

Team Summary Outline

The objective of this audit is to assess the current and emerging risk that charter school relationships with charter management organizations (CMOs) and education management organizations (EMOs) pose to the Office of Elementary and Secondary Education (OESE), Office of Special Education and Rehabilitative Services (OSERS), and Office of Innovation and Improvement (OII) program objectives and evaluate the effectiveness of OESE's, OSERS', and OII's internal controls to mitigate the risk. Specifically, we will evaluate whether there are any conflicts of interest in charter schools and the oversight, audits and investigations of CMOs.

This Team Summary Outline should be placed in your respective row in section M in TeamMate and independently referenced. Based on your sample of charter schools and authorizers, please briefly provide information on the following:

State: [California](#)

1. Overall Conclusion/Results

- a. Answer the audit objective by summarizing conclusions and results for your work performed at the authorizer, school, and CMO.

Briefly summarize the State Charter School Law. Note: Describe whether the State law included policies regarding conflict of interest, related party transactions, segregations between the charter school and Charter Management Organizations (CMOs).

Overall Conclusion

Based on our review of selected California charter schools and CMOs, we did not identify any conflicts of interest among or between the charter schools, or CMOs in our review. We also determined that the oversight of charter schools provided by the authorizers in our review met the requirements established by the State of California. However, we did observe a potential conflict of interest between an authorizer and the independent charter schools it authorizes and one related party transaction between a CMO board member and a contractor. Each of these observations is discussed below in sections 3.b. and 4.a.ii., respectively.

Overview of State Charter School Law

The California Charter Schools Act of 1992 is codified in the California Education Code Section 47600 (EC § 47600). EC § 47610 establishes a “Charter mega-waiver” that provides charter schools an exemption from all but a few of the laws governing school districts. It further specifies that charter schools must comply with the EC sections applicable to charter schools and all of the provisions set forth in the school’s charter. EC § 47604(a) allows California charter schools to elect to operate as, or be operated by, a nonprofit public benefit corporation, formed and organized pursuant to the Nonprofit Public Benefit Corporation Law.¹ CMOs, conducting business as nonprofit public benefit corporations, operated all five charter schools in our review.

¹ A nonprofit public benefit corporation is a type of nonprofit corporation, chartered by a State Government for social, educational, recreational or charitable purposes. Nonprofit public benefit corporations are organized for the general public benefit, rather than for the interest of its members.

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California law does not explicitly address many issues related to charter schools. However, under the State’s Education Code, practices are generally permitted unless expressly prohibited.² For example, the law does not explicitly require a governing board for each charter school. It only requires that a charter petition describe the governance structure of the school, including the process to be followed by the school to ensure parental involvement. All five charter schools in our review were operated by nonprofit public benefit corporations and were governed by the corporations’ boards.

Conflicts of Interest & Related Party Transactions

The California Education Code does not contain policies regarding conflict of interest or related party transactions for Charter Schools. However, as mentioned above, EC § 47604(a) does allow California charter schools to elect to operate as, or be operated by, a nonprofit public benefit corporation, formed and organized pursuant to the Nonprofit Public Benefit Corporation Law. Since each of the charter schools in our review was operated by a nonprofit public benefit corporation, the California Corporations Code is applicable to nonprofit entities. Conflict of interest and related party transactions are covered under sections on duties, liabilities, and the definition of “interested” directors (Section 5231) and prohibitions on self-dealing (Section 5233).³

California Government Code § 87100 states that “[n]o public official at any level of state or local government shall make, participate in making or in any way attempt to use his official position to influence a governmental decision in which he knows or has reason to know he has a financial interest.” Further, California Government Code § 87300 states that every agency must adopt and promulgate a Conflict of Interest Code. Based on our review, each of the nonprofit public benefit corporations that operated the five charter schools in our review had adopted a written Conflict of Interest Code.

Oversight/monitoring Duties

California EC § 47604.32 contains the oversight/monitoring responsibilities of authorizers. It requires that each chartering authority must do all of the following with respect to each charter school under its authority:

- (a) Identify at least one staff member as a contact person for the charter school.
- (b) Visit each charter school at least annually.
- (c) Ensure that each charter school under its authority complies with all reports required of charter schools by law.
- (d) Monitor the fiscal condition of each charter school under its authority.

² Education Code § 35160 provides school districts with broad authority to: “[i]nitiate and carry on any program, activity, or may otherwise act in any manner which is not in conflict with or inconsistent with, or preempted by, any law and which is not in conflict with the purposes for which school districts are established.”

³ A self-dealing transaction means a transaction to which the corporation is a party and in which one or more of its directors has a material financial interest.

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(e) Provide timely notification to the department [California Department of Education] if any of the following circumstances occur or will occur with regard to a charter school for which it is the chartering authority:

- (1) A renewal of the charter is granted or denied.
 - (2) The charter is revoked.
 - (3) The charter school will cease operation for any reason.
- (f) The cost of performing the duties required by this section shall be funded with supervisory oversight fees collected pursuant to Section 47613.

Each of the authorizers in our review performed all the oversight/monitoring duties listed above that met or exceeded the requirements stated in the California Education Code.

i. Describe the authorizer’s oversight and monitoring practices regarding charter schools in our audit selection. Use the matrix from the TeamMate section C. The four authorizers covered in our review performed various levels of oversight activities for the schools that they authorized to operate as charter schools (see **Authorizers Visited** section below for details) and met or exceeded the State criteria listed in **Oversight/monitoring Duties** (EC § 47604.32) above.

ii. Identify common themes among the charter schools in our selection. (Such as who initiated the charter school application process, the governing structure of the charter school and CMO. Include any instances of conflict of interest, related party transactions, and incompatible duties by count and type.) CMOs, conducting business as nonprofit public benefit corporations, staffed, operated and otherwise controlled the charter schools in our review. CMOs initiated the charter school petition process and were the holders of the school charters. Under this model, any harm caused from conflict of interest, related party transactions or incompatible duties would affect the entire entity. Thus, we concluded that such risk of harm to the charter schools was low. We also found that each CMO had adopted a Conflict of Interest Code, in accordance with the requirement in California Government Code § 87300, which further mitigates the risk of conflicts of interests with charter schools operated by the CMOs. Even though we believe the risks are low under this model, we did identify a related party transaction between a CMO board member and a contractor (see section 4.a.ii, below for details).

b. Summarize potential reporting themes and other interesting/unique information/observations of interest regarding authorizers, management organizations, and/or charter schools visited.

We observed a potential conflict of interest between an authorizer and the independent charter schools it authorizes (see section 3.b, below for details). Common themes between charter schools and CMOs that included unique information/observations are documented above. The CMO operating model that applied to all the charter schools in our review is discussed below in the “**Background**” section.

2. Background

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- a. CMOs models. (Describe the models in which the charter schools in your site visits were operating under and include any common themes amongst the CMOs. Some models are listed below, but include other models that do not fit any of the classifications.)
- i. CMO initiated the process for the charter school, recruited the board members, and handles all finances and has the authority to issue checks in behalf of the charter school without board of school official approval.
 - ii. The charter school initiated the process before contracting a CMO. The CMO has access to the charter school’s finances, but does not have the authority to issue checks without the board or school official approval.
 - iii. The charter school initiated the process before contracting a CMO, but the CMO has access to all finances and the authority to issue checks in behalf of the school.
 - iv. The CMO and the charter school are the same entity, share board members, and make decisions together.
 - v. The CMO model is other than the previous four classifications. Please describe the CMO model. Include the charter school initiation process, access to financial systems, bank accounts and check writing authorization.

The California EC § 47604(a) allows California charter schools to elect to operate as, or be operated by, a nonprofit public benefit corporation, formed and organized pursuant to the Nonprofit Public Benefit Corporation Law. All five charter schools in our review were operated, staffed, governed by the CMOs’ boards, and completely controlled by CMOs conducting business as nonprofit public benefit corporations (a model that most closely resembles model iv. above). The CMOs prepared financial statements that contained separate financial information for each of their charter schools. CMOs initiated the charter petition process and held separate charters for each school. The CMOs provided all support services including accounting, human resources, information technology and had access to all school finances (including Federal grant funds) and the authority to issue payments on behalf of the charter schools.

- b. Overview of Funding.
- i. Federal funding awarded. Define fiscal year (FY) if different from July 1st through June 30th.

Federal Funding to Charter Schools			
	FY 2009-10	FY 2010-11	FY 2011-12
Title I, Part A	\$1,064,186	\$948,219	\$914,018
Title I SIG	0	0	0
IDEA, Part B	97,269	82,731	204,181
CSP	0	0	0
Total Revenues	\$1,161,455	\$1,030,950	\$1,118,199

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Replication Grant CDFA 84.282M (if applicable)			
	FY 2009-10	FY 2010-11	FY 2011-12
Replication Grant	\$5,587,500	\$1,881,569	\$0
<small>Note: The figures in this table are based on the Federal fiscal year. The 2009-10 grant went to Aspire Public Schools for 15 new schools serving an additional 4,500 students in California. The 2010-11 grant went to Rocketship Education for 56 new schools in Oakland, California; Milwaukee, Wisconsin; New Orleans, Louisiana; and Chicago, Illinois.</small>			

c. Enrollment Trends.

Student Enrollment			
	FY 2009-10	FY 2010-11	FY 2011-12
Total Enrollment	2,643	2,772	2,839

d. Any other relevant authorizer, charter school, and CMO background information and observations about funding, and enrollment, including unique opportunities/challenges/advantages.

Two of the four CMOs in our review were awarded the replication grant noted above. In FY 2009-10, Aspire Public Schools was awarded \$5,587,500, and in FY2010-11, Rocketship Education was awarded \$1,881,569.

3. Authorizers Visited

a. Overview of the Authorizers

- i. Indicate the types of authorizers for the charter schools selected in your State. For example, identify whether the authorizer was the SEA, the LEA, or another entity.

Three of the four authorizers in our review were LEAs; the fourth authorizer was a county office of education. The authorizers and the associated charter schools covered in our review are the following:

1. Stockton Unified School District (Stockton) — Aspire's Langston Hughes Academy
2. Oakland Unified School District (Oakland) — Aspire's Lionel Wilson College Preparatory Academy and Education for Change's World Academy
3. Santa Clara County Office of Education (Santa Clara) — Rocketship Education's Rocketship Mateo Sheedy Elementary
4. Sacramento City Unified School District (Sacramento) — St. HOPE Public School's Sacramento (Charter) High School

- ii. What was their responsibility according to State Charter School Law? Use the matrix in TeamMate C.3.1 through C.3.8.

Petition Review – California EC § 47605(a) specifies the general requirements petitioners must meet for a charter to be approved, such as the number of teacher or parent signatures required and rules on the physical location of the school. Authorizers are responsible to ensure that these requirements are met and documented in the petition.

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California EC 47607 (a) (1) states that an initial charter may be granted for a period not to exceed five years and charter renewals are set at 5 years.

In addition, California law requires local governing boards to review a submitted charter petition that contains “reasonably comprehensive descriptions” of each of 16 required elements. The 16 elements, as specified in California EC § 47605(b)(5)(A-P), are:

1. A description of the educational program of the school. If the proposed charter school will serve high school pupils, a description of how the charter school will inform parents about the transferability of courses to other public high schools and the eligibility of courses to meet college entrance requirements must be included in the charter petition.
2. The measurable pupil outcomes identified for use by the school.
3. The method by which pupil progress in meeting those pupil outcomes is to be measured.
4. The schools governance structure, including parental involvement.
5. The qualifications to be met by individuals employed by the school.
6. Procedures to ensure health and safety of pupils and staff.
7. The means by which the school will achieve racial and ethnic balance among its pupils, reflective of the general population residing in the district.
8. Admission requirements, if applicable.
9. The manner in which annual financial audits will be conducted, and the manner in which audit exceptions and deficiencies will be resolved.
10. The procedures by which pupils may be suspended or expelled.
11. Provisions for employee coverage under the State Teachers’ Retirement System, the Public Employees’ Retirement System, or federal social security.
12. The public school alternatives for pupils residing within the district who choose not to attend charter schools.
13. A description of the rights of any employee of the school district upon leaving the employment of the school district to work in a charter school, and of any rights of return to the school district after employment at a charter school.
14. A dispute resolution process.
15. A declaration whether or not the charter school will be the exclusive public school employer of the charter school employees.
16. The procedures to be used if the charter school closes.

California EC § 47605(b) specifies that a local governing board must hold a public hearing for a proposed charter within 30 days of receipt of the completed petition and, within 60 days from receipt of the petition, either approve or deny the charter. This timeline may be extended by 30 days if both parties agree to the extension.

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Based on our review of all four authorizers, we concluded that all four authorizers were familiar with the State requirements and had adequate policies and procedures in place to review the charter petitions and provide useful input to the governing board.

Oversight/Monitoring Duties

California EC § 47604.32 states that each chartering authority must do all of the following with respect to each charter school under its authority:

- (a) Identify at least one staff member as a contact person for the charter school.
 - (b) Visit each charter school at least annually.
 - (c) Ensure that each charter school under its authority complies with all reports required of charter schools by law.
 - (d) Monitor the fiscal condition of each charter school under its authority.
 - (e) Provide timely notification to the department if any of the following circumstances occur or will occur with regard to a charter school for which it is the chartering authority:
 - (1) A renewal of the charter is granted or denied.
 - (2) The charter is revoked.
 - (3) The charter school will cease operation for any reason.
 - (f) The cost of performing the duties required by this section shall be funded with supervisorial oversight fees collected pursuant to Section 47613.
- iii. Indicate whether the authorizer is monitored and by whom. If available, describe the results of the last monitoring report performed of the authorizer. The current California law does not require that authorizers (most authorizers are LEAs) be monitored for their performance as authorizers. In 2003, California law had required a one-time legislative report and evaluation on the effectiveness of the State charter school program, including recommendations on whether to expand or reduce growth.
- iv. Evaluate whether the monitoring and oversight process of the authorizers for the charter schools in your selection were adequate based on the State Charter School Law requirements.
- 1. Indicate and describe the monitoring process used. Such as the renewal process and/or any additional monitoring that the authorizers perform of the charter schools.

Authorizers told us that they use the same review process for charter renewals and first time charter petitions. Each of the 16 required components of the charter, as listed above, must be adequately addressed. Additionally, past performance data are available and can be used to evaluate charter renewals. All four authorizers in our review performed a level of review that met the State requirement. See Oversight/Monitoring Duties above at **ii**.
 - 2. List the areas that the authorizers for the charter schools in your selection evaluated as part of their monitoring.
 - 3. Indicate how frequently charter schools were monitored.

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4. Indicate if the authorizers were required to report outcomes to the SEA or to the Department. (b) (5)

Stockton performs monitoring and oversight for charter schools that it authorizes. For independent charters, Stockton monitors through State test reports, State compliance reports, fiscal reports and audits, site visits, and credential audits. For dependent charters, Stockton provides monitoring and oversight through school visits, fiscal reports and audit reports, State test reports, State compliance reports, principal cabinet presentations, course and assessment grades, and program implementation and participation.⁴ For onsite monitoring, site visits are done at least annually (we retained evidence of the district team’s last visit to Langston Hughes, which was in November 2012, and of the district’s fiscal reviews from December 2011 through March 2013). The Stockton team makes general and specific observations. For example, the team observes and comments on the condition of the school facilities, student attendance, engagement of the students, classroom management by teachers, and adequacy of materials and educational tools for students to use. The team observes and completes a checklist to document their observations at the school. Issues are documented by the charter team and discussed with officials at the school level for resolution.

