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CHARTER SCHOOL VULNERABILITIES TO WASTE, FRAUD, AND ABUSE

Federal Charter School Spending, Insufficient Authorizer Oversight, and Poor State & Local Oversight Leads to Growing Fraud Problems in Charter Schools

THE CENTER FOR POPULAR DEMOCRACY

ABOUT THE AUTHOR

The Center for Popular Democracy is a nonprofit organization that promotes equity, opportunity, and a dynamic democracy in partnership with innovative base-building organizations, organizing networks and alliances, and progressive unions across the country.

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Executive Summary

In 2014, the Center for Popular Democracy (CPD) issued a report demonstrating that charter schools in 15 states—about one third of the states with charter schools—had reported over $100 million in fraud, waste, abuse, and mismanagement since 1994. In 2015 and 2016, we released additional reports documenting millions of dollars in new alleged and confirmed cases of fraud, waste, abuse, and mismanagement in charter schools.[1] This report offers further evidence that the money we *know* has been misused is just the tip of the iceberg. With the new alleged and confirmed cases reported here, **the financial impact of fraud, waste, abuse, and mismanagement in charter schools has reached over $223 million since our first report**.

Public funding for charter schools (including local, state, and federal expenditures) has reached over $40 billion annually.[2] Yet despite this tremendous ongoing investment of public dollars in charter schools, all levels of government have failed to implement systems to proactively monitor charter schools for fraud, waste, abuse, and mismanagement. While charter schools are subject to significant reporting requirements by various public agencies (including federal monitors, chartering entities, county superintendents, and state controllers and auditors), very few of these agencies regularly monitor for fraud.

The rapid expansion of the charter sector in recent years is a particularly important factor in the fraud epidemic. Local and state entities charged with oversight of charter schools are quickly becoming overwhelmed, yet the federal government continues to pour taxpayer dollars into this expansion project. Over the past 20 years, the federal Department of Education has channeled over $3 billion into states to increase the quantity of charter schools without requiring strong oversight systems.[3] As a result, millions in federal dollars have been lost to fraud, waste, and mismanagement. The Every Student Succeeds Act (ESSA), passed in December 2015, required the federal Department of Education to increase the pace of spending significantly over the next 10 years,[4] essentially doubling the total federal investment in charter schools in half the time. In 2017, President Trump and his Secretary of Education, Betsy DeVos, have proposed to increase federal funding for charter schools from $333 million in 2017 to $501 million in 2018.[5] This increase comes after a 2016 report from the

US Department of Education's Office of Inspector General which found "significant risk" in the US Department of Education's Office of Innovation and Improvement (OII) charter school grant program.[6]

DeVos should be particularly familiar with the dangers of fraud and abuse in charter schools. As a staunch advocate for charter schools in Michigan, DeVos has spent millions in campaign donations supporting state candidates who favored "school choice" and opposing increased oversight and regulation. The result of Michigan's experiment in charters has been a system of failing schools run by for-profit companies, and millions of dollars lost in fraud and waste.[7]

With the perpetuation of inadequate oversight mechanisms and the new influx of federal funding, the amount of federal, state, and local dollars at risk of being lost to fraud, waste, and abuse in the charter sector is only going to grow.

The number of instances of serious fraud uncovered by whistleblowers, reporters, and investigations suggests that the fraud problem extends well beyond the confirmed cases we know about. Based on the widely accepted estimate of the percentage of revenue the typical charter organization loses to fraud, the deficiencies in charter oversight throughout the country suggest that **federal, state, and local governments stand to lose more than $2.1 billion in 2017, up from $1.8 billion in 2016**.[8] The vast majority of fraud perpetrated by charter officials will go undetected because federal and state governments, as well as local charter authorizers, lack the oversight systems necessary to detect the fraud.

Setting up systems of oversight that can detect and deter charter school fraud is critical. The money saved by these oversight systems will almost certainly offset the cost of implementation. We recommend the following reforms:

- Mandate audits specifically designed to detect and prevent fraud, and increase the transparency and accountability of charter school operators and managers
- Design clear planning-based public investment programs to ensure that any expansion of charter school investment also ensures equity, transparency, and accountability
- Increase transparency and accountability to ensure that charter schools provide the information necessary for state agencies to detect and prevent fraud

State and federal lawmakers should act now in establishing systems to prevent fraud, waste, abuse, and mismanagement. ESSA unfortunately does very little reduce these vulnerabilities in the Charter Schools Program. Without state and local lawmakers passing policies to increase oversight, taxpayers stand to lose millions of additional dollars to charter school fraud, waste, abuse, and mismanagement.

Introduction

Over $40 billion in local, state, and federal taxpayer dollars are spent on charter schools each year. The federal government alone has contributed over $3.3 billion through several grant programs specifically designed to increase the number of charter schools throughout the United States.[9] With the passage of the ESSA, the federal government signaled its plans to spend another $3.3 billion on charter school expansion by 2026,[10] which would double the federal investment in charter schools over the last two decades.[11] This projected increase in the number of charter schools therefore leverages a corresponding increase in local and state taxpayer dollars. Despite the sizeable public investment in charter schools, the federal, state, and local government bodies that oversee charter schools have failed to implement adequate protections to ensure that taxpayer money is used appropriately to advance the education of the nation's young people.

Existing state oversight systems are reactive by design. While states do require that charter schools submit budgets, financial reports, and independent financial audits, most do not proactively monitor for fraud, waste, mismanagement, or other financial abuses. States maintain these passive standards despite the federal government's identification of serious deficiencies in charter school oversight across the country. In 2010, the US Department of Education's Office of Inspector General (OIG) issued a memorandum to the Department of Education's Office of Innovation and Improvement (OII). The purpose of the memorandum, as stated by the OIG, was to "alert you [the OII] of our concern about vulnerabilities in the oversight of charter schools."[12] The report went on to state that the OIG was seeing "a steady increase in the number of charter school complaints" and that state-level agencies were failing "to provide adequate oversight needed to ensure that Federal funds [were] properly used and accounted for." In September of 2012, the OIG audited OII's Charter Schools Program and found that OII did not adequately monitor the federal funds that the program received.[13] Specifically, the audit report states:

> "We determined that OII did not effectively oversee and monitor the SEA [State Educational Agencies] and non-SEA grants and did not have an adequate process to ensure SEAs effectively oversaw and monitored their subgrantees. Specifically, OII did not have an adequate corrective action plan process in place to ensure grantees corrected deficiencies noted in annual monitoring reports, did not have a risk-based approach for selecting non-SEA grantees for monitoring, and did not adequately review SEA and non-SEA grantees' fiscal activities.
>
> In addition, we found that OII did not provide the SEAs with adequate guidance on the monitoring activities they were to conduct in order to comply with applicable Federal laws and regulations. We identified internal control deficiencies in the monitoring and oversight of charter schools that received the SEA grant at all three of the SEAs we reviewed. Specifically, we found that none of the three SEAs:
>
> - adequately monitored charter schools receiving the SEA grants;
> - had adequate methodologies to select charter schools for onsite monitoring; or
> - monitored authorizing agencies."[14]

In 2016, the OIG again audited OII's Charter Schools Program and found:

> that charter school relationships with CMOs posed a significant risk to Department program objectives. Specifically, we found that 22 of the 33 charter schools in our review had 36 examples of internal control weaknesses related to the charter schools' relationships with

their CMOs (concerning conflicts of interest, related-party transactions, and insufficient segregation of duties).[15]

The OIG concluded that these examples of internal control weaknesses represent the following significant risks to Department of Education:

1. Financial risk, which is the risk of waste, fraud, and abuse;
2. lack of accountability over Federal funds, which is the risk that, as a result of charter school boards ceding fiscal authority to CMOs, charter school stakeholders (the authorizer, State educational agency (SEA), and Department) may not have accountability over Federal funds sufficient to ensure compliance with Federal requirements; and
3. performance risk, which is the risk that the charter school stakeholders may not have sufficient assurance that charter schools are implementing Federal programs in accordance with Federal requirements.

Given the amount of ongoing fraud uncovered by whistleblowers and the media, as well as the consistent pace of state and federal prosecution of fraud cases, there is ample evidence that many of the original concerns raised in 2012 by the OIG have not been remedied.[16] Through the Charter Schools Program, the federal Department of Education, has the power not only to strengthen their own tracking and monitoring of how federal funds are deployed, but to condition their grants to states based on criteria that would better protect against misconduct.

The Tip of the Iceberg

In 2014, CPD issued a report demonstrating that charter schools in 15 states—about one-third of the states with charter schools—had experienced over $100 million in reported fraud, waste, abuse, and mismanagement since 1994. In 2015 and 2016, we released additional reports documenting millions of dollars in new alleged and confirmed cases of fraud, waste, abuse, and mismanagement in charter schools.[17] This report offers further evidence that the money we *know* has been misused is just the tip of the iceberg. With the new alleged and confirmed cases reported here, **the financial impact of fraud, waste, abuse, and mismanagement in charter schools has reached over $223 million since our first report**.

California

American Indian Model Schools: According to a grand jury indictment, a charter school director who received over $1 million in federal funds to run three charter schools in Oakland used the money to make improper lease payments on properties he owned. Ben Chavis, former director of the American Indian Model Schools, was charged with six counts of mail fraud and money laundering. In total, Chavis and his wife made $3.8 million in illegal payments under real estate deals between the schools and the couple under Chavis' directorship.[18]

Celerity Education Charter Schools: Vielka McFarlane, founder and director of Celerity Education Group, **funded a lavish lifestyle that included expensive meals, high-end salon visits, and luxury hotel stays using her nonprofit charter school network's credit card**, according to a report by the *Los Angeles Times*. In addition to misusing the organization's credit card, McFarlane, who earned a salary significantly higher than Los Angeles School District superintendent Michelle King, also appears to have directed hundreds of thousands of dollars in public funds to companies registered in her name for services rendered to the network. The Los Angeles charter schools division first uncovered evidence of wrongdoing when an audit revealed improper charges in Celerity's credit card statements, however the network did not lose its charter for another two years. During that time, despite being under investigation by both the district Inspector General and the Federal Bureau of Investigation, the network expanded beyond its base in southern California, extending to Louisiana. No one at Celerity, including McFarlane, has been charged with a crime stemming from the schools' operations.[19]

Oxford Preparatory Academy: An audit conducted by California school district consultant Fiscal Crisis and Management Team found that **Oxford Preparatory** Academy founder, Sue Roche, had set up a number of companies staffed by family and friends in order to divert school funds. Oxford paid one of the companies, Oxford Preparatory Edlighten, **$4.2 million** in management fees over three years. The audit was called for after Oxford appealed the Chino Valley Unified School Board's decision not to renew its charter after it expires June 30, 2017.[20]

El Camino Real Charter High School: A *Los Angeles Daily News* investigation found that charter school principal David Fehte, along with several other school administrators, had charged **over $1 million** to school credit cards between 2013 and 2015.[21] After reimbursing the school for only $6,000 in improper expenditures, Fehte resigned without admitting wrongdoing. Fehte received $215,000 in severance under the terms of his employment contract.[22]

Hope Academy Charter School: An audit found that founder and superintendent Jared Mecham, his wife and his for-profit company received more than **$1.3 million** in funds from Hope Academy Charter School between July 2014 and February 2016. Mecham's company, SavantCo Education, Inc., charged the school $58,000 per month for back-office services, nearly six times the amount the school had been charged by its previous vendor. When Mecham resigned from the school as superintendent, his company added an additional "administrative fee" of $20,000 per month to its charges.[23]

Florida

Newpoint Education Partners: A charter management company and three of its vendors were charged with theft, money laundering, and fraud for allegedly funneling hundreds of thousands of dollars in charter school funds to the vendors through fraudulent billing. **Newpoint Education Partners** allegedly had ties to the vendors, who concealed the alleged laundering through the use of multiple bank accounts. The allegedly misappropriated funds came from federal grants intended for school supplies, equipment, and services.[24]

New Mexico

La Promesa: Charter school director Annalee Maesta was removed from her position after she was caught doctoring a receipt to be reimbursed for cleaning services at her home. The reimbursement was approved by Maesta's daughter, who was the school's assistant business manager.[25]

Ninety Percent of an Iceberg is Underwater: Fraud Detection and Prevention

Like icebergs, the majority of fraud remains unseen. In its 2016 *Report to Nations on Occupational Fraud and Abuse,* the Association for Certified Fraud Examiners estimates that five percent of total revenues will be lost to fraud.[26] In order to detect and prevent that fraud, auditors need to be armed with the tools to root it out.

Currently, the vast majority of charter schools only undergo audits that they commission and pay for themselves. The charters' independent auditors share many of the methodologies used by specialized auditors to uncover fraud, but the key difference is the purpose of their work. "Traditional audits," writes an expert on fraud audits, "can uncover fraud, but they don't seek it out. Instead, they look at records to check if prices charged on contracts are reasonable or if contractors have compliant accounting systems in place."[27] By contrast, fraud audits are specifically designed to look for and uncover instances of fraud, mismanagement, or abuse—and to assess whether schools have strong internal systems in place that can effectively detect and deter misconduct.

Buttressing the current system of private audits by charter-hired firms with regularly scheduled traditional audits performed by authorizers or state agencies is an important step in detecting and deterring fraud. However, incorporating a system of regular internal control audits would better protect the sizeable public investments in charter schools.

Considering the public's investment in charters as a component of our public school system, policymakers should ensure that public funding be channeled only to schools in states that have a robust system of fraud detection and prevention, including internal controls. States should require the active participation of charter schools in identifying possible vulnerabilities.

Hallmarks of an effective, comprehensive fraud prevention system include:

- Taking proactive steps to educate all staff and board members about fraud;
- Ensuring that one executive-level manager coordinates and oversees the fraud risk assessment and reports to the board of directors, oversight bodies, and school community;
- Implementing reporting procedures that include conflict disclosure, whistleblower protections, and a clear investigation process;
- Undergoing and posting a fraud risk assessment conducted by a consultant expert in applicable standards, key risk indicators, anti-fraud methodology, control activities, and detection procedures; and
- Developing and implementing quality assurance, continuous monitoring, and, where necessary, correction action plans, with clear benchmarks and reporting.[28]

These internal measures would help foster a culture of vigilance aligned with the public's interest in ensuring that all resources intended for children's education are appropriately deployed. It would also help identify areas in which each charter school is vulnerable to fraud and target areas for the oversight agencies to pay particular attention. As mentioned above, part of establishing an effective internal control system is conducting a fraud risk assessment.

An effective fraud risk assessment:

- Identifies inherent fraud risk through the explicit consideration of all types of fraud schemes and scenarios; incentives, pressures, and opportunities to commit fraud; and information technology fraud risks specific to the organization;
- Assesses the likelihood and significance of inherent fraud risk based on historical information, known fraud schemes, and interviews with staff;
- Creates effective and appropriate responses to possible, existing, or residual fraud risks; and
- Performs a cost-benefit analysis of fraud risks to help the organization decide which controls or specific fraud detection procedures to implement.[29]

It is important that all charter schools adopt strong internal control mechanisms that assess the risk of fraud within their schools. However, oversight agencies can and should broaden the parameters of their oversight by conducting risk-based targeted fraud audits that are designed specifically to detect misappropriation, financial reporting fraud, and corruption. These fraud audits should begin with a review of the internal control system itself. While fraud can occur in companies with strong or weak internal control mechanisms, studies show that the companies with the best track record of preventing and detecting fraud are those with the strongest internal control fraud risk management programs. For schools with stronger internal control systems, oversight agencies would use a fraud risk assessment to identify areas of particular vulnerability and target these areas for auditing. Where internal control systems are weaker, the authorizer would conduct broader fraud audits. In order to facilitate fraud audits across oversight agencies, the agencies should coordinate to identify possible fraud schemes and to understand how they occur and the symptoms they exhibit.

Recommendations

Taxpayers invest billions of education dollars in charter schools, yet states do not offer adequate protections to ensure that these dollars are benefitting students. We therefore recommend that federal funding for charter school education should flow only to states that have the following student, parent, community, and taxpayer protection provisions in place for their charter schools.

Increase Transparency & Accountability

- The federal Department of Education, through the Charter Schools Program, should strengthen its tracking and monitoring of how federal funds are employed through the program.
- State law and regulations should create comprehensive financial conflict-of-interest policies and guidelines, including reporting requirements, fraud audits, and clear designated state agencies to monitor and enforce compliance. Those agencies should have the full authority to obtain copies of any school, governing board, or management organization documents.
- Charter schools should be subject to the same accountability provisions applied to the state's traditional public school sector. This includes state open meeting and open records laws, but does not preclude additional types of accountability, such as meeting the terms of a performance agreement.
- Oversight agencies should create a system to categorize and rank charter audits by level of fraud risk they pose to facilitate public engagement.
- Oversight agencies should post the findings of their annual internal assessments of fraud risk on their websites.
- Oversight agencies should determine what steps charter school nonprofit governing boards and executives have taken to guard against fraud over the past 10 years and issue a report to the public detailing their findings and recommendations.
- Charter school authorizers should take fraud risk assessments into account when evaluating whether to renew a school's charter.
- Until states implement the oversight mechanisms described above, authorizers should only approve new charters that commit to the fraud controls recommended above. Further, the federal government should not fund schools that do not commit to these fraud controls.

- Charter governing Boards should have full access on request to all financial documents, records and information from any Education Management Organization with which it has contracted to manage the school.
- No further funding should be allocated to states from the Department of Education's Charter Schools Program until states meet the recommendations within this report.

Mandate Audits Designed to Detect and Prevent Fraud

- Charter schools should be required to institute an internal fraud risk management program, including an annual fraud risk assessment.
- Charter schools should be required to commission an annual audit of internal controls over financial reporting which is integrated with the audit of financial statements that charter schools currently commission. These integrated audits should require auditors to provide an opinion on the quality of internal controls and financial statements.
- Oversight agencies, such as state comptrollers' offices, should conduct audits on charter schools once every three years.
- Auditing teams should include members certified in Financial Forensics trained to detect fraud.
- Independent financial audit requirements should include public disclosure as well as a designated state agency to monitor and enforce compliance.

Given the rapid and continuing expansion of the charter school industry, as well as the tremendous investment of public dollars in the Charter Schools Program, federal and state governments must act now to reform their oversight systems. Without reform, taxpayers stand to lose billions of dollars as a result of charter school fraud, waste, and mismanagement.

Appendix A: Categories of Fraud & Mismanagement

The instances of fraud and mismanagement fall into six basic categories:

- Charter operators using public funds illegally for personal gain;
- School revenue used to illegally support other charter operator businesses;
- Mismanagement that puts children in actual or potential danger;
- Charters illegally requesting public dollars for services not provided;
- Charter operators illegally inflating enrollment to boost revenues; and,
- Charter operators mismanaging public funds and schools.

Charter Operators Using Public Funds Illegally For Personal Gain

The most pervasive type of charter fraud and mismanagement that we found in our survey is the illegal practice of charter operators using public funds for personal gain. Examples include:

- Masai Skiefs, former CEO of the Harambee Institute of Science Technology Charter School in Pennsylvania, who pled guilty to stealing $88,000 for various purposes, including a down payment on a house;[24]
- William and Shirley Pierce, former operators of Right Step Academy Charter School in Minnesota, who were sentenced to 37 and 30 months in federal prison, respectively, for using public dollars for a Caribbean cruise vacation, $17,561.87 to pay off personal credit card debt, and $11,125.00 to purchase season tickets to the Minnesota Timberwolves,[25] among other things;
- Joel Pourier, former CEO of Oh Day Aki Heart Charter School in Minnesota, who embezzled $1.38 million from 2003 to 2008. He used the money on houses, cars, and trips to strip clubs. Meanwhile, according to an article in the Minneapolis Star Tribune, the school "lacked funds for field trips, supplies, computers and textbooks."[26] A judge sentenced Mr. Pourier to 10 years in prison.[27] Given the number of years, and the severity of the fraud, over a million dollars might have been saved had there been adequate charter oversight.

"The theft of resources from Michigan's children will not be tolerated," said Schuette. "We must root out corruption at all levels of government to ensure the public is served. Nobody will get a free pass when they break the law."

– Michigan Attorney General Bill Schuette, after charging the former treasurer of the George Washington Carver Academy Charter School with felony embezzlement.

To prevent this type of fraud from occurring, there are a number of steps lawmakers can take. For example, charter school governing boards should be required to include representation from the school's educators and parents, and relatives of school administrators or anyone associated with a charter management company should be barred from serving on a school's governing board. Schools should also be required to have internal financial controls that are considered best practices in non-profit management, to insure internal oversight of expenditures. Local or state charter school authorizers should be funded and required to ensure that these controls are in place.

Appendix B of this report includes excerpts from source documents which detail the various ways charter operators have used charter funds for personal gain.

