\$ 91.22	\$ -	\$ 91.22
Board Dinners	93.24	-	93.24
Business Technology Support	797.49	-	797.49
Building Maintenance	374.63	-	374.63
Calling Card	22.00	-	22.00
Electronics	5,915.43	-	5,915.43
Floral	59.92	-	59.92
Fuel	79.84	2,650.44	2,730.28
Groceries	69.61	-	69.61
Heating and Cooling	239.69	-	239.69
In-State Meal	2,356.99	-	2,356.99
Internet Service	12.00	-	12.00

³⁰ PCA staff confirmed the school does not use Comcast for any services.

Photography	116.00	-	116.00
Postage	9.99	-	9.99
Retail	4,900.78	-	4,900.78
Taxes	25.00	-	25.00
Tolls	230.00	-	230.00
Travel	482.50	-	482.50
Unknown	33.78	-	33.78
Utilities	2,048.82	-	2,048.82
Total per Account	\$ 17,958.93	\$ 2,650.44	\$ 20,609.37

Additional details on items from Table 4 are outlined below:

Business Technology Support - PCA did not have any supporting documentation on file for this vendor located in Dubai, United Arab Emirates. When questioned, Ms. Simmens stated it was for a purchase of an LCD projector for a classroom. AOA found that Honeybee Tech Ventures does not sell merchandise.

Calling Card - This purchase was for an international Bermuda calling card.

Fuel - \$2,650.44 was paid to Louisiana State University through the state’s voucher system. The voucher description read ‘Fuel’; however, PCA did not have any record or recollection of this purchase or any involvement with the university.

Retail - This category included frequent purchases from Amazon and Walmart that couldn’t be validated as school supplies.

School Related Purchases Not in Compliance with State Policy

In addition, PCA leaders frequently spent funds on restaurant meals and dinners for school activities. The school spent \$4,929.86 on meals from Pat’s Pizzeria from July 1, 2012 to December 31, 2014 alone. On top of that, \$10,573.78 was spent on student activity meals, flowers to staff, and teacher appreciation gifts, all of which are prohibited by the Delaware Code and Budget and Accounting Manual.³¹

More than \$215,395 in Unsupported Payroll Expenses

PCA made several payroll payments, in addition to regular salary payments, that lacked adequate support to identify the reason for the payment. PCA could not provide support for 22 of 92 payments in addition to the employees’ regular salary, totaling \$52,027.37. Of the unsupported payments, 9 payments totaling \$26,950 were made without Board approval.

PCA was also unable to provide a contract, timesheets, or an hourly rate approval for 7 of the 42 annual salaries reviewed by AOA, totaling \$163,367.56 in unsupported payroll costs.

³¹ Prohibited by 29 Del. C. §5112, 29 Del. C. §6505(c), and Sections 7.2.2, 7.6.6.2, and 12.4.1(2)(c) of the BAM.

Direct Reimbursements³²

AOA reviewed 41 direct reimbursements, totaling \$24,320.21, paid by PCA during the period July 1, 2012 through December 31, 2014. We found that 23 of the 41 reimbursements reviewed, totaling \$17,426.80, violated State policy.

Of the 23 reimbursements, 17, totaling \$16,532.66, were not supported in accordance with 29 Del. C. §6504 which requires that State agencies maintain details, including bills, statements, letters, vouchers, and documents, for all expenditures incurred by the agency. This includes two reimbursements paid to one employee, totaling \$1,800, for a stipend, which should have been paid through PHIRST to properly account for taxes on the employee's wages. One of these transactions worth \$900 was entered and approved by an individual who was not employed by the school, as described below.

Finally, we found that an additional 6 of the 23 reimbursements, totaling \$894.14, were entered in First State Financials by an individual who was no longer employed by the school when the payments were processed. The State of Delaware Information Technology Policy states that all personnel must treat access credentials as private and highly confidential, and these IDs may not be utilized by anyone other than the individual to whom they have been issued. PCA personnel confirmed that the former employee's First State Financials credentials were used by the school without the individual's knowledge. According to school personnel, the former employee's supervisor, Shanna Simmens, was the only employee with access to her credentials.

Records Retention

AOA also found violations of the Records Retention Schedule issued by the Delaware Public Archives under the authority of 29 Del. C. §524. The Records Retention Schedule for Accounting and Financial Records stipulates that financial records including, but not limited to, Payment Vouchers, Purchase Orders, Intergovernmental Vouchers, Expenditure Corrections, Reports of Cash Receipts, Personal Expense Reimbursements, and Deposit Slips, should be retained at the agency for five years or until a successful audit, at which time the records should then be transferred to the State Records Center for the remainder of the retention period. After the five year retention period, the records can then be destroyed.³³

³² Direct reimbursements are paid to State employees for services provided by the employee or travel expenses for state business.

³³ School District General Records Retention Schedule (Accounting and Financial Records) issued by Delaware Public Archives.