Oakland performs oversight and monitoring activities on a regular basis. The Charter School Office within the district performs annual spring site visits which are planned for 2 hours at each site. These site visits include classroom observations and reviews of measurable pupil outcomes. (Charter School office staff provided evidence of site visits they performed during our audit period. We retained copies of the spring site visit checklists for 2011, 2012, and 2013 as examples.) In addition, the Charter School Office periodically requests and reviews time accounting data and school plans from charter schools. The Charter School Office also conducts a fall site visit which may become fall information updates to reflect a change that will be going in effect later this year. The updates will include information updates to various data now contained on Google Docs (such as governing board minutes and compliance documents). By using Google Docs, charter schools only have to provide updates to existing documents; they will not need to resubmit the same documents every year. This new feature will be used by the Charter School Office to schedule site visits later in the year and to help the Charter School Office to better prepare for the visits. Charter School Office staff review the uploaded documents and any problems can be discussed

⁴ The California School Boards Association notes that “[w]hile the [California] Charter Schools Act does not recognize the terms “dependent” and “independent” when referencing charter schools, these terms have become shorthand to describe the relationship of the charter to the district. Dependent charters are considered charter schools that have been created by the district board and are an integral part of the district’s portfolio of schools. Independent charter schools are typically those charters that are formed by parents, teachers, community members or charter management organizations.”

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with the schools. The results of monitoring visits are documented in a written summary report and sent to the charter school principal. A “Notice of Concern” is sent to a charter school when there is a finding so that the school can implement corrective action(s) to fix the problem. A “Notice of Violation” will be sent if a charter school does not correct the discrepancy.

Santa Clara performs monitoring and oversight for charter schools that it authorizes. Site visits are done in a combined effort by Santa Clara’s Charter School Office, its Education Services Office, and its Special Education Department. In addition, the Santa Clara Business Services office conducts desk reviews on a monthly basis of reports submitted by charter schools that are required by their petitions. Site reviews take place twice a year – in the fall and in the spring. Several checklists are used to document monitoring results. These checklists are attached to the written reports provided to charter schools following the visits. Areas covered by the checklists include: Checklist (b) (b) (4), Checklist, Checklist (b) (b) (4), Checklist (b) (4), Checklist, and the (b) (4) Checklist (checklists were provided that documented the monitoring completed at Rocketship Mateo Sheedy Elementary by Santa Clara from spring 2008 through fall 2012). Following the site reviews, written results – the report and completed checklists – are sent to the charter school with deficiencies noted and suggestions for corrective actions. Santa Clara follows up on whether a charter school has taken corrective actions for noted deficiencies. For example, corrective actions pertaining to a fall site review would be followed up on in the spring during the next site visit.

Sacramento performs oversight for the charter schools that it authorizes and is in the process of developing a more formal process. The Charter/Network Oversight Coordinator (Coordinator) told us that although there was currently no formal site visit schedule in place, she has visited the district’s charter schools regularly and she sits on the boards of the nine independent charter schools (discussed further in section 3.b, below). The Coordinator has performed classroom observations for all 14 charters authorized by the district and addressed any issues that she observed or that were brought to her attention. The Academic Review Team has also visited schools in search of best practices. Both the Coordinator and the Academic Review Team receive the annual programmatic audits performed and submitted by CMO officials. Then they compare the results to the goals set in the petition to determine if the charter school is achieving what it said it would in the petition. Sacramento’s Budget Services Department performs the fiscal oversight and monitoring of charter schools. Budget Services receives and reviews all of the various reports produced and submitted by the charter schools and reviews the schools’ annual independent audit reports. (The Charter School office coordinator provided support for fiscal monitoring that was performed during our audit period and we retained the reviewed copies of the 2010/2011 and 2011/2012 school budget reports as examples.) Budget Services also reviews the charter

school's average daily attendance information and determines whether it looks reasonable. A charter school's chief business official serves as the point of contact if a problem arises.

Note:



- b. Identify any potential findings identified during the visit to the authorizers.
(Reference to authorizer write-ups)

We identified the potential for conflicts of interests that could occur between Sacramento and the charter schools it authorizes due to Sacramento's Coordinator sitting on the boards of the district's independent charter schools. Although California Education Code allows an authorizing district to seat a representative on the board of a charter school if it wishes, the relationship raises concerns that conflicts of interest may arise because the representative may find it difficult to oversee an entity where she plays a role in that entity's decision making process.⁵

To avoid any potential conflicts of interest, Sacramento, in consultation with legal counsel, produced a policy letter which they sent to all the independent charter schools providing board seats. The letter defines the roles and responsibilities of each party and provides numerous examples of how to avoid the potential conflicts of interest that may arise. For example, Sacramento's Coordinator told us that she recuses herself when the charter school boards are voting on potentially conflicting issues. She further explained that her ability to attend charter school board meetings as a director helps to build bridges and foster relationships between the district and the charter schools. She also noted that it allows the district earlier insight into potential financial or academic issues with the charter schools than it might otherwise have.

Based on our review, we determined that Sacramento's actions in regard to charter school board representation did not violate the California Education Code. Further, Sacramento's adherence to its adopted policy regarding potential conflicts of interest due to district representatives serving on charter school boards should mitigate the potential for conflicts of interest.

4. Charter Schools Visited and Common Threads

- a. Charter School Governance
 - i. Describe the governance model of the charter school Board, consider:
 - 1. Instances of affiliations between the charter school and the CMO
 - 2. The level of the board members' involvement with the CMO

⁵ California EC Section 47604 (b) states that "The governing board of a school district that grants a charter for the establishment of a charter school formed and organized pursuant to this section shall be entitled to a single representative on the board of directors of the nonprofit public benefit corporation."

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3. The level of the board members' authority regarding decisions that affected the school
4. Whether the CMO had the capacity to make decisions for the charter school

The five charter schools in our review were operated, staffed and otherwise controlled by CMOs and were governed by each CMO's board of directors. Generally, we found that board members set policy, but were not directly involved in day-to-day school operations.

- ii. Was there any board member or school official identified that made any decisions that would represent a conflict of interest, or related party transaction? If yes, what was the relationship?

No. However we did identify one related party transaction which involved an Education for Change CMO board member who was also the Chief Executive Officer of an information technology services company that was being considered for a contract with the CMO. When the board convened to consider approving this contract, the board member in potential conflict recused himself from the proceedings and left the room until after a vote was taken. The matter was disclosed and documented in the board meeting minutes. We determined that the CMO's handling of this matter was consistent with procedures documented in its Conflict of Interest Code.

- iii. Identify any potential findings identified during the interview with the charter school board member and/or document review. Include concerns regarding, but not limited to, conflict of interest, related party transactions, and segregation of duties.

(b) (5)

b. Charter School Fiduciaries and Agents

- i. Indicate whether the charter schools' external auditor, attorney, real estate broker, broker-dealer, banker or other agent were sourced independently from the CMO? Was this an example of a best practice by the charter school?

Since the CMOs operated the schools, the CMOs selected the service professionals listed above. Schools were generally allowed to choose vendors for small services contracts or purchases.

- ii. Identify any potential findings identified during the visit and/or document review of the charter school and CMO. Include concerns regarding, but not limited to, conflict of interest, related party transactions, and segregation of duties.

(b) (5)

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c. The CMO Contract and Fees

- i. Identify how the charter school contracted the CMO based on the CMO model classifications from the Background section of this document. Based on the classifications, was the contract and fees paid reasonable? [The criteria used to determine reasonableness of fees paid to the CMO depends on the situation. For example, the services provided to the school, the number of students served, the size and location of the school's building. The applicable criteria to contracts that are paid with Federal funds are 34 CFR 80.36, and reasonableness OMB Circular A-87.] Consider:
 1. How was the contract sourced?
 2. What was the fee structure of the contract? Did the contract include contingency fees such as reimbursements?
 3. Was the charter school, its employees, or its board members affiliated with the CMO or its employees?
 4. Did the CMO have access to the charter schools' finances and bank accounts, and had check writing capabilities?
 5. Did the contract include a reasonable termination clause?
 6. Assess whether the charter school would be able to continue if the CMO contract was terminated. Why or why not?

[Although none of the five charter schools had a contract with the CMO, the CMOs charged internal management fees to their charter schools which were based on the estimated costs to operate the home office. Thus, the evaluation of fair negotiation and reasonable terms is not applicable. Based on our review, we did not identify any reportable findings.](#)

- ii. Identify any potential findings identified during the interview and/or document review with the charter school and CMO. (Including, but not limited to, any issues regarding the reasonableness of the fees paid to the CMO, services provided, access to bank accounts, termination clauses, lease arrangements, and financial systems. Include any conflict of interest, related party, or segregation of duties concerns.)

[Not applicable. See explanation above.](#)

d. Other Contracts Reviewed

- i. List the types of other contracts that the charter school had in effect during the audit period. Lease agreements,
- ii. Indicate how the charter schools in your selection entered into other contracts. Include:
 1. How the contract was sourced?
 2. Were the fees reasonable?
 3. Was the charter school, its board members, or its employees affiliated to the vendor contracted?

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4. Was the charter school obliged to contract the vendor to receive services from the CMO?

The CMOs provided most of the contracting services for their charter schools. All of the CMOs in our review operated multiple charter schools and contracts frequently covered purchases of products or services for more than one school. Schools could choose their own vendors on a limited basis, but mostly for small purchases or service contracts.

- iii. Identify any potential findings identified during the interview and/or document review with the charter school and CMO. Include any concerns regarding, but not limited to, conflict of interest, related party transactions, and segregation of duties concerns.

We did not identify any potential findings in this area.

5. OSM

- a. QAR checklist
 - i. Complete QAR Checklists for Fieldwork, Reporting, and Draft Issuance, as applicable to the work performed and the team summary. Please copy checklist from PA6, and place a copy of your completed checklists in PA9 in TeamMate. [Placed copies of the three QAR checklists at PA9.d-f.](#)
- b. OSM, Sampling Selection, and Methodology
 - i. What was your rationale for choosing the charter schools? [See below.](#) Please add previously submitted site selection document to your respective row in section M in TeamMate. [Site selection document added at M.2.2.](#)

[Sampling Selection.](#) The California team selected 5 charter schools from the list of 18 provided by the lead team. To select the five charter schools for review, we searched through the Internet for IRS Forms 990 (Forms 990) for the 18 charter schools and associated CMOs. We did not find any relevant Forms 990 for the charter schools, but we were able to find Forms 990 for each of the charter schools' CMOs that were nonprofits. We also performed Internet searches of all 18 charter schools looking for news articles or other public information to guide us with our selection of charter schools for review. Because we did not find any news articles of interest or charter school-specific information from the Forms 990 filed by the CMOs, we contacted the lead region for additional guidance. Based on guidance provided by the lead region, we focused our attention on three common characteristics of the 18 charter schools to make a selection for review— charter schools that were (1) managed by not-for-profit CMOs, (2) managed by CMOs operating in only one State, and (3) opened for over 5 years. Thus, we excluded charter schools that did not meet any of these three common characteristics and selected charter schools by considering Federal dollars received, geographic location, and minimizing duplication of CMOs.

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- c. Describe any work performed at the State, LEA, authorizer, and CMOs.
 The California team performed work at five charter schools and their associated CMOs and authorizers. Because there were two charter schools that were associated with the same CMO, we performed work at only four CMOs. We also performed work at only four authorizers as two charter schools had the same authorizer. Table X below lists the charter schools, CMOs, and authorizers we reviewed. We did not perform any work at the State level because the lead team took responsibility for that work.

Table X

Charter School	Governing CMO	Authorizer
Langston Hughes Academy	Aspire Public Schools	Stockton Unified School District
Lionel Wilson College Preparatory Academy	Aspire Public Schools	Oakland Unified School District
World Academy	Education for Change	Oakland Unified School District
Rocketship Mateo Sheedy Elementary	Rocketship Education	Santa Clara County Office of Education
Sacramento (Charter) High School	St. HOPE Public Schools	Sacramento City Unified School District

Charter Schools and CMOs. The objective of the work performed at the five charter schools was to identify potential conflicts of interest, related party transactions, and incompatible duties between each school and their CMO. To achieve our objective, we performed an onsite visit to each charter school and conducted interviews with both charter school and CMO representatives. During the interviews, we discussed the relationships between the charter schools and their CMOs, the organization and history of the charter schools and CMOs, and the governance and management provided to the charter schools by the CMOs. We inquired into areas such as charter school funding, CMO management fees and costs, and contracting. We also asked charter school and CMO officials if they were aware of any potential conflicts of interest or unreported fraud, waste, or abuse. Each charter school and CMO provided the requested documentation including contracts, bylaws, financial statements, engagement letters, and board minutes that was used by the team to corroborate the testimony of the officials interviewed and to identify conflicts of interest.

Authorizers. The objective of the work performed at the four charter school authorizers was to obtain an understanding of the authorizers’ oversight and monitoring practices with regard to charter schools. To achieve our objective, we performed an onsite visit to all four authorizers, conducted interviews with responsible officials, and reviewed documentation to corroborate the information

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obtained at the interviews. Authorizers provided documentation including charter petition review checklists, compliance monitoring checklists, and lists of key personnel and their duties. As shown in Table X, three of the four authorizers were school districts while the fourth was a county office of education. One of the school districts was responsible for the authorization and oversight of two of the five selected schools.

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Team Summary Outline

The objective of this audit was to assess the current and emerging risk that charter school relationships with charter management organizations (CMOs) and education management organizations (EMOs) pose to the Office of Elementary and Secondary Education (OESE), Office of Special Education and Rehabilitative Services (OSERS), and Office of Innovation and Improvement (OII) program objectives and evaluate the effectiveness of OESE’s, OSERS’, and OII’s internal controls to mitigate the risk. Specifically, we evaluated whether there were any conflicts of interest in charter schools and the oversight, audits and investigations of charter schools with CMOs.

State: Florida

Entities Reviewed		
Charter School	CMO	Sponsor (Authorizer)¹
Aspira Raúl Arnaldo Martínez Charter School (Aspira RAM)	Aspira of Florida, Inc. (Aspira of Florida)	School Board of Miami-Dade County (School Board)
Downtown Miami Charter School (Downtown Miami)	Charter Schools USA at Downtown Miami, L.C. (CSUSA)	School Board
Excelsior Language Academy of Hialeah (Excelsior)	Academica Dade L.L.C. (Academica)	School Board
Mater Academy Charter High School (Mater High)	Academica	School Board
Mater Academy East Charter School (Mater East)	Academica	School Board

1. Overall Conclusion/Results

- a. Answer the audit objective by summarizing conclusions and results for your work performed at the authorizer, school, and CMO.

We found related party transactions at four of the five charter schools reviewed—Aspira RAM, Excelsior, Mater East, and Mater High— and incompatible duties delegated to CMOs at two of the five schools—Downtown Miami and Excelsior. Two of the related party transactions identified—one at Mater East and one at Mater High—indicate, at a minimum, the appearance of conflicts of interest. These related party transactions, apparent conflicts of interests, and incompatible duties may pose a risk to OESE’s, OSERS’, and OII’s program objectives. (See [Section 4 for details](#)). In addition, we found that the School Board currently manages three charter schools it authorized and oversees.² Although Miami-Dade County Public Schools (District) officials stated that the District implemented controls to mitigate the appearance of conflict of interests, there are no assurances that apparent or actual conflict of interest do not exist. (See [section 3.b for details](#).)

- i. Briefly summarize the State Charter School Law. Note: Describe whether the State law included policies regarding conflict of interest, related party

¹ Florida’s State Charter Law refers to authorizers as sponsors. [Florida Statute Section 1002.33(5)]

² None of the charter schools that the School Board manages were selected for review in Florida.

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transactions, segregations between the charter school and CMOs. Use the matrix from the TeamMate section C.

Florida Statute (F.S.) §1002.33 (State Charter Law) is the statutory authority for charter schools in Florida. General areas covered in the State Charter Law include the purpose of charter schools; how to apply for charter status; responsibilities of sponsors, charter schools, and charter schools' governing boards; the charter school application and review process; and causes for nonrenewal and termination of charter status. The current State Charter Law (2012) requires:

- The collection and analysis of student outcome data at least annually by authorizers;
- Financial accountability for charter schools;
- Authorizer authority to conduct or require oversight activities;
- Authorizer notification to their schools of perceived problems with opportunities to remedy such problems;
- Authorizer authority to take appropriate corrective actions or exercise sanctions short of revocation; and
- School governing boards to operate as entities completely independent of any management organization.