School Revenue Used To Illegally Support Other Charter Operator Businesses

We found a number of cases where charter operators were caught using public funds to illegally support their own personal businesses. For example, in 2012, the former CEO and founder of the New Media Technology Charter School in Philadelphia was sentenced to prison for stealing $522,000 in taxpayer money to prop up a restaurant, a health food store, and a private school.[28] In Florida, the former director of Life Skills Center Charter School, John Wyche, was sentenced in 2011 to serve more than six years in prison for misusing more than $750,000 in state education monies to sustain a failing apartment complex that he owned.[29]

With increased transparency and tighter regulations governing self-dealing, much of this type of operator fraud can be prevented. Appendix C of this report includes excerpts from source documents which detail the various ways charter operators have used charter school revenue to illegally support their other personal businesses.

Mismanagement That Puts Children In Actual or Potential Danger

Less prevalent, but perhaps more concerning than the other mismanagement we found, were a number of cases where children were put in potential or actual danger due to charter operator mismanagement. Many of the cases involved charter schools neglecting to ensure a safe environment for their students. For example, Ohio's State Superintendent of Public Instruction, Dr. Richard A. Ross, was forced to shut down two charter schools, The Talented Tenth Leadership Academy for Boys Charter School and The Talented Tenth Leadership Academy for Girls Charter

School, because, according to Ross, "They did not ensure the safety of the students, they did not adequately feed the students, they did not accurately track the students and they were not educating the students well. It is unacceptable and intolerable that a sponsor and school would do such a poor job. It is an educational travesty."[30]

Another situation occurred at the Paterson Charter School in New Jersey. An investigation conducted by the Department of Education found that more than 75 percent of the school's employees had not undergone the required criminal background checks.[31] Similarly, the Department of Education found that the Mercer Arts Charter High School, also in New Jersey, was not providing a safe and orderly education environment for its students.[32] Across the country in California, the San Diego Unified School District found a similar problem. The District cited the A. Phillip Randolph Leadership Academy Charter School for "not adequately supervising students."[33]

Charter oversight rules that inoculate against these types of mismanagement cases are sorely needed. As is discussed in the 'recommendations' section of this report, we believe there is a need to task and fund a dedicated state-level charter school and charter authorizer oversight office that employs investigators in a ratio of 1 investigator to 10 charter schools. Especially in situations where student safety is concerned, setting up a system of preventive monitoring is key. When investigators are appropriately staffed, they can catch problems before they turn into casualties. Appendix D of this report includes excerpts from source documents which detail the various ways charter operators have put children in real or potential danger.

Charters Illegally Requesting Public Dollars For Services Not Provided

Where there is little oversight, and lots of public dollars available, there are incentives for ethically challenged charter operators to charge for services that were never provided.

A particularly egregious example comes from the operator of the Cato School of Reason Charter School (Cato) in California. According to an investigation conducted by the California State Auditor, Cato registered and collected millions of taxpayer dollars for students who were actually attending private schools.[34] Another example comes from New Jersey. State officials shut down the Regional Experiential Academic Charter High School after the state found, according to report in the New York Times, "a wide range of problems, including failure to provide special education students with the services required by state and federal law."[35] In Minnesota, as was reported in the *Star Tribune,* the superintendent of the Community School of Excellence Charter School "improperly directed staff members to enter or have students enter lunch codes for meals that were not eaten."[36]

"This is a heck of a mess… Closed or not, the leadership of this school must be held responsible, and the money must be returned to the people of Ohio."

– Ohio Auditor of State Dave Yost, speaking about nearly $3 million in unsubstantiated expenses amassed by the Weems Charter School.

As is the case with the other types of fraud, this type of fraud could be prevented with increased transparency, monitoring of services and regular public reporting.

Appendix E of this report includes excerpts from source documents which detail the various ways charter operators illegally requested public dollars for services that they did not provide.

Charter Operators Illegally Inflating Enrollment To Boost Revenues

Tens of millions of dollars have been lost due to charter operators illegally inflating their enrollment figures. For example, an independent auditor's report of Success Academy Charter School in Minnesota found that $608,000 was owed to taxpayers because they overstated their enrollment.[37] Another example comes from Florida, where an investigation by school district officials found that Life Skills Center charter school charged the state $101,000 for students it didn't have.[38] In California, an audit of the Oak Hills Charter School by the Fiscal Crisis and Management Assistance Team, a state agency, could not find evidence that a number of students existed.[39] In Pennsylvania, as reported in the Philadelphia Inquirer, "Curtis Andrews, chief executive of the now-defunct Center for Economics and Law Charter School in Southwest Philadelphia, was sentenced in 2006 to 33 months in federal prison for defrauding the school district of $206,554 by devising a scheme to inflate student enrollment. He agreed to make full restitution as part of his guilty plea."[40]

Charter schools should be required to submit monthly enrollment numbers, both to prevent this type of inflation, but also to ensure that adequate funding is being provided—or moved if students exit the school. The governing board should approve these enrollment reports and any irregularities should be immediately reported to authorizers. Governing boards should be held accountable for the accuracy of reports. Without regular audits, it is very likely operators will continue to illegally inflate their enrollment. Appendix F of this report includes excerpts from source documents that detail various cases of charter operator's illegally inflating their enrollment.

Charter Operators Mismanaging Public Funds and Schools

Operating a charter school requires sophisticated knowledge of both education pedagogy and nonprofit management. Unfortunately, states have yet to pass laws that would guarantee that charter officers and administrators have the skills necessary to successfully run such institutions. As a result, operators who fail to run their schools successfully have wasted or even lost millions of taxpayer dollars. Various forms of mismanagement have led to charters failing, the most common being operators who fail to set sound business practices or hire trained financial controllers. Examples include:

- ABC Charter Middle School in California. An audit by the Los Angeles Unified School District found that "the lack of oversight by both the school's management and board members led to significant control weaknesses in cash management, payroll, and financial accounting and reporting."[41]

- Sunshine Academy Charter School in Florida. As reported in the Miami Herald, Broward County prosecutors found that, "the record keeping at the school and oversight of the school by the board of directors was virtually nonexistent…[and that] the school appears to have been poorly run."[42]

In order to avoid more losses to taxpayers, lawmakers must pass laws that establish some professional qualifications or standards for charter operators and officers.

Appendix G of this report includes excerpts from source documents that detail various cases where charter operators ran their schools poorly, which resulted in taxpayer money being lost.

Appendix B: Charter Operators Using Charter Funds for Personal Gain

Georgia

Latin Academy Charter School

Atlanta's Latin Academy Charter School, Latin Grammar Charter School, and Latin College Prep Charter School discovered that the founder of the schools, Christopher Clemons, had allegedly misappropriated approximately $600,000 from school accounts through ATM withdrawals. The FBI arrested Clemons. "The Atlanta Journal-Constitution reports Clemons allegedly used that money on travel, meals and clubs. A records check by the Atlanta Journal-Constitution revealed cash withdrawn from an ATM at the same address as a strip club…Clemons also allegedly borrowed hundreds of thousands of dollars in the schools' names but without their authorization. The financial hit put the viability of Latin Academy at risk despite fundraising efforts by parents and an anonymous pledge of $1 million. The boards cut salaries and expenses in an attempt to remain in operation."

Source: http://www.wsbradio.com/news/news/local/fugitive-georgia-charter-school-founder-arrested-d/nq4sq/

South Carolina

Mary L. Dinkins Higher Learning Academy Charter School

The founder of Mary L. Dinkins Higher Learning Academy Charter School, "Benita Dinkins-Robinson, was sentenced in federal court in Columbia, South Carolina, for embezzling government funds. United States Chief District Judge Terry Wooten sentenced Dinkins-Robinson to 42 months imprisonment and ordered her to pay over $1.5 million in restitution. From 2007 to 2013, Dinkins-Robinson embezzled more than a million dollars in federal funds that were intended to be used for the Mary L. Dinkins Higher Learning Academy. The case was investigated by the Federal Bureau of Investigation and the United States Department of Education Office of Inspector General. Assistant United States Attorneys Winston Holliday and Ben Garner of the Columbia office handled the case."

Source: http://www2.ed.gov/about/offices/list/oig/invtreports/sc082015.html

Pennsylvania

PA Cyber Charter School

Nicholas Trombetta, founder of the Pennsylvania Cyber Charter School is accused of diverting funds from it for his private purchases. He allegedly bought houses, a Florida Condominium and a $300,000 plane, hid income from the IRS, formed businesses that billed even though they had done no work, and took $550,000 in kickbacks for a laptop computer contract. Federal investigators pursued him for over a year. An unsealed affidavit says that he siphoned off $8 million in taxpayer funds for himself. Trombetta was indicted by a state grand jury on August 21, 2013 and faces up to 100 years in prison.

Sources: http://www.post-gazette.com/news/education/2013/08/23/Feds-PA-Cyber-Charter-School-founder-Trombetta-schemed-to-steal-1-million/stories/201308230210

http://www.ellwoodcityledger.com/news/police_fire_courts/bags-of-cash-court-records-detail-allegations-against-trombetta/article_4b6ff790-0d6f-52f3-9ffe-58f371aabc3d.html

Harambee Institute of Science Technology Charter School

Masai Skief plead guilty to two counts of wire fraud by which he embezzled $88,000 from the Harambee Institute of Science Technology Charter School. The former chief executive of the school used the money for personal expenses, including a down-payment on a house. After pleading guilty, the U.S. Attorney's Office found that he continued to use the school's debit card, stealing an additional $12,500. A U.S. District Judge sentenced him to 3 years in Federal prison on February 11, 2014.

Sources: http://articles.philly.com/2014-01-12/news/46092814_1_plea-agreement-masai-skief-harambee-institute

http://articles.philly.com/2014-02-12/news/47238840_1_harambee-institute-masai-skief-john-skief

Raising Horizons Quest Charter School

Two former administrators of Raising Horizons Quest Charter School pled guilty in U.S. District Court on October 22, 2008. They were charged with conspiracy and altering documents in 2006 to use $14,000 of taxpayer money for personal use, including travel, alcohol and gasoline charges.

Source: http://articles.philly.com/2008-10-23/news/24992166_1_grand-jury-documents-expenses

Khepera Charter School

When Philadelphia City Controller Alan Butkovitz conducted a 2010 audit of the city's schools, he encountered some surprising numbers. In one example, he noted Rhonda Sharif, who served as a financial officer of three charter schools at the same time, including Khepera Charter School, had billed the schools for a combined total of 463 work days in 2008 alone. That earned her a salary and consulting fees of $183,000 plus over $570,000 in travel and other expenses over a five-year period. Her husband's construction company happened to secure lucrative work at the schools Sharif runs.

Source: http://www.vvdailypress.com/articles/trial-42605-charter-hearing.html

Philadelphia Academy Charter School

In 2009, Kevin O'Shea and Rosemary DiLacqua were charged with defrauding the Philadelphia Academy Charter School ("PACS"). DiLacqua, as PACS' board president, authorized the quick rise of O'Shea, who had no educational qualifications, from facilities manager for the school, to its CEO, earning $200,000 when he resigned in May 2008.

The malfeasance included using approximately $710,000 to buy a building with the aim of reselling it to another charter school for a $1 million profit; demanding kickbacks from PACS vendors; using approximately $145,000 to outfit offices for themselves with posh amenities including flat-screen televisions, executive bathrooms and granite countertops; submitting for reimbursement at least $40,000 in fraudulent invoices for personal meals, entertainment, home improvements, and gas and telephone bills; billing approximately $50,000 worth of home repairs to PACS; collecting approximately $34,000 in rent from entities using PACS facilities, attempting to destroy computer evidence to obstruct the investigation against them, and filing a false tax return.

After concerned parents contacted the Philadelphia Inquirer, the case was investigated by the United States Department of Education - Office of Inspector General, the Federal Bureau of Investigation, and the Internal Revenue Service–Criminal Investigation Division.

Both O'Shea and DeLacqua have started prison sentences.

Sources: http://www2.ed.gov/about/offices/list/oig/invtreports/pa072009.html

http://articles.philly.com/2010-02-03/news/25219787_1_bureau-of-prisons-spokeswoman-medium-security-prison-mail-fraud

Agora Cyber Charter School

Dorothy June Brown, founder of Laboratory, Ad Prima, Planet Abacus, and Agora Cyber charter schools, will be retried beginning in September, 2014 for defrauding the schools of $6.5 million and conspiring to conceal the fraud. A jury acquitted Brown of three charges in January and deadlocked on the other 54 charges. Two other administrators were acquitted of conspiracy and obstructing justice; another two pleaded guilty and testified against Brown in her first trial. Brown severed ties with Agora Cyber Charter in 2009 as part of the settlement of several civil suits.

Sources: http://articles.philly.com/2014-04-15/news/49159242_1_dorothy-june-brown-agora-cyber-charter-ad-prima

http://www.philly.com/philly/education/20140415_Retrial_set_in_charter_school_fraud_case.html

http://www.fbi.gov/philadelphia/press-releases/2012/charter-school-founder-dorothy-june-brown-charged-in-6-million-fraud-scheme

Minnesota

Right Step Academy Charter School

The husband and wife owners of the former Right Step Academy charter school in St. Paul, Minnesota were sentenced to federal prison on March 24, 2006 after being convicted of fraud. After an investigation by officials from the IRS and U.S. Department of Education, William and Shirley Pierce were found guilty of defrauding their former school of thousands of dollars. It is estimated that coupled charged over $357,625 to the school and used the money for such personal expenses as a Caribbean cruise vacation and season tickets to the Minnesota Timberwolves.

Source: http://www2.ed.gov/about/offices/list/oig/invtreports/mn052006.html

Oh Day Aki/Heart of the Earth Charter School

The former executive director of the Oh Day Aki/Heart of the Earth Charter School in Minnesota pleaded guilty to stealing over $1 million from the school by forging signatures on dozens of checks. Joel Pourier embezzled the money from 2003 to 2008 and used the funds to pay for such extravagances as trips to strip clubs. At the same time, the charter school, founded to educate low-income American Indian youth, lacked appropriate funding for educational necessities such as textbooks and other supplies.

Source: http://www.startribune.com/local/minneapolis/97951354.html

New Jersey

Capital Preparatory Charter School

The Capital Preparatory Charter School in Trenton, New Jersey forfeited its charter on May 2, 2011 in the wake of state Department of Education accusations of financial mismanagement. In addition to a staggering $300,000 deficit, the DOE noted that the school paid $10,000 for a staff trip to Atlantic City and $5,600 on a staff party. Employees were allowed to overspend allotted travel funding, consultants were overpaid, and spending was inadequately documented.

Sources: http://www.nj.com/mercer/index.ssf/2011/05/capital_preparatory_under_inve.html

http://www.nj.com/mercer/index.ssf/2011/09/once-promising_charter_schools.html

Ohio

Greater Achievement Community Charter School

An Ohio state audit found that administrators at the Greater Achievement Community Charter School egregiously mismanaged public funds, sometimes using money for personal expenses. Between 2003 and 2010, the auditors found that Greater Achievement developer Elijah Scott diverted over $46,000 of public funds into his personal account. The school's financial records could not adequately account for excessive cash withdrawals from ATMs and other sources and the school overall was found to have misspent at least $570,000.

Source: http://www.cleveland.com/metro/index.ssf/2012/03/audit_finds_more_than_570000_i.html

Cincinnati College Preparatory Academy Charter School

After receiving an anonymous tip, the Ohio Auditor of State's office investigated the Cincinnati College Preparatory Academy Charter School and found that administrators stole at least $148,000 of taxpayer money. Superintendent Dr. Lisa Hamm and school treasurer Stephanie Millard were indicted in March of 2013 on multiple criminal charges. The two are alleged to have used school funds to pay for things such as sightseeing tours through Europe, a $20,000 tour of California, and a Chicago trip to a Tina Turner concert, all under the guise of visiting schools to identify best practices or for professional development.

Source: http://www.wcpo.com/news/local-news/charter-school-officials-to-appear-in-court-for-allegedly-spending-148k-in-school-funds

Theodore Roosevelt Public Community Charter School

Former superintendent Roger Conners of Theodore Roosevelt Public Community Charter School was fired in May of 2012 after questionable spending of school money surfaced. An audit from the school treasurer revealed that Conners submitted receipts for $32,672 that involved inflated costs and illegal purchases. Among other ambiguous purchases, Conners submitted receipts for $228 worth of cigarettes and beer.

Sources: http://article.wn.com/view/2012/06/18/Thousands_in_receipts_questioned_in_school_firing/

http://www.cincinnati.com/article/20120617/NEWS/306170084/Thousands-receipts-questioned-school-firing

Greater Heights Academy Charter School

The chairman and a secretary of Greater Heights Academy in Cleveland Heights, as well as a security guard and a consultant to the school, pleaded guilty in January 2014 to defrauding the school of more than $400,000. Joel Friedman, the chairman, provided Jeffrey Pope, the consultant, with a template to generate fraudulent invoices to the school on the consulting business's letterhead. Marianne Stefanik, the school secretary, processed the payments knowing the invoices were false. The Federal Bureau of Investigation and the Internal Revenue Service investigated.

Source: http://www.news-herald.com/general-news/20140107/mayfield-heights-man-admits-defrauding-charter-school

Imani Institute Leadership Charter School

On April 4, 2011, Donna Johnson of the Imani Institute Leadership Charter School in Ohio was sentenced on 15 felony counts including theft of school funds. The state auditor began an investigation in 2003 that revealed that over $800,000 in state funding for the school was misspent or unaccounted for since 2001. State prosecutors investigating the missing funds determined that, among other things, Johnson paid for her home to be remodeled and purchased items at Ann Taylor with school money.

Source: http://blog.cleveland.com/metro/2010/09/former_head_of_imani_school_pl.html

http://blog.cleveland.com/metro/2011/04/sentencing_of_imani_institute.html

W.E.B. DuBois Academy Charter School

In November 2008 the founder of Cincinnati charter school W.E.B. DuBois Academy pleaded guilty to record-tampering and theft of over $700,000 in public money. Wilson Willard III is serving a four-year prison sentence and an associate is on three years of probation for the theft. Investigation by the Ohio state auditor's office determined that during the school years of 2003-04 and 2004-05, Willard falsely inflated enrollment figures that generated overpayments to the school, and then used the public funds for personal gains including renovation of his own home and payment of university fees and tuition.

Source: http://asumag.com/dailynews/dubois-academy-charter-cincinnati-audit-2090403

Hawaii

Hawaii Technology Academy Charter School

Jeff Piontek, former head of Hawaii Technology Academy, one of Hawaii's largest charter schools, was arrested and charged in October 2013 with stealing over $100,000 from the school. An investigation initiated by Hawaii News Now showed that Piontek bought gift cards and incurred phone charges for his personal benefit. Sources said that Piontek used school funds to purchase thousands of dollars in gift cards at non-education related outlets, including Chilis restaurants, Marriott hotels, Ala Moana Center and Spafinder, the web site that allows people to book body treatments like massages, facials or pedicures at 7,000 spas around the world.

Source: http://www.hawaiinewsnow.com/story/23751584/exclusive-fired-charter-school-chief-indicted-for-100k-theft

California

California Charter Academy

Former Hesperia, California, mayor and councilman Tad Theron Honeycutt and California Charter Academy founder Charles Steven Cox were indicted in 2007 for misappropriating $5.5 million in public funds from the network of charter schools. Political wrangling has kept the case from going to trial for 6 years.

The pair shares a combined 117 felony charges for misappropriation of public funds, grand theft, tax evasion and filing a false tax return, court records show. A state audit indicates that Honeycutt's spending of funds included $18,000 for two jet skis and $1,942 at the Guitar Center. The 2005 audit, commissioned by the California Department of Education, also claimed Cox took millions from the public schools to benefit his friends and family, eventually leading to the collapse of the academy. The two also controlled two management firms that provided services to the network of schools.

Sources: http://www.vvdailypress.com/articles/counts-2668-cox-charter.html

http://www.vvdailypress.com/articles/trial-42605-charter-hearing.html

Ivy Academia Charter School

Yevgeny "Eugene" Selivanov and his wife, Tatyana Berkovich, founders of Ivy Academia Charter School with three campuses in the San Fernando Valley, were sentenced on October 4, 2013 for misappropriating more than $200,000 in public funds. Selivanov received a sentence of four years, eight months, and Berkovich received a forty-five day sentence and 320 hours of community service followed by five years' probation. They argued that most of the funds were spent on teacher appreciation activities to build morale. The California Charter Schools Association filed a brief in the case arguing that no crime had occurred, and warned that the case could undermine charter school flexibility and expose other operators to prosecution.

Source: http://articles.latimes.com/print/2013/oct/04/local/la-me-1005-charter-sentence-20131005

LA Academy

Steven A. Bolden pleaded guilty on January 2, 2014 to stealing more than $7.2 million worth of computers from a government program. Between 2007 and 2012, Bolden invented more than a dozen education non-profits, including fake charter schools, to benefit from a General Services Administration program that gives surplus computer equipment to public schools and non-profits. In July 2012, a GSA undercover investigator was contacted by Palmdale Educational Development Schools, one of Bolden's organizations, and sent Bolden 9 laptop computers, which Bolden sold via Craigslist.

