

Buffalo City School District

Charter School Tuition Billing

AUGUST 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Buffalo City School District

Audit Objective

Determine whether District officials ensured that charter school tuition billing for Public Excess Cost Aid (PECA) was accurate.

Key Findings

- District officials did not ensure the proper formula to calculate PECA set-aside amounts was used. As a result, the District overpaid for charter school tuition by \$1 million (18 percent of PECA set-aside) in 2017-18. After discussing it with us, District officials took corrective action to avoid a potential \$1.7 million overpayment in 2018-19.
- The Board and District officials did not adopt written policies or procedures for charter school tuition billing.

Key Recommendations

- Annually review the New York State Education Department (SED) State aid handbook for the updated formula and rates to determine PECA set-aside amounts for charter school tuition billing.
- Develop and adopt written policies and procedures for charter school tuition billing.

District officials agreed with our recommendations and indicated that they have initiated, or planned to initiate, corrective action.

Background

The Buffalo City School District (District) is located in the City of Buffalo in Erie County. The District is governed by an elected nine-member Board of Education (Board). The Board is responsible for the general oversight of District operations. The Superintendent of Schools is responsible, along with other administrative staff, for managing day-to-day operations under the Board's direction.

The District's Chief Fiscal Officer (CFO), along with the Deputy CFO, a senior budget examiner and a management analyst, are responsible for reviewing charter school tuition invoices for accuracy.

Quick Facts

2018-19 Appropriations	\$916.4 million
2018-19 Enrollment	31,000
2018-19 Charter School Tuition Disbursements	\$125.5 million
2018-19 PECA Set-Aside	\$5.3 million

Audit Period

July 1, 2017 – June 4, 2019

Charter School Tuition Billing

In accordance with New York State Education Law (Education Law), school districts of residence are responsible for paying charter school tuition for each student enrolled in a charter school who resides within the school district. The school district is also responsible for paying any federal or State aid attributable to students with a disability attending a charter school in proportion to the level of services the student receives from the charter school.

For the 2007-08 school year, the New York State Education Department (SED) implemented a new formula for determining Public Excess Cost Aid (PECA) for students with disabilities attending charter schools.¹ At that time, PECA became part of New York State Foundation Aid to public schools, changing the calculation that was previously used.² To help guide school districts and charter schools in calculating PECA set-aside amounts for charter school tuition, SED provided a PECA set-aside calculation worksheet in 2007-08, updated annually.

Charter school tuition is billed by the charter schools to school districts on a bimonthly basis, in six installments beginning July 1 of each school year. Along with the six invoices, a final reconciliation is completed at the end of each school year to adjust for any billing discrepancies and finalize student full-time equivalents (FTE) for the school year.

How Should Officials Ensure Charter School Tuition Billing Is Accurate?

To ensure charter school tuition invoices are accurate, school district officials should review invoices and use the annual SED State aid handbooks, the SED Public Excess Cost & Excess Cost Aid Set-aside Output Report (PUB), and PECA set-aside calculation worksheets to ensure proper rates and formulas are being used.

A board, in consultation with school district officials, is responsible for establishing written policies and procedures for the review of charter school tuition invoices. These should include a method for reviewing invoices, an annual review of updated SED State aid handbooks and formulas/rates, and the roles and responsibilities of the officials and employees involved in the charter school tuition billing review process.

¹ The purpose of the Public Excess Cost Aid set-aside is to ensure that school districts meet federal maintenance of effort requirements regarding spending for students with disabilities.

² The revised formula uses the 2006-07 PECA excess cost ratio calculated by SED and an approved operating expense per-pupil, which were frozen in 2007-08.

Officials Did Not Ensure Charter School Billing Was Accurate

A senior budget examiner (examiner), overseen by the Deputy CFO and CFO, provided a template to charter school officials to use when preparing charter school tuition invoices. This template was updated annually with the approved operating expense per pupil. When the District receives invoices from charter schools, the examiner reviews them to determine whether the weighted FTE for students with disabilities is correct and to ensure all calculations are accurate, based on individualized education program data and the students' district of residence. The CFO then reviews the invoices and approves them for payment.

However, District officials did not include the proper formula for the PECA set-aside amount in the billing template they provided to charter schools. Instead, they used an outdated PECA formula to determine the set-aside for tuition billing rather than the PECA set-aside formula found in the 2017-18 and 2018-19 SED State aid handbooks.