In Florida, both CMOs and EMOs are allowed to manage charter schools, but only nonprofit management organizations are allowed to open charter schools. The State Charter Law is silent regarding any other permissible activities or requirements for management organizations. Sections 1002.33(9)(j)4, 1002.33(7)(a)(18), and 1002.33(26), F.S. require governing board members of charter schools to follow certain standards of conduct as public officials; disclose relatives who are employed by the charter school; disclose financial interests if the charter school is operated by a municipality or other public entity; and participate in governance training that includes conflicts of interest as a topic. These sections do not pertain to CMOs or their employees. However, House Bill 7009 – passed by the Florida Legislature in May 2013 – includes a provision that prohibits employees of management companies and their spouses from serving on a charter school's governing board. The bill also requires the Florida Department of Education (FLDOE) to propose a definition of *management company* in collaboration with school districts and charter schools.

- ii. Describe the authorizer's oversight and monitoring practices regarding charter schools in our audit selection.

The School Board is the authorizer of the five schools ED-OIG reviewed in Florida. The District's Charter School Support office (CSS), the Office of Management and Compliance Audits (OMCA), and other District offices assist the School Board in overseeing and monitoring charter schools. Specifically, as part of the charter application review processes, the CSS and other School Board committees review charter schools' governing board members disclosure forms, corporate filing documents, schools' governing board bylaws, draft management agreements with CMOs and EMOs, and additional documents. After charter approval, the CSS reviews updates to these and additional documents that charter schools submit through the

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Charter School Compliance Management System (CSCMS).³ Prior to renewal⁴ of a charter, a School Board committee conducts a program evaluation of the charter school that includes a review of the charter renewal application and documentation showing, among other things, the level of success of the current academic program and compliance with terms of the charter. In addition, CSS conducts an annual curriculum and compliance review site visit to each charter school that includes a compliance review of the school's special education programs. The OMCA reviews charter schools' audited financial statements and based on the review, OMCA may contact the schools for more information, initiate a financial operations audit and/or request a corrective action plan from the schools. District staff conducts Title I program compliance monitoring. District staff also accompanies FLDOE on Charter Schools Program (CSP) grant monitoring visits.

- iii. Identify common themes among the charter schools in our selection. (Such as who initiated the charter school application process, the governing structure of the charter school and CMO. Include any instances of conflict of interest, related party transactions, and incompatible duties by count and type.)
- b. Summarize potential reporting themes and other interesting/unique information/observations of interest regarding authorizers, management organizations, and/or charter schools visited.

No potential reporting themes were identified in addition to the observations described on Section 4.

2. Background

- a. CMOs models. (Describe the models in which the charter schools in your site visits were operating under and include any common themes amongst the CMOs. Some models are listed below, but include other models that do not fit any of the classifications.)
 - i. CMO initiated the process for the charter school, recruited the board members, and handles all finances and has the authority to issue checks in behalf of the charter school without school board approval.

None of the five charter schools reviewed in Florida used this CMO model (2.a.i)

- ii. The charter school initiated the process before contracting a CMO. The CMO has access to the charter school's finances, but does not have the authority to issue checks without the board or school approval.

³ The CSCMS is a Web-based system that CSS uses to collect and review documentation required from charter schools relative to statutes, regulations, and contractual requirements.

⁴ According to Section 1002.33(7)(a)12 of the State Charter Law, the initial term of a charter is 4 or 5 years. Under certain conditions, charter schools may be eligible for a charter renewal of up to 15 years. The current charter agreements for Excelsior and Downtown Miami are for 5 years. The current charter agreements for Aspira RAM, Mater East and Mater High are for 15 years.

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Excelsior used this model (2.a.ii.) with its most recent CMO, Academica. Excelsior's charter contract was executed on December 2007. Academica provided management services to the school since October 2009. Excelsior signed a formal three-year management agreement with Academica on January 2010. Under the agreement, Academica was responsible for managing the finances of the school. All invoices paid by the CMO must be approved by the school Principal. Any check over \$ (b) (4) to any vendor must be signed by the school's governing board Chair. Further, any checks issued to Academica and the landlord must be signed by the school's governing board Chair. However, Excelsior used a different CMO model with the Leona Group Florida L.L.C. (Leona Group), the school's former CMO. Specifically, Excelsior initiated the process before contracting Leona Group, but the CMO had access to all finances and the authority to issue checks on behalf of the school. Leona Group provided management services to the charter school from February 2007 through September 2009. The founding governing board of Excelsior used a consultant who assisted with the school's charter application, and Leona Group hired as a vice-president such consultant on January 2007, shortly after the school's charter contract was approved. (b) (5)

According to the management agreement, Leona Group deposited the school's revenues in a separate school-dedicated account and paid for the costs incurred by the school and by Leona Group in operating the school, in accordance with a budget approved by the school's governing board.

- iii. The charter school initiated the process before contracting a CMO, but the CMO has access to all finances and the authority to issue checks in behalf of the school.

Downtown Miami used this CMO model (2.a.iii.). The charter contract that authorized Downtown Miami to operate was executed on February 2002, and the school executed its management agreement with CSUSA on April 2002. CSUSA manages the school's finances including the school's operational bank accounts, and expends school revenues in accordance with a budget approved by the school's governing board.

- iv. The CMO and the charter school are the same entity, share board members, and make decisions together.

Aspira RAM operates under a CMO model whereby the CMO and the charter school are the same entity, share board members, and make decisions together (CMO model 2.a.iv.). Aspira of Florida (CMO) is a non-profit corporation which holds the charter for Aspira RAM and two additional charter schools in Florida. The governing board of Aspira RAM is the Aspira of Florida's Board of Directors. As the charter holder, Aspira of Florida provides management services to Aspira RAM without having entered into a formal CMO agreement with the school.⁵

- v. The CMO model is other than the previous four classifications. Please describe the CMO model. Include the charter school initiation process, access to financial systems, bank accounts and check writing authorization.

⁵ No language was identified in the State Charter law (2012) that would have required Aspira RAM to enter into a formal management agreement with Aspira of Florida.

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Mater High and Mater East used a CMO model different than the four CMO model classifications listed above. The founder of Mater Academy, the parent organization that holds the charter for the two schools, created the CMO approximately one year after Mater Academy. On July 17, 1998, Mater Academy, Inc. (Mater Academy), originally named The Mater Center School, Inc., was incorporated by (b) (6) was a member of the original Board of Directors and (b) (6) of Mater Academy from (b) (6) until (b) (6) 2004. (b) (6) of (b) (6), was a (b) (6) for Mater Academy's Board of Directors from (b) (6) 2001 until (b) (6) 2002 and the (b) (6) and (b) (6) of Mater Academy's Board of Directors from (b) (6) 2002 until (b) (6) 2004. During (b) (6) time at Mater Academy, he formed Academica Corporation (July 16, 1999), a for-profit CMO, and executed various agreements on behalf of Mater Academy or the CMO to include the following:

- Management Agreement between Mater Academy and Academica Corporation (1999⁶)
- Charter school agreement with the School Board of Miami Dade County for Mater East; (March 14, 2002)
- Charter school agreement with the School Board of Miami Dade County for Mater High; (March 14, 2002);
- Management Agreement between Mater Academy and Academica Dade, L.L.C. for Mater East and Mater High. (June 27, 2002)

(b) (6) is the (b) (6) of Academica Corporation and Academica Dade, L.L.C. (b) (6) and (b) (6) are the (b) (6) of Academica Corporation and Academica Dade, LLC.

b. Overview of Funding.

- i. Federal funding awarded. Define fiscal year (FY) if different from July 1st through June 30th.

⁶ Month and day are unknown.

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Federal Funding to Charter Schools			
	FY 2009-10	FY 2010-11	FY 2011-12
Title I, Part A			
Aspira RAM	\$202,441	\$227,817	\$161,184
Downtown Miami	\$222,716	\$233,206	\$156,216
Excelsior	\$124,228	\$162,621	\$158,424
Mater High	\$173,478	\$173,817	\$163,590
Mater East	\$123,913	\$150,575	\$129,720
CSP			
Excelsior	\$141,006 ⁷	\$ -	\$ -
Title I SIG	\$ -	\$ -	\$ -
IDEA, Part B ⁸	\$ -	\$ -	\$ -
Total Revenues	\$987,782	\$948,036	\$769,134

Replication Grant CDFA 84.282M (if applicable)			
	FY 2009-10	FY 2010-11	FY 2011-12
Replication Grant	\$ -	\$ -	\$ -

* Not applicable to the five schools reviewed in Florida.

c. Enrollment Trends.

Student Enrollment			
	FY 2009-10	FY 2010-11	FY 2011-12
School Enrollment			
Aspira RAM	559	608	610
Downtown Miami	632	634	645
Excelsior	593	603	570
Mater High	1,404	1,454	1,432
Mater East	543	540	546
Total Enrollment	3,731	3,839	3,803

- d. Any other relevant authorizer, charter school, and CMO background information and observations about funding, and enrollment, including unique opportunities/challenges/advantages.

No additional relevant information noted in this area.

3. Authorizers Visited

- a. Overview of the Authorizers

⁷ During FY 2009-2010 Excelsior Language Academy of Hialeah received \$141,000 in CSP funds as a supplement (or budget increase) to the FY 2008-2009 CSP award of \$197,000.

⁸ In general, charter schools in Florida do not receive IDEA funds. Instead, charter schools receive special education services from their District, such as psychological services, Individualized Education Program implementation, and professional development.

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- i. Indicate the types of authorizers for the charter schools selected in your State. For example, identify whether the authorizer was the SEA, the LEA, or another entity.

The State Charter Law establishes district school boards as the primary authorizer of charter schools. The School Board of Miami-Dade County is the authorizer of the five schools ED-OIG reviewed in Florida.

- ii. What was their responsibility according to State Charter School Law? Use the matrix in TeamMate C.3.1 through C.3.8.

Section 1002.33(5), F.S. outlines the responsibilities of authorizers in Florida. According to the law, authorizer's duties include but are not limited to approving charters within its district; monitoring and reviewing a charter school's progress toward goals established in the charter; monitoring the revenues and expenditures of the charter school; and ensuring that a charter school participates in Florida's state education accountability system. The following authorizer responsibilities were reviewed in the Matrix for State Law workpaper and found to be mandated by Florida's State Charter Law:

- Collection and analysis of student outcome data at least annually;
- Financial accountability for charter schools;
- Authority to conduct or require oversight activities;
- Annual school performance reports produced and made public by the authorizer;
- Notification to their schools of perceived problems, with opportunities to remedy such problems; and
- Authority to take appropriate corrective actions or exercise sanctions short of revocation.

District officials stated there are areas in the State Charter Law that are really vague. In such instances, clarification is usually found in the charter school contract and/or approved application (which is an appendix of the contract). A School Board committee annually develops and adopts a standard charter contract that is used as the basis for all approved charters. However, the Florida Legislature passed House Bill 7009 in May 2013. As a result of the bill, Florida's State Charter Law and some of the authorizer's responsibilities therein have been modified. Specifically, authorizers will soon be required to use a standard charter school contract developed by FLDOE.⁹ According to a *Final Bill Analysis* published on the Florida House of Representatives website, charter school contracts vary among school districts. The standard contract, once adopted in rule by Florida's State Board of Education, attempts to address this consistency concern. However, the lack of consistency among school districts may still exist because the bill does not prohibit authorizers from adding to or modifying the standard charter school contract. Other notable changes to the State Charter Law regarding authorizers' responsibilities include the following:

- Authorizers must use academic achievement as the most important factor when deciding to renew or terminate a charter agreement.

⁹ The proposed contract must be sent to the Governor, the Speaker of the House of Representatives, and the President of the Senate by November 1, 2013.

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- Effective August 31, 2013, authorizers must provide a report to FLDOE on an annual basis that details the number of charter school draft applications received on or before May 1st; the number of final applications received on or before August 1st; the date each application was approved, denied or withdrawn; and the date each final contract was executed. This information is based on applications submitted to an authorizer during the prior year.
 - After approving a charter school application, the authorizer has 30 versus 60 days to provide the proposed charter to the school. In addition, unless mutually agreed upon by the authorizer and school, the authorizer has 40 versus 75 days to negotiate¹⁰ contract terms with the school and notify the school of final contract approval.
- iii. Indicate whether the authorizer is monitored and by whom. If available, describe the results of the last monitoring report performed of the authorizer.

No language was identified in the State Charter law that requires the FLDOE or any entity to monitor charter school authorizers in Florida. In addition, no modification of or new language was identified in House Bill 7009 related to the monitoring of authorizers. However, the State of Florida Auditor General (Auditor General), does conduct audits of school districts, to include the districts' financial statements; Federal awards for compliance with applicable Federal requirements; Florida Education Finance Program,¹¹ and districts' operations. The most recent (March 2011) Federal single audit conducted by the Auditor General reported that the District did not implement CSP monitoring procedures during FY 2009-2010. In response to the Auditor General's finding, the District transitioned to a working capital advance basis of disbursing CSP funds to subgrantees (charter schools). The new policy required the District to advance cash to the grant recipient to cover its estimated disbursement needs for an initial period; and make all subsequent payments on a reimbursement basis.

- iv. Evaluate whether the monitoring and oversight process of the authorizers for the charter schools in your selection were adequate based on the State Charter School Law requirements.

We did not identify language in the State Charter law that would require FLDOE to monitor charter school authorizers in Florida.

1. Indicate and describe the monitoring process used. Such as the renewal process and/or any additional monitoring that the authorizers perform of the charter schools.

Refer to Section 1.a.ii.

¹⁰ Section 1002.33(5)(b)d of Florida's charter law states that the "sponsor's policies shall not apply to a charter school unless mutually agreed to by both the sponsor and the charter school." The District has a charter negotiation period with approved applicants. During this period, both parties agree on which policies are applicable and include them in the charter contract. CMOs are not a part of this process; however, there is contract language that requires CMOs to comply with rules/requirements in the contract.

¹¹ A program that provides State funding to Districts.

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2. List the areas that the authorizers for the charter schools in your selection evaluated as part of their monitoring.

Areas evaluated through monitoring activities described in Section 1.a.ii. include the schools' curriculum, compliance with the terms of the charter, compliance with Title I, Special Education and CSP and grant provisions, charter school governance, conflicts of interest, and the schools' financial position.

3. Indicate how frequently charter schools were monitored.

CSS conducts an annual curriculum and compliance review site visit to each charter school. It obtains and reviews documentation that charter schools submit throughout the year in accordance with a schedule established by the District. A School Board committee conducts a program review when charters are due for renewal. The OMCA reviews charter schools' audited financial statements every year and may initiate a financial operations audit on an as needed basis. According to a CSS official, the District conducts Title I compliance reviews twice a year, while special education program reviews are conducted as part of the annual curriculum and compliance reviews. CSP reviews are conducted annually based on a sample.

4. Indicate if the authorizers were required to report outcomes to the SEA or to the Department.

Authorizers are not required to report outcomes to the FLDOE or to the Department. The State Charter Law requires that Districts and charter schools submit performance data to FLDOE, which in turn provides the data to various entities (i.e. State Board of Education, Commissioner of Education, Governor, etc.). The District conducts CSP program monitoring in conjunction with the SEA (FLDOE).

- b. Identify any potential findings identified during the visit to the authorizers.
(Reference to authorizer write-ups)

School Board Management and Lease Agreements with Charter Schools it Oversees

During the course of our assessment, we found that the School Board has management and facility lease agreements with three charter schools that it authorized —Academy of International Education Charter School (2011), Construction and Business Management Charter High School (2011), and South Florida Autism Charter School (2012). While these schools were not within the scope of our audit, we learned of these contracts during our audit work in Florida. Existing District personnel provide management services to these schools, including professional planning, accountability, compliance, management and support services.

This dual responsibility of overseeing the charter schools as an authorizer and providing management services for a fee to the same charter schools represents a potential conflict of interest for the School Board. Although District officials stated that the District implemented

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controls to mitigate the appearance of conflicts of interest,¹² there are no assurances that apparent or actual conflicts of interest do not exist. Within our current audit scope, we have no mechanism to obtain information to determine the impact that potential conflicts of interest have on the School Board’s oversight of the three charter schools’ operations and use of grant funds. In addition, we did not determine all inherent disadvantages or benefits of a local educational agency providing management services to a charter school that it oversees.