Source: http://www.seattlepi.com/local/article/Charter-school-con-man-admits-to-7-2-million-5112206.php

Illinois

Triumphant Charter School

The former head of Chicago's now-closed Triumphant charter school, Helen Hawkins, was found guilty in 2001 after an investigation by the Chicago Public School's Inspector General. The investigation questioned

more than $250,000 in purchases with the school's credit card including over $30,000 in personal items from Lord & Taylor and Saks Fifth Avenue, and at brand-name shops such as Louis Vuitton, Coach and Tommy Hilfiger. Hawkins spent thousands of dollars on hair care and cosmetic products, jewelry and diet pills.

Source: http://www.huffingtonpost.com/2010/02/17/helen-hawkins-former-scho_n_466223.html

New York

East New York Preparatory Academy

In New York City, the schools chancellor, Joel I. Klein in 2010 ordered the closing of East New York Preparatory Charter School in Brooklyn at the end of this academic year following revelations that the school's founder and principal had named herself superintendent and granted herself a $60,000 raise.

Source: http://www.nytimes.com/2010/05/26/education/26charters.html?_r=0&adxnnl=1&pagewanted=all&adxnnlx=1397606483-HRfkrEDtpvRD/2RLuUadhA

Louisiana

Langston Hughes Academy Charter School

A regular financial audit in 2009 of the Langston Hughes Academy in New Orleans uncovered theft of $660,000 by Kelly Thompson, the school's business manager. Thompson admitted that from shortly after she assumed the position until she was fired 15 months later, she diverted funds to herself in order to support her gambling in local casinos.

Saying that Thompson's actions had tarnished education reform efforts in the city after Katrina, the judge ordered Thompson to pay restitution of $670,000 and to serve five years in a federal prison, a sentence that is double the time recommended by federal sentencing guidelines. Others in the education community shared his sentiments -- the president of the Langston Hughes board supported the heavy sentence, saying that it would send a message to others, and though he was not implicated in wrongdoing, the CEO of the school at the time of the theft resigned.

Sources: http://www.nola.com/crime/index.ssf/2010/02/langston_hughes_academys_forme.html

http://www.nola.com/education/index.ssf/2010/05/former_langston_hughes_academy.html

Washington DC

School for Arts in Learning (SAIL) Charter School

In the fall of 2008, the U.S. attorney's office issued a subpoena for school financial records related to L. Lawrence Riccio's "alleged criminal activities" at the School for Arts in Learning (SAIL). Known internationally for his work in the education of youth with disabilities, Riccio founded the Washington, DC charter school in 1998, but by 2007, a memo by a financial consultant to SAIL's former chief financial officer describes complete disarray of financial matters.

Though grant money had been flowing in, staff members were not allowed to purchase supplies, rent went unpaid, and funds from one Riccio-led organization paid expenses for another. Financial statements showed that SAIL and sister organizations paid a $4,854 credit card bill to cover Mr. Riccio's travel-related expenses in Scotland, as well as membership dues and dinner tabs at the University Club, a premier private club. SAIL covered expenses for travel to Boston, Denver, Houston and New Orleans; grocery stores, drugstores, wine and liquor stores and flower shops, cafes and restaurants, a salon and spa, Victoria's Secret and at a glass, paint and wallpaper shop in France, where Mr. Riccio and his wife maintain a private residence.

Source: http://www.washingtontimes.com/news/2010/may/05/charter-school-pioneer-gets-fbi-scrutiny/#ixzz2zj0z6GdJ

Nia Community Public Charter School

Monique S. Murdock, the co-founder and former executive director of Nia Public Charter School in DC, pled guilty on Nov. 13, 2013 to embezzling $29,000 in school funds by writing checks on the school's account to a foster child in her care and transferring the funds to an account in her name. Murdock also admitted to using a government-issued purchase card to buy more than $11,000 in gift cards in her role as director of an army day care center after being dismissed from the charter school. Nia's charter was revoked by the D.C. Public Charter School Board for poor academic performance and failure to develop a curriculum. Murdock was sentenced to nine months in prison on April 24, 2014.

Sources: http://www.washingtonpost.com/local/education/nia-community-public-charter-schools-ex-director-pleads-guilty-to-embezzlement/2013/11/13/4979da0a-4cae-11e3-9890-a1e0997fb0c0_story.html

http://www.washingtonpost.com/local/education/former-dc-charter-school-leader-sentenced-to-prison-for-stealing-school-funds/2014/04/24/4ee82940-cbe5-11e3-a75e-463587891b57_story.html

Dorothy I. Height Community Academy Public Charter School

In February 2015, the DC Public Charter School Board unanimously voted to revoke the charter of the Dorothy I. Height Community Academy Public Charter School.[43] The DC Attorney General is suing the founder, Kent Amos, for diverting public education funding to a private company for his personal profit. That private management company paid Amos more than $2.5 million over the last 2 years. Over the past 10 years, the school has paid the private entity more than $14 million and, while costs to the private company declined over that time, management fees rose.

The charter board's oversight report showed "no pattern of fiscal mismanagement." Members of the DC Public Charter School Board have described their limited ability to oversee for-profit management companies, which face no requirement to disclose salaries or other pertinent information.

Sources: Michael Alison Chandler, "Charter Board Could Close School Amid Allegations that Leader Diverted Money," Washington Post, February 11, 2015, http://www.washingtonpost.com/local/education/board-weighs-closing-charter-school-amid-allegations-of-diverted-cash/2015/02/11/19f2ee02-b094-11e4-827f-93f454140e2b_story.html.

Wisconsin

New Hope Institute of Science and Technology

In 2008, Rosella Tucker, founder and director of the now-closed New Hope Institute of Science and Technology charter school in Milwaukee, was convicted in federal court of embezzling $300,000 in public money and sentenced to two years in prison. Tucker acknowledged taking U.S. Department of Education money intended for the school, which she started through a charter agreement with Milwaukee Public Schools. She spent about $200,000 on personal expenses, including cars, funeral arrangements and home improvement, according to court documents. Tucker has argued that the remainder of the money she received was legitimate reimbursement for school-related expenses. Tucker embezzled the $300,000 from 2003 to 2005. The Milwaukee School Board voted to close New Hope Institute of Science and Technology in February 2006, amid problems that included unpaid bills and lack of appropriate teacher licensure.

Sources: http://www.jsonline.com/news/education/29420144.html#ixzz2z4VdIL7d.html

http://www.jsonline.com/news/milwaukee/112892364.html#ixzz2ziaCvli9

http://www.jsonline.com/news/education/29420144.html#ixzz2ziZJL95F

http://www.jsonline.com/news/milwaukee/112892364.html

http://www2.ed.gov/about/offices/list/oig/invtreports/wi012008.html

Michigan

George Washington Carver Academy Charter School

Shantell Bell, former treasurer of the George Washington Carver Academy in Highland Park, was sentenced to five years' probation for embezzling $25,000 from the school to purchase a Detroit home. The school notified the Michigan State Police of the theft after learning of it from Bell's ex-boyfriend, and the Attorney General's Public Integrity Unit pursued the case against Bell. They found that in March 2009, Bell had requested a check to purchase text books, which she had converted to a cashier's check and then used it for a down payment on the home.

Sources: http://www.examiner.com/article/former-highland-park-charter-school-treasurer-charged-with-embezzlement

https://www.michigan.gov/ag/0,4534,7-164-34739_34811-262330--,00.html

Grand Traverse Academy

In April 2014, Steven Ingersoll, founder of Grand Traverse Academy, was convicted on federal fraud and tax evasion. He did not report $2 million of taxable income in 2009 and 2010. The school's audit revealed a $2.3-million prepayment to Ingersoll's school management company. The school's later decision to write down $1.6 million of the loan put the school in a deficit position for the first time.

Ingersoll then used half of a $.8 million loan for school construction to pay down some of his debt to the school. After the founder's ouster, his daughter-in-law continued to handle the finances of the school.

Sources: Michelle Merlin, "GT Academy Founder's Trial Continues," Traverse City Record-Eagle, February 23, 2015, http://www.record-eagle.com/news/local_news/gt-academy-founder-s-trial-continues/article_7bd0c8f4-1dda-5aa2-a6e6-3ead1485ae3a.html. Cole Waterman, "Federal jury convicts Bay City Academy founder Steven Ingersoll of 3 of 6 tax fraud charges," M Live, March 10, 2015, http://www.mlive.com/news/bay-city/index.ssf/2015/03/federal_jury_convicts_bay_city.html.

Michelle Merlin, "Charter School's Finances Handled by Indicted Founder's Daughter-in-Law," Traverse City Record-Eagle, July 3, 2014, http://www.record-eagle.com/news/local_news/charter-school-s-finances-handled-by-indicted-founder-s-daughter/article_6a48b4b0-8467-52d0-bda3-ec389a858b9b.html.

Arizona

Dobson Academy Charter School

Laurie Bassett was sentenced to supervised probation on January 22, 2010 after pleading guilty to embezzling more than $20,000 from Dobson Academy Charter School, where she worked in the finance department. Bassett faked invoices for janitorial supplies and wrote checks to her husband and herself for the amounts of the invoices. Bassett's husband, who was also charged with cashing over $11,000 in fraudulent checks, claimed that the school owed him for an irrigation job on which he lost money. The fraud came to light when the school's governing board conducted an audit and noticed a 300% increase in spending on janitorial supplies.

Sources: http://www.azcentral.com/news/articles/2010/01/14/20100114abrk-dobsonacademy.html

http://www.knowleslaw.org/Arizona_Defense_Blog/2010/February/Woman_Pleads_Guilty_to_Embezzling_Money_From_Sch.aspx

Appendix C:
School Revenue Used to Illegally Support Charter Operator Businesses

New Jersey

Adelaide L. Sanford Charter School

In June, 2013, the state of New Jersey revoked the charter of Adelaide Sanford Charter School, citing the school's poor academic performance and its repeated failure to comply with regulations. The state Education Department cited school founder and community activist Frederica Bey and others for refusing to turn over records and rectify conflicts of interest, including inflated rent payments from the school to Women in Support of the Million Man March (WISOMM), an organization founded by Bey and on whose board Bey and her daughter serve. A complaint filed by the US Attorney's office alleges that Bey used $345,000 in federal money intended for programs for at-risk youth to pay WISOMM's bills. Several members of the Adelaide Sanford board had asked the state Education Department to intervene.

Sources: http://blog.nj.com/njv_barry_carter/2013/06/newark_charter_school_closes_a.html

*http://www.nj.com/essex/index.ssf/2013/06/christie_administration_closing_newark_*

charter_school_founded_by_city_activist_fredrica_bey.html

http://www.nj.com/news/index.ssf/2013/05/newark_charter_school_sanford.html

Pennsylvania

New Media Technology Charter School

On July 15, 2012, New Media Technology Charter School's founder and board president, Hugh C. Clark, and its executive director, Ina Walker, were sentenced to 24 months and 6 months in prison, respectively, for diverting public funds from the charter school to support a restaurant and a private school they controlled. Prosecutors alleged that the two had funneled public money through Lotus Academy, the private school, to prop up a restaurant in Mount Airy and to pay off debts associated with a failed internet company. The two agreed to pay restitution for the $861,000 stolen from New Media Charter School. Teachers testified that the school lacked textbooks and failed to meet its pension obligations, and that payroll checks sometimes bounced.

Sources: http://articles.philly.com/2012-07-15/news/32675514_1_fiscal-mismanagement-and-conflicts-lotus-academy-charter-school

http://articles.philly.com/2011-04-15/news/29421529_1_charter-school-lotus-academy-walker-and-clark

Germantown Settlement Charter School

In 2008, the School Reform Commission revealed that Emmanuel Freeman, CEO of the Germantown Settlement Charter School, had run massive deficits, maintained a bloated administrative staff, and used school funds to bail out other entities he ran. Freeman was also director of the Germantown Settlement, a social services agency, and the Germantown Housing Development Corporation, as well as many related non-profit organizations, all of them chronically mismanaged. In 2002, the school settled a lawsuit brought by its former education director alleging that Freeman had transferred over $500,000 in state education funds to Germantown Settlement and fired her for whistle-blowing.

Source: http://www.phillymag.com/articles/emanuel-freeman-the-man-who-duped-city-hall/?all=1

Pocono Mountain Charter School

The Pocono Mountain Charter School and Pocono Mountain School District are engaged in a battle in Commonwealth Court over whether the School District followed proper procedure in its attempts to revoke the school's charter. The school board and the state auditor general found that the school's founder, Rev. Dennis Bloom also served as leader of the Shawnee Tabernacle Church, where the school rented facilities, and handled business for both entities. In 2007 and 2008, the school spent nearly $2.6 million in public funds to improve facilities on the church's property, including a gymnasium floor bearing the church's name and an electronic sign to display religious messages. Bloom is currently serving a ten-month sentence in federal prison on unrelated tax evasion charges.

Sources: http://articles.mcall.com/2014-02-26/news/mc-pocono-mountain-charter-school-restored-20140226_1_shawnee-tabernacle-church-daniel-fennick-pocono-mountain-charter-school

http://www.poconorecord.com/apps/pbcs.dll/article?AID=/20140319/NEWS/403190331

Ohio

Lorain Arts Academy Charter School

Arts Academy charter school in Lorain, Ohio, and Arts Academy West charter school in Cleveland were closed by the state in June 2011 after a state audit found that the school had failed to keep required financial records and had significant debts. The school's founder, Alexis Rainbow, and the director of the school's sponsoring agency, Jorethia Chuck, were both accused of ethics violations by state auditors and by each other. Rainbow allegedly made payments from the school's account to various businesses that she owned. The audit also found improper spending and financial mismanagement on the part of consultants hired by both women. The school's closure left Ohio taxpayers with about $75,000 in unpaid bills, many of which had piled up unopened in the schools' mail.

Sources: http://chronicle.northcoastnow.com/2012/05/18/lorain-arts-academy-flunks-audit/

http://www.cleveland.com/metro/index.ssf/2012/03/debts_of_arts_academy_and_arts.html

Main Street Automotive Magnet School

In response to a report by the Ohio Auditor of State, Main Street Automotive Magnet founder Joe Singleton admitted in August 2009 to faking invoices for chairs, computers and other school equipment and using the funds for his personal gain. His purchases include a golf cart and the installation of a security system at a warehouse owned by his mother. Singleton used his own company, RJ Investments, to bilk the school out of $116,000.

Source: https://ohioauditor.gov/news/pressreleases/details/711

California

Center for Excellence in Education Charter School

On September 7, 2004, the Bear Valley Unified School District board of trustees voted unanimously to revoke the charter of the Center for Excellence in Education. The school district argued that the charter school had failed to comply with a number of regulations on teaching credentials, conflicts of interest, and what the district characterized as "inappropriately close" relationships with several religious organizations. The founding director of the school, John Dunn, simultaneously acted as a board member and as the school's landlord. His successor as director also violated the California Government Code by serving as a paid employee and board member. Employees received bonuses and advances paid with public funds, in violation of the state Constitution. In 2006, Dunn filed suit against the district, superintendent, and school board members, alleging that the charter revocation violated due process rights.

Sources: http://www.bigbeargrizzly.net/news/article_bedcf990-92df-5bf3-bf1e-a352328eabca.html

http://www.bigbeargrizzly.net/news/article_e0e50ee5-ac1f-5743-b2d7-c03417bd7d77.html

The American Indian Public Charter School II

In 2012, California's Fiscal Crisis and Management Assistance Team conducted an investigation into the American Indian Public Charter School II in Oakland after a former employee blew the whistle on suspicious financial activity between the school and a real estate company owned by the school's founder and chief executive, Ben Chavis. The investigation found up to $3 million of questionable transactions between the charter school and Chavis's companies. Chavis is accused of embezzling with the help of his wife, an administrator at the school. "When an organization lacks internal controls and governing board oversight is minimal," the auditing team wrote in a letter to Alameda County Superintendent Sheila Jordan, "the likelihood of fraud greatly increases."

Source: https://www.wsws.org/en/articles/2012/04/char-a24.html

Florida

Academy of Arts & Mind Charter School

An investigation into the finances and governance of Academy of Arts and Minds in Coconut Grove was sparked in June 2011 when the school's Parent Teacher Student Association sent a letter to Dade County officials alleging that the school's board included relatives and business associates of the school's founder and landlord, attorney Manuel Alonso-Poch. They also noted that the school paid Alonso-Poch $86,000 per month in rent and that a company he controlled held the school's food services contract. The Miami-Dade School Board's auditor confirmed the conflicts of interest in a report in June 2012, but by December Alonso-Poch had continued to deny that any improprieties existed.

Sources: http://mca.dadeschools.net/AuditCommittee/AC_june_26_2012/item8.pdf

http://www.miaminewtimes.com/2011-06-09/news/coconut-grove-charter-school-owner-manuel-alonso-poch-accused-of-bilking-taxpayers/

http://www.miaminewtimes.com/2012-12-27/news/manuel-alonso-poch-won-t-fix-conflicts-of-interest-at-his-charter-school-new-audit-finds/full/

Illinois

United Neighborhood Organization (UNO) Charter School

In 2014, the Federal Securities and Exchange Commission (SEC) charged UNO Charter School Network with defrauding investors in a $37.5 million bond offering for school construction by making materially misleading statements about transactions that presented a conflict of interest. According to the SEC's complaint, UNO failed to notify the state of two construction contracts totaling $12.9 million with the brothers of one of UNO's top executives. Additionally, the charter school operator failed to notify bond investors that the state could take the loan that the bond was assured with back for the non-disclosure of the contracts. The conflicts of interest uncovered in a series of Sun-Times articles in 2013.

In August 2014, the IRS notified the state that it had opened an investigation into the organization's bond issuance.

Sources: http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370541965772#.VDWsRFZ2Rig.

http://www.sec.gov/litigation/complaints/2014/comp-pr2014-110.pdf

http://politics.suntimes.com/article/chicago/uno-charter-schools-now-target-irs-audit-over-bonds/wed-09032014-617pm

Louisiana

New Orleans Military and Maritime Academy Charter School

Darrel K. Sims, the former business manager of New Orleans Military and Maritime Academy Charter School turned himself in to police on December 3, 2013 after being charged with a $31,000 theft from the school. Smith had written checks that were invoiced as though they were made out to office supply stores, but in reality were written to a social organization founded by Sims. The school had fired Sims in May 2012 but only discovered the theft in December of that year, at which time the school contacted the police. Sims had been charged with stealing and writing bad checks several times before, but the charges were too old to show up in the Military Academy's background check.

Sources: http://thelensnola.org/2013/12/03/former-employee-charged-with-stealing-31000-from-new-orleans-military-and-maritime-academy/

http://thelensnola.org/2013/04/23/former-employee-investigated-for-stealing-31000-from-charter-school-once-charged-with-theft-from-terrebone-school/

Texas

Varnett Public Charter School

The Texas Education Agency released a report on August 20, 2013 alleging that the superintendent of the Varnett School and her husband, the facilities and operations manager, misspent school funds and improperly profited by conducting business with the school. The report claims that Annette and Alsie Cluff, Jr. were reimbursed for $1.5 million in charges on their personal credit cards, including luxury hotels, first-class flights, cruises, and Broadway tickets. They also own a real estate company that leased space to the school for $1 million per year, and their bus company billed the school for student transportation at a rate of $12 per mile. The Cluffs denied most of the findings of the report.

Source: http://educationblog.dallasnews.com/2013/08/houston-charter-school-misspent-5-3-million-in-federal-funds-state-report-finds.html/

Burnham Wood Charter School

In March 2012, the Texas Education Agency released an audit report alleging financial improprieties and nepotism by the board of the Burham Wood Charter School District, which runs three schools. The report found that the board improperly approved the purchase of property from Superintended Iris Burnham, who also serves as board president. The board approved the 2006 purchase using $1.2 million in revenue bonds, nearly 150% of the land's market value. (The district argues that the purchase was legal and approved by the attorney general.) The district also leased property from Burnham and employs Burnham, her son, and daughter in law in positions with significant financial responsibilities. Burnham operated a private school on a district charter campus that did not pay rent for several years. The Education Agency assigned a monitor to the district, which the district contested.

Sources: http://www.elpasotimes.com/news/ci_20456862/state-audit-reaffirms-burnham-wood-issues?source=pkg

http://www.elpasotimes.com/ci_21124138/problems-bring-tea-monitor-district

Washington, DC

Options Public Charter School

Former leaders of Options Public Charter School are under Federal investigation for possible Medicaid fraud and other abuses. They are accused of exaggerating the needs of the disabled students, bilking the federal government for Medicaid funds to support their care, and creating a contracting scheme to divert more than $3 million from the schools for their own companies, including a transportation company that billed the Federal government for transporting students to the school, but apparently offered gift cards to students to increase ridership on the buses. Additionally, a senior official at the D.C. Public Charter School Board allegedly received $150,000 to help them evade oversight.

Sources: http://www.washingtonpost.com/local/education/options-dc-charter-schools-medicaid-billing-is-at-center-of-investigation/2013/12/16/614c2dfe-5dcf-11e3-95c2-13623eb2b0e1_story.html

http://www.washingtonpost.com/local/education/new-claims-surface-in-options-charter-school-case/2014/01/03/c02d1f5e-74a4-11e3-8b3f-b1666705ca3b_story.html

Missouri

Paideia Academy Charter School

Fred W. Robinson, former chairman of the Board of Paideia Academy Charter School, was convicted in March 2013 on multiple fraud charges including diversion of federal and state education funds from the school. Robinson diverted around $242,333 for the purchase, construction, and rehabilitation of a building to develop a day care center to be operated by a company in which Robinson had an ownership and financial interest that he failed to disclose. Additionally, he submitted false time sheets from 2006-2010 as an employee of the Treasurer's office, receiving approximately $35,360 every year from the false sheets. The FBI assisted with the investigation of the case.

Source: http://www.fbi.gov/stlouis/press-releases/2013/chairman-of-the-board-for-the-paideia-academy-employee-of-st.-louis-city-treasurers-office-convicted-on-fraud-charges

Appendix D: Mismanagement that Puts Children in Potential Danger

New Jersey

Paterson Charter School for Urban Leadership

The New Jersey Department of Education investigated, and closed the Paterson Charter school for Urban Leadership in 2003. The school had been operating for years under a large deficit. During the investigation, the DOE found that over 75% of the school employees had not undergone criminal background checks. Two employees with disqualifying convictions were subsequently removed.

Source: http://www.nytimes.com/2003/07/22/nyregion/paterson-charter-school-closed-amid-protest.html

Mercer Arts Charter High School

Mercer Arts Charter High School had its charter revoked by the New Jersey state Department of Education in 2007 for not providing a safe and orderly education environment. The state cited myriad problems including fiscal woes and under-developed programs.

Source: http://www.nj.com/mercer/index.ssf/2007/12/state_pulls_plug_on_charter_sc.html

California

A. Phillip Randolph Leadership Academy Charter School

The San Diego School Board voted unanimously to revoke A. Phillip Randolph Leadership Academy's charter in July 2006, due to inadequate supervision of the students and financial mismanagement. District administrator Wendell Bass wrote in a report "Students entered and exited class at will, sometimes without the teacher knowing they had left."

Source: http://www.utsandiego.com/uniontrib/20060712/news_1m12charter.html

Children's Conservation Academy Charter School

San Diego schools investigated Children's Conservation Academy Charter School in 2007 and found that they could not account for tens of thousands of dollars in questionable expenses. These included an athletic club membership ($638), restaurant food ($2,219), Starbucks coffee ($143), Padres tickets ($369) and cell phone bills ($1,505) Additionally, the school operated for a year and a half without purchasing workers' compensation insurance and had no proof of criminal background and tuberculosis checks for employees, creating safety and health hazards for students. The mother of the school's founding director was paid more than $11,000 by the school, "without authorization and without supporting documentation to reflect the work performed," according to the district.

Source: http://www.utsandiego.com/uniontrib/20070824/news_1m24charter.html

Ohio

The Talented Tenth Leadership Academy for Boys Charter School & The Talented Tenth Leadership Academy for Girls Charter School

The State Superintendent of Public Instruction, Richard Ross, directed the closure of two charter schools in October, 2013 for health and safety reasons. He also brought the superintendent of the sponsor, North Central Ohio Educational Service Center, which sponsors 21 other schools in the area, to his office to account for the dismal performance. The Talented Tenth Leadership Academy for Boys and the Talented Tenth Leadership Academy for Girls in Columbus, Ohio were found by the department to be inadequately staffed and not providing the proper level of supervision or an adequate education. The department also believes that the sponsor failed to provide oversight to ensure the students were in a safe learning environment. Dr. Ross said "They did not ensure the safety of the students, they did not adequately feed the students, they did not accurately track the students and they were not educating the students well. It is unacceptable and intolerable that a sponsor and school would do such a poor job. It is an educational travesty."

Source: http://education.ohio.gov/Media/Media-Releases/2013-Releases/State-Superintendent-Directs-Closing-of-Two-Commun#.U03jCeZdXfY

Appendix E:
Charters Receiving Public Dollars for Services Not Provided

Louisiana

ReNEW Charter School

ReNEW Charter School officials, Tim Hearin and Alex Perez, changed student diagnoses and services to draw in $320,000 in state (and/or) federal funds designated for students with disabilities, for ReNEW SciTech Academy in Uptown New Orleans. School leaders knew about special education fraud at one of their New Orleans schools for at least three months before reporting it last year to the Louisiana Department of Education. A whistleblower emailed CEO Colleen Mackay about special education irregularities in January 2015. The whistleblower re-alerted the CEO of the school two months later because the problems had continued.

Source: http://www.nola.com/education/index.ssf/2016/03/renew_special_ed_fraud.html

New Jersey

Regional Experiential Academic Charter High School

New Jersey officials shut the Regional Experiential Academic Charter High School on April 19, 2000. This was the first time they shut a charter down. The state found issues including a failure to provide services for special education students that are required by both state and federal law, as well as not itemizing and approving expenses.

Source: http://www.nytimes.com/2000/04/20/nyregion/charter-school-with-financial-and-academic-woes-is-closed.html

Pennsylvania

Frontier Virtual Charter High School

Pennsylvania Department of Education revoked the charter of Frontier Virtual Charter High School, a Philadelphia-based cyber school. The Daily News wrote that the school "didn't supply students with promised laptops, printers and Internet reimbursements." Additionally, cash purchases that weren't backed up with receipts and non-school expenses were a significant issue for the school.

Sources: http://technical.ly/philly/2012/07/09/daily-news-philly-based-cyber-school-surrenders-its-charter-after-months-long-investigation/

http://articles.philly.com/2012-07-06/news/32566795_1_charter-school-law-frontier-s-ceo-education-ron-tomalis

Imhotep Institute Charter High School

Under a settlement reached with the School District of Philadelphia, Imhotep Institute Charter High School was ordered in January of 2016 to pay back $16,000 in funds earmarked for special education instruction. As part of a memorandum of understanding with the School Reform Commission and the city's Office of Inspector General, Imhotep Institute will reimburse the school district, will outline steps for accurately reporting billing information to the school district, and will train employees on proper procedures.

Source: http://www.phillytrib.com/news/city-charter-school-reprimanded-for-fraud/article_f32e307a-5e3c-5173-9c63-01ee2d2c9c97.html

Minnesota

Community School of Excellence Charter School

The St. Paul police investigated the Community School of Excellence Charter School in January of 2014 for failure to report suspected child abuse and financial malfeasance. A private investigation found that the school's superintendent told staff to enter lunch codes for meals that were not eaten and to not report suspected cases of child abuse. Concordia University, the schools authorizer, encouraged the board to replace the superintendent in February of 2014.

Sources: http://www.startribune.com/local/stpaul/241753081.html

http://www.twincities.com/education/ci_25088228/head-st-paul-charter-school-should-go-authorizer

Ohio

Cleveland Academy of Scholarship Technology & Leadership Enterprise Charter School

Five former officials are accused of laundering and stealing nearly $2 million from the Cleveland Academy of Scholarship Technology & Leadership Enterprise. They are accused in an indictment issued in April 2013 of setting up shell companies to receive payments from the school for goods and services that were never provided. Ten individuals and 13 businesses in total were accused of being part of the scandal and at least 2 pleaded guilty in February of 2014.

Sources: http://www.cleveland.com/metro/index.ssf/2013/04/post_137.html

http://www.daytondailynews.com/news/news/crime-law/dayton-residents-plead-guilty-to-misdemeanors-in-c/ndCng/

Summit Academy Youngstown Charter School

Summit Academy Youngstown Charter School in Mahoning County billed for services for students who were absent or not even enrolled on the dates of service, according to a Medicaid audit released by Auditor of State Dave Yost. '"How do you provide services to students who aren't even enrolled at the school?" Auditor Yost said. "You don't. This is an old-school rip-off." The audit determined that Summit Academy Youngstown Charter School was overpaid by Ohio Medicaid for services rendered in the amount of $14,663.59. With interest in the amount of $1,011.89, Summit Academy Youngstown owes the Ohio Department of Medicaid $15,675.48. The audit also identified nine billed services with no supporting documentation and three services in which the provider billed the wrong procedure code, resulting in an overpayment."

California

Cato School of Reason Charter School

In 1998, LA Weekly investigated the operations of the Cato School of Reason in California. The charter entity, created in 1994, had come up with a money making scheme that netted it millions of public dollars. Cato formed various types of partnerships with private schools, allowing the charter to "enroll" hundreds of private school students and bring in millions in public dollars, which were then shared with some of the private school operators. In a second wave of fraud, the California State Controller found that the now-closed CATO II School of Reason had signed up 40 private schools that were converted into charter schools, receiving both state funds and paid tuition. All told, CATO's founder Thomas Cosgrove has netted millions on the schools. According to the LA Weekly, "Cosgrove has successfully exploited the flip side to the charter-school mantra of deregulation and local control. Along with the freedom to reform came a distinct lack of oversight. Charter-school legislation never clearly addressed who was responsible when something went wrong. Nor did reformers fully consider that a charter school could exist for reasons other than the best interests of children. They never contemplated that their reforms would unchain dollars as well as ideas. And that state education funds were dangling for the taking by school operators who could obtain a local charter, then devise ways to crunch down costs for financial gain."

Sources: http://www.laweekly.com/1998-08-20/news/charter-school-for-scandal-page-1/

http://www.laweekly.com/1998-08-20/news/charter-school-for-scandal-page-2/?storyPage=2 http://irascibleprofessor.com/comments-3-27-00.html

Florida

Life Skills Center Charter School

John Wyche was sentenced in 2011 of misusing more than $750,000 in state education money, housing grants and loans meant for the charter school Life Skills Center in Escambia County, Florida. He used this money to try to save the failing Mason de Ville apartment complex. The school's former chief financial officer was also sentenced for helping in the scheme.

Source: http://www.pnj.com/article/20120417/NEWS01/204170317/Court-denies-Pensacola-Businessman-John-Wyche-s-appeal?odyssey=tab%7Ctopnews%7Ctext%7CFRONTPAGE

Appendix F: Charter Executives Illegally Inflating Enrollment to Boost Revenues

Missouri

Hope Academy Charter School

Missouri Attorney General accused Hope Academy Charter School of defrauding the state by reporting inflated attendance figures. The Attorney General sued the Kansas City charter school for approximately $3.7 million paid to the school based on attendance records that Missouri says were inflated and falsified.

Source: https://nonprofitquarterly.org/2016/01/28/charter-school-faces-lawsuit-over-misrepresenting-attendance-figures/

Minnesota

Chiron Downtown Middle Charter School

In 2006, State of Minnesota Office of the State Auditor reviewed the financial records of Chiron Downtown Middle Charter School and found a lack of effective oversight and internal controls. They also found that the managing Director misreported the number of enrolled students to get more public funds. She also made questionable payments to herself and others. She was later arrested and charged with 7 counts of theft and other felonies and the school was closed. The state lost $340,000.

Sources: www.osa.state.mn.us/reports/spi/2006/chiron_06_report.pdf

http://www.amsd.org/articles/charter_demise0909.html

Success Academy Charter School

Success Academy in 2010 closed its doors with more than $1.2 million in debt according to an independent auditor's report. It left staff who were owed over $300,000 in salaries and venders who were owed $194,000. The school overstated its enrollment and was overpaid for special education costs, and didn't meet expectations for its extended year program, owing taxpayers a grand total of $742,726.

Source: December 30, 2000; Star Tribune (Minneapolis, MN) http://charterschoolscandals.blogspot.com/2011/04/success-academy-two-campuses.html

Florida

Life Skills Center Charter School

A Polk County School District investigation in 2010 of the Life Skills Center found that the charter school overcharged the state $101,000 by exaggerating enrollment by 37 students.

Source: http://www.theledger.com/article/20100313/NEWS/3135022

California

Oak Hills Academy Charter School

In 2007, following allegations of fraud at Oak Hills Academy Charter School, the Fiscal Crisis and Management Assistance Team conducted an extraordinary audit, which revealed serious deficiencies in the school's internal controls and management. According to the audit, the charter school failed to properly account for its inventory, as required by its charter agreement. For instance, the audit team could not find 151 of 193 plants purchased by the school estimated to cost $1, 656 and two computers estimated to cost $2,600. The school also failed to maintain adequate and complete payroll records. The audit team found evidence that school personnel falsified authorization for pay rates increases and positions and evidence of rampant nepotism, with the principle making hiring and compensation decisions for family members and close associates. The audit's finding on nepotism, for example, states the principal made the decision to hire her mother as a teacher, a position supervised by the principal herself. The board clerk authorized hiring his wife's cousin, who had a serious illness. According to the document, "[t]he individual earned $1,200 in 2005-06 and $870 in 2006-07. However, the individual received full-time health and welfare benefits costing $874.65 per month." The audit uncovered insufficient documentation to substantiate that credit card charges to the amount of $18,526 in 2006-07 and $14,332 in 2007-08 were school-related. In addition, the audit found the employees falsified signatures for expenses incurred by family members and close friends. The audit has been turned over to the Butte County District Attorney's Office for further investigation.

Sources: http://www.chicoer.com/ci_10432891

http://fcmat.org/wp-content/uploads/sites/4/2014/02/ButteCOEOakHillsCharterrepor.pdf

Texas

Prepared Table Charter School

Three family members were sentenced to prison on September 3, 2005 for their roles in submitting inflated enrollment numbers and stealing state and federal funds intended for meal programs through a sham catering service. Rev. Harold Wilcox, who was accused of being the mastermind behind the scheme at the Prepared Table Charter School in Houston, died several weeks before the sentencing. His wife Louvicy Wilcox was sentenced to four years and nine months for submitting inflated enrollment reports to the Texas Education Agency; his stepdaughter Roshall Frank was sentenced to fifteen months for the inflated attendance records; and his brother Rev. Anthony Mosley was sentenced to six years on conspiracy and money laundering charges related to the fake catering service. Altogether, Prepared Table Charter School defrauded the state and federal government of $6 million.

Source: http://www.chron.com/news/houston-texas/article/3-relatives-sentenced-in-charter-school-scam-1919855.php

IRRA Charter School

In 2009, the Texas Education Agency placed the IRRA Charter Schools system on accreditation probation for changing student attendance records to inflate their state funding and ordered the schools to repay $900,000. The system replaced its superintendent and changed its name to Ignite. After a Channel 5 News investigation quoted a teacher and student who said the schools marked students present when they didn't attend school, the TEA sent parents a letter in October 2012 noting that the schools remained on probation.

Source: http://www.krgv.com/news/valley-charter-school-system-on-probation/

Arizona

Life School College Preparatory Charter School

In a 2012 report to Congress, the Department of Education's Office of the Inspector General reported on the results of several investigations relating to charter schools. The report noted that a former information technology official at Life School College Preparatory, Inc., also known as the Franklin Arts Academies in Arizona, was sentenced to serve 3 years of probation and was ordered to pay nearly $2 million in restitution for fraud. The case involved falsifying enrollment documents by entering fictitious and former student names into the Arizona Department of Education's school attendance system, leading to the allocation of Federal and State dollars to which the school was not entitled.

Source: http://www2.ed.gov/about/offices/list/oig/semiann/sar65.pdf

Pennsylvania

Center for Economics and Law Charter School

Curtis Andrews, the chief executive of the Center for Economics and Law Charter School in Southwest Philadelphia, was sentenced on Nov. 4, 2006 to 33 months in prison for inflating the school's attendance records and using the $200,000 in extra funding for himself and to increase some school employee's paychecks. The School Reform Commission had unanimously voted in March 2003 against renewing the school's charter, citing financial mismanagement, failure to provide required records, and failure to administer standardized tests. School officials abruptly closed the school in June 2003, before the end of the school year. Andrews agreed to make full restitution as part of his guilty plea.

Source: http://articles.philly.com/2008-10-23/news/24992166_1_grand-jury-documents-expenses

http://articles.philly.com/2005-03-19/news/25421010_1_charter-school-traditional-public-schools-fbi-agent

Ohio

International Preparatory Schools Charter School

In 2012, Ohio Attorney General Mike DeWine ordered the operators of two Cleveland-area charter schools to pay back $1.4 million that the schools charged the state for hundreds of students never enrolled in either of two campuses of The International Preparatory Schools (TIPS) during their 6 years of operation. Any money recovered, says DeWine, will go back to the Cleveland and Northeast Ohio school districts that were obligated to pass public funding through to the schools.

Source: http://stateimpact.npr.org/ohio/2012/01/10/former-charter-school-operator-to-pay-back-1-4-million-it-owes-state/

General Chappie James Leadership Academy Charter School

General Chappie James Leadership Academy Charter School in Dayton, Ohio owes taxpayers close to $1.2 million after it was found to have falsified its attendance records and received state funding for students who never attended the school. An investigation by state Auditor Dave Yost found that, "almost half of the reported 459 students enrolled at General Chappie James Leadership Academy had either never attended the school or had already left the school. Of the alleged students found by investigators, some had been incarcerated, moved out of state, or had been working and not attending school."

Source: http://www.educationnews.org/education-policy-and-politics/ohio-charter-school-falsifies-attendance-owes-state-1-2-million/#sthash.jfXArknp.azCrDZnv.dpuf

North Carolina

Roger Bacon Academy Charter School

On January 9, 2014, the North Carolina Board of Education approved the Roger Bacon Academy's application to open a third charter school, despite evidence that the Academy's two existing schools were the subject of an open investigation by the U.S. Department of Education. Brunswick County Schools Superintendent Edward Pruden, who has argued against approval for the third school, forwarded a letter from the US DOE confirming that an investigation was ongoing and denying his request for details about its focus. Pruden said that based on information received by his office, the investigation concerns attempts to improperly recruit students in order to boost enrollment records and state funding at one of Roger Bacon's campuses, Charter Day School. Roger Bacon Academy head Baker Mitchell has denied knowledge of any investigation. Pruden and others have raised concerns about a potential conflict of interest in Mitchell's position on the state Charter School Advisory Board, though the Board of Education has said his appointment to the board was legal.

Sources: http://www.americanownews.com/story/24399755/superintendent-levels-serious-accusations-about-charter-school *http://www.wect.com/story/24399755/superintendent-levels-serious-accusations-about-charter-school*

http://pulse.ncpolicywatch.org/2014/01/10/baker-mitchells-charter-schools-under-investigation-by-the-u-s-dept-of-education/

http://www.starnewsonline.com/article/20140109/ARTICLES/140109710/1177?p=1&tc=pg#gsc.tab=0

Appendix G: Charter Operators Mismanaging Their Schools

Ohio

Eagle Heights Academy Charter School

Eagle Heights Academy charter school in Youngstown was closed in 2010 after the Ohio State Auditor issued a report listing significant financial mismanagement at the school. The report found $33,500 in public funds that were illegally spent, and ordered the money repaid. In addition the Auditor found that federal grant payments were received by school personnel without approval from the school's governing board; federal income taxes of over $333,000, and Medicare taxes of over $120,000 were withheld from employees paychecks, but not turned over to the appropriate taxing authorities, and over $700,000 in questioned costs or accounting errors were also found.

Source: http://www.vindy.com/news/2010/may/12/eagle-heights-academy/#sthash.9cNpE2yq.dpuf

Legacy Academy for Leaders and the Arts Charter School

George Washington Carver Preparatory Academy

NuBethel Center of Excellence

New City Community School

Together, over $470,000 in public funds were swindled from these four now-closed charter schools in Ohio. What they had in common was their treasurer, "serial charter school embezzler" Carl Shye. Shye is now serving two years in federal prison for the fraud.

Shye's work as treasurer for as many as 10 charter schools in Ohio was initially investigated by Ohio State Auditor David Yost, but later involved the FBI as well. The FBI investigation ended up uncovering a whopping 62 findings of embezzlement involving over $1 million.

Descriptions of the fraud are varied, Shye apparently wrote checks for amounts that exceed contractual work done for the schools, beefed up his own salary payments, and lent money from one school to another, then pocketing the repayments. Meanwhile, federal taxes withheld from teacher and employee paychecks was never paid to the proper taxing authorities.

Sources: http://www.vindy.com/news/2013/dec/04/audit-finds-more-sloppy-bookkeeping/?print

http://www.blackpressusa.com/carl-shyes-charter-school-embezzlement-woes-deepen/#sthash.O3XdLN4r.dpuf

http://www.fbi.gov/cincinnati/press-releases/2012/former-charter-schools-treasurer-sentenced-to-24-months-in-prison-for-embezzling-money-from-schools

Minnesota

Harvest Prep Academy

In 2012, Eric Mahmoud was inducted into the National Alliance of Public Charter School's Hall of Fame. But state officials are beginning to scrutinize the finances of the network of charter schools the Mahmoud and his wife run. Much of the investigation centers around financial debt incurred by the charter schools—Harvest Prep Academy and three Best Academy charter schools, along with SEED Daycare. The schools all appear to be losing money, primarily on their buildings and building financing. As a result, beginning in 2011, investors required SEED to operate with a financial consulting firm on-site. Other concerns raised have to do with nepotism on the governing boards of the schools, and Mahmoud's salary of $273,000 annually—more than any superintendent of schools in the State.

Additional red flags were raised when it was discovered that's Mahmoud is currently serving five years' probation after pleading guilty in 2010 in a mortgage fraud case in Georgia. In that case, Mahmoud was one of five men arrested for using a fraudulent loan application to try to close on the sale of a home in Atlanta. Mahmoud pleaded guilty in 2010 under a plea agreement, and was fined $5,000. But later investigation showed that officials at Mahmoud's charter schools in Minneapolis may have been involved in the Georgia.

A spokesperson for the Minnesota Department of Education told the Minneapolis Star Tribune in August, 2013, "It appears the state cannot prohibit a public school from hiring an individual with a criminal background, nor can the state be considered responsible for criminal activity that may take place in a school, particularly when that criminal conduct is not related to educational matters."

Sources: http://www.startribune.com/local/minneapolis/165813196.html

http://www.startribune.com/local/minneapolis/165679246.html

http://www.startribune.com/local/blogs/199606941.html

http://www.startribune.com/local/blogs/166274586.html

Synergy Academy

Synergy Academy at SEED was one of two proposals for a residential charter academy for at-risk students in Minnesota in the 1990s. Synergy received a state grant of over $6 million in 1999 to construct and equip a facility for the school. The grant required that the state be reimbursed if the building were closed or used for other purposes. The school closed in 2003, unable to attract enough students to keep it viable. SEED's founder, Eric Mahmoud then opened several new charter schools in the building, but did not pay by the state grant. Though red flags were waved at the state Department of Education as early as 2002, no action was taken to protect public dollars invested in SEED. Owner Eric Mahmoud is now under investigation for financial dealings relating to his other charter schools.

Source: http://www.startribune.com/local/minneapolis/165813196.html

Massachusetts

Gloucester Community Arts Charter School

The Gloucester Community Arts Charter School was closed in early 2013 due to low enrollment, high rates of attrition and financial instability. An investigation by the state's Charter School Office found myriad problems with the school, including the lack of a coherent curriculum, violations of the State's bidding laws in the contract for its facility, among other concerns. The schools trustees surrendered their charter and the school closed down in the middle of a school year, putting about 100 students on the street in search of new schools.

Source: http://www.bostonglobe.com/metro/2013/01/04/gloucester-charter-school-close-next-week/I6x1PYddrQ82HaSlhNaboM/story.html

California

ABC Charter Middle School

A 2009 Audit by the Los Angeles Unified School District Office of the Inspector General found management issues at ABC Charter Middle School in LA. "Our audit found that the lack of oversight by both the School's management and board members led to significant control weaknesses in cash management, payroll, and financial accounting and reporting. In addition, the School did not maintain adequate documentation for expenditures and other financial transactions," the report said.

Source: http://notebook.lausd.net/pls/ptl/docs/page/ca_lausd/fldr_organizations/fldr_oig_publications_audit_reports/09392abccharterms.pdf

Wisdom Academy of Young Scientists

In May 2013, the Los Angeles County Office of Education contacted Fiscal Crisis and Management Assistance Team to conduct an extraordinary audit of Wisdom Academy of Young Scientists (WAYS) charter schools, after the county office received multiple allegations of questionable expenditures and financial irregularities at the schools. The audit found that WAYS' management and governing board engaged in a "litany of financial irregularities… which investigators described as rife with possible criminal fraud, conflicts of interest, and misappropriation of public funds." According to the audit, the WAYS board failed to properly oversee the network, giving the founder and former director of WAYS, Kendra Okonkwo, carte blanche access to the networks' assets and authority to enter into several business arrangements for personal gain. In 2011, when the L.A. Unified District agreed to conditionally approve the operation of the charter on the condition that Okonkwo resign as director, Okonkow appointed several family members to key posts in the organization. In total, Okonkwo's family members and acquaintances received $2.6 million in payments from the school. The audit also found that the organization paid Okonkwo nearly $1 million in lease payments for properties she owned and nearly $230,000 in unused vacation and severance despite the lack of documentation to substantiate the payout. The investigation revealed that the school paid $158,800 to a company owned by one of Okonkwo's relatives for supplies that the organization could not prove it ever received. Perhaps, most troubling, the audit found that the organization paid a "$566,803 settlement to a former teacher who sued the organization for wrongful termination after she was directed by Okonkwo to travel with her to Nigeria to marry Okonkwo's brother-in-law, for the purpose of making him a United States citizen."

Sources: http://www.latimes.com/local/education/la-me-wisdom-academy-20140929-story.html

http://fcmat.org/wp-content/uploads/sites/4/2014/03/LACOEWAYSAB139finalreport3-20-14.pdf

El Portal Leadership Academy and Academia Calmercac Charter Schools

In 2012, prosecutors charged two former officials at Mexican American Community Service Agency's El Portal Leadership Academy and Academia Calmercac Charter Schools with felony grand theft, following allegations that they used nearly $1 million in employee employment retirement savings to cover the schools' operating costs, including $13,000 for office supplies and $7,000 for new computers, and their own pay. At least one of the charged officials personally benefited from the scheme when she stopped making contributions to her retirement account and received a 3% raise in two successive years. Presumably, the employee pension contributions were used to cover her raises.

Sources: http://www.mercurynews.com/ci_20433326/report-two-be-charged-san-jose-community-group

http://fcmat.org/wp-content/uploads/sites/4/2014/02/SantaClaraCOEMACSAfinalrepor.pdf

Westwood Charter School

Following an audit conducted by the Fiscal Crisis and Management Assistance Team, the state investigated a school administrator for violation of state conflict of interest laws. Henry Bietz, the official under investigation, served as the superintendent of Westwood Unified School District, the superintendent of Westwood Charter School, which the district authorized, and the CEO of Westwood Charter School Services, Inc., which provided services to the charter school. The audit team found that Bietz' employment as superintendent of the school district and the services he provided to the charter school may have violated provisions of California law. Between 2004 and 2008, Bietz received over $800,000 in earnings from Westwood Charter School and Westwood Charter School Services and over $100,000 in earnings as superintendent of the Westwood Unified School District. Bietz also worked as a consultant for 65 days during the audit period. The audit team found that many of the consulting days occurred during days that had already been contracted for by the Westwood Unified School District.

Sources: http://www.redding.com/news/lassen-county-school-superintendent-investigated

http://fcmat.org/wp-content/uploads/sites/4/2014/02/LassenCOEreWestwoodUSDAB139f.pdf

Oak Hills Academy Charter School

In 2007, following allegations of fraud at Oak Hills Academy Charter School, the Fiscal Crisis and Management Assistance Team conducted an extraordinary audit, which revealed serious deficiencies in the school's internal controls and management. According to the audit, the charter school failed to properly account for its inventory, as required by its charter agreement. For instance, the audit team could not find 151 of 193 plants purchased by the school estimated to cost $1, 656 and two computers estimated to cost $2,600. The school also failed to maintain adequate and complete payroll records. The audit team found evidence that school personnel falsified authorization for pay rates increases and positions and evidence of rampant nepotism, with the principle making hiring and compensation decisions for family members and close associates. The audit's finding on nepotism, for example, states the principal made the decision to hire her mother as a teacher, a position supervised by the principal herself. The board clerk authorized hiring his wife's cousin, who had a serious illness. According to the document, "[t]he individual earned $1,200 in 2005-06 and $870 in 2006-07. However, the individual received full-time health and welfare benefits costing $874.65 per month." The audit uncovered insufficient documentation to substantiate that credit card charges to the amount of $18,526 in 2006-07 and $14,332 in 2007-08 were school-related. In addition, the audit found the employees falsified signatures for expenses incurred by family members and close friends. The audit has been turned over to the Butte County District Attorney's Office for further investigation.

Sources: http://www.chicoer.com/ci_10432891

http://fcmat.org/wp-content/uploads/sites/4/2014/02/ButteCOEOakHillsCharterrepor.pdf

Albor Charter School

In 2007, an audit revealed that the executive director of Albor Charter School, Emilio Vazquez, "funneled more than $12 million in state funds to several businesses owned by him, his supposed wife, and their friends." Allegations of fraud and mismanagement led to the revocation of Albor's charter in 2005. The school managed to stay open following a legal challenge the following year. In 2006, Emilio Vazquez, closed the school with little to no notice and failed to perform financial accounting of the school's liabilities and assets as required by state law, which triggered an extraordinary audit by Fiscal Crisis and Management Assistance Team. According to the audit, "while Albor was purportedly a high school, it appeared in reality to be a vocational school for adults. Brochures mentioned certified nursing assistant, medical assistance and computer technology programs, with little, if any, description of high school classes." The audit also found that students may have been charged attendance fees, which are illegal. Lastly, the audit found "Vazquez had delegated administrative operations of Albor and funneled more than $12 million in state funds to MI – Vocational School, a business he also controlled. Some of this money was then given to Vagabond Entertainment, EMPE Inc., A&E Financing Inc. and other companies controlled by Vazquez, his supposed wife…and their associates." These companies did not seem to be "related in any way, shape or form to educating students" at the school. The audit findings were turned over the Orange County district attorney's office for further review.

Sources: http://articles.latimes.com/2007/oct/10/local/me-charter10

http://fcmat.org/wp-content/uploads/sites/4/2014/02/AlborCharterSchoolExtraordin.pdf

Magnolia Charter Schools

In July 2014, the Los Angeles Unified School District performed a forensic audit of Magnolia Public Schools. They found that the charter-school chain used education dollars to pay for six non-employees' immigration costs and could not justify $3 million in expenses over four years to outsource curriculum development, professional training, and human resources services that the school itself reported doing.

Annie Gilbertson, "Charter Schools: Audit Finds Missing, Misused Funds at LA Network," KPCC, July 21, 2014, http://www.scpr.org/blogs/education/2014/07/21/17031/audit-finds-missing-misused-funds-at-la-charter-ne/.

Sierra Summit Academy Charter School

In 2005, former Sierra City school superintendent and charter school executive Jeff Bauer was sentenced to 8 months in jail and 5 years' probation as a result of an audit and investigation by the California State Controller's Office. According to an audit, Bauer "misused state funds intended to help children." As part of his sentence, Bauer had to pay the state $317,668. Bauer pleaded no contest to criminal charges of conflict of interest and misappropriation of public funds.

Source: http://www.sco.ca.gov/Press-Releases/2005/bauer_case0113.pdf

Challenge Charter School

Challenge Charter High School will close its doors at the end of the school year, following a decision by school administrators and staff at Wednesday evening's Oroville Union High School District board meeting.

With the school's petition up for renewal this year, the board of trustees was to consider the approval or denial of the school's charter at Wednesday's meeting. However, before board members could discuss the issue, school Principal Walt Gess withdrew the petition renewal—opting to simply let the petition run out in July, with the school closing at that time. As Superintendent Oran Roberts was about to deliver his recommendation to the board regarding the charter school, Gess approached Roberts, requesting permission to address the board. Roberts obliged and Gess controlled the lectern for several minutes, ultimately telling the board and audience that the school could not remain open and that "with reluctance" he "wished to respectfully withdraw the petition for renewal." Gess cited severe financial problems for his decision, claiming the school will not only face reduced funding due to state budget cuts this year, but actually owes the state an estimated $591,000.Although the school was allotted money for the students, it was discovered earlier this year that approximately 65 percent of the students the school received money for did not actually attend Challenge Charter for the required amount of time. In a memorandum that was circulated to the board and audience members, Roberts stated that in addition to the school's fiscal issues, Challenge Charter "presents an unsound educational program." When comparing standardized test scores of Challenge Charter to the two comprehensive high schools, Roberts found that the school continually underperformed, with test score averages considerably lower than Las Plumas and Oroville High. AND "District staffers suspect fraud in the closures of some San Diego charters, most notably Children's Conservation Academy, which closed in August. San Diego Unified claims that CCA spent hundreds of dollars on Padres tickets, cell phone bills and gym memberships, and paid more than $11,000 to executive director Nicole Decatur's mother, a past board president, with little proof of the work she'd performed."

Source: http://voiceofsandiego.org/2007/12/04/when-charters-close-public-schools-foot-the-bill/

Children's Conversation Academy

Financially troubled Children's Conservation Academy shut down in 2007 despite last minute attempts to salvage the school. According to the district, the school failed to properly account for "tens of thousands of dollars in questionable expenses, including an athletic club membership ($638), restaurant food ($2,219), Starbucks coffee ($143), Padres tickets ($369) and cell phone bills ($1,505)." "According to district documents, the school operated for a year and a half without workers' compensation insurance required by state law, and it lacked proof that all of its employees had undergone checks for criminal background and tuberculosis, posing safety and health hazards to students." Nicole Decatur, the school's founding executive, was among the employees who lacked proper clearances. The district also "expressed concerns about 'conflicts of interest' and 'self-dealing' on the school's governing board." Decatur's mother, for example, received over $11,000 in payment from the school "without authorization and without supporting documentation to reflect the work performed."

Source: http://www.utsandiego.com/uniontrib/20070824/news_1m24charter.html

American Indian Model Schools

According to a grand jury indictment, a charter school director who received over $1 million in federal funds to run three charter schools in Oakland used the money to make improper lease payments on properties he owned. Ben Chavis, former director of the American Indian Model Schools, was charged with six counts of mail fraud and money laundering. In total, Chavis and his wife made $3.8 million in illegal payments under real estate deals between the schools and the couple under Chavis' directorship.[18]

Celerity Education Charter Schools

Vielka McFarlane, founder and director of Celerity Education Group, funded a lavish lifestyle that included expensive meals, high-end salon visits, and luxury hotel stays using her nonprofit charter school network's credit card, according to a report by the Los Angeles Times. In addition to misusing the organization's credit card, McFarlane, who earned a salary significantly higher than Los Angeles School District superintendent Michelle King, also appears to have directed hundreds of thousands of dollars in public funds to companies registered in her name for services rendered to the network. The Los Angeles charter schools division first uncovered evidence of wrongdoing when an audit revealed improper charges in Celerity's credit card statements, however the network did not lose its charter for another two years. During that time, despite being under investigation by both the district Inspector General and the Federal Bureau of Investigation, the network expanded beyond its base in southern California, extending to Louisiana. No one at Celerity, including McFarlane, has been charged with a crime stemming from the schools' operations.[19]

Oxford Preparatory Academy

An audit conducted by California school district consultant Fiscal Crisis and Management Team found that Oxford Preparatory Academy founder, Sue Roche, had set up a number of companies staffed by family and friends in order to divert school funds. Oxford paid one of the companies, Oxford Preparatory Edlighten, $4.2 million in management fees over three years. The audit was called for after Oxford appealed the Chino Valley Unified School Board's decision not to renew its charter after it expires June 30, 2017.[20]

El Camino Real Charter High School

A Los Angeles Daily News investigation found that charter school principal David Fehte, along with several other school administrators, had charged over $1 million to school credit cards between 2013 and 2015.[21] After reimbursing the school for only $6,000 in improper expenditures, Fehte resigned without admitting wrongdoing. Fehte received $215,000 in severance under the terms of his employment contract.[22]

Hope Academy Charter School

An audit found that founder and superintendent Jared Mecham, his wife and his for-profit company received more than $1.3 million in funds from Hope Academy Charter School between July 2014 and February 2016. Mecham's company, SavantCo Education, Inc., charged the school $58,000 per month for back-office services, nearly six times the amount the school had been charged by its previous vendor. When Mecham resigned from the school as superintendent, his company added an additional "administrative fee" of $20,000 per month to its charges.[23]

Florida

Sunshine Academy Charter School

In 2011 the Miami Herald published an extensive report on charter accountability in Florida. In its report, it cited the case of Sunshine Academy in Miramar. In 2007, according to the Herald, the board of Sunshine Academy went to the police, after discovering that Alcira Manzano, the school's principal, had made unauthorized withdrawals from the school's account. The board closed the school and Manzano was arrested on theft charges. Investigators later found that Manzano had also made loans to the school and personally paid the rent. Though charges against Manzano were later dropped, the prosecutor in the case noted that the school had been poorly run. The following year, a legislative report noted that the state needed to adopt stronger monitoring procedures to detect struggling schools before the problems brought the school to the brink of closure.

Source: http://www.miamiherald.com/2011/09/19/2541051/florida-charter-schools-big-money.html#storylink=cpy

Newpoint Education Partners

A charter management company and three of its vendors were charged with theft, money laundering, and fraud for allegedly funneling hundreds of thousands of dollars in charter school funds to the vendors through fraudulent billing. Newpoint Education Partners allegedly had ties to the vendors, who concealed the alleged laundering through the use of multiple bank accounts. The allegedly misappropriated funds came from federal grants intended for school supplies, equipment, and services.[24]

North Carolina

StudentFirst Academy Charter School

StudentFirst Academy in Charlotte, North Carolina closed in early April 2014 after dwindling enrollment and poor management created severe financial stress. The school,

in its first year of operation, surrendered its charter. By March of this year, the school's board had over $600,000 in overdue bills and bank loans. A team of investigators from the state Office of Charter Schools provided help and support to the board, but expressed concerns over a range of issues including the quality of instruction and support for students with disabilities.

Source: http://www.charlotteobserver.com/2014/04/03/4814539/studentfirst-charter-school-to.html#.U03QMeZdXfb#storylink=cpy

Louisiana

D'Arbonne Woods Charter School

In 2010, an audit of D'Arbonne Woods Charter School revealed that seventy-six percent of employees (16 of 21) received merit pay in excess of that allowed in the personnel policies by $39,185. Auditors also found that included in the Executive Director's pay for the audit year was a check noted as merit pay for $7,291, but was, in fact, a retroactive salary increase, which is prohibited under state law. In addition, auditors found that the Executive Director used school funds to provide a cellular phone to her son, and the audit included findings of nepotism as the Executive Director's son was also paid $2,350 for work at the school.

https://app.lla.state.la.us/PublicReports.nsf/A3D93A6CBB50197C86257893005E9B73/$FILE/0001F3F2.pdf

Lusher Charter School

In 2011, an employee of Lusher Charter School's accounting department embezzled $25,000 by forging five checks she wrote to herself from the school's bank account. The school discovered the theft and it was reported in its annual financial audit.

Source: http://thelensnola.org/2012/12/19/audit-lusher-employee-embezzled-25000-from-school/

KIPP New Orleans Charter School

An employee of KIPP New Orleans Inc., the operator of six charter schools in Orleans Parish, misappropriated two checks totaling almost $70,000. The employee altered two checks intended for vendors and the theft was discovered when the vendors complained that they hadn't been paid. The employee admitted the theft. The theft was made public in an audit.

http://app.lla.state.la.us/LLApress.nsf/vwPRsWeb/KIPP_New_Orleans_Inc._(Charter_Schools)CHET-9G4MDD.html

Arise Schools

The operations manager stole over $9000 from Arise Schools, a New Orleans-based charter group. The theft was made public in a 2014 audit, but was discovered by the school when they noticed money missing from a debit card. The employee twice bought $1,500 in gift cards with the organization's debit card, in March and June 2014. The rest of the embezzlement was done in small amounts, tacking on his own purchases when he bought supplies for the school. After an investigation in which the employee admitted to the theft, Arise immediately fired him, filed a police report and filed an insurance claim, but did not report the theft to the state auditor, as required by law.

Source: http://www.nola.com/education/index.ssf/2015/01/new_orleans_charter_employee_s.html

James M.Singleton Charter Middle School

In July 2014, the LLA found that James M.Singleton Charter Middle School (Singleton) failed to enroll certain employees in the Teachers' Retirement System of Louisiana (TRSL). Had these employees been properly enrolled in TRSL, Singleton would have been required to make contributions totaling $686,081 to TRSL. In addition, some of the employees were removed from payroll reports, which caused inaccurate wage and contribution information to be submitted to TRSL. Singleton disputed the audit findings.

Source: http://app.lla.la.gov/PublicReports.nsf/2323F88A1ED3CE3C86257D0900589993/$FILE/000016BA.pdf

Oregon

EdChoices Charter Schools

Tim King and Norm Donohoe, founders of a chain of 10 charter schools in several Oregon Counties, agreed to repay the state $475,000 and dismantle their charter school network, as part of a court settlement reached in the case. The Oregon Department of Justice accused the men of engaging in racketeering, money laundering and other fraud related to the charter schools between 2007-2010. Both men were also banned for life from running, advising or otherwise being involved in any charter school in the state.

Source: http://www.oregonlive.com/education/index.ssf/2013/11/oregon_charter_school_founders_1.html

New Mexico

La Promesa

Charter school director Annalee Maesta was removed from her position after she was caught doctoring a receipt to be reimbursed for cleaning services at her home. The reimbursement was approved by Maesta's daughter, who was the school's assistant business manager.[25]

North Carolina

Kinston Charter Academy

Before the North Carolina State Board of Education could act to close it, the Kinston Charter Academy in Lenoir County shut itself down just a week in to the 2013-2014 school year. The sudden closure left the families of 230 students in limbo. But what the State found in the school's books was disheartening: the school had only $3,000 in its accounts, despite having received more than $600,000 in public funding for the beginning of the school year. The funds had been used to pay of school debt, according to the school's director, and there was no money remaining to cover the payroll. The school had been running at a deficit for several years.

Source: http://www.ncpolicywatch.com/2013/09/17/charter-shuts-down-questions-raised-about-state-education-funds/#sthash.9JHPKpnR.dyTr6oT2.dpuf

New York

Albany Leadership Charter High School for Girls

City of Albany
State Comptroller Audit (2014)

Auditors Found Charter Board Approves Ill-defined Contract

- The School entered into a three-year compact agreement with the (Brighter Choice) Foundation in April 2013. During the 2012-13 fiscal year, the School paid the Foundation a fee of $32,218 to become a member of the charter school network and receive services stated in the compact.
- Auditors reviewed the compact document and did not identify a specific declaration made by the Foundation that clearly defined what activities it would engage in to achieve the stated goals and objectives. Also, the compact did not contain a specific performance measure to determine whether the services received by the School warranted the School's payment of the $32,218. The compact also did not provide sufficient detail of the activities the Foundation would engage in or how delivery of services would be measured.
- Auditors asked the Board President to describe the services the School was receiving from the Foundation, but the Board President could not provide specific details regarding such services. Therefore, because School officials were not certain of the services they should be receiving under the compact, they could determine if the School was actually receiving the services it has paid for.

Source: http://osc.state.ny.us/localgov/audits/schools/2014/albanyleadershipcharter.pdf

Brighter Choice Charter Middle School for Boys

City of Albany
State Comptroller Audit (2014)

Auditors Found Charter Board Approves Ill-defined Contract

- The School entered into a three-year compact agreement with the Brighter Choice Foundation in June 2011. All Board members voted in favor of the compact agreement, except for the Board Chairman, who recused himself from voting because he is also the Foundation's Executive Director. The compact does not describe in detail the services that the Foundation will provide. The fee for the services is 1 percent of total pupil revenue from the prior academic year. The total 2012-13 fiscal year fee due to the Foundation was $14,801. In January 2013, the School revised the compact contract with the Foundation. The revised compact provides further detail about the specific services that the Foundation could provide the School and increases the fee from 1 percent of total pupil revenue for the 2012-13 fiscal year to 1.5 percent for the following year, and 2 percent for the contract's final year. The fee structure, based on a percentage of per pupil revenue, does not appear to be reasonable, as the services being provided do not have any bearing on the number of students at the School or the State Education Department's Charter School Tuition rate.

Auditors found Board members failed to disclose information

- During the audit period, two Board members were also officers or directors of the Foundation. While both filed financial disclosure forms, neither disclosed their relationship with the Foundation on these forms.

Source: http://osc.state.ny.us/localgov/audits/schools/2014/brighterchoicecharterboys.pdf

Brighter Choice Charter School for Boys

City of Albany
State Comptroller Audit (2011)

Auditors found school officials failed to audit claims

- Auditors found that the School paid claims totaling $329,017 before they were audited. The failure to audit claims prior to payment resulted in the School overpaying two vendors by $8,319, and it increases the risk that the School could pay for goods that are not received, services that are not rendered, and claims that are not legitimate, reasonable, or for proper School purposes. Also, the School paid six claims totaling $85,215, of 51 claims examined, later than the 60-day time period that its purchasing policy required claims to be paid within. For example, the School paid a $15,462 invoice for health insurance 93 days after the invoice was dated. By not paying claims within the timelines outlined in the policy, the School risks missing vendor discounts associated with timely bill payment and/or risks incurring late fees for untimely payments.

Source: http://osc.state.ny.us/localgov/audits/schools/2011/brighterchoice.pdf

Brighter Choice Charter School for Girls

City of Albany
State Comptroller Audit (2014)

Auditors found Charter Board Approves Bad Contract

- On May 27, 2011, the Board approved a compact contract between the School and the Foundation that states that the Foundation will provide the School with access to legal and financial assistance, technical support and advocacy at State and local levels. The fee for these services is 1 percent of per pupil revenue from the prior academic year. On January 31, 2013, the Board approved a revised compact contract with the Foundation that supersedes the prior compact contract. The revised contract increases the fee from 1 percent for the 2012-13 school year, to 1.5 percent for the following year, and 2 percent for the final year of the contract. The increase in the fee percentage over the next two years will place an additional financial burden on the School. The fee structure of a percentage of per pupil revenue does not appear to be reasonable, as the services being provided do not have any bearing the number of students at the School or the State Education Department Charter School Tuition rate.

Auditors found Charter School Failed to Budget Properly

- The School did not budget properly. The School failed to accurately budget a number of expense accounts, including failing to budget some account codes and using unrealistic amounts in others. In addition, the School does not modify its budget during the year. During fiscal years 2011-12 and 2012-13, School officials had budgeted for a $650,362 surplus. However, the actual net income amounted to only $89,497, a shortfall of $560,865.

Source: http://osc.state.ny.us/localgov/audits/schools/2014/brighterchoicechartergirls.pdf

Albany Community Charter School

City of Albany
State Comptroller Audit (2013)

Auditors found no evidence that the Board had fulfilled its fiduciary responsibility

- Auditors found no evidence that the Board had fulfilled its fiduciary responsibility to the School by ensuring that it fully evaluated the choice of its site selection for the elementary school or middle school.
- School officials could have saved about $207,000 to $2.3 million if they purchased the elementary school by issuing a bond instead of continuing to lease the building.
- On May 26, 2011 the Board approved a compact contract between the School and the Foundation that states that the Foundation will provide the School with access to legal and financial assistance, technical support, and advocacy at State and local levels at a fee of 1 percent of per pupil revenue from the prior academic year. On April 18, 2013 the Board approved a revised compact contract with the Foundation that increases the fee from 1 percent in for the 2012-13 school year, to 1.5 percent for the following year, and 2 percent for the final year of the contract. With the increase in the fee percentage and the growth of the number of students over the next two years as the School expands to include middle school grade levels, the fee that the School pays the Foundation will increase three times from the 2011-12 school year payment which does not appear to be reasonable as the services being provided do not have any bearing the number of students at the School, nor the State Education Department Charter School Tuition rate.

Source: http://osc.state.ny.us/localgov/audits/schools/2013/albanycharter.pdf

Achievement Academy Charter School

City of Albany
State Comptroller Audit (2012)

Auditors found the Board did not provide proper oversight.

- The Board does not provide oversight of the purchasing function as directed by the School's policy. Auditors reviewed payments to vendors in excess of $5,000 for the 2010-11 school year and the 2011-12 school year through February 29, 2012. For the 2010-11 school year, the School made 62 individual payments to 13 vendors totaling $1,118,991 that required Board approval. The Board did not approve 38 of these payments totaling $521,882. For the period from July 1, 2011 through February 29, 2012, the School made 41 individual payments to 18 vendors totaling $828,170 that required Board approval. The Board did not approve 31 of these payments totaling $507,878. School officials provided Board minutes from prior years showing the approval of certain purchases in the past; however, School officials could not provide us with Board minutes approving the purchases made during our scope period.

Source: http://osc.state.ny.us/localgov/audits/schools/2012/achievementacademy.pdf

Henry Johnson Charter School

City of Albany
State Comptroller Audit (2014)

Auditor found that the school entered into contracts that did not provide sufficient detail.

- Auditors reviewed the compact agreement between Brighter Choice Foundation and the School and could not determine how the quality of the services provided would be measured because the compact was insufficiently detailed. Therefore, School officials do not have a means to determine whether the School received an adequate level of services to justify the fees it paid to the Foundation. The fee structure, based on a percentage of per pupil revenue, does not appear to be reasonable, as the services being provided do not have any relationship to the number of students at the School or the Charter School Basic Tuition rate. The fee structure was established by the Foundation and increases as a means to expand the services provided to the members of the network. When the School enters into contracts that do not provide sufficient detail about the services being provided, and do not have a reasonable fee structure, the

School is susceptible to incurring costs that are greater than necessary for the services it receives.

Source: http://osc.state.ny.us/localgov/audits/schools/2014/henryjohnsoncharter.pdf

Ark Community Charter School

City of Troy
State Comptroller Audit (2012)

Auditors found internal control deficiencies

- Auditors found weaknesses in the internal controls over IT. The Board did not develop a disaster recovery plan to minimize disruption of operations in the event of a catastrophic event.
- Auditors found that the Board did not adopted policies and procedures for remote access and server room security.

Source: http://osc.state.ny.us/localgov/audits/schools/2012/arkcommunitycharter.pdf

Oracle Charter School

City of Buffalo
State Comptroller Audit (2014)

Auditors found that the Board did not demonstrate that it used an appropriate process to ensure it obtained a suitable building site at a reasonable cost.

- School officials did not document that the Board performed an appropriate cost analysis of the selected site or alternative sites. Consequently, the School agreed to an arrangement requiring it to pay more than $5.1 million for the acquisition and renovation of its building financed at a 20 percent interest rate. Auditors found that the building was acquired and renovated for approximately $1.4 million, and that a developer fee and interest costs will total more than $3.7 million over the term of the School's 15-year lease. As a result of a recent decision to prepay a portion of the debt, the School was able to save approximately $136,000.

Auditors found that charter school maintained inaccurate records

- The business office did not maintain accurate and supported leave accrual records for all School employees. The School does not require that all employees submit leave request forms. Those employees required to submit forms did not do so consistently, and the forms did not always include evidence of required approvals.

Source: http://osc.state.ny.us/localgov/audits/schools/2014/oraclecharter.pdf

Charter School for Applied Technologies

East Amherst, Buffalo
State Comptroller Audit (2014)

Auditors found charter board possibly illegal transferred school funds; school officials refuse to work with state auditors:

- The Board approved transfers of School funds totaling $425,000 to capitalize two wholly-owned private entities (EST LLC and Edoctrina which the Board caused to be established for the purpose of enabling the School to engage in what are essentially commercial ventures. Auditors question whether the Board had authority to approve the transfers. Even if the Board had authority to approve the transfers, auditors were not able to assess the level of risk involved with the School's participation in these ventures because School officials refused to provide us access to either entity's financial records.

Auditors found charter school failed to establish a written contract for services paid for.

- The School made payments for services to one of the entities without a written contractual obligation to do so.

Source: http://osc.state.ny.us/localgov/audits/schools/2014/charterappliedtechnologies.pdf

Buffalo Academy of Science Charter School

City of Buffalo
State Comptroller Audit (2013)

Auditors found Board did not ensure that it appropriately identified and evaluated available options before deciding to lease a building.

- The Board did not ensure that it appropriately identified and evaluated available options before deciding to lease a building. The process used to select a firm to acquire and renovate a building on the Board's behalf was not transparent, and auditors question whether it was an arm's length transaction. The Board selected an unlikely firm, a nonprofit educational services corporation (Corporation) from the New York-New Jersey metropolitan area that did not have any apparent real estate experience. Auditors also found that the terms and conditions of the lease agreement appear to benefit the Corporation more than the School. Auditors estimate that the lease payments could exceed the Corporation's costs by more than $4.4 million.

Source: http://osc.state.ny.us/localgov/audits/schools/2013/buffaloacademycharter.pdf

Elmwood Village Charter School

City of Buffalo
State Comptroller Audit (2013)

Auditors found internal control deficiencies

- Auditors identified control deficiencies with the School's residence verification process. The School does not verify student information by periodically requiring new proof of residence, such as a utility bill, or requiring that a new proof of residence be submitted when a student's address changes.

Source: http://osc.state.ny.us/localgov/audits/schools/2013/elmwoodvillagecharter.pdf

Health Sciences Charter School

City of Buffalo
State Comptroller Audit (2013)

Auditors found internal control deficiencies

- Auditors found the School's Business Office was unable to provide procurement procedure documentation and inconsistencies were found in the purchasing practices/competitive bid process outlined in the School's charter agreement and the procurement policy.

- Both policy documents were silent on other key provisions such as when written contracts are required or whether professional services should be procured in a different manner. The documents did not clarify whether thresholds were for individual or aggregate purchases and if quotes should be written or verbal.
- Even though the School is in its third year of operation with a Principal and a fully functioning Business Office, School officials continue to rely on certain service providers to obtain bids or quotes and select vendors for goods and services such as janitorial services, school uniforms and kitchen supplies.

Source: http://osc.state.ny.us/localgov/audits/schools/2013/healthsciencescharter.pdf

King Center Charter School

City of Buffalo
State Comptroller Audit (2013)

Auditors found internal control deficiencies regarding purchasing

- Auditors found that the School's purchasing policy does not provide appropriate guidance as to when written or verbal price quotes should be obtained and when items must be competitively bid. The policy also does not address threshold amounts under which approval can be made by management, versus large purchases that would require Board approval.
- Although the policy requires the use of purchase orders, School officials are not routinely using them to initiate the acquisition of goods and/or services.
- School officials often did not properly document verbal or written price quotations when making purchase decisions. For example, School officials spent $11,346 on computers but did not have adequate documentation to demonstrate that the lowest price was obtained.
- Auditors reviewed 12 disbursements associated with three capital projects that totaled approximately $1.3 million. Auditors found that one of the three project contracts was not properly approved by the Board and there is no evidence that change orders totaling approximately $63,000 were approved by the Board.

Source: http://osc.state.ny.us/localgov/audits/schools/2013/kingcentercharter.pdf

The Tapestry Charter School

City of Buffalo
State Comptroller Audit (2013)

Auditors found internal control deficiencies

- The School's credit card policy does not define how many credit card accounts may be established, limit the number of credit cards to be issued, and address to whom the cards may be issued. The policy also does not define credit limits. Auditors also found that the School did not ensure that all employees who were issued a credit card signed the policy to acknowledge their awareness of the procedures, as required by the policy. Auditors found that, of the 12 employees issued credit cards, only seven had signed a copy of the policy. In addition, School officials did not ensure that credit card accounts were established in a manner that complied with the policy provision prohibiting cash advances.

Source: http://osc.state.ny.us/localgov/audits/schools/2013/tapestrycharter.pdf

Buffalo United Charter School

City of Buffalo
State Comptroller Audit (2012)

Auditors question whether the Board can sufficiently monitor management the company.

- The Board relies almost exclusively on National Heritage Academies (NHA) to handle the School's finances. Auditors question whether the Board can sufficiently monitor NHA. With almost all financial duties and responsibilities assigned to NHA, the Treasurer cannot adequately fulfill certain duties as prescribed in the by-laws.
- NHA's failure to fully disclose detailed information about its internal costs and how they are allocated to the School limits the Board's ability to verify that these charges are accurate and appropriate.

Source: http://osc.state.ny.us/localgov/audits/schools/2012/buffalocharter.pdf

Community Charter School

City of Buffalo
State Comptroller Audit (2012)

Auditors found board did not follow the school's conflict of interest policy.

- The former Board President engaged in business transactions with the owner of a construction company to which the School has paid $2.4 million since 2007. The Board, however, did not follow the School's conflict of interest policy because it did not determine whether this relationship resulted in a conflict of interest as the policy requires.
- School officials did not use competitive procedures to obtain these construction services, and did not produce a written contract that stated the scope of the work or the basis of payment.

Source: http://osc.state.ny.us/localgov/audits/schools/2012/communitycharter.pdf

Aloma D. Johnson Fruit Belt Community Charter School

City of Buffalo
State Comptroller Audit (2012)

Auditors found that the Board did not fulfill its fiduciary responsibility

- The Board did not fulfill its fiduciary responsibility to the School by ensuring that it fully evaluated the choice of its school building. In fact, the Board selected a building that was owned by an organization that it had extremely close ties to with no evidence that it is paying market value.
- The terms of the building lease were not complied with as it appears that the School had been occupying and possibly renovating space that was not included in the lease agreement and without prior State Board of Education approval.
- The terms and conditions of the lease, including the cost of leasehold improvements, directly impacted the

School's financial condition, initially resulting in cash flow problems to the School, while also providing a significant financial benefit to the landlord.

Source: http://osc.state.ny.us/localgov/audits/schools/2012/fruitbeltcharter.pdf

The West Buffalo Charter School

City of Buffalo
State Comptroller Audit (2013)

Auditors found the School did not fully develop its residence verification process.

- Auditors found nine students' files did not contain the required proof of residency; three instances where no date was on the address verification document or the date was several years old; and one instance where the address did not agree with the address on the billing record. The School has not fully developed its residence verification process.

Source: http://osc.state.ny.us/localgov/audits/schools/2013/westbuffalocharter.pdf

Global Concepts Charter School

Lackawanna
State Comptroller Audit (2012)

Auditors found board did not use an appropriate process to ensure it obtained a suitable site for the school.

- The Board did not demonstrate that it used an appropriate process to ensure it obtained a suitable site at a reasonable cost. School officials did not provide evidence that the Board performed an appropriate cost analysis of the selected site or alternative sites. As a result, auditors estimate that the School will pay $2.3 million more than necessary over the next five years for this school building.

Source: http://osc.state.ny.us/localgov/audits/schools/2012/globalconceptscharter.pdf

Niagara Charter School

Town of Wheatfield, Niagara County
State Comptroller Audit (2014)

Auditors found that charter school maintained inaccurate records and overbilling of school district

- Certain billings were not accurate and enrollment was not always adequately supported. In some instances, for students with less than full-time enrollment, School officials incorrectly calculated the full-time equivalents (FTEs), which resulted in over-billing school districts by more than $10,200. Auditors also reviewed the 2012-13 fiscal year FTE report prepared by School officials and found that the School may be owed approximately $13,500 from one of the school districts. However, due to the incorrect calculations of FTEs identified in our testing, it is unclear whether this amount owed to the School is entirely accurate.
- Auditors found that the School's system of collecting and reporting student data could be improved.
- Of the 22 students' files sampled, the proof of residency on file for five students was either inaccurate or missing.

Source: http://osc.state.ny.us/localgov/audits/schools/2014/niagaracharter.pdf

Niagara Charter School (2010)

A report by the New York State Education Department concluded that the Niagara Charter School in Buffalo suffered from "the pervasive appearance of financial mismanagement and less-than ethical behavior on the part of the Board of Trustees and the school administration." Public funds provided to the school during its first years were apparently spent on plane tickets, restaurant meals and alcohol. More than $100,000 was spent on no-bid consulting contracts. The investigation also questioned the school's relationship to another local charter—Enterprise Charter School—which apparently shared the same chief executive and several board members.

Source: http://www.nytimes.com/2010/05/26/education/26charters.html?_r=0&adxnnl=1&pagewanted=all&adxnnlx=1397606483-HRfkrEDtpvRD/2RLuUadhA

Eugenio Maria de Hostos Charter School

City of Rochester in Monroe County
State Comptroller Audit (2014)

Auditors found School entered into the leases without any process for determining the fair rental value of the buildings

- Auditors reviewed four building leases and 12 service contracts entered into by the School and found that the School entered into the leases without any process for determining the fair rental value of the buildings. Similarly, although competitive bidding is not required, auditors found that the School only sought competition for one of the service contracts. These findings are of particular concern because the leases and contracts were entered into with organizations having various types of business or occupational relationships with members of the Board or their family or friends. Under these circumstances, it is questionable whether the leases and contracts were in the best interest of the School.

Auditors found charter school failed to establish a written contract for services paid for

- The School paid for use of a building and for certain services without having entered into written agreements.

Auditors found charter school lack IT infrastructure

- The School also lacked appropriate information technology (IT) policies and procedures. The School did not properly control user access rights to the IT system and did not properly establish a disaster recovery plan.
- The School lacked accurate IT inventory records.

Source: http://osc.state.ny.us/localgov/audits/schools/2014/eugeniomariadehostoscharter.pdf

True North Rochester Preparatory Charter School

City of Rochester
State Comptroller Audit (2014)

Auditors found board and school officials entered into contract that lacked critical details.

- Auditors identified significant concerns with the lack of detail contained in the memorandum of understanding (MOU) in the School's contract with the Charter Management Organization (CMO). Without clear and concise contract language, the School does not have a firm agreement detailing what services are included.
- School officials entered into a MOU whereby the School will annually pay a CMO nearly $700,000 for services and an additional $300,000 for expenses. This contract does not clearly define each party's responsibilities for certain costs and allows one party—the CMO—to train the Directors of Operations, who are responsible for overseeing the School's interests in the contract.

Source: http://osc.state.ny.us/localgov/audits/schools/2014/truenorthrochestercharter2.pdf

True North Rochester Preparatory Charter School—West Campus

City of Rochester
State Comptroller Audit (2014)

Auditors found that the School did not consistently comply with the Law and guidance regarding fingerprint-supported criminal background checks

- The School has a policy entitled "Fingerprint Process" in their Onboarding Guide, which stated that "All school employees must be fingerprinted before they are authorized to work in a school in New York State." Auditors requested documentation to support that all adults working on site have been properly fingerprinted. Two of the 25 workers tested did not have complete background checks performed prior to working at the School. For one worker, School officials did not obtain clearance specifically for their School. A School official told us that because the worker was previously cleared at another charter school, School officials believed they did not have to obtain clearance. In addition, the former CEO did not have fingerprint records on file with OSPRA at the time of our testing. Fingerprint records were obtained subsequent to our request and auditors were provided documentation that on June 14, 2013 the former CEO's fingerprints were filed with OSPRA and cleared.

Source: http://osc.state.ny.us/localgov/audits/schools/2014/truenorthrochestercharter.pdf

University Preparatory Charter School for Young Men

City of Rochester
State Comptroller Audit (2014)

Auditors found School did not maintain adequate supporting documentation regarding students' residency.

- Auditors selected a random sample of 25 students and found that the School did not maintain adequate supporting documentation regarding students' residency. Auditors found that seven students' files did not contain a proof of residency. In addition, three of the students had moved and their files had a different verified address than the School used when it billed RCSD.

Source: http://osc.state.ny.us/localgov/audits/schools/2014/universityprepcharter.pdf

Genesee Community Charter School

City of Rochester
State Comptroller Audit (2013)

Auditors found internal control deficiencies

- Auditors found that the School has not developed procedures to segregate the collecting, recording, and reconciling of School meal and field study revenues. Monies received are held by the Coordinator of School Operations who also prepares the deposits and reconciles the bank statements without independent review of the deposits or reconciliations.

Source: http://osc.state.ny.us/localgov/audits/schools/2013/geneseecharter.pdf

The Rochester Academy Charter School

City of Rochester
State Comptroller Audit (2013)

Auditors found the School did not have sufficient Board-approved policies and procedures over the procurement process.

- The School did not have sufficient Board-approved policies and procedures over the procurement process. Such policies and procedures would provide guidance on when and how to solicit competition, documentation requirements to support purchasing decisions and payments. As a result of this weakness, auditors reviewed 76 disbursements totaling $320,000 to determine if the disbursements were for school purposes, properly supported by a detailed original receipt, and, where applicable, to ensure compliance with the School's charter. Auditors found that the School used restrictive practices in some of their purchases, which undermined the intent of true competition.

Source: http://osc.state.ny.us/localgov/audits/schools/2013/rochesteracademycharter.pdf

Urban Choice Charter School

City of Rochester
State Comptroller Audit (2013)

Auditors found internal control deficiencies

- The Board has not established adequate internal controls over the School's IT system to ensure the School's computerized data and assets are safeguarded from internal and external threats.
- The Board has not established policies and procedures related to remote access, data backup, computer security, and data breach.
- The Board has not adopted a disaster recovery plan to address potential disasters.

Source: http://osc.state.ny.us/localgov/audits/schools/2013/urbanchoicecharter.pdf

Southside Academy Charter School

City of Syracuse
State Comptroller Audit (2014)

Auditors found that charter school board of directors approved budget without adequate information.

- The Board contracted with National Heritage Academies (NHA) to be responsible for the administration, operation and performance of the School in accordance with the School's Charter and subject to the oversight and authority of the Board. The agreement transfers all School revenues to NHA, and the revenues are to be expended by NHA in accordance with the approved budget, and as otherwise authorized by the Board. NHA provides the Board with projected budgets, budget amendments and quarterly financial statements for its review. Although the Board reviews and approves budgets and budget amendments, the budgetary information and the quarterly financial statements lack transparency to allow the Board to identify the fee for services paid to NHA and to distinguish indirect from direct costs, and how indirect costs are allocated by NHA to the School. For example, $2.9 million in indirect costs have been allocated to the School by NHA but the Board has not received support for how the costs are allocated. As a result, this limits the Board's ability to adequately monitor NHA and verify indirect costs allocated to the School are accurate and appropriate.

Source: http://osc.state.ny.us/localgov/audits/schools/2014/southsideacademycharter.pdf

The Syracuse Academy of Science Charter School

City of Syracuse
State Comptroller Audit (2013)

Auditors question the prudence thousands of dollars in purchases

- School officials routinely purchased school equipment and furnishings from a limited group of four vendors that were affiliated with one another. The required number of quotes was not always obtained, quotes were sometimes dated after the purchase was made, officials did not document verbal quotes, and officials received quotes for equipment and furnishings from vendors that did not specialize in such items. As a result, auditors question the prudence of $383,390 in purchases which likely could have been obtained at lower prices.
- Some of the purchased items were resold to the School after an affiliated vendor purchased the items online and marked up the price. Had School officials purchased these items either directly from the original vendor or through State contract, they could have saved $5,220 on total purchases of $54,940.

Auditors found the Director of Operations does not ensure all student information is recorded accurately

- The Director of Operations does not ensure all student information is recorded accurately prior to billing their school districts, and does not verify the accuracy of the year-end reconciliation of the School's student information system with billings, which should identify any moneys that the School owes to the resident districts (over-billings) or vice versa (under-billings).

Source: http://osc.state.ny.us/localgov/audits/schools/2013/syracusecharter.pdf

New Roots Charter School

City of Ithaca
State Comptroller Audit (2012)

Auditors found school lacked board approval documentation for transactions.

- Auditors identified six contracts and three purchases totaling approximately $917,900 that required Board approval. However, no documentation exists to show the Board approved six of these nine transactions, totaling approximately $172,000.

Source: http://osc.state.ny.us/localgov/audits/schools/2012/newroots.pdf

Amber Charter School

New York City
State Comptroller Audit (2007)

Auditors found internal control deficiencies

- Auditors reviewed Amber's monthly bank reconciliations for fiscal year 2006 and found they were not performed on a timely basis and were generally inaccurate. School staff prepared "preliminary" bank reconciliations using incorrect general ledger balances. Weeks later, "Amended" bank reconciliations were prepared, but some of these were still inaccurate. Amber has two imprest petty cash funds; one maintained by its bookkeeper and the Chief Financial Officer (CFO); the second by the Facilities Director.
- Auditors found that the petty cash fund maintained by the Facilities Director was kept in her personal bank account off school premises. Auditors reviewed 17 contracts totaling $996,769, entered into by Amber during the fiscal year ended June 30, 2006, to determine whether school management complied with Amber's contract procedures. Auditors found that Amber officials did not obtain either, oral quotes or written bids for 14 of the 17 contracts. Consequently, there is no assurance that the price paid for each of the 14 contracts was reasonable. These contracts totaled $958,000. We also noted that Amber paid its cleaning contractor $9,730 for cleaning supplies and services above and beyond what was required by the contract. In our view, Amber should bid out these additional goods and services or, alternatively, amend the original contract.

Source: http://osc.state.ny.us/audits/allaudits/093008/07s101.pdf

Beginning with Children Charter School

New York City
State Comptroller Audit (2006)

Auditors found internal control deficiencies

- Auditors found eight instances totaling $36,431 of payments for which certain of the required supporting documentation was not present (e.g. missing invoices and/or packing slips).
- Auditors found that pre-approvals were not obtained in 13 instances totaling $19,995. Of the 13 instances: 3 were for purchases less than $250; 9 were for purchases of more than $250; and 1 was for a purchase of more than $5,000. When required approvals are not obtained, there is increased risk that some purchases may not be appropriate.
- Auditors found that BwCCS does not maintain a perpetual inventory of equipment and does not perform an annual physical inventory. Instead, auditors found that various departments within BwCCS maintain separate equipment inventory listings. These are neither complete nor tested.

Source: http://osc.state.ny.us/audits/allaudits/093007/06n4.pdf

Bronx Preparatory Charter School

New York City
State Comptroller Audit (2006)

Auditors found internal control deficiencies

- Auditors found that BPCS needs to develop written procedures to cover many aspects of its financial processes and certain procedures need to be strengthened.
- Auditors found that there is a need for the Board to adopt comprehensive written policies in the areas of cash disbursement, payroll, credit card usage and equipment inventory controls.
- Auditors found that adequate inventory records were not maintained, and that a physical inventory had not been conducted. Auditors also found that BPCS's formal equipment control procedures are not adequate. As a result, there is a significant risk that equipment may have been lost or stolen without detection.

Source: http://osc.state.ny.us/audits/allaudits/093007/06s50.pdf

Brooklyn Charter School

New York City
State Comptroller Audit (2006)

Auditors found severe internal control deficiencies

- Auditors determined that the Brooklyn Charter School has not established and maintained an adequate system of internal controls over the basic financial operations they tested. The audit disclosed significant control weaknesses in nearly all areas they tested and there is either noncompliance with procedures or a failure to establish sound basic control procedures over the operations.
- Auditors found that Brooklyn's Board of Trustees (Board) and school officials need to improve their oversight of the school's fiscal operations and to strengthen compliance with the internal controls outlined in their Internal Controls of Assets - Policies and Procedures Manual (Manual), particularly in the areas of financial oversight, disbursements, payroll, and equipment inventory. Auditors noted that Board oversight at Brooklyn has been weak since the school's inception. Without improvement, assets remain at increased risk of misappropriation or misuse.
- Auditors found that individuals were not always complying with established procedures before making cash disbursements. For example, 27 of the 35 disbursements auditors tested, (77 percent) did not have adequate supporting documentation, such as pre-approvals, purchase orders, invoices, and/or receiving reports. Auditors also found that Brooklyn officials were not maintaining the petty cash fund in accordance with the Manual.
- Auditors found that payroll records were not being maintained properly or reviewed to ensure that employees were paid only for time worked. In addition, auditors identified three employees who were not paid the correct rate of pay and, as a result, were underpaid $2,160 from September 2005 through June 2006.
- Auditors found that Brooklyn officials did not maintain adequate control over the school's equipment inventory. For example, the school neither maintained perpetual inventory records nor performed a physical inventory of its equipment at least once a year. Auditors also found that the school had no policies and procedures for the proper control of equipment.

Source: http://osc.state.ny.us/audits/allaudits/093008/06n9.pdf

Carl C. Icahn Charter School

New York City
State Comptroller Audit (2007)

Auditors found severe internal control deficiencies

- Auditors determined that controls could be strengthened to improve the school's financial management. The areas in need of strengthening included cash disbursements, procurement, and payroll. Furthermore, the Board should more closely monitor Icahn's transactions to ensure compliance with policies and procedures.
- Of 50 sampled disbursements, totaling $185,902, six, totaling $6,163, reimbursed the cost of staff parties. Of that amount, $1,288 was spent on alcoholic beverages.
- Auditors found Icahn had no policies requiring competitive bidding for expenditures exceeding minimum cost thresholds. Only one of 18 contracts executed during the audit period was competitively bid. However, this contract was awarded to a relative of a school administrator. Icahn officials stated that four of the 18 contracts, totaling $93,436, were executed with sole source vendors. However, there was no documentation to support the sole source classification. Icahn also had no policies or procedures governing the selection of sole source vendors. Additionally, six contracts were not signed by the school or the vendor.
- Auditors found Icahn's Assistant Principal for Administration handled all key payroll duties. These duties should be separated between different employees to ensure payroll transactions are appropriate.

Source: http://osc.state.ny.us/audits/allaudits/093008/07s70.pdf#search=icahn

Community Partnership Charter School

New York City
State Comptroller Audit (2007)

Auditors found internal control deficiencies

- Auditors found that two school employees had not been fingerprinted as required. Moreover, eight school employees who began working at the school before receiving fingerprint and background clearances did not receive Emergency Conditional Clearances by the Board of Trustees, as required by Law. Auditors also found no evidence of fingerprint clearance for one consultant who had direct contact with students.
- Auditors found that the school did not have a document in place to reflect the prior approval of purchases. Auditors also found that the school was not in compliance with its credit card procedures.
- Auditors found that School officials were not always soliciting multiple bids to ensure that the best value is

obtained. For example, auditors found no evidence that required telephone or written quotes were obtained for 8 purchases the auditors tested. The total value of these purchases was $8,432.

Source: http://osc.state.ny.us/audits/allaudits/093008/07s103.pdf

Explore Charter School

New York City
State Comptroller Audit (2006)

Auditors identified certain weaknesses in Explore's controls over financial operations, particularly in the areas of procurement and disbursements, and equipment inventory.

- Auditors reviewed nine agreements for consultant services totaling $214,043 and found Explore did not use a competitive procurement process for six of the agreements totaling $182,553. As a result, school officials had no assurance the services were obtained for the lowest price available.
- Explore has no written policies and procedures addressing competitive procurement practices.
- Auditors found that the school's purchasing requirements often were not met. As a result, there was less assurance purchases were properly authorized and the school actually received what it paid for in all instances.
- Auditors found that disbursements from the Petty Cash Fund were not adequately accounted for, the purpose of the disbursements was not always documented, and the documented disbursements were not always for appropriate purposes.
- Equipment inventories were not adequately controlled because Explore does not maintain perpetual inventory records for its equipment and does not perform an annual physical inventory of its equipment. In fact, Explore has not established policies and procedures for equipment inventory control. Auditors attempted to locate 22 equipment items that were purchased in the 2005-06 and 2006-07 fiscal years, but were unable to find four of the items. The missing items included musical instruments and a printer/scanner.
- Auditors found that undelivered paychecks were not adequately safeguarded,
- Announcements about upcoming Board of Trustees meetings were not kept up-to-date on the school's web site.

Source: http://osc.state.ny.us/audits/allaudits/093007/06n18.pdf

Family Life Academy Charter School

New York City
State Comptroller Audit (2007)

Auditors found control weaknesses in many areas and found that there is either noncompliance with procedures or a failure to establish sound basic control procedures over the operations.

- Auditors found that Academy's Board of Directors (Board) and school officials need to strengthen controls over Academy's financial operations.
- Auditors found that the Board needs to be more active in monitoring operations.
- Auditors found that most contracts were not competitively bid, yet Academy procedures required competitive bidding.
- The Board did not meet the required number of times and did not document all contract and/or budget related discussions in its meeting minutes. It also did not document actions taken by committees it had formed.
- All personnel who work at the school should be fingerprinted and subjected to background checks. However, auditors found that two security guards employed by the Academy's landlord had neither been fingerprinted nor subjected to background checks.
- Auditors found that the internal controls related to cash disbursements were not operating effectively. Records regarding most disbursements were not properly maintained. School officials were not able to locate any supporting documentation for three of 29 disbursements auditors tested totaling $12,557. Of the remaining 26 disbursements, auditors found various problems with the documentation for 24 of them, totaling $120,071. For example, 13 disbursements had no purchase orders and 19 had no written approvals. In addition, packing slips were not available for four of the ten purchase transactions where packing slips should have been received.
- Auditors identified that Academy had ten active contracts with various vendors worth approximately $188,576. Auditors found that eight contracts totaling $128,063 were entered into without the required prior approval of the Principal or the Board. Further, six of the ten contracts that exceeded $10,000 should have been competitively bid but were not. Auditors found that four contracts were not signed by all parties, as required.
- Auditors reviewed the personnel files for 17 employees who received pay increases during the 2005-06 and 2006-07 academic years. While the computer system showed the 17 employees received pay increases, auditors could not find documentation showing the pay increases were approved by the Principal for 12 of the 17 employees, as required.
- Auditors found that Academy's Operations Manager has too many responsibilities in both the procurement and payroll areas and there is no independent oversight over these functions.
- Auditors found Academy needs to better monitor controls over its equipment and the use of school computers by school staff and students. Auditors judgmentally selected 11 out of approximately 85 computers used by employees and students and found that individuals had accessed or attempted to access inappropriate and sexually-related Internet sites on three of them.

Source: http://osc.state.ny.us/audits/allaudits/093008/07s102.pdf

Harbor Science and Arts Charter School

New York City
State Comptroller Audit (2007)

Auditors determined that the Harbor Science and Arts Charter School needs to establish additional controls and that compliance with existing controls needs to be strengthened in several key areas.

- Auditors found that the Board needs to maintain more thorough minutes of its meetings
- Auditors found that all employees (and other personnel working in the school who have contact with children) were not be subjected to background checks.
- Auditors found that expenditures were not documented, competitive procurement methods were not employed and two employees were overpaid.
- Auditors found that Harbor's Board of Trustees (Board) and school officials need to improve their oversight of the school's fiscal operations and need to strengthen compliance with the internal controls outlined in their Accounting Policies and Procedures Manual (Manual).
- Auditors found that the minutes of the Board meetings did not fully identify the discussions by the Board members on all fiscal matters. Further, auditors found that some of the minutes of Board committee meetings had not been prepared or retained. Non-compliance with Harbor policies in other areas were also noted, supporting the need for greater Board oversight.
- All personnel who work at the school or who regularly come in contact with students on school premises should be fingerprinted and subjected to background checks. However, auditors found that 9 out of 41 school employees were not fingerprinted as required. In addition, auditors found that security personnel at the school had not been fingerprinted or subjected to background checks.
- Auditors found that internal controls related to cash disbursements were not properly maintained. School officials were not able to locate the invoices for 8 of 30 disbursements totaling $15,974. In addition, school officials were not able to provide supporting documentation for $1,097 in credit card purchases. Therefore, auditors could not determine whether the purchases were related to school business.
- Auditors identified that Harbor had five active contracts, worth approximately $324,585. Auditors reviewed the five contracts and found that none of the contracts were awarded through a competitive bidding process. Auditors also found that four of the contracts were not approved by the Board.
- Auditors found that the internal controls related to payroll were not operating effectively. Two teachers had been paid as full-time employees even though they did not work full-time hours. This resulted in $13,211 in overpayments during the 2005-06 academic year. Auditors also found that two former employees were paid $2,828 in salary after they were terminated. This occurred because school officials did not remove them from the payroll in a timely manner.

Source: http://osc.state.ny.us/audits/allaudits/093008/07s57.pdf

KIPP Academy Charter School

New York City
State Comptroller Audit (2006)

Auditors identified a number of weaknesses in KIPP Academy's internal controls over financial operations.

- Auditors found, contrary to the law authorizing the creation of charter schools, some of the individuals hired by the school did not undergo a criminal history record check. In fact, the required criminal history clearance was not documented for 7 of the 37 employees auditors reviewed.
- Auditors also found KIPP Academy paid $67,951 to send 49 staff on a five-day trip to the Bahamas and 21 staff on a five-day trip to the Dominican Republic. School officials told auditors the trips were educationally related because staff development retreats were held at the two locations, but auditors were provided with very little documentation of staff development activities at the two locations. School officials also told auditors that donated funds were used to pay for the trips and such funds were theirs to spend without restrictions. However, auditors could not determine whether the trips were, in fact, paid for with donated funds, because such funds are not accounted for separately from the school's other funds (mainly State aid).
- Auditors also identified significant weaknesses in the controls over KIPP Academy's payroll operations. For example, special bonuses, special stipends, pay increases, overtime payments and other types of payroll transactions were not adequately documented. As a result, there was less assurance such transactions were always authorized and appropriate.

Source: http://osc.state.ny.us/audits/allaudits/093008/06n15.pdf

Merrick Academy Charter School

New York City
State Comptroller Audit (2006)

Auditors found internal control deficiencies

- Auditors often found no documentation on file to support either the amount paid or the business purpose of disbursements from a checking account that was supposed to expedite purchases of $500 or less. As a result, there was no assurance the disbursements were made for valid school purposes. Auditors were able to determine that two of the disbursements were not made for valid school purposes, including one payment for $140 that enabled a member of Merrick's Board of Trustees to attend a fundraising event for a State legislator. The other payment which totaled $160 allowed a Merrick staff person to attend a NAACP fundraising event.
- Auditors also found that more than $1,800 in petty cash disbursements could not be accounted for and auditors also identified weaknesses in the controls over procurement, payroll and personal services, and equipment inventories.
- Merrick uses a contractor to help manage and oversee its operations since the school opened in 2000. The contractor receives an annual management fee for

its services. Auditors determined that the fee for the 2004-05 school year was calculated incorrectly by the contractor, as it should have been $890,480 rather than the $904,819 that was charged by the contractor - a difference of $14,339.

- Merrick is governed by a Board of Trustees that is supposed to meet at least five times each school year. However, auditors found that the Board met just twice during the 2004-05 school year and just three times during the following school year.

Source: http://osc.state.ny.us/audits/allaudits/093008/06s66.pdf

Our World Neighbor Charter School

New York City
State Comptroller Audit (2007)

Auditors found that OWNCS's controls could be strengthened to improve the school's financial management.

- Auditors determined that the areas in need of strengthening included fingerprinting, cash disbursements, and procurement. Furthermore, the Board should monitor OWNCS's transactions more closely to ensure compliance with policies and procedures. All personnel who work at the school are required to hold a valid fingerprint and background clearance from the Commissioner of Education.
- Auditors found that four school employees and eight consultants did not have such clearances, as required. Moreover, 58 school employees began working at the school before receiving fingerprint and background clearances.
- Auditors found that school officials did not always use competitive bidding practices to ensure that they received the best prices for the goods and services they purchased. Auditors found no evidence that competitive bidding practices were followed in seven instances that involved $381,636 in vendor payments. For example, one vendor was paid $135,142 for repair, security, and cleaning services; however, auditors found no documentation that a competitive bidding process had been used to select that vendor.
- Auditors found that the school was disposing of computer equipment without keeping any records of the discarded items. According to school officials, some parents had donated items of computer equipment that were now of little value. However, without written records, auditor could not be assured that the items were indeed of little value or of the appropriateness of the method used to dispose of them.

Source: http://osc.state.ny.us/audits/allaudits/093008/07s56.pdf

Sisulu-Walker Charter School of Harlem

New York City
State Comptroller Audit (2006)

Auditors found internal control deficiencies

- Auditors found that Sisulu's Board of Trustees and Victory, Inc., officials need to improve their oversight of the school's fiscal operations and to strengthen compliance with the internal controls outlined in the school's Financial Policies and Procedures Manual - particularly in the areas of disbursements, equipment inventory, revenues, and personnel services.
- Auditors found that school officials did not always follow established policies and procedures when making disbursements. For example, auditors noted that an unauthorized employee had signed the business manager's signature on certain checks valued at $1,447 while the business manager was on leave. Although these expenditures were for school items, checks should be signed only by authorized personnel.
- Auditors found that payments for certain purchases were split so the employees at the school could circumvent the required purchase order process. To account for equipment properly, perpetual inventory records should be maintained and a physical inventory performed at least once a year.
- Auditors found that Sisulu officials neither maintained a complete inventory listing nor conducted an annual physical inventory. As a result, auditors testing found that eight items with a total value of $10,628 were unaccounted for.
- If a student wishes to attend a charter school free of charge, the parents or legal guardians are required to reside within the district. Students who live outside the district may be able to attend such schools if the student's family pays tuition. Auditors found that one student continued to attend Sisulu free of charge even though her parents had relocated to New Jersey from New York State. The school had requested $17,670 in State aid for this student even though her parents now lived in another state. In addition, auditors found that Sisulu officials failed to collect $3,415 in school lunch charges because they did not bill students' parents in a timely manner.
- All personnel who work at the school should be fingerprinted and subjected to background checks. However, auditors found that security personnel at the school had not been fingerprinted nor subjected to background checks.

Source: http://osc.state.ny.us/audits/allaudits/093007/06s52.pdf

The Renaissance Charter School

New York City
State Comptroller Audit (2006)

Auditors found significant internal control deficiencies

- Auditors examined the composition of TRCS's Board of Trustees and found that it does not comply with SED's directive, as 8 of the 17 total Board members (47 percent) are TRCS employees. TRCS officials stated that they believed they were in compliance with SED's directive because some of the TRCS employees on the Board are non-voting members. They stated that this arrangement was verbally approved by SED staff. However, auditors discussed this matter with SED staff and they stated that the arrangement is not allowable. Accordingly, auditors recommended the composition of the Board be reconfigured to comply with SED's directive.
- The Board minutes did not indicate that the 2004-05 budget was approved by the full Board. A discussion

of the budget was included in the meeting minutes of the Board's Financial Committee, but there was no resolution of budget approval in the minutes of the full Board. TRCS officials stated that the Board minutes did not accurately reflect the business conducted and that the budget was in fact approved by the full Board.

- The Board is required by TRCS policy to approve all contracts in excess of $10,000. However, auditors identified five contracts in excess of $10,000 that were awarded by TRCS in the 2004-05 school year but were not approved by the Board or even mentioned in the Board minutes.
- Auditors reviewed the work performed by TRCS's auditing firm. Auditors found that the school had been audited annually, as required. However, the audit reports did not affirm that the work had been conducted in accordance with government auditing standards, as is required by the standards. In addition, contrary to the standards, certain additional auditor reports had not been provided to TRCS in conjunction with the audits. TRCS's independent auditor stated that, in their opinion, the audit work met the requirements of government auditing standards.
- TRCS has three checking accounts. The bank statements for such accounts should be reconciled by someone who does not perform other cash receipt, cash disbursement or cash recordkeeping functions. If this basic internal control (i.e., the separation of related duties) is not in place, any loss or theft of funds will be more difficult to detect in a timely manner. TRCS's Director of Finance is responsible for reconciling the three bank accounts. However, this individual also performs other cash receipt, disbursement and recordkeeping functions. For example, this individual also receives and disburses cash, prepares cash deposit slips, and records all cash transactions on TRCS's accounting system. As a result, cash-related duties are not adequately separated among different employees.
- Auditors selected the 30 purchase transactions from the 2,259 total disbursement transactions processed by TRCS during the period July 1, 2004 through March 22, 2006. The auditor sample was judgmental. Auditors selected a variety of types of purchases in an effort to cover the major types of contract expenses. Auditors then reviewed the documentation relating to each selected purchase transaction. Auditors found that, in many instances, the sampled purchases did not comply with TRCS's disbursement and procurement guidelines. For example, according to these guidelines, purchases of office supplies and equipment between $250 and $1,000 must be approved by one of the five members of the TRCS management team (the Co-Director of Operations), and if such purchases exceed $1,000, they must be approved by two members of the management team. However, in eight of the office supply/equipment purchases in the sample, none of the required approvals had been documented. Five of these eight purchases exceeded $1,000, while three were between $250 and $1,000. Also, according to TRCS's disbursement and procurement guidelines, a formal purchase request must be submitted for approval before a purchase order is issued and a formal receiving report documenting the receipt of the goods or services must be submitted before payment is made. However, no purchase request was on file for 18 of the 30 purchases and no receiving report was on file for 21 of the 30 purchases. In the absence of a properly approved purchase request form or other required prior approvals, TRCS officials have less assurance purchase transactions are valid, appropriate and necessary. Further, in the absence of a receiving report, TRCS officials have less assurance the school has gotten what it paid for. These control weaknesses have additional significance, because TRCS's purchasing duties are not adequately separated among different employees due to limited staff (i.e., the individual responsible for issuing purchase orders also prepares the documents submitted for payment processing). It is therefore critical that TRCS officials ensure that all required prior approvals are obtained before purchase orders are issued and receiving reports are obtained before payments are made.

Source: http://osc.state.ny.us/audits/allaudits/093007/06n5.pdf

Brooklyn Excelsior Charter School

New York City

State Comptroller Audit (2012)

Auditors found significant internal control deficiencies

- Auditors could not fully determine the extent to which Excelsior officials exercised their fiscal oversight because auditors were unable to verify the true cost of Excelsior's operations or the extent to which the $10 million of annual public funding benefited students. The reason for these limitations is that National Heritage Academies (NHA) officials did not provide support for $1.7 million of costs allocated to the school. NHA officials claimed the information was private and proprietary.
- Auditors noted other areas where the Board has been lax in fulfilling its fiduciary responsibility. Auditors question whether the Board exercised due diligence and care in approving NHA's related party lease of the school building at a rate almost $800,000 per year above market value. As a result, NHA has already recovered its full $16.3 million cost of purchasing, renovating and outfitting the entire facility in less than 10 years of operation.
- Auditors identified conflicts of interest that exist because NHA employed a Board member at a salary of more than $138,000, as well as the Board's failure to comply with certain provisions of its adopted by-laws.

Source: http://osc.state.ny.us/audits/allaudits/093013/11s14.pdf

Williamsburg Charter High School

New York City

New York the State Education Department, Audit Office of Audit Services (OAS) (2012)

The audit found that WCHS had a number of serious internal control issues

- The Board did not follow its Charter by entering into a management contract (Agreement) without approval, not setting up a required escrow account, and operating a school at an unapproved location.
- WCHS overpaid its management company and paid contractors for services that should have been provided or paid for by its management company.

- WCHS could not support the appropriateness of expenditures paid from federal grant funds. There were many instances of purchases, including credit card purchases, that were not necessary, reasonable, and/or adequately documented. There were other unapproved payments to the former Chief Executive Officer of WCHS.
- WCHS did not comply with appropriate accounting principles as they relate to fixed assets and inventory

Source: http://www.oms.nysed.gov/oas/Audit_Report/Charter_Schools/Reports/WilliamsburgCHSFinalReport_CH_1110_01.pdf

Harriet Tubman Charter School

New York City
New York the State Education Department, Audit Office of Audit Services (OAS) (2007)

The audit found that the School has a number of serious internal control issues, some of them are as follows:

- The increasing negative fund balance in the School's general fund is an indication of serious fiscal stress. As of June 30, 2004, the fund balance in the general fund reported in the audited financial statements was negative $250,371. As of June 30, 2005, this amount had increased to a negative $757,888. In the audited financial statements as of June 30, 2006, the fund balance was a negative $971,772.
- The School maintained a Petty Cash Fund of $1,000. In a 15-month period, over $20,000 in checks were written to reimburse the Fund. Current receipts were not available and a number of the receipts furnished included sales tax. The Executive Director was the custodian of the Fund even though she was seldom at the School.
- Bank reconciliations were not prepared, reviewed, or presented to the Board of Trustees (Board).
- Checks were written to the Executive Director and Director of Operations and signed by these two individuals.
- Two credit cards issued to the Executive Director and the Director of Operations were used to charge over $75,000 between July 2004 and May 2006. There was no evidence of a review or approval process for charges, no receipts were available, explanations were minimal or missing, and the bills were paid directly from the statements.
- The Board did not routinely receive the required reports to effectively monitor the financial condition of the school. For example, the Board did not review and approve the budget, approve any budgetary transfers, or receive budget status reports. It also did not discuss audit findings of the independent auditor or approve corrective action plans to address specific findings; did not discuss and authorize conference attendance; and did not review bank accounts annually, authorize required accounts, or recommend closure of unneeded accounts.
- The School's Director of Operations is responsible for many functions, which raises some concerns with the adequacy of controls, including separation of duties. This individual opens mail; handles all cash receipts; is solely responsible for the internal accounting system; preparation of financial statements; monitoring of staff attendance for payroll purposes; and preparing, signing, and mailing checks.

Source: http://www.oms.nysed.gov/oas/Audit_Report/Charter_Schools/Reports/HTCSFinalReporCH-0106-1withresponse.pdf

Our World Neighborhood Charter School

New York City
New York the State Education Department, Audit Office of Audit Services (OAS) (2006)

Auditors found internal control deficiencies

- The Board of Trustees (Board) meeting minutes did not show the Board routinely received the required reports to effectively monitor the financial condition of the school. For example, the Board minutes did not show review and approval of the budget, approval of any budgetary transfers, or receipt of budget status reports. The Board minutes also did not show discussion of audit findings or approval of corrective action plans to address specific findings; did not show discussion and authorization of conference attendance; and did not show review of bank accounts annually, authorizations of required accounts, and recommendations for closure of unneeded accounts.
- The School's fiscal year and the actual number of school days provided are inconsistent among the School's Charter, the by-laws, and the School calendar. This may create some confusion as to what actual practice should be. The School should resolve these inconsistencies and obtain the State Education Department's (Department's) approval for any changes to the Charter.
- The School can improve controls over bank reconciliations by delivering unopened bank statements to the reconciliation preparer before delivery to the Chief Administrative ES-1ES-2 Officer (CAO)/Principal for review, and by requiring signatures of both the preparer and the reviewer on the monthly bank reconciliation.
- The Parent Teacher Organization (PTO) is not independent of the School in financial matters. The CAO/Principal is a signer on the PTO checking account and the PTO is using the School's tax-exempt identification number. While the PTO provides benefits to the School, its finances should be separate.
- The audit found several questionable expenditures paid from the Petty Cash Fund including payments for printing ($157) and custodial services ($240) that should have gone through the School's purchasing process, a $60 loan to the PTO, $18 for a personal expense (birthday cake), and $68 in sales tax for 37 reimbursements. The audit found the School does not have specific procedures to define the types of expenditures that are appropriate and the documentation required for reimbursement from the Petty Cash Fund.
- Personnel files do not contain all necessary information, such as, documentation of reference checks and evidence of certification. Without this documentation, the School has less assurance it is hiring the most qualified individuals.

- The School did not establish adequate controls over the $2.8 million in assets that it owns. Fixed assets, specifically about $200K of furniture and equipment, were not labeled with School identification tags, the fixed asset inventory did not contain sufficient identifying information, and a physical inventory was not taken within the last year.

Source: http://www.oms.nysed.gov/oas/Audit_Report/Charter_Schools/Reports/OWNCSFinalReportCH-1005-1withresponse.pdf

Charter School of Educational Excellence

City of Yonkers
New York the State Education Department, Audit Office of Audit Services (OAS) (2012)

Auditors found significant internal control deficiencies

- The CSEE was not in full compliance with all of the terms of the Charter. The Board of Trustees (Board) did not maintain sufficient documentation of Board meetings, did not establish a required escrow account at the appropriate level, and did not always publicly post its annual report.
- Two Trustees failed to properly disclose organizational conflicts of interests.
- The Board minutes that were available did not always indicate the Trustees that were not present and did not always note how particular Trustees voted on resolutions.
- The Charter states that the school agrees to establish an escrow account of no less than $75,000 to pay for legal and audit expenses that would be associated with dissolution should it occur. The Board did not comply with their Charter by failing to set up this escrow account.
- Two Trustees were directors in an educational firm that does business with CSEE. In their June 2008 DFIs, which were part of the renewal charter, these Trustees indicated that they were affiliated with the Center for Educational Innovation (CEI)—a firm that provides professional development and other services for CSEE. However, neither Trustee disclosed this relationship with CEI in their annually updated DFIs which were signed on August 10th and October 18th of 2010 and included in the annual report. Both individuals are listed on CEI's current website, one as a Senior Fellow and one as a Director. Auditors could not determine if these two Trustees disclosed their relationship with CEI to the Board because of missing and incomplete minutes.
- CSEE could not support $6,159 in federal grant expenses.
- Internal controls were weak for incoming checks, petty cash, inventory, and purchasing.
- CSEE does not have supporting documentation that all special education students received their prescribed educational programs.

Source: http://www.oms.nysed.gov/oas/Audit_Report/Charter_Schools/Reports/CSEEFinalReport_CH_0911_01.pdf

Austin L. Carr Charter School

Columbia County (Hudson)
New York the State Education Department, Audit Office of Audit Services (OAS) (2001)

- The audit found that the School's financial position is unstable.
- The School does not have any material source of funds other than its planning grant, the School's accounting records are incomplete and inaccurate, and the School has an operating deficit.
- The audit also found that the School's Board did not implement the necessary management controls, has not fulfilled its governance role and has not adhered to its Charter.
- The Board did not collectively possess or obtain the fiscal expertise to ensure the School's resources were being used efficiently and effectively and properly safeguarded, nor did it monitor the School's financial status or prevent conflict of interest transactions.
- The School did not comply with the terms of its grant, incurred non-reimbursable and questionable expenditures, overspent grant funds, and must make restitution of $14,582 to the Department representing overpayment of grant funds.

Source: http://www.oms.nysed.gov/oas/Audit_Report/Charter_Schools/Reports/AustinLCarrfinal_CH-1101-1.pdf

Roosevelt Children's Academy Charter School

Roosevelt New York, Nassau County
State Comptroller Audit (2014)

Auditors found charter school board of directors did not adequately monitor the schools operations

- The Board did not adopt realistic budgets or routinely monitor financial operations. School officials created an expenditure code entitled "building fund" and budgeted $4.8 million in the 2010-11 fiscal year, $5.2 million in 2011-12, and $2.6 million in 2012-13 even though School officials had no expectation of any outflow of cash for such expenses.
- The Board is not monitoring the annual budget and has not established a Budget and Finance Committee as required by School by-laws.

Auditors found charter school paid board members violation of by-laws or policy.

- The School also paid for Board member expenditures that were not authorized by the School by-laws or policy. Of $31,630 in Board expenditures, $26,444 was not authorized.

Auditors found the charter school failed to competitive bid out projects

- The School paid four vendors a total of $521,197 for significant public work and purchase contracts without fair competition, did not seek competitive price quotes when procuring goods and services totaling $16,028, and engaged six professional service providers, paid a total of $478,264, without soliciting competition. The School paid an information technology consultant

$118,182 more than the agreement provided, and did not have an applicable agreement for paying $25,713 for security services.

Source: http://osc.state.ny.us/localgov/audits/schools/2014/rooseveltchildrensacademy.pdf

Child Development Center of the Hamptons Charter School

East Hampton New York
State Comptroller Audit (2013)

Auditors found that the Board needs to improve its monitoring of the management corporation to ensure School funds are used effectively and efficiently.

- The Agreement between the management corporation and the School states that Family Residences and Essential Enterprises, Inc. (FREE) will provide the Board with financial reports including quarterly and annual balance sheets, monthly statements of revenue and expenses, and monthly banking transaction reports. The Board did not receive quarterly and annual balance sheets and monthly banking transaction reports, as required by the Agreement. Instead, the financial reports provided to the Board contained only budget-to-actual revenue and expenditure reports for on average, a two-month period. The management corporation did not present the Board with bank statements or cancelled checks and a list of all moneys received and paid each month—documentation that supports information in the financial reports.

Source: http://osc.state.ny.us/localgov/audits/schools/2013/hamptonscharter.pdf

Riverhead Charter School

Town of Riverhead
State Comptroller Audit (2012)

Auditors found internal control deficiencies

- The Board did not approve the 2011-12 annual budget by June 1, 2011 as required, and the Director did not make any amendments to the budget to reflect variances in revenues and expenditures during the year.
- The Board did not receive and review quarterly balance sheets, budget-to-actual reports, or monthly cash receipts reports.
- Leave accrual balances maintained by the payroll clerk were not reviewed for accuracy or reconciled to leave balances on employees' pay stubs after processing by the School's payroll vendor.
- The School's financial software application has one user account and does not require the use of a password.

Source: http://osc.state.ny.us/localgov/audits/schools/2012/riverheadcharter.htm

Enterprise Charter School

Buffalo
State Comptroller Audit (2007)

Auditors found internal control deficiencies

- Payments to the Former CEO and Claims Processing (2007M-134) LGSA's audit found that the school had been making unauthorized, insufficiently documented and inaccurate salary, separation and contractual payments totaling approximately $34,000 to its former chief executive officer (CEO). These various payments appear to have been an attempt to manipulate the former CEO's reported salary and hide salary payments by making them through the school's accounts payable system.
- In addition, auditors found that the board of trustees does not review the claims paid by the school and has not established an independent claims audit function. School officials in the administrative office initiate, authorize, and approve all claims, in effect controlling key aspects of a transaction. The internal control weakness associated with these inadequately segregated duties is further amplified by the lack of board oversight. Auditors reviewed 69 judgmentally selected claims totaling $417,527 and found that 54 of the claims (78 percent) lacked proper approvals, supporting documentation, itemization of expenses, evidence that goods or services were received, and/or an indication that the claim was a proper school expense.

Source: http://osc.state.ny.us/localgov/schoolsfa/sda07.pdf#search=enterprise charter

Western New York Maritime Charter School

Buffalo
State Comptroller Audit (2008)

Auditors found internal control deficiencies

- The board failed to establish adequate controls to ensure that school assets were properly safeguarded. This resulted in numerous improprieties including the employment of an individual with a criminal record, the misappropriation of school funds and the awarding of contracts to employees where it was unclear whether the school received value for the money spent. However, once the board and school officials were notified of the improprieties by their accounting firm, they took corrective action by terminating employees who violated school policies and referred the matter to law enforcement agencies.
- In addition, the audit found that former school officials and employees exploited weaknesses in the internal control system and manipulated the purchasing system. As a result, the school paid for goods or services totaling more than $95,000 that were either not delivered to the school or were misappropriated after they were delivered. Finally, auditors found that the board did not review the claims paid by the school and had not established an independent claims audit function.

Source: http://osc.state.ny.us/press/releases/apr08/042908.htm

Notes

1 Total fraud, waste, abuse, and mismanagement amounted to $136 million in 2014 report, $203 million in 2015, $216 million in 2016 and $224 million in this report, which includes all of the cases from the 2014 and 2015 reports along with $8 million in new cases.

2 The total figure for charter school investment by local, state, and federal governments is not collected. This calculation is based on an estimate of total charter school revenues derived as a percentage of total public school investment as documented by www.usgovernmentspending.com, which sources data from the Office of Management and Budget or the United States Census Bureau.

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5 Mikhail Zinshteyn, "Charter schools in line to get extra help despite Trump plan to slash education funding." *EdSource,* March 21, 2017, accessed April 25, 2017, www.edsource.org/2017/despite-attempts-to-slash-federal-education-budget-charter-schools-in-line-to-get-additional-funds/578995.

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7 Caitlin Emma, Benjamin Wermund, and Kimberly Hefling, "Devos' Michigan School Experiment Gets Poor Grades," *Politico,* December 9, 2016.

8 Using the methodology employed by the Association for Certified Fraud Examiners 2016 Report to Nations on Occupational Fraud and Abuse, which assumes five percent of total revenues lost to fraud, to determine the total amount of fraud globally, we estimate that over $2.1 billion could be lost to fraud in the coming year. The total figure for charter school investment by local, state, and federal government is not collected, this calculation uses an estimate of total charter school revenue derived as a percentage of total public school investment as documented by www.usgovernmentspending.com and derived from the Office of Management and Budget or the United States Census Bureau.

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11 Ibid.

12 United States Department of Education Office of the Inspector General. *Final Management Information Report*. March 9, 2010, last accessed April 24, 2015. https://www2.ed.gov/about/offices/list/oig/invtreports/x42k0002.pdf.

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14 Ibid.

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16 *The Office of Innovation and Improvement's Oversight and Monitoring of the Charter Schools Program's Planning and Implementation Grants: Final Audit Report.*

17 Total fraud, waste, abuse, and mismanagement amounted to $136 million in 2014 report, $203 million in 2015, and this report's total is $216 million, which includes all of the cases from the 2014 and 2015 reports, $13 million in new cases.

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