We reviewed all 18 final reconciliations for 2017-18, totaling \$118.3 million, and all 19 invoices for the fifth billing in 2018-19, totaling \$127.8 million, to determine whether charter school tuition billing for PECA set-aside was accurate. At the time of our testing, the District initially overpaid in both school years. For the 18 invoices in 2017-18, the District paid \$5.6 million in PECA set-aside; however, we calculated that the District should have paid \$4.6 million, an overpayment of \$1 million (18 percent). For the 19 invoices in 2018-19, the District paid \$7.1 million in PECA set-aside; however, we calculated that the District should have paid \$5.4 million, an overpayment of \$1.7 million (24 percent).

The examiner told us that the billing template sent to charter schools was in use when he started at the District in 2007, and the formula has not been updated since that time. The examiner and Deputy CFO told us they were not aware SED had changed the formula for calculating special education aid, and they only updated the approved operating expense per-pupil rate. In addition, the Board did not establish written policies or procedures for processing or reviewing charter school tuition billing.

After we discussed our findings with District officials, they took immediate corrective action, confirming PECA set-aside calculations with SED and making the necessary corrections for the 2018-19 school year. They corrected the sixth billing for the \$1.7 million the District would have overpaid for the fifth billing, before final payment was made. We reviewed all 19 invoices for the sixth billing, totaling \$125.5 million including \$5.3 million in PECA set-aside, and found that the District accurately adjusted the charter school tuition invoices to reflect the correct PECA set-aside formula.

Because District officials did not use the correct information in their template to calculate PECA set-aside from Foundation Aid, the District overpaid for charter school tuition for 2017-18 and would have overpaid for 2018-19, had the issue not been corrected during our audit.

What Do We Recommend?

The Board should:

1. Consult with legal counsel concerning options available for addressing prior overpayments.

The Board and District officials should:

2. Develop and adopt written policies and procedures for charter school tuition billing.

District officials should:

3. Perform a thorough review of tuition invoices to ensure that billings are accurate.
4. Review the SED State aid handbook and PECA set-aside calculation worksheet annually to ensure the updated formula and rates are used in charter school tuition billing.
5. Work with the charter schools so that the annually updated SED worksheet is used for charter school billing.

Appendix A: Response From District Officials



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August 16, 2019

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

Dear Mr. Mazula,

The Buffalo City School District is in receipt of the draft "Charter School Tuition Billing" Report of Examination for the Period July 1, 2017 through June 4, 2019. On behalf of the Board of Education and District administration, we would like to thank the local field staff of the Comptroller's office for their efforts in preparing this report.

We have carefully reviewed the findings and recommendations. Please accept this as the response by the Buffalo City School District (hereafter "the District") and attach this document as an Appendix to any report that is issued.

We agree with the recommendations provided in the report and will provide a detailed corrective action plan within 90 days as required. The District will more fully elaborate in our corrective action plan, but please note some of the actions to date:

- We have corrected the 2018-19 and prospective year billings based upon the audit findings.
- District officials have begun consulting with internal legal counsel concerning options available for addressing prior overpayments.
- District officials have begun drafting a written policy and procedures for charter school tuition billing to include both procedures for reviewing tuition invoices received to ensure the accuracy of all future billings and the annual review of the NYSED State Aid Handbook and PECA set-aside calculation worksheet.
- District officials have begun organizing a training session for all Charter Schools on how to use the NYSED calculation worksheet. The training will be conducted in September/October of 2019.

Once again, thank you for your thoughtful report. We look forward to formally addressing the audit findings and improving District operations through the forthcoming corrective action plan.

Respectfully Submitted,

Dr. Kriner Cash
Superintendent

CC: Board of Education
Darren Brown-Hall, Chief of Staff
Geoffrey F Pritchard, CFO

"Putting Children & Families First to Ensure High Academic Achievement for All"

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and employees to gain an understanding of the policies and procedures for charter school tuition billing. We also interviewed SED and State University at New York Charter Schools Institute (SUNY CSI) officials to gain an understanding of charter school tuition billing, specifically for PECA set-aside calculations.
- We reviewed the SED website, handbooks and PECA set-aside calculation worksheets to determine the accurate rates and formula for calculating the charter school tuition billing. We also reviewed relevant sections of Education Law and guidance from SED and SUNY CSI to gain an understanding of charter school tuition billing.
- We reviewed all 18 of the 2017-18 final reconciliation invoices and all 19 fifth and sixth billings for 2018-19 and recalculated the billed amounts to determine whether the District accurately paid charter school tuition billing for the 2017-18 and 2018-19 school years.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-1(3) (c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the fiscal year. For more information on preparing and filing your 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 the CAP available for public review in the Secretary of the Board of Education's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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