



# Enterprise Charter School

## Enrollment and Billing

### Report of Examination

Period Covered:

July 1, 2013 — October 28, 2014

2014M-378



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

March 2015

Dear School Officials:

A top priority of the Office of the State Comptroller is to help charter school officials manage school financial operations efficiently and effectively and, by so doing, provide accountability for money spent to support school operations. The Comptroller audits the financial operations of charter schools outside of New York City to promote compliance with relevant statutes and observance of good business practices. This oversight identifies opportunities for improving school financial operations and Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard school assets.

Following is a report of our audit of the Enterprise Charter School, entitled Enrollment and Billing. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Section 2854 of the New York State Education Law, as amended by Chapter 56 of the Laws of 2014.

This audit's results and recommendations are resources for school officials to use in effectively managing financial operations and in meeting the expectations of the taxpayers. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

A charter school is a public school financed by local, State and federal resources that is not under the control of the local school board. Charter schools have fewer legal operational requirements than traditional public schools. Most of the regulations for a charter school are contained in its bylaws, charter agreement and fiscal/financial management plans.

The Enterprise Charter School (School) is located in the City of Buffalo and is governed by a seven-member Board of Trustees (Board). The Board is responsible for the general management and control of the School's financial and educational affairs. The Board appoints a Head of School who is responsible, along with other administrative staff, for the day-to-day management of the School under the direction of the Board. The School contracts with an outside accounting firm to perform various financial duties. The School's Operations Manager is responsible for student enrollment and attendance and prepares the billings to the respective school districts of residence.

The School's operating expenses for the 2013-14 fiscal year were approximately \$5.6 million. These expenses were funded with revenues of approximately \$5.1 million derived from billing area school districts for resident pupils and from certain State and federal aid attributable to these pupils. The School has approximately 400 students in kindergarten through eighth grade. Most of the students (approximately 380) were from the Buffalo City School District and 22 students were from seven other school districts. The School billed \$5 million to the Buffalo City School District and billed \$133,000 to the remaining seven school districts.

## Objective

The objective of our audit was to examine the student enrollment and billing processes. Our audit addressed the following related question:

- Are student enrollment and billings to school districts of residence accurate and supported?

## Scope and Methodology

Our overall goal was to assess the School's financial operations. To accomplish this, we evaluated selected areas by performing the following survey procedures:

- General governance – We reviewed the School's bylaws and Board policies and found that the Board has adopted adequate financial policies regarding purchasing, cash receipts and disbursements, payroll, conflicts of interest and code of ethics, investments and the appointment of Board members.

- Financial oversight and condition – We found that, generally, the Board exercises sufficient oversight of financial operations. The Operations Manager, along with the outsourced accounting firm, prepares and presents various financial reports to the Board for review. We assessed the School’s financial condition and it appears to be in sound financial standing.
- Purchasing and cash disbursements – We reviewed payments made to School officials including the Head of School, Operations Manager, claims auditor and the accounting firm totaling \$34,451. We also reviewed one month<sup>1</sup> of credit card payments totaling \$3,089. We found that the payments were properly authorized and that staff maintained adequate supporting documentation.
- Payroll and personal services – We reviewed the payroll process and analyzed payroll for one month but did not identify any issues.
- Information technology – We interviewed School officials to gain an understanding of controls and operations over the student information and financial software programs. We determined that there were adequate controls in place.

After evaluating these areas, it appears that School officials have put in place adequate controls and, therefore, limited risk exists in these areas. As such, we determined that an audit of these areas was not necessary.

We also inquired about the cash receipts process and found that, while overall the internal controls appeared adequate, risk existed in the area of enrollment and billing school districts of residence. We therefore examined the School’s enrollment and billing process for the period July 1, 2013 through October 28, 2014, with a focus on the 2013-14 school year.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

**Comments of  
School Officials and  
Corrective Action**

The results of our audit and recommendation have been discussed with School officials and their comments, which appear in Appendix A, have been considered in preparing this report. School officials agreed with our recommendation and indicated they planned to initiate corrective action.

<sup>1</sup> We had no expectation that more or fewer errors would occur in the month selected than in any other month.

The Board has the responsibility to initiate corrective action. We encourage the Board to prepare a plan of action that addresses the recommendation in this report, and to forward the plan to our office within 90 days. For more information on preparing and filing your Corrective Action Plan (CAP), please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the School Board Secretary's office.

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<sup>1</sup> We had no expectation that more or fewer errors would occur in the month selected than in any other month.

## Student Enrollment and Billing

The New York State Education Law provides for the funding of charter schools' operating budgets. A charter school derives most of its operating revenues from the public school districts in which its students reside. Charter schools are required to keep an accurate and up-to-date attendance record of student enrollment and to report such data to the school districts of residence in a timely manner. Based on enrollment and full-time equivalent<sup>2</sup> attendance, a charter school bills the school district of residence for providing services to the students enrolled in the charter school. The school districts are required to directly pay the charter school for each student enrolled in the charter school who resides in their respective school district. The amount paid per student is based on a reimbursement rate established by the New York State Education Department (SED).

We verified the relevant factors<sup>3</sup> used to calculate the invoiced amounts to all eight school districts of residence and did not identify any discrepancies in the School's calculations. We also verified that those billed amounts were received and recorded. However, we found that \$5,629 was not received from one school district for a student; this billing was in dispute, as discussed further below.

We then selected 10 students<sup>4</sup> for further testing to determine if billings to the school districts of residence were accurate and supported. Overall, we found that the billings were accurate. However, we identified control deficiencies with the School's residence verification process. The School requires that proof of residence be submitted before a student is admitted to the School.<sup>5</sup> In addition, the School annually requests that parents/guardians update student information but relies on parents/guardians to notify the School if a student's address changes during the school year. Further, the School does not periodically verify student residency information on file or require that a new proof of residence be submitted when a student's address changes.

<sup>2</sup> Full-time equivalent (FTE) is the decimal expression of the enrollment of a student in the charter school compared to the length of the annual school session. A student who is enrolled for the full school year has an FTE of 1.0, while a student who is only enrolled for half of the school year has an FTE of 0.5.

<sup>3</sup> Those factors included the manner in which FTEs are calculated, student attendance, SED approved operational expenditures and special education services provided.

<sup>4</sup> We judgmentally selected the student whose billing was in dispute and selected another nine students for review. We selected the nine students with no expectation that more or fewer errors would occur with them.

<sup>5</sup> The School accepts four forms of proof of residence: utility bill, rental lease, payroll stub or driver's license.

We found that two of the 10 students had address changes without proof of new addresses. As a result, the School has been in dispute with a school district of residence for one of these students. The student had three different addresses during the school year but the parent/guardian could not locate or obtain proof of address – such as a lease agreement from the landlord – for one school district. The school district refused to pay the bill without proof of residence. As such, the School did not collect \$5,629 for the time period when the student purportedly resided in this school district. Had the School required proof of address when the student’s address changed, this likely would not have happened.

**Recommendation**

1. School officials should periodically verify students’ residences and should require new proof of residence when a student moves.

## **APPENDIX A**

### **RESPONSE FROM SCHOOL OFFICIALS**

The School officials' response to this audit can be found on the following page.

275 Oak Street  
Buffalo, New York 14203  
PHONE: 716-855-2114  
FAX: 716-855-2967  
www.enterprisecharter.org



March 18, 2015

Mr. Jeffrey D. Mazula  
Chief Examiner of Local Government and School Accountability  
State of New York Office of the State Comptroller  
Buffalo Regional Office  
295 Main Street, Suite 1032  
Buffalo, New York 14203-2510

Dear Mr. Mazula:

The Board of Trustees has reviewed your draft report of Enrollment and Billing Report of Examination for Enterprise Charter School for the period from July 1, 2013 to October 28, 2014. We appreciate your input and welcome the opportunity to strengthen the existing internal controls of our School.

We recognize the need to continually revisit and evaluate the effectiveness of our internal controls on an on-going basis. We believe the following response addresses the matter reported in the preliminary draft.

Response to recommendation:

We acknowledge the recommendation from State of New York Office of the State Comptroller that states that the School officials should periodically verify the residence of students and should require new proof of residence when a student moves, and feel that it is a prudent comment. We will modify our procedures in the future to include periodically verifying the residence of students and require a new proof of residence when a student moves.

Very truly yours,

Heather Lyon, Ph.D., Head of School

cc: David Cantaffa, Chairperson – Board of Trustees  
Thomas Ess, Vice-Chairperson – Board of Trustees  
Nancy Krug, Operations Manager

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

The objective of our examination was to assess the School's financial operations. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: general governance, financial oversight and condition, cash receipts and disbursements, purchasing, payroll and personal services and information technology.

During the initial assessment, we interviewed appropriate School officials, performed limited tests of transactions, and reviewed pertinent documents, such as School bylaws, procedures, Board minutes, and financial records and reports. In addition, we tested selected computerized financial data to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined that the controls appeared to be adequate and that limited risk existed for most of the financial areas we reviewed. We then decided upon the reported objective and scope for the area with the greatest risk. We examined the School's enrollment and billing process for the period July 1, 2013 through October 28, 2014, with a focus on the 2013-14 school year. Our audit included various procedures to gather relevant evidence concerning our stated objective, as follows:

- We interviewed School officials, Head of School and Board members.
- We reviewed the School's charter agreement, bylaws, annual report, Board meeting minutes and the School's website to obtain an understanding of the enrollment and billing processes.
- We reconciled the 2013-14 billings to the payments received and to the amount reported.
- We compared the various factors used by the School for billing the school districts of residence against factors established by SED.
- We recalculated FTEs based on reported enrollment and exit dates, and the School calendar.
- We selected one student whose billing was in dispute and nine other students<sup>6</sup> to determine whether billings were accurate and supported.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

<sup>6</sup> We had no expectation that more or fewer errors would occur with the students selected for testing.

## APPENDIX C

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**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
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