In addition to the management agreements, the School Board also has facility lease agreements with all three District-managed charter schools. According to FLDOE officials, one of the District-managed schools (Academy of International Education Charter School) applied for a CSP grant and FLDOE, in consultation with Department, decided that the school’s lease agreement with the School Board affected the school’s eligibility for CSP funds. Specifically, the lease agreement included a provision whereby the school would lose its rights to use the leased facility if the management agreement with the School Board was terminated. As a result, FLDOE’s awarding of CSP funds to the school became contingent upon the school separating the lease and management agreements so that they were independent of each other.

According to Title V, Part B non-regulatory CSP guidance (April 2011), one of the factors the Department considers when determining whether a charter school is independent of a for-profit management organization is whether the contract between the charter school and the management organization specifies reasonable terms under which either party may terminate the contract (e.g. the charter school does not lose the right to use facilities). The Department also considers whether any other agreements (e.g., loans, leases, etc.) between the charter school and for-profit management organization include terms that will remain unchanged if the management contract is terminated. The CSP non-regulatory CSP guidance states also that as a general matter, grantees must avoid apparent and actual conflicts of interest when administering grants.

In response to our preliminary observations, the District acknowledged that the School Board had entered into management contracts and lease agreements with the three charter schools identified above. However, the District disagreed with the observation that the responsibilities of overseeing the charter schools as an authorizer and providing management services for a fee to the same charter schools represents a potential conflict of interest for the School Board. The District contends that these management agreements are statutorily authorized and there is no conflict of interest.

4. Charter Schools Visited and Common Threads

a. Charter School Governance

- i. Describe the governance model of the charter school Board, consider:
 1. Instances of affiliations between the charter school and the CMO
 2. The level of the board members’ involvement with the CMO

¹² According to District officials, all agreements (i.e. charter contracts, lease agreements, and management agreements) are negotiated separately by different units/areas (i.e. Charter School Support, Legal Department, Facilities Office, etc.) within the District. In addition, the District does not select the District-managed schools’ curriculum, nor does it select the schools’ employees, offer legal counsel services or provide assistance with charter/grant applications.

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3. The level of the board members' authority regarding decisions that affected the school
4. Whether the CMO had the capacity to make decisions for the charter school

Aspira RAM- Aspira of Florida (CMO) holds the charter for Aspira RAM and provides management services to the school. The board of directors of Aspira of Florida is the school's governing board. The governing board is responsible for ensuring that the corporation's charter schools comply with Florida law. The corporation's President/Chief Executive Officer is a non-voting member of the governing board. Employees of the charter school, including the school Principal, are employees of the CMO. However, the corporation's bylaws prohibit Aspira of Florida employees from serving as governing board members.

Downtown Miami- The school's governing board is responsible for the control and general management of the affairs and business of the school. The governing board delegates CSUSA (CMO) the operation and management of the school. School personnel, including the Principal, are employees of the CMO. The CMO purchases goods and services in accordance with a budget that the school's governing board approves. CMO representatives attend governing board meetings, provide information and make recommendations to the governing board. The management agreement includes provisions under which both parties can terminate the agreement.

Excelsior- The school's governing board carries out a voting process for making decisions with regards to the operation of the charter school. The board delegated the CMO (Academica) the identification, design, and procurement of facilities; staffing recommendations; and human resource coordination. In addition to services required for the day to day administration of the school such as regulatory compliance, legal and corporate upkeep, and the maintenance of the books and records of the school as well as bookkeeping, budgeting and financial forecasting that is required by Excelsior's governing board for its oversight. The school's governing board meeting minutes show that the CMO participated in all governing board meetings and made recommendations to the board. The school's governing board reviews the recommendations made by the CMO and act upon them in the manner the board decides. The management agreement includes provisions under which both parties can terminate the agreement.

Mater East and Mater High- Mater Academy is a non-profit company that operates a network of 20 charter schools in Miami-Dade County Florida to include Mater High and Mater East. The company is currently governed by a four member, board of directors that creates policy and provides oversight of the schools in the areas of school operations, academic accountability, and financial accountability. Each school has an administrator (i.e. Principal) who is responsible for the school's day to day operations and receives professional support services (i.e. human resource management, facilities/maintenance, business and finance, risk management, legal and statutory compliance, communications, and quality assurance) from Academica (CMO). Based on our review of Mater Academy's governing board meeting minutes (2007-2008 through 2011-March 31, 2012), we noted the following:

- A CMO representative attends governing meetings and makes recommendations to the board.

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- The governing board authorizes the CMO to perform various functions such as submitting new charter applications to the School Board, applying for Federal funding, preparing and revising budgets; and negotiating contracts.
- The governing board makes requests to the CMO. For example, in one meeting, the governing board asked the CMO to provide a list of appraisers they could reference for future projects.
 - ii. Was there any board member or school official identified that made any decisions that would represent a conflict of interest, or related party transaction? If yes, what was the relationship? We identified no evidence to suggest that governing board members or school officials in the review period made decisions that would represent a conflict of interest or related party transaction.
 - iii. Identify any potential findings identified during the interview with the charter school board member and/or document review. Include concerns regarding, but not limited to, conflict of interest, related party transactions, and segregation of duties.

No potential findings identified in this area.

b. Charter School Fiduciaries and Agents

- i. Indicate whether the charter schools' external auditor, attorney, real estate broker, broker-dealer, banker or other agent were sourced independently from the CMO? Was this an example of a best practice by the charter school?

Aspira RAM- Since Aspira of Florida (CMO) and Aspira RAM share board members, and are in essence the same entity, the charter school's external auditor was sourced by the CMO. Aspira of Florida used the same external auditor for Aspira RAM's financial statement audits for FY's 2008 through 2012. For the FY 2012 audit, Aspira of Florida evaluated quotes from three different CPA firms. The CMO selected the external auditor that submitted the lowest bid. We did not identify legal counsel expenses in the school's financial statements for FYs 2008 through 2012, or in the school's expenditure information and documentation that we reviewed.

Excelsior- The schools' external auditor was sourced by the CMO. Excelsior used the same external auditor for the financial statement audits for FY's 2008 through 2011. The school's governing board meeting minutes show that for the FY 2012 audit, Academica evaluated three audit proposals and presented them to the board. The board voted to rank the proposals and asked the CMO to negotiate the price of the highest ranked proposal. Excelsior incurred approximately \$34,000 in legal fees to terminate its agreement with its prior CMO, Leona Group. The school's governing board hired an attorney that was recommended by its current CMO, Academica. The school's governing board Chair stated that since the school was in the process of terminating its management agreement with Leona Group, it did not have enough time to evaluate other options.

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Downtown Miami- The schools' external auditor was sourced by the CMO, CSUSA. The school used the same external auditor for the financial statement audits for FY's 2007- through 2011. According to school governing board meeting minutes, CSUSA received and evaluated three bids for the FY 2012 audit. The CMO recommended an audit firm and informed the school's governing board of the costs. The governing board voted to contract the external auditor recommended by the CMO. We did not identify legal counsel expenses in the school's financial statements for FYs 2007 through 2011, or in the school's expenditure information and documentation that we reviewed.

Mater East and Mater High- Mater Academy's external auditor and attorney were sourced independently from the CMO. Since July 1, 2005, Section 218.391, F.S. has prescribed an auditor selection process for Florida's charter schools to comply with the annual financial audit requirement.¹³ Mater Academy changes external audit firms every three to four years even though the law does not specify a rotation requirement. Since 2005-2006, General Counsel for Mater Academy has represented an external law firm that is independent of Mater Academy and its CMO. However, due to lower contractual costs, General Counsel for the CMO sometimes handles regulatory compliance at the District level for Mater Academy.

- ii. Identify any potential findings identified during the visit and/or document review of the charter school and CMO. Include concerns regarding, but not limited to, conflict of interest, related party transactions, and segregation of duties. No findings or concerns were noted in regards to the charter schools' fiduciaries and agents.
- c. The CMO Contract and Fees
- i. Identify how the charter school contracted the CMO based on the CMO model classifications from the Background section of this document. Based on the classifications, was the contract and fees paid reasonable? [The criteria used to determine reasonableness of fees paid to the CMO depends on the situation. For example, the services provided to the school, the number of students served, the size and location of the school's building. The applicable criteria to contracts that are paid with Federal funds are 34 CFR 80.36, and reasonableness OMB Circular A-87.] Consider:
 - 1. How was the contract sourced?
 - 2. What was the fee structure of the contract? Did the contract include contingency fees such as reimbursements?
 - 3. Was the charter school, its employees, or its board members affiliated with the CMO or its employees?
 - 4. Did the CMO have access to the charter schools' finances and bank accounts, and had check writing capabilities?
 - 5. Did the contract include a reasonable termination clause?
 - 6. Assess whether the charter school would be able to continue if the CMO contract was terminated. Why or why not?

¹³ The law requires the use of an audit committee that is responsible for establishing factors (i.e. ability of personnel, experience, ability to provide required services) to evaluate audit firms; publicly announcing and providing requests for proposals to interested firms; evaluating proposals; and making a selection.

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Aspira RAM- Aspira of Florida, Inc. (CMO) provides management services to Aspira RAM such as financial, human resources, and facilities. The corporation charges to the school an administrative fee of a percentage of the school's revenues. During FY 2011-2012, Aspira of Florida charged an administrative fee of (b) (4) percent to Aspira RAM.

Excelsior- Excelsior's former CMO, Leona Group, became the school's CMO shortly after the school's charter application was approved on December 2007. Specifically, Leona Group provided management services to Excelsior from February 2007 through September 2009. We did not receive the school's governing board meeting minutes for the period when the management agreement was executed or any additional information on the CMO's selection process. The school's most recent CMO, Academica, provided management services to the school from January 2010 through January 2013.¹⁴ The school's governing board meeting minutes show that at least two CMO proposals were evaluated by the governing board's Chair. However, the governing board did not maintain copies of the proposals that were evaluated. Academica received \$(b) (4) per student full time equivalent (FTE) per year. This management fee was paid on a monthly basis unless FTE funding has not been received from the District or State. No (b) (4) were included in the contract.

Downtown Miami- The school has had the same CMO since the school initiated operations. The charter contract that authorized Downtown Miami to operate was executed in February 2002, and the school executed its management agreement with CSUSA on April 2002. (b) (5)

(b) (5)
The CMO receives all school revenues, including Federal grants, from which it pays for the operating costs of the school in accordance with the annual budget approved by the school's governing board. The CMO retains as its management fee (b) (4)

(b) (4)
This fee cannot exceed (b) (4)

Mater East and Mater High- Mater Academy's current management services contract with Academica, effective July 1, 2011 through June 30, 2016, was executed on September 23, 2011. The contract includes all Mater Academy schools and (b) (4)

Academica receives \$(b) (4) per student FTE per year. This management fee is paid on a monthly basis unless FTE funding has not been received from the District or State. No (b) (4) are included in the contract.

¹⁴ Academica began providing management services to Excelsior in October 2009. A formal agreement was not signed between Excelsior and the CMO until January 13, 2010.

¹⁵ Mater Academy (b) (4)

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Mater Academy did not issue Requests For Proposals (RFP) for any of the contracts provided to ED-OIG and does not issue them unless required by law.¹⁶ However, Mater Academy representatives stated that the CMO contract was negotiated at arm’s length and the selection was based on pricing, relevant experience, scope of services, the CMO’s performance record, and research regarding companies that provide similar services. We reviewed board meetings minutes for the 2010-2011 and 2011-12 periods and found no evidence of a discussion regarding the renewal of the management agreement with Academica or the reasonableness of CMO services or fees. The first management agreement executed between Academica and Mater Academy for Mater High occurred in 2002. However, we were unable to review the board meeting minutes for this period because they fall outside our audit scope.

- ii. Identify any potential findings identified during the interview and/or document review with the charter school and CMO. (Including, but not limited to, any issues regarding the reasonableness of the fees paid to the CMO, services provided, access to bank accounts, termination clauses, lease arrangements, and financial systems. Include any conflict of interest, related party, or segregation of duties concerns.)

Charter School	Related Party Transactions	Incompatible Duties
Aspira RAM	Facilities lease agreement with CMO	N/A
Downtown Miami	N/A	CMO has full authority over charter school personnel.
Excelsior	Equipment lease agreement with its first CMO.	The school’s first CMO had full authority over charter school personnel.
Mater High and Mater East	Facility lease agreements with CMO affiliates.	N/A

Aspira RAM- We identified a facilities lease agreement that represents a related party transaction. On July 2006, Aspira RAM entered into a long-term lease agreement with Aspira of Florida for the school’s facilities. [REDACTED], signed the lease agreement on behalf of Aspira of Florida and [REDACTED], [REDACTED] at Aspira RAM, signed the agreement on behalf of the school. The lease called for monthly rental payments of \$ [REDACTED] per month through June 2017. However, on September 2007, Aspira of Florida received a \$ [REDACTED] loan that it used to expand Aspira RAM facilities. On July 2008, the lease agreement was amended and the rental payments were increased to \$ [REDACTED] per quarter (approximately \$ [REDACTED] per month). The agreement was extended to June 30, 2018. Aspira of Florida neither agreed nor disagreed that the facility lease agreement between Aspira of Florida and Aspira RAM represented a related party transaction.

¹⁶ Under Florida law, the general purchasing requirements that apply to school districts do not apply to charter schools. Fla. Stat. § 1002.33(16) lists the state statutes charter schools are exempt from, which includes those sections covering procurement requirements by school districts.

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Downtown Miami- Downtown Miami delegated incompatible duties to its CMO. Specifically, we identified language in the management agreement between Downtown Miami and CSUSA that may take away the school’s governing board authority to evaluate, hire or fire key school staff. One of the responsibilities of CSUSA according to its agreement with Downtown Miami is to “select and hire qualified personnel to perform services at the charter school, including the school’s administrator, who shall be employees of CSUSA...” Although the agreement requires CSUSA to consult with and request approval from the governing board with respect to the hiring, removal, duties, and contract terms of the School Administrator (school Principal), it also gives CSUSA the option to unilaterally terminate the management agreement if the governing board fails to adopt and ratify the CMO’s recommendations for the position. This type of provision may preclude the governing board from making independent decisions regarding school staff. Moreover, given the scope of services provided by CSUSA, Downtown Miami could experience operational and financial instability if the management agreement was terminated. During the wrap-up meeting with Downtown Miami, representatives from CSUSA stated that we are interpreting the contract provision too literally. The school Principal stated that the school’s governing board participates in the selection process of school Principals and such contract provisions has not precluded the school’s governing board from requesting the CMO to remove a school Principal in the past. In its response to our preliminary observations Downtown Miami stated that our conclusion that Downtown Miami delegated incompatible duties to its CMO is inaccurate. We reviewed Downtown Miami’s comments and determined that no changes are warranted to our observations based on Downtown Miami’s response.

Excelsior- From July 2008 through June 2013, the Leona Group leased equipment (i.e. computers, printers, fax machines, desks, chairs, educational books, and playground equipment) to Excelsior. This equipment lease agreement represents a related party transaction. Although Excelsior did not provide sufficient information to determine how the equipment lease agreement with Leona Group was sourced, governing board meeting minutes state that apparently, Leona Group purchased school equipment upfront and leased it back to the school.

In addition, Excelsior delegated incompatible duties to Leona Group. Specifically, we identified language in the management agreement with Leona Group that took away the school’s governing board authority to evaluate, hire or fire key school staff. The management agreement gave the CMO “the sole responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline and transfer personnel.” Based on interview results with Excelsior officials, the governing board terminated its contract with Leona Group because the management company did not agree to replace the school’s (b) (6) at the request from the governing board. A former (b) (6) of Leona Group and current consultant to Excelsior’s governing board stated that the management company felt that its authority over school personnel was being taken away by the governing board. According to school governing board meeting minutes, the CMO threatened with withholding approximately \$115,000 in school funds under the control of the CMO¹⁷ for money that Excelsior owed to Leona Group pursuant to the management and equipment lease agreements between Excelsior and Leona Group. The CMO threatened also with taking legal action alleging the schools’ breach of the management agreement. As a result,

¹⁷ According to the management agreement, Leona Group deposited the school’s revenues in a separate school-dedicated account and paid for the costs incurred by the school and by Leona Group in operating the school, in accordance with a budget approved by the school’s governing board.

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Excelsior incurred approximately \$34,000¹⁸ in legal fees to terminate its agreement with Leona Group. In addition, the CMO was the employer of record for all school based employees providing services to Excelsior, including the school Principal, all teachers and other personnel. As a result, upon Excelsior's termination of the management agreement with Leona Group, the school hired an interim Principal and contracted a professional employer services company that was recommended by Academica. Excelsior did not provide comments in response to our preliminary observations that 1) the equipment lease agreement with Leona Group represented a related party transaction, and 2) Excelsior delegated incompatible duties to Leona Group.

Mater East and Mater High- As a result of our documentation review for Mater Academy, Mater High, and Mater East, we identified three lease agreements that represent related party transactions. Two of the related party transactions identified—a lease and security agreement with School Development HG II, L.L.C. for Mater High and a lease and Security Agreement with School Development East, L.L.C. for Mater East—indicate, at a minimum, the appearance of conflicts of interest. Companies associated with each of these instances (i.e. School Development HG II, L.L.C., School Development East L.L.C., and Duke School Properties, L.L.C.) were disclosed by Academica to ED-OIG as entities under the CMO's common control. However, we were unable to determine if the governing board for Mater Academy was aware of these affiliations prior to the execution of the agreements. Details regarding each agreement are presented below:

- **Lease and Security Agreement with School Development HG II, L.L.C. (School Development):**¹⁹ On April 1, 2004, School Development and Mater Academy for Mater High entered into a (b)(4) -year lease and security agreement. The agreement provides 122,500 square feet for Mater Academy Middle School and Mater High at a fixed price rate of \$ (b)(4) per square foot plus annual Consumer Price Index (CPI) adjustments. (b)(6) a (b)(6) of Academica—Mater Academy's CMO—signed the contract on behalf of School Development. Mater Academy's Board Chairman and (b)(6), the (b)(6) of Academica and the (b)(6) of Mater Academy at that time, signed the contract on behalf of Mater Academy. Board of Directors meeting minutes from Mater Academy dated April 1, 2004, include a resolution that the terms of the School Development lease were in the best interest of Mater Academy. We found no evidence in the meeting minutes to suggest that the (b)(6) of Mater Academy and the management organization disclosed an affiliation with the landlord prior to the execution of the agreement. According to the Florida Department of State, Division of Corporations' records, the Articles of Organization for School Development were filed on August 12, 2003, by the (b)(6) of Wolfson Hutton Company, Inc. (Wolfson) and managing member (b)(6). Article VII of the Articles of Organization designate

¹⁸ Excelsior paid approximately \$34,000 to the law firm it contracted for representing the school in its dispute with Leona Group. However, this payment amount may be inclusive of legal counsel services not directly related to the management agreement termination.

¹⁹ In the 2007-08 and 2008-09 financial statement audits for Mater High and Mater East, the School Development HG II, L.L.C., School Development East, L.L.C. and Duke School Properties, L.L.C. agreements were identified under a Related Party Transactions note. However, the agreements were subsequently identified under a Commitments and Contingencies note in the schools' 2009-10, 2010-11 and 2011-12 financial statement audits. Mater Academy stated that it exclusively uses state and local funds to pay for regular operational expenses to include facility lease agreements.

²⁰ (b)(6) was identified by the CMO as an employee working in the area of governance and compliance.

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Wolfson as having a 100 percent ownership interest in School Development. Wolfson was formed on June 1, 2002, as a Panamanian company. (b) (6) has been the (b) (6) of Wolfson since at least (b) (6) 2003.²¹ In addition, (b) (6) has been the (b) (6) of the domesticated Wolfson since (b) (6) (b) (6), 2005. Mater Academy and Academica contend that as of April 1, 2004, the landlord for this lease was not affiliated with Academica. Mater Academy stated that in 2006, its Board of Directors found out that (b) (6) and (b) (6) had subsequently obtained ownership in School Development. The Board of Directors evaluated the significance of the disclosure, reviewed documents provided by (b) (6) and (b) (6) (b) (6) and determined that their acquisition of School Development did not occur until late 2005. No documentation was provided by Mater Academy in support of these claims.

- **Lease and Security Agreement with School Development East, L.L.C. (School Development East):**¹⁹ On April 1, 2004, School Development East, L.L.C. (School Development East) and Mater Academy for Mater East entered into a (b) (4) year amended and restated lease and security agreement.²² The agreement provides 17,500 square feet for Mater Academy East at a fixed price rate of \$(b) (4) per square foot plus annual CPI adjustments. (b) (6) signed the contract on behalf of School Development East. The Board Chairman and (b) (6) signed the contract on behalf of Mater Academy. Board of Directors meeting minutes from Mater Academy dated April 1, 2004, include a resolution that the terms of the School Development East lease were in the best interest of Mater Academy. We found no evidence in the meeting minutes to suggest that the President of Mater Academy and the management organization disclosed an affiliation with the landlord prior to the execution of the agreement. According to the Florida Department of State, Division of Corporations' records, the Articles of Organization for School Development East were filed by the President of Wolfson Hutton Company, Inc.²³ Mater Academy and Academica contend that as of April 1, 2004, the landlord for this lease was not affiliated with Academica. Mater Academy stated that in 2006, its Board of Directors found out that (b) (6) and (b) (6) had subsequently obtained ownership in School Development East. The Board of Directors evaluated the significance of the disclosure, reviewed documents provided by (b) (6) and (b) (6), and determined that their acquisition did not occur until late 2005. No documentation was provided by Mater Academy in support of these claims.
- **Lease Agreement with Duke School Properties, L.L.C.**¹⁹: On September 24, 2007, Duke Properties and Mater Academy for Mater High entered into a (b) (4) year amended and restated lease agreement.²⁴ (b) (6) signed the contract on behalf of Duke

²¹ (b) (6) filed the Certificate of Domestication (Certificate) for Wolfson on December 21, 2005. The Certificate only identifies (b) (6) as a (b) (6) of the company prior to its domestication. However, in the Articles of Organization for School Development, (b) (6) identifies himself as the (b) (6) (b) (6) of the non-domesticated Wolfson as of August 11, 2003.

²² The original agreement was executed on August 9, 2002.

²³ See the previous observation for information regarding Wolfson Hutton Company, Inc.

²⁴ The original agreement was executed on May 19, 2006.

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Properties and (b) (6) of Mater Academy - signed the contract on behalf of Mater Academy. According to the Florida Department of State, Division of Corporations' records, (b) (6) – a (b) (6) of Academica - submitted the Articles of Organization for Duke Properties on March 23, 2005, and was the organization's (b) (6). As of April 7, 2013, (b) (6) was the (b) (6) of Duke Properties and was also identified as the (b) (6) of Academica Charter Schools Finance (Academica Finance), an affiliate company of Academica Corporation²⁵. In response to our audit notification request for a list of parents, subsidiaries, affiliates, and other entities under its common control, Academica did not disclose Academica Finance as an entity under its common control. However, Academica later confirmed this affiliation and stated that “Academica Finance was formed to solely act as a conduit borrower to accommodate finance transactions for School Development HG II, School Development East, and other similar affiliated entities.”

d. Other Contracts Reviewed

- i. List the types of other contracts that the charter school had in effect during the audit period.

Other types of contracts in effect during the audit period for the five schools reviewed in Florida are provided in the table below.²⁶

Example of Types of Contracts	Aspira RAM	Downtown Miami	Excelsior	Mater East	Mater High
Payroll services				X	X
Professional employer services			X	X	X
Equipment lease	X	X	X	X	X
Food services		X		X ²⁷	X
Construction ²⁸	X			X	X

- ii. Indicate how the charter schools in your selection entered into other contracts. Include:

1. How the contract was sourced?
2. Were the fees reasonable?
3. Was the charter school, its board members, or its employees affiliated to the vendor contracted?

²⁵ Academica Dade, L.L.C. is an affiliate company of Academica Corporation. Key officials (i.e. President, Vice President, etc.) at these organizations are essentially same. (b) (6) served as the (b) (6) (b) (6) of Academica Corporation from (b) (6), 2002 through (b) (6), 2006.

²⁶ The information included in the table regarding other types of contracts in effect during the review period is not inclusive list of all the contracts that the schools may have entered during the period. The information in the table is based solely on copies of contracts that were provided to the ED-OIG.

²⁷ Pizza bids were provided by at least two vendors. Based on the documentation, it appears that the bids were obtained to use funds associated with the Federal National School Lunch and State Fiscal Stabilization programs. We did not identify the vendors in the vendor payments provided by Mater Academy for Mater East and Mater High. As such, it is unclear if either of the vendors had a contract with Mater Academy.

²⁸ The construction category includes architectural design services.

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4. Was the charter school obliged to contract the vendor to receive services from the CMO?

Aspira RAM- Aspira of Florida manages the finances of Aspira RAM. Aspira of Florida's documented policy requires the purchasing of the most competitively priced goods and services that are sound in quality. The policy also requires that procurement transactions be completely documented in writing. The school's governing board approval is required for purchases of (b) (4) or higher. We were unable to substantiate Aspira of Florida's implementation of this policy for contracts submitted for ED-OIG's review due to lack of documentation. Governing board meeting minutes show extensive discussion with regards to the school's budget and financials but include minimal information regarding the evaluation and approval of specific purchases and contracts. No affiliations were noted.

Excelsior- The contracts reviewed were sourced by the school's CMO. Although Excelsior did not provide sufficient information to determine how the equipment lease agreement with Leona Group was sourced, governing board meeting minutes state that apparently, Leona Group purchased school equipment upfront and leased it back to the school. This related party transaction is reported in Section 4.c.ii above. Upon Excelsior's termination of the management services agreement with Leona Group, it contracted a professional employer services company that was recommended by Academica. No affiliations were noted in these transactions.

Downtown Miami- Downtown Miami did not provide sufficient documentation to support how any of the contracts/agreements reviewed were sourced.

Mater East and Mater High- Mater Academy stated that it did not issue an RFP for any of the contracts provided to ED-OIG and does not issue them unless required by law. (b) (5)

(b) (5)

. Mater Academy did not provide sufficient documentation to support all contracts/agreements under review. Appraisals, a School Facility Market Study, and Board of Director Meeting Minutes were provided to support the School Development, School Development East, and Duke School Properties transactions. However, we identified the following concerns related to the School Development HG II and School Development East agreements:

- ***School Development HG II***
 - Mater Academy provided a post-purchase Facilities Report (Report) for the School Development HG II property. The Report concludes that the School Development lease offers a favorable rental rate that is below comparable market rates. Mater Academy states that the Report was prepared in 2006. However, neither the author of the report or the report date could be identified in the Report. Without the name of the author/preparer, we were unable to determine if the Study was performed by an independent party.
 - Mater Academy provided a post-purchase appraisal report prepared by Integra Realty Resources – South Florida (IRR) on November 11, 2006. According to the appraisal report, IRR was retained by Mater Academy to 1) Inspect Mater Academy (Mater High) and nine other schools, five of which were identified in a

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November 2, 2006 report by the District's OMCA²⁹; 2) Review leases and/or lease information regarding Mater Academy and the nine other properties and compare data; and 3) Review and comment on an April 18, 2006 Appraisal Report produced for OMCA by Gallaher and Birch, Inc. IRRR concluded that the School Development HG II agreement was fair and reasonable from a financial point of view; four of the five schools provided by OMCA to its hired appraiser were not comparable; and that the basis of the appraisal performed by Gallaher and Birch, Inc. was flawed.

- **School Development East** - Mater Academy provided minutes for a Board of Directors meeting on April 1, 2004. The minutes included a resolution that the terms of the School Development HG II and School Development East properties were in the best interest of Mater Academy. The minutes also included a School Facility Market Study (Study) for the School Development East property. Based on the Study, the average rental rate for a comparable sized facility in the Miami area was between \$20 and \$24 per square foot in 2003. The \$(b) (4) per square foot rate charged by the landlord is within the average rental rate range quoted in the Study. However, the validity of the Study is questionable as it gives no indication of who conducted the analysis. Without the name of the Study's author/preparer, we could not determine if the Study was performed by an impartial, independent third party. Mater Academy indicated that it was not able to identify the author of the Study in the time allotted by ED-OIG.
- iii. Identify any potential findings identified during the interview and/or document review with the charter school and CMO. Include any concerns regarding, but not limited to, conflict of interest, related party transactions, and segregation of duties concerns.

Excelsior- Based on a limited documentation review and interview results with the current governing board Chairperson for Excelsior, representatives from Academica, and District officials, it came to ED-OIG's attention that Excelsior's facility lease agreement was terminated effective June 15, 2013 and the school was relocated to another site. Excelsior shared its former site with Excelsior Charter High School. However, Excelsior's former site is currently leased by Mater Academy for iMater Elementary. Prior to the termination of the lease, Academica provided management services to Mater Academy and Excelsior. According to Excelsior's governing board meeting minutes, in a discussion with the District on June 7, 2013, the Chairperson learned that Academica or Mater Academy submitted documents to open iMater Elementary at Excelsior's former site. The Chairperson stated that this is a conflict of interest and that the governing board took Academica's recommendation to terminate the lease. However, the CMO contends that it was not involved in the negotiations of iMater's lease agreement. The landlord (b) (4) and Academica gave the school a \$(b) (4) grant to cover remaining liabilities. Excelsior's governing board agreed not to renew its management agreement with Academica, which expired on January 2013. The District

²⁹ In connection with a 2006 Audit of Mater Academy, the District hired a real estate appraisal consultant to compare lease agreements among six schools to include Mater High. Results indicated that the lease rate at Mater High was about 12 to 30 percent higher than the lease rates at the other charter schools included in the analysis and there may be mitigating factors that justify the differential.

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approved a new site for Excelsior on July 17, 2013. However, as of November 1, 2013,³⁰ Excelsior Charter High School had not identified a site to operate.

5. OSM

- a. QAR checklist
 - i. Complete QAR Checklists for Fieldwork, Reporting, and Draft Issuance, as applicable to the work performed and the team summary. Please copy checklist from PA6, and place a copy of your completed checklists in PA9 in TeamMate.

The QAR checklists for work conducted in Florida are located at [PA9.p](#), [PA9.q](#), and [PA9.r](#).

- b. OSM, Sampling Selection, and Methodology
 - i. What was your rationale for choosing the charter schools? Please add previously submitted site selection document to your respective row in section M in TeamMate.

We selected a sample of 5 charter schools from a list of 20 schools with CMOs that was provided by the lead region. We grouped the 20 schools in 4 clusters (clusters A through D) based on characteristics that the schools within each cluster shared. The characteristics considered included: (1) whether the schools had been in operation for more than five years or less than five years, (2) whether the schools' CMOs were for-profit or non-profit; and (3) if their CMO managed charter schools in multiple States or just in Florida. Cluster A included 10 schools that shared common characteristics, cluster B included 5 schools, and clusters C and D included 3 and 2 schools respectively. From cluster A we selected the two charter schools with the highest estimated amount of Title I program funds the schools may have received, and the school with the highest estimated Title I program funds received from each cluster B through D, for a total of five schools. We believe that the 5 schools selected are representative of the 20 schools in the list based on the characteristics considered in the selection.

- c. Describe any work performed at the State, LEA, authorizer, and CMOs.
For the five schools selected for review in Florida, we –

- Interviewed officials at the School Board of Miami-Dade County, the schools' authorizer;
- Interviewed school officials to include Board Chairpersons, Presidents, and Principals;
- Interviewed Executive Officers of the schools' management companies: Academica, Aspira of Florida, and CSUSA;
- Interviewed local and State auditors in Florida;
- Reviewed documentation obtained in response to our audit notification letter: meeting minutes for Board of Directors meetings, bylaws, disclosure forms, vendor

³⁰ Date of a meeting ED-OIG had with Excelsior's governing board Chair.

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- expenses reported by the schools, financial statement audits, and contractual agreements (i.e. charter agreements, management company agreements, lease agreements, etc.);
- Researched public records (i.e. Articles of Incorporation, Articles of Organization, Disclosure forms, etc.) to identify and verify affiliate organizations of schools' management companies;

We also met with FLDOE officials regarding District-managed charter schools at Miami-Dade County Public Schools.

State of Michigan Summary

The objective of this audit work was to evaluate whether there were any potential conflicts of interest involving charter schools located in the State of Michigan (Michigan). As part of our audit work, we gained an understanding of the oversight and audits of charter management organizations and education management organizations conducted by charter authorizers in the State of Michigan and the Michigan Department of Education (MDE). Throughout this summary, we refer to charter management organizations and education management organizations collectively as “management organizations” and charter schools as either “charter schools” or “schools” depending on the context in which the term is used.

State: Michigan

1. Overall Conclusion/Results

State Charter School Law

The Michigan School Reform Act (Act 451 of 1976, known as “The Revised School Code”) authorized the creation of charter school authorizing bodies to oversee the creation and operation of charter schools in the State of Michigan.¹ The Revised School Code also permits charter schools to enter into contracts with management organizations.²

- Requirements for charter schools to report to legislative committees on education (section 380.501 (a); repealed as of March 28, 2012).
- Types of entities that can be authorizers, a description of what a charter school application to an authorizer should include, oversight requirements for authorizers to oversee charter schools, and an outline of the ability of the superintendent of public instruction to suspend the power of the authorizing body to issue new contracts (section 380.502 (2) through (5)).
- Items an authorizer should consider before approving a contract with a charter school (section 380.503 (1)).
- Requirement for the authorizer to submit charter school contracts within 10 days of issuance to the superintendent of public instruction (section 380.503 (4)).

¹ Throughout this summary, we refer to the authorizing bodies authorized by The Revised School Code as “authorizers.”

² Pursuant to The Revised School Code, a charter school is a State-supported public school under the State of Michigan constitution, operating under a charter issued by a public authorizing body [section 380.501(1)]. The Revised School Code refers to charter schools as public school academies.

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- Requirements for what a charter school contract should contain, including
 - the educational goals of the charter school and the methods by which it will be held accountable,
 - a description of the method to be used to monitor the charter school's compliance with applicable law and performance in meeting its targeted educational objectives,
 - procedures and grounds for revoking the contract,
 - requirements for financial audits, a requirement to prohibit specifically identified family relationships between members of the charter school's board of directors and management organization and identify the prohibited relationships,
 - a requirement that the board of directors of the charter school should make information concerning its operation and management available to the public and authorizer as is required by State law for school districts, and
 - a requirement that the authorizer must review and may disapprove any agreement between the board of directors of a charter school and a management organization (section 380.503 (6)).
- Ability of a charter school to enter into binding legal agreements with persons or entities as necessary for the operation, management, financing, and maintenance of the charter school (section 380.504a (d)).
- Ability of a charter school, with the approval of the authorizing body, to employ or contract with personnel as necessary for the operation of the charter school, prescribe their duties, and fix their compensation (section 380.506).
- Requirements for each authorizer to
 - establish the method of selection for the board of directors of each charter school it authorizes,
 - oversee each charter school to ensure the board of directors complies with the contract and applicable law,
 - hold a charter school accountable for meeting applicable academic performance standards and implement corrective action for charter schools not meeting those standards,

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- ensure the board of directors is independent of any management company, and
- serve as the fiscal agent for the charter school (section 380.507 (1) and (3)).
- Ability of an authorizer to revoke a contract with a charter school, amend a charter school’s contract to eliminate the charter school’s authority to operate existing age and grade levels, and take corrective measures to avoid revocation (section 380.507 (4) through (7)).

The Revised School Code also specifically addresses conflict of interest, related party transactions, and segregation between charter schools and management organizations.

- Section 380.503(6): Charter school contracts should include a requirement to prohibit specifically identified family relationships between members of the charter school’s board of directors and management organization and identify the prohibited relationships.
- Section 380.507(1)(f): Requires authorizing bodies to ensure that charter schools’ boards of directors operate independently of any management organization.
- Section 380.1203(1): Requires a board member of a charter school who believes or has reason to believe that he or she has a conflict of interest with regard to a contract or other financial transaction that requires approval of the board to abstain from voting on the contract or other financial transaction and to disclose the specific conflict of interest. A member of the board is presumed to have a conflict of interest if the member or his or her family member has a financial interest, or a competing financial interest, in the contract or other financial transaction or is an employee of the charter school.
- Section 388.1769(b): Requires a board member of a charter school or charter school corporation to abstain from voting on any contract in which the board member has a conflict of interest.

Five different authorizers authorized the seven charter schools that we selected for review. The seven schools contracted with five different management organizations.

Authorizers Oversight and Monitoring Practices

All five authorizers had processes for monitoring the schools that they authorized. Each of the five authorizers (1) employed field representatives that served as a liaison between the authorizer and the school, made site visits to the school during the year, and attended school board meetings; (2) monitored schools’ compliance with various reporting requirements; (3) required schools to submit academic and financial information during the year; (4) had a process for conducting annual reviews of employees at schools and confirming teacher certifications; and

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(5) provided the schools that they authorized with an annual performance report regarding the authorizer’s evaluation of the school’s academic and financial performance.

Common Themes Among Charter Schools

All seven schools had the authorizer in the highest governance position, apart from the U.S. Department of Education and the Michigan Department of Education (MDE). The school boards for all seven schools reported directly to the authorizer. The management organizations reported directly to the school boards.

All seven charters between the schools and the authorizers of the schools stated that the school could contract with a management organization as long as it complied with the terms and conditions of the charter and any applicable management organization policies issued by the authorizer. The contracts between the seven schools and the management organizations for the seven schools detailed the responsibilities of the school boards and the responsibilities of the management organizations. All five authorizers had policies in place requiring reviews of the contracts between the seven schools and the management organizations for the schools prior to approving the schools’ charters.

The school boards of Lighthouse Academy, WayPoint Academy, and West Michigan Academy of Environmental Science all initiated the process of selecting a management organization. The school boards of Lighthouse Academy and WayPoint Academy solicited competitive bids. The school board of West Michigan Academy of Environmental Science did not use a competitive bidding process but instead evaluated multiple management organizations and selected one based on compatibility of purpose. The management organization for Threshold Academy initiated the process for obtaining a charter school and recruited the school board members.

We were not able to determine how Eagle Crest Charter Academy, Ridge Park Charter Academy, or Vista Charter Academy selected the management organization for the schools or how the contracts with the management organization were sourced.

We identified the following potential conflicts of interest:

1. The (b) (6) of the management organization for WayPoint Academy and the (b) (6) of WayPoint Academy were (b) (6) and (b) (6)
2. Eagle Crest Charter Academy, Lighthouse Academy, Ridge Park Charter Academy, and Vista Charter Academy used the same external auditor as the respective management organizations for the schools.
3. The school boards of WayPoint Academy and West Michigan Academy of Environmental Science used the same attorneys as the respective management organizations for the schools.

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4. The (b) (6) for Eagle Crest Charter Academy was the (b) (6) of the (b) (6) of the school board of Eagle Crest Charter Academy.

We identified the following related party transactions:

1. Eagle Crest Charter Academy, Ridge Park Charter Academy, and Vista Charter Academy leased school facilities from the management organization for the schools, and the management organization was the landlord. The management organization leased the facilities from a wholly-owned subsidiary of the management organization. These three schools' annual lease payments for fiscal years 2009-2010 through 2011-2012 were (b) (4), (b) (4), and (b) (4), respectively. Each schools' property lease agreement was separate from the contracts with the management organization to manage the schools.
2. Threshold Academy leased its school facilities from the management organization for Threshold Academy, and the management organization was the landlord. Threshold Academy had a lease agreement with the management organization. Threshold Academy's lease agreement was separate from its contract with the management organization to manage the school. Threshold Academy's annual lease payments for fiscal years 2009-2010 through 2011-2012 were \$ (b) (4).
3. Lighthouse Academy leased its school facilities from an entity that provided contracted services to both Lighthouse Academy and the management organization for Lighthouse Academy. The management organization for Lighthouse Academy provided human resources and financial services to Lighthouse Academy through a contract with the entity that leased school facilities to Lighthouse Academy. The management organization's chief executive officer, chief financial officer, and chief human resources officer also served as the chief executive officer, chief financial officer, and chief human resources officer for the entity leasing school facilities to Lighthouse Academy. Lighthouse Academy's annual lease payments for fiscal years 2009-2010, 2010-2011, and 2011-2012 were \$ (b) (4) and \$ (b) (4) respectively.
4. The (b) (6) of the school board of West Michigan Academy of Environmental Science owned a company that was a school-approved vendor and received payments from the school for supplies.
5. WayPoint Academy paid a company owned by a school board member for bus repairs.
6. Vista Charter Academy paid a school board member to provide a 2-day seminar for 8th grade students.

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2. Background

Charter School Selection

We judgmentally selected seven schools within a 50-mile radius of Grand Rapids, Michigan. See Table 1 for the names of the seven schools, the five management organizations, and the five authorizers.

Table 1: Information on Charter Schools in Sample

	School Name	Management Organization Name	Type of Management Organization	Authorizer Name
1	Eagle Crest Charter Academy	National Heritage Academies, Inc.	For-profit	Central Michigan University
2	Lighthouse Academy	Integrity Educational Services	Nonprofit	Ferris State University
3	Ridge Park Charter Academy	National Heritage Academies, Inc.	For-profit	Lake Superior State University
4	Threshold Academy	EightCAP, Inc.	Nonprofit	Central Michigan University
5	Vista Charter Academy	National Heritage Academies, Inc.	For-profit	Bays Mills Community College
6	WayPoint Academy*	One Plus Management, LLC	For-profit	Grand Valley State University
7	West Michigan Academy of Environmental Science	Choice Schools Associates, LLC	For-profit	Central Michigan University

*On June 14, 2013, the school board of WayPoint Academy signed a resolution to close the school. According to the authorizer, the school was closed because of declining enrollment, dwindling finances, and declining academic performance.

Management Organization Models

We classified the seven schools into categories based on who initiated the relationship with the management organization and which party controlled the finances.

- We were unable to determine who initiated the relationship between the school board and the management organization of three schools (Eagle Crest Charter Academy, Ridge Park Charter Academy, and Vista Charter Academy). The three school boards contracted with the same management organization, National Heritage Academies, Inc. The management organization centrally managed all funds from all sources. The management organization received all revenue from the schools and paid all of the schools' operating costs. The management organization allocated up to \$(b) (4) to an account controlled by the school boards of each school. According to the management organization's policies, the \$(b) (4) was to be used for educational purposes at the discretion of the school boards.

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- The school boards initiated the relationship with the management organization of two schools (WayPoint Academy and West Michigan Academy of Environmental Science). The school boards maintained control of all funds, and the management organization did not have check signature authority. At WayPoint Academy, the business manager, superintendent, or school board treasurer had check signature authority. At West Michigan Academy of Environmental Science, the school board members had check signature authority.

- The school board initiated the relationship with the management organization of one school (Lighthouse Academy). The school board maintained all funds in a school bank account. However, the management organization had the authority to sign checks. On a monthly basis, the management organization provided the school board with a list of checks that the management organization wrote the prior month to operate the school.

- The management organization initiated the relationship with one school (Threshold Academy). The management organization initiated the process of opening a school, and the management organization recruited school board members. The school board maintained control of all funds and reimbursed the management organization for the operating expenses paid by the management organization on behalf of the school. The school board members approved and signed the checks.

Overview of Funding

The seven schools in our sample were awarded Federal funds during fiscal years 2009-2010, 2010-2011, and 2011-2012. Each school participated in one or more of the following Federal programs: Title I, Part A of the Elementary and Secondary Education Act, as amended (Title I, Part A); Individuals with Disabilities Education Act (IDEA), as amended, Part B; the Charter Schools Program State Educational Agency grant (CSP); and the Elementary and Secondary Education Act, Title I, School Improvement Grants (Title I, SIG). Six of the seven schools (Eagle Crest Charter Academy, Lighthouse Academy, Ridge Park Charter Academy, Vista Charter Academy, WayPoint Academy, and West Michigan Academy of Environmental Science) were awarded Title I, Part A; IDEA, Part B funds, or both, under the American Recovery and Reinvestment Act of 2009 in award years 2009-2010 or 2010-2011, or both. WayPoint Academy was also awarded Title I, SIG funds under the American Recovery and Reinvestment Act of 2009 in award year 2011-2012. Table 2 shows that total Federal funding awarded to the seven schools decreased from 2009-2010 through 2011-2012.

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Table 2: Federal Funding

Federal Funding Awarded to Charter Schools			
Program*	2009-2010	2010-2011	2011-2012
Title I, Part A (CFDA 84.010)	\$2,168,397	\$1,554,692	\$1,414,133
Title I, SIG (CFDA 84.377A)	\$ 0	\$ 0	\$ 56,848
IDEA, Part B (CFDA 84.027)	\$ 565,624	\$ 596,950	\$ 537,888
CSP (CFDA 84.282A)	\$ 365,925	\$ 0	\$ 0
Total Revenues	\$3,099,946	\$2,151,642	\$2,008,869
*The CFDA numbers for the Title I, Part A; Title I, SIG; and IDEA, Part B programs funded by the American Recovery and Reinvestment are 84.389, 84.388, and 84.391, respectively.			

The management organizations for the seven schools were not awarded any Federal funds from the Charter Schools Program Grants for Replication and Expansion of High-Quality Charter Schools (Replication Grant) during fiscal years 2009-2010, 2010-2011, and 2011-2012.

Table 3: Replication Grant

Replication Grant CFDA 84.282M			
	2009-2010	2010-2011	2011-2012
Replication Grant	\$0	\$0	\$0

Enrollment Trends

The total collective average enrollment at the seven schools increased each year from fiscal year 2009-2010 through fiscal year 2011-2012.

Table 4: Student Enrollment

Student Enrollment			
	2009-2010	2010-2011	2011-2012
Eagle Crest Charter Academy	708	712	715
Lighthouse Academy	175	184	188
Ridge Park Charter Academy	609	655	669
Threshold Academy	177	178	174
Vista Charter	704	718	707

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Student Enrollment			
Academy			
WayPoint Academy	212	222	250
West Michigan Academy of Environmental Science	485	531	587
Total Enrollment	3,070	3,200	3,290

Other

During fiscal years 2009-2010, 2010-2011, and 2011-2012, one of the seven schools (Threshold Academy) contracted with a nonprofit management organization, five (Eagle Crest Charter Academy, Ridge Park Charter Academy, Vista Charter Academy, WayPoint Academy, and West Michigan Academy of Environmental Science) contracted with for-profit management organizations, and one (Lighthouse Academy) switched from a for-profit to a nonprofit management organization after fiscal year 2010-2011. As of July 2013, the 5 authorizers of the 7 schools authorized as few as 15 and as many as 63 charter schools.

3. Authorizers Visited

Types of Authorizers and Authorizer Responsibilities Under Michigan’s Charter School Law
 According to section 380.502(2) of The Revised School Code, a charter school authorizer may be:

- the board of a school district that operates kindergarten through 12th grade,
- an intermediate school board,
- the board of a community college,
- the governing board of a State public university, or
- two or more of the public agencies described in the first four bullets.

Of the seven charter schools in the State of Michigan selected for this audit, one was authorized by the board of a community college. The other six were authorized by the governing board of a State public university.

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According to The Revised School Code, authorizer responsibilities include:

- describing the method it will use to monitor charter schools’ compliance with law and its performance in meeting targeted educational objectives.
- establishing a process to ensure charter schools have required annual financial audits conducted in accordance with generally accepted governmental auditing principles.
- monitoring charter schools for board of directors’ compliance with the contract and applicable law.
- ensuring information concerning charter schools’ operations and management is available to the public.
- developing and implementing a process to hold charter schools accountable for meeting academic performance standards and implementing corrective actions when they do not meet those standards (authorizers may take corrective actions before revoking contracts).
- reviewing and, if applicable, disapproving an agreement between the board of directors of a charter school and a management organization before the agreement is final and valid.

Monitoring of Authorizers

The Michigan Department of Education (MDE) has limited authority to monitor the activities of the 37 authorizers currently authorizing charter schools in the State of Michigan. Because The Revised School Code does not give MDE rulemaking authority over authorizers, MDE created an authorizer assurance and verification system in 2005. MDE’s “Authorizer Assurance and Verification Visits” policy calls for the Public School Academies Unit of MDE to visit authorizers on a rotating basis to ensure that authorizers are complying with all requirements of The Revised School Code, providing technical assistance, and promoting communication between authorizers and MDE. The visits are at the discretion of each authorizer, and each authorizer may go through the assurances and verification visit process every 2 or 3 years. The process involves the authorizer completing an extensive self-rating document, the authorizer assembling and organizing documents for MDE to review, and MDE visiting the authorizer to discuss concerns, answer questions, provide technical assistance, provide updates, and review charter related documents. During site visits, MDE personnel use a worksheet that matches the criteria areas from the authorizer's self-rating document. MDE provides a report with feedback to the authorizers.

We obtained and analyzed the feedback forms from MDE’s latest reviews of the five authorizers during 2010 through 2013. For four (Bay Mills Community College, Central Michigan University, Ferris State University, and Grand Valley State University) of the five authorizers, MDE found no issues. For Lake Superior State University, MDE determined that the authorizer

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could make improvements. MDE suggested that Lake Superior State University develop a reauthorization guide and rubric, include a comment section in its visitation documents, and have a written policy for charter schools making major purchases or signing large leases.

Monitoring of Charter Schools by the Authorizers

We noted some minor deficiencies during our review of the monitoring processes established by five authorizers. Despite the minor deficiencies, unless otherwise noted, the authorizers addressed their responsibilities as outlined in The Revised School Code.

The authorizers provided evidence of

- requiring collection and analysis of student outcome data,
- requiring charter schools to comply with accounting principles and to conduct an annual independent audit that is submitted to the authorizer,
- authorizers having authority to conduct oversight activities,
- annual charter school performance reports being required (except Lake Superior State University),
- authorizers being able to take appropriate corrective actions short of revocation, and
- a policy requiring the authorizer's review of contracts between charter schools and the management organizations for the schools prior to the approval of the charter.

All five authorizers required charter applicants to submit an application for a charter. Required application items included (1) information on the management organization, if one was to be used; (2) the curriculum to be used; (3) financial information; (4) staffing; (5) educational goals; and (6) site information. Authorizers could choose to accept charter applications during application periods or through an ongoing, open-application process.

Each application was first reviewed by the authorizer's charter school group, which would make a recommendation to the authorizer's board regarding whether to approve the charter. The application process included a thorough review of the application and supporting information, as well as a possible interview with the applicant and a review of the proposed site. The initial charter was approved by the authorizer for a period that varied by authorizer, ranging from 3 to 14 years. If the school was not in compliance with charter requirements, authorizers could choose not to renew a school's charter when the charter expired. The most common reasons for not renewing a charter were financial problems or difficulties meeting academic requirements.

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All five authorizers had adequate processes for monitoring their charter schools. Each of the five authorizers:

- employed field representatives that served as a liaison between the authorizer and the school board and could make site visits to the charter school during the year and attend charter school board meetings;
- monitored charter schools' compliance with various reporting requirements;
- required charter schools to submit academic and financial information during the year;
- had a process for annual reviews of employees at charter schools and confirming teacher certifications; and
- provided their charter schools or authorizers with an annual performance report regarding academic and financial performance.

In addition, one authorizer (Bay Mills Community College) had drafted a property leasing policy that was under review as of July 31, 2013. When in effect, this policy will require charter school boards, prior to approving an agreement to lease real property, to perform sufficient due diligence to establish that the landlord and the facility are suitable for the school. This policy would require charter school boards to: identify whether the lease agreement transaction involves a related party, identify all known conflicts of interest between the landlord and the school, and demonstrate that the board had determined that the proposed lease terms provide for a fair market value for the school.

Each authorizer's field representatives served similar purposes but had different responsibilities. Bay Mills Community College and Grand Valley State University field representatives attended all board meetings for their assigned schools. Central Michigan University field representatives attended most of the board meetings. Ferris State University field representatives attended at least six board meetings. Lake Superior State University field representatives attended at least four board meetings. In addition to attending board meetings, Ferris State University and Lake Superior State University field representatives conducted site visits at their respective schools. Lake Superior State University field representatives used questionnaires when conducting their site visits. Ferris State University field representatives performed six site visits per year and used a checklist when conducting the site visits.

Each authorizer reviewed each charter school's compliance in certain areas.

- Bay Mills Community College annually reviewed finances, compliance items, governance, and student achievement.

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- Central Michigan University prepared four performance reports for its schools. There were four different reports given at different points in the school year: (1) an academic performance report, (2) a fiscal performance report, (3) an operational performance report, and (4) an annual scorecard of school performance report.
- Ferris State University provided each school with an annual academic performance report and also performed mid-contract reviews and reauthorization reviews to cover aspects of academy performance that were separate from the annual academic performance review.
- Grand Valley State University performed annual contract performance reviews that covered academics, school finances, and compliance reporting.
- Lake Superior State University conducted annual reviews and mid-year reviews. It also reviewed board meeting minutes, student achievement, the budget, environment, compliance issues, and reports from its field representatives.

Authorizers have little communication with MDE and are not required to report the outcomes of their monitoring to MDE. However, the authorizers are required to notify MDE if they decide to revoke a school's charter. Additionally, Ferris State University and Grand Valley State University have been communicating with MDE regarding their authorized schools' compliance with MDE requirements. In addition, Grand Valley State University and Lake Superior State University require their schools to notify them of any correspondence received from MDE that requires a written or formal response.

Other than the minor deficiencies noted at the beginning of this section, we did not have any findings related to Michigan charter school authorizers or their monitoring processes.

4. Charter Schools Visited and Common Themes

Charter School Governance

Governance Model

The governance structure of all seven schools had the authorizer in the highest governance position, apart from the U.S. Department of Education and the Michigan Department of Education (MDE). The school boards reported directly to the authorizer. The management organizations reported to the school boards.

The authorizers defined the method of selection and appointment for school board members. The school boards' bylaws included (a) the powers of the school board, (b) the number of required board meetings, (c) school board committees, and (d) officers of the school board. Board members for all seven charter schools in our review were appointed by the authorizer. Board members from six of the seven schools (Eagle Crest Charter Academy, Lighthouse Academy, Threshold Academy, Vista Charter Academy, WayPoint Academy, and West Michigan

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Academy of Environmental Science) could be removed by the authorizer or the school board. For one of the seven schools (Ridge Park Charter Academy), only the school board could remove school board members.

Before individuals became members of the school board, they had to answer conflict of interest questions, generally as part of the school board application process. Additionally, the authorizers for Eagle Crest Charter Academy, Ridge Park Charter Academy, Threshold Academy, and West Michigan Academy of Environmental Science required school board members to submit annual conflict of interest statements to the authorizer. The conflict of interest disclosures differed by authorizer. School board members generally were required to answer questions about his or her relationship to the school and whether the school board member, his or her spouse, or any of his or her immediate family members had any conflicts of interest with the school, the management organization, or any other company contracting with or providing services to the school. Conflicts that would have to be disclosed related to contractual agreements, ownership interests, leasing or selling real or personal property, guaranteeing or granting loans, and employment.

Board Member and Management Organization Authority

Each school's charter from the authorizer stated that the school board could contract with a management organization as long as it complied with the terms and conditions of the school's charter with the authorizer and any applicable management organization policies issued by the authorizer. The school's contract with a management organization must be approved by the authorizer prior to charter approval. The school's contracts with a management organization must explain the responsibilities of the school board and the responsibilities of the management organization. The school boards are responsible for determining the fiscal and academic policies that will govern the operation of the charter school.

Under the direction of the school board, the management organization was responsible for the services agreed to in the contract. The management organization for

- Eagle Crest Charter Academy, Ridge Park Charter Academy, and Vista Charter Academy (they all used the same management organization) was responsible for certain educational, business administration, facility, and management services, including all labor, equipment, and materials necessary to operate the schools. The management organization also was responsible for implementing and administering the educational program, entering into contracts with others to provide services, recruiting students and evaluating the academic progress of each student, and selecting and hiring qualified personnel.
- Lighthouse Academy was responsible for management and operational services, including educational management services; business and finance services; and human resources services.
- Threshold Academy was responsible for all of the management, administration, and educational programs at Threshold Academy. The management organization was

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responsible for budget preparation; financial management services; selection, employment, and supervision of all teachers and other employees; and personnel management services necessary to support employees.

- WayPoint Academy was responsible for the management, operation, administration, and educational programs at the school. The management organization also was responsible for the implementation of the educational program and management of all personnel functions.
- West Michigan Academy of Environmental Science was responsible for all of the management, operation, administration, and educational programs at the school. The management organization also was responsible for the implementation and administration of the educational program, budget preparation and financial management, and the selection, employment, and supervision of all teachers and other employees.

Board Member and School Official Issues Identified

We reviewed available conflict of interest forms, either from applications, reapplications, or annual conflict of interest statements, for the school board members of the seven schools. We did not identify any conflicts of interest between school board members and the respective management organizations for the schools. However, through interviews, we identified a potential conflict of interest between WayPoint Academy and the management organization for WayPoint Academy. We learned that the management organization's (b) (6), the (b) (6) of the management organization, and the (b) (6) of WayPoint Academy were (b) (6) and (b) (6). The (b) (6) reported to the (b) (6), who reported to the (b) (6) of the management organization, who in turn reported to the school board. This relationship is a potential conflict of interest because the (b) (6) of WayPoint Academy, could have used her influence to promote the interests of (b) (6) instead of promoting the interests of WayPoint Academy, if those interests ever conflicted.

We reviewed records of vendor payments, board meeting minutes, financial statements, contracts, and conflict of interest forms relevant to each of the seven schools. We identified instances of related party transactions involving school board members of Vista Charter Academy, WayPoint Academy, and West Michigan Academy of Environmental Science. We also identified an issue involving the principal of Ridge Park Charter Academy that did not relate directly to potential conflicts of interest, related party transactions, or incompatible duties.

- In October 2011, Vista Charter Academy paid a school board member \$ (b) (4) to provide a 2-day seminar on issues such as integrity and character to 8th grade students. Based on our review of board meeting minutes and the packet of information provided to the school board members prior to the meeting, this expense was approved by the school board. However, we could not determine whether the school board member who received the payment properly disclosed this relationship to the other school board members and refrained from voting on the matter when the

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expense was approved.

- WayPoint Academy paid a school board member's company \$(b) (4) for bus repairs during the fiscal year ended June 30, 2012. Based on our review of board meeting minutes, this related party transaction was not discussed or disclosed. Because this charter school closed, we were unable to determine the nature of this related party transaction.
- The school board president for West Michigan Academy of Environmental Science owned a company that was an approved vendor of West Michigan Academy of Environmental Science, and the school board president received payments from the school. The school board president's company did not have a contract with the school board but provided supplies on an as-needed basis. The total cost of the supplies that West Michigan Academy of Environmental Science acquired from this company was \$(b) (4) during the period October 2011 through November 2011. The school board president disclosed this relationship to the school board, and the school board obtained a legal opinion on the relationship prior to approving the company as a vendor.

In addition, we learned that the former (b) (6) of Ridge Park Charter Academy received reimbursements for expenses even after he had been asked to have expenses billed directly to the management organization. The former (b) (6) of Ridge Park Charter Academy received 20 payments, totaling \$(b) (4), from July 1, 2011, through March 31, 2013. Although the purchases appeared reasonable and necessary, the (b) (6) should have used purchase orders, as required by the management organization's policies.

Charter School Fiduciaries and Agents

We did not identify any situations where a management organization of a school mandated that the school use a particular external auditor or attorney. However, we noted instances in which management organizations provided the schools with suggestions on external auditors, attorneys, or both. According to management organization officials, the management organization for

- Eagle Crest Charter Academy, Ridge Park Charter Academy, and Vista Charter Academy provided the schools with a list of recommended audit firms from which the schools would receive preferential pricing. The management organization also provided the schools with a list of attorneys that specialized in charter school work.
- Threshold Academy researched external auditors and submitted requests for proposals. The management organization provided the bids to the school board for selection.

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- West Michigan Academy of Environmental Science helped schools with requests for proposals for external auditors and would act as an advisor during the selection process if the school board asked.

We identified potential conflicts of interest involving six of the schools' fiduciaries and agents. Eagle Crest Charter Academy, Lighthouse Academy, Ridge Park Charter Academy, and Vista Charter Academy used the same external auditor as the respective management organizations for the schools. WayPoint Academy and West Michigan Academy of Environmental Science used the same attorney as the respective management organizations for the schools. Additionally, the (b) (6) for Eagle Crest Charter Academy was the (b) (6) of the (b) (6) of the Eagle Crest Charter Academy school board.

External Auditor

Six of the seven schools had contracts with the management organizations for the schools that stated the school boards should select and retain independent auditors to perform the annual financial statement audit. WayPoint Academy's contract did not include information on the annual audit or who should select the independent auditor.

Lighthouse Academy and the management organization for Lighthouse Academy used the same external auditor. According to the president of the management organization for Lighthouse Academy, Lighthouse Academy obtained bids for a firm to conduct the annual financial statement audit. Lighthouse Academy compared audit proposals from three audit firms and discussed the three audit firms' proposals during a school board meeting. The president of the management organization stated that Lighthouse Academy selected the firm that submitted the strongest bid. According to the president of the management organization, the only services performed for the management organization by the external auditor for Lighthouse Academy were related to tax form preparation. The management organization planned to bid for audit services in the summer of 2014. Therefore, the management organization would no longer be receiving services from the external auditor for Lighthouse Academy.

Eagle Crest Charter Academy, Ridge Park Charter Academy, and Vista Charter Academy were managed by the same management organization. From fiscal years 2007-2008 to 2011-2012, all three schools and the management organization used the same external auditor. The management organization evaluated several firms based on geographic coverage, reputation, experience, quality, and price competitiveness, and then provided the information to the charter schools for the charter schools to make their own selection of an external auditor.

We did not identify any potential conflicts of interest related to the external auditors used by Threshold Academy, WayPoint Academy, and West Michigan Academy of Environmental Science.

Attorney

WayPoint Academy and West Michigan Academy of Environmental Science shared an attorney with the respective management organizations for the schools. The president of the management

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organization for WayPoint Academy stated that he did not assist the WayPoint Academy school board in selecting an attorney. He also stated that his management organization shared an attorney with the school board as it relates to managing the charter school. However, the management organization had its own legal counsel to represent the management organization if there were a conflict between management organization and the school board. According to the president and the chief financial officer of the management organization for West Michigan Academy of Environmental Science, the management organization did not help the school select an attorney. Although West Michigan Academy of Environmental Science shared an attorney with the management organization, the school board employed legal counsel from a different law firm in instances where new agreements between the charter school and the management organization needed to be negotiated.

The (b) (6) and (b) (6) for Eagle Crest Charter Academy were related by marriage. They disclosed this relationship to the Eagle Crest school board and the authorizer for Eagle Crest Charter Academy in 2005 when the school board appointed the attorney. In July 2011, Eagle Crest Charter Academy became a school of excellence and received a new charter from the authorizer. The new charter included a section that prohibited identified family relationships in three specific situations: (1) when the family member was employed by the charter school; (2) when the family member worked at or was assigned to the school; or (3) when the family member had an ownership, officer, policymaking, managerial, administrative non-clerical, or other significant role with the school's management organization or employee leasing company. The authorizer notified Eagle Crest Charter Academy that the legal counsel for Eagle Crest Charter Academy qualified as a person who worked at or was assigned to the charter school. Eagle Crest requested the authorizer provide a legal opinion exploring why the relationship was impermissible under the charter.

The legal counsel for Eagle Crest Charter Academy stated that, before receiving anything from the authorizer in response to the request, the Michigan legislature amended The Revised School Code to include section 380.1203 on conflicts of interest for school board members. The new law, which went into effect on January 9, 2013, stated that presumed conflicts were not prohibited but require full disclosure before school boards voted on a contract for services. Because of the new statute, the school board for Eagle Crest Charter Academy asked the authorizer to reconsider whether the contract with legal counsel was in violation of either the law or the school's charter. As of June 2013, the school board had yet to receive a response from the authorizer. When the school board president was up for reappointment in December 2013, he chose not to seek another term on the school board to alleviate the authorizer's concern about what the authorizer perceived to be a potential conflict of interest.

We did not identify any conflicts of interest between Eagle Crest Charter Academy, Lighthouse Academy, Ridge Park Charter Academy, Threshold Academy, or Vista Charter Academy and the respective attorneys for the schools.

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Management Organization Contract and Fees

In the background of this summary, we assigned each of the schools to categories based on who initiated the relationship between the school and the management company and which party controlled the school's finances. Of the seven schools that we reviewed, the school boards of three charter schools (Lighthouse Academy, WayPoint Academy, and West Michigan Academy of Environmental Science) initiated their relationships with the respective management organizations. The management organization of one school (Threshold Academy) initiated the process to open a charter school and recruited the school board members. We were unable to determine who initiated the relationship between three of the schools (Eagle Crest Charter Academy, Ridge Park Charter Academy, and Vista Charter Academy) and the management organization for the schools (they all used the same management organization).

Contract Sourcing

The seven charter schools that we reviewed used various means to determine the management organization with which they would contract. Of the three schools that initiated their relationships with management organizations, two (WayPoint Academy and Lighthouse Academy) used a competitive bidding process. One (West Michigan Academy of Environmental Science) did not use a competitive bidding process but evaluated multiple management organizations and selected one based on compatibility of purpose.

The management organization for one school (Threshold Academy) initiated the process to open a charter school and recruited school board members. Competitive bidding was not used.

As previously stated in this summary, we were unable to determine how three schools (Eagle Crest Charter Academy, Ridge Park Charter Academy, and Vista Charter Academy) established contracts with the management organization of the schools (they all used the same management organization).

Fee Structure

For each of the seven schools, we reviewed the contracts that the school boards had with the respective management organizations to determine what fees the management organizations charged the schools for services provided. The management organization for the three schools (Eagle Crest Charter Academy, Ridge Park Charter Academy, and Vista Charter Academy) that used the same management organization received control of all funds from all sources. The school board retained, at most, \$(b) (4) annually from all the funds that the school received from all its funding sources. According to the management organization's policies, the school board was required to use those funds for educational purposes. As compensation for its services, the management organization retained any funds remaining after it paid the school's operating expenses and the \$(b) (4)

According to their contracts with the schools, the management organizations for two schools (WayPoint Academy and West Michigan Academy of Environmental Science) charged a fee plus an additional markup. The management organization for

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- WayPoint Academy would charge no management fees for school years 2010-2011 through 2011-2012. The contract stated that, in school year 2012-2013, WayPoint Academy would pay the management organization \$(b) (4) plus (b) (4) [redacted]. In the event of termination or expiration of the contract, the school board would reimburse the management organization for any costs the school board had approved but not previously reimbursed. As of March 31, 2013, the management organization had not been paid any fees for services provided.
- West Michigan Academy of Environmental Science would charge the school a fee of \$(b) (4) (b) (4) [redacted] \$(b) (4) (not to exceed \$(b) (4) in school year 2011-2012 or \$(b) (4) in school year 2012-2013). The management organization also would be reimbursed for costs incurred in providing the educational programs.

According to their contracts with the schools, the management organizations for two schools (Lighthouse Academy and Threshold Academy) were nonprofit management organizations and would receive a percentage of the schools' State aid funds. The management organizations for

- Lighthouse Academy would charge the school a fee of (b) (6) percent of the general State aid foundation allowance. Lighthouse Academy also would reimburse the management organization for costs that the management organization incurred to provide services to the school.
- Threshold Academy would charge the school a fee of (b) (6) percent of all State aid payments, (b) (4) [redacted]. The management organization would use the fees that the school paid to cover the costs of services, educational programs, and other expenses as set forth in the school's budget. The balance of the fee would revert to Threshold Academy.

School Affiliations with Management Organizations

One of the seven schools had an affiliation with the management organization. The (b) (6) of WayPoint Academy was (b) (6) of the (b) (6) of the management organization. We considered this to be a potential conflict of interest.

Management Organizations' Access to School Finances

Of the seven schools that we reviewed

- three (Eagle Crest Charter Academy, Ridge Park Charter Academy, and Vista Charter Academy) employed a management organization that controlled school finances. The contracts between the management organization and the schools required the schools to deposit, within 3 business days of receiving the funds, all Federal, State, local, and private funds into bank accounts maintained by the management organization. The

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management organization transferred the funds deposited in the bank accounts to the management organization's main checking account on a daily basis. The main checking account funded other accounts from which the management organization paid all operating costs of each school. The management organization was required to spend the funds only for the purpose and uses authorized pursuant to the terms of its contracts with the schools. The school boards retained, at most, (b) (4) annually from all the funds that the schools received from all funding sources. According to the management organization's policies, the school boards were required to use those funds for educational purposes. As compensation for its services, the management organization retained any funds remaining after it paid the schools' operating expenses and the \$ (b) (4).

- one (Lighthouse Academy) had control of its funds but the management organization had the authority to issue checks without the school board's approval. On a monthly basis, the management organization provided the school board with a list of checks it wrote the prior month to operate the school. According to the management organization for Lighthouse Academy, the management organization planned to recommend to the school board that a list of checks being issued be sent to email to the board treasurer and board president in advance of mailing the checks.
- three (Threshold Academy, WayPoint Academy, and West Michigan Academy of Environmental Science) controlled their own funds, and the school board members had the authority to sign checks. In the case of WayPoint Academy, the business manager and superintendent also had check signature authority.

Contract Termination

All seven schools specified reasonable termination clauses. The contracts with the management organizations described the circumstances in which the school or management organization could terminate the contracts. The ability of the school to continue if the contract with the management organization were terminated would be dependent on whether the school owned the property and whether the employees that operated the school worked for the school or the management organization.

- One school board (WayPoint Academy) owned the property, and employees worked for the school. In the event that the contract between the school and the management organization were terminated, the school would likely be able to continue operations because it would still have employees and a place to operate.
- One school board (West Michigan Academy of Environmental Science) owned the property, but the employees operating the school worked for the management organization. If the contract between the school and the management organization were terminated, the school would have some challenges in continuing operations. The school would have a place from which to operate but no employees to manage the school.

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- Five school boards (Eagle Crest Charter Academy, Lighthouse Academy, Ridge Park Charter Academy, Threshold Academy, and Vista Charter Academy) did not own the property, and the employees worked for the management organization. These schools would have significant challenges in continuing operations if the contracts with the management organizations were terminated. The school boards would need to find new facilities and employees to operate the schools. For three schools (Eagle Crest Charter Academy, Ridge Park Charter Academy, and Vista Charter Academy), the school boards controlled no more than \$(b) (4) of school funds a year; the management organization controlled the rest of the funds. The schools' contracts with the management organization did not include provisions for the school boards to adjust the \$(b) (4) allocation to a higher amount. However, the presidents of the school boards of Ridge Park Charter Academy and Vista Charter Academy claimed that the school boards could seek to adjust the allocation amount through amendments to or renegotiation of the terms of the contract. Any amount that the school boards did not spend in a school year would be carried over into the next school year. If the school's contract with the management organization were terminated, the school board would have to secure another building, hire staff, and pay operating costs. To pay for those expenses, the school board would be left with only the funds it had carried over from prior years' board allocations and any funds received during the remainder of the school year. According to the presidents of the school boards of Ridge Park Charter Academy and Vista Charter Academy, if the school terminated the management contract, the school anticipated that the management organization would continue to operate the school through the end of the school year. At the end of the school year, all new revenues and any unexpended funds would be available to the school to secure other management services.

Control of Federal Funds

The school boards of three schools (Eagle Crest Charter Academy, Ridge Park Charter Academy, and Vista Charter Academy) that used the same management organization subrogated administrative control over the schools' funds, including Federal funds, to the management organization. The management organization received all revenue from the schools and paid all operating costs for each school. We are concerned because the school boards do not approve specific expenditures, only budgeted amounts, and the management organization can contract for services without approval from the school boards. Without retaining authority and control over school funds, the schools and school boards might not be administering Federal funds in accordance with Federal law and regulations.

Turning over control of Federal funds to a nonpublic entity is a violation of Federal law. The term "public" is defined in 34 C.F.R. § 77.1(c) as an agency, organization, or institution under the administrative supervision or control of a government other than the Federal Government. According to Title V, Part B, Section 5210(1)(B) of the Elementary and Secondary Education Act of 1965, as amended, the term charter school means a public school that "is created by a developer as a public school, or is adapted by a developer from an existing public school, and is

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operated under public supervision and direction” According to Title IX, Part A, Section 9101, Paragraph 26, of the Elementary and Secondary Education Act of 1965, as amended, and Part A, Section 602(19)(A) of the Individuals With Disabilities Education Improvement Act of 2004, as amended, a local educational agency is a public board of education or other public authority legally constituted within a State for either administrative control or direction of, or to perform a service function for, public elementary or secondary schools in a city, county, township, school district, or other political subdivision of a State. Therefore, Title I and IDEA funds are required by law to stay in the control of a public entity (the charter school), not turned over to a nonpublic management organization.

Reasonableness of Fees

To determine whether the contract and fees paid were reasonable, we reviewed the criteria in 34 C.F.R. § 80.36(f)(1), Office of Management and Budget Circular A-87(C)(2), and 34 C.F.R. § 80.36 (b)(1).

According to 34 C.F.R. § 80.36(b)(1), grantees and subgrantees are required to follow procurement procedures applicable to State and local laws and regulations. However, Michigan did not require competitive bidding for services, only for construction, supplies, and materials. For the two schools that used competitive bidding to select management organizations, the contract and fees were likely reasonable because the management organizations that won the bids had to compete with other management organizations regarding the terms of the contract and the fees. For the other five schools, we could not determine whether the contract and fees were reasonable.

Other Contracts

We looked for contracts involving (a) the acquisition or disposition of real property, (b) the acquisition or disposition of assets in excess of \$5,000, (c) services in excess of \$5,000, (d) finances, and (e) contingent obligations. We did not identify any other contracts in these five categories for Eagle Crest Charter Academy, Ridge Park Charter Academy, Threshold Academy, or Vista Charter Academy. We identified contracts falling into these five categories for Lighthouse Academy, WayPoint Academy, and West Michigan Academy of Environmental Science.

- Lighthouse Academy had contracts with the Michigan Finance Authority for State Aid notes, as well as contracts for E-rate services, asbestos surveys, food services, and one contract that covered utility services, property maintenance, technology services, fund raising services, transportation services, and educational specialists services.
- WayPoint Academy’s school board purchased property for the school in 2003. According to the school board president, WayPoint Academy issued a bond to finance the property.

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- WayPoint Academy had a contract with the Michigan Finance Authority for a State Aid note, as well as a bond agreement, a lease agreement for a copier, a contract for payroll services, and a contract for grant writing services.
- West Michigan Academy of Environmental Science’s school board purchased the land for the school facilities in 2000. The school board has an installment purchase financing agreement with the Michigan Public Educational Facilities Authority (enacted December 2003).
- West Michigan Academy of Environmental Science had a contract with the Michigan Finance Authority for a State Aid note, as well as contracts for food services and construction.

With the exception of WayPoint Academy’s contract for grant writing services, which was negotiated with the help of the management organization for WayPoint Academy, and West Michigan Academy of Environmental Science’s food services contract, which was sourced as a result of a request for proposal, we found no evidence from the contracts themselves regarding how these specific contracts were sourced or what role the school boards or management organizations had in negotiating those contracts. Although we were not able to determine how the contracts were sourced, we did obtain an understanding of each school’s procurement policies, including whether competitive bidding was required. In Michigan, all schools must comply with the procurement policies of the State of Michigan. Some schools, like charter schools, have additional requirements. Sections 623a, 1267, and 1274 of The Revised School Code established a base above which competitive bids must be obtained for remodeling, procurement of supplies, materials, and equipment. The Revised School Code also provides for an increase in the base that corresponds with increases in the consumer price index. The fiscal year 2012-2013 base was \$22,386.

We do not have enough information to determine whether the costs of the contracts were reasonable. However, we did not identify any requirements that would indicate that the schools were obligated to contract with the vendors to receive services from the management organizations.

We did not identify any instances where the school, the school board members of the school, or the employees of the school were affiliated with the vendors with which the school had contracts.

Team Summary Outline

The objective of this audit is to assess the current and emerging risk that charter school relationships with charter management organizations (CMOs) and education management organizations (EMOs) pose to the Office of Elementary and Secondary Education (OESE), Office of Special Education and Rehabilitative Services (OSERS), and Office of Innovation and Improvement (OII) program objectives and evaluate the effectiveness of OESE’s, OSERS’, and OII’s internal controls to mitigate the risk. Specifically, we will evaluate whether there are any conflicts of interest in charter schools and the oversight, audits and investigations of CMOs.

This Team Summary Outline should be placed in your respective row in section M in TeamMate and independently referenced. Based on your sample of charter schools and authorizers, please briefly provide information on the following:

State: New York

Schools:

Charter School	Management Organization
KIPP AMP Academy Charter School (KIPP AMP)	KIPP NYC, LLC (KIPP)
Charter School of Educational Excellence (CSEE)	Victory Education Partners (Victory)
Excellence Boys Charter School (EBCS)	Uncommon Schools, Inc. (Uncommon)
Harlem Success Academy 4 (Harlem 4)	Success Academy Charter Schools (Success)
Brooklyn Excelsior Charter School (BECS)	National Heritage Academies (NHA)

1. Overall Conclusion/Results

- a. Answer the audit objective by summarizing conclusions and results for your work performed at the authorizer, school, and CMO.
 - i. Briefly summarize the State Charter School Law. Note: Describe whether the State law included policies regarding conflict of interest, related party transactions, segregations between the charter school and Charter Management Organizations (CMOs). Use the matrix from the TeamMate section C.

Charter Law in New York requires:

- 1. The collection and analysis of student outcome data at least annually by authorizers.
- 2. Financial accountability for charter schools
 - a. A charter school shall be subject to the financial audits, the audit procedures, and the audit requirements set forth in the charter and shall be subject to audits of the comptroller of the state of New York. Such procedures and standards shall be consistent with generally accepted accounting and audit standards. Independent fiscal audits shall be required at least once annually.

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3. Authorizer authority to conduct or require oversight activities.
 4. Authorizer notification to their schools of perceived problems, with opportunities to remedy such problems.
 5. Authorizer authority to take appropriate corrective actions or exercise sanctions short of revocation
 6. School governing boards operating as entities completely independent of any MO (e.g., must retain independent oversight authority of their charter schools, and cannot give away their authority via contract).
 7. Existing and potential conflicts of interest between the two entities are required to be disclosed and explained in the charter application.
- ii. Describe the authorizer’s oversight and monitoring practices regarding charter schools in our audit selection.
1. Monitoring is performed on an annual basis. The type of monitoring that occurs is dependent upon the status year of the charter (year 1 through year 5), as well as academic success of the school. Annual site visits are performed. For NYSED and SUNY, more comprehensive reviews are performed as it gets closer to charter renewal. Authorizer requires annual accountability reports from all charter schools.
- iii. Identify common themes among the charter schools in our selection. (Such as who initiated the charter school application process, the governing structure of the charter school and CMO. Include any instances of conflict of interest, related party transactions, and incompatible duties by count and type.)
- b. Summarize potential reporting themes and other interesting/unique information/observations of interest regarding authorizers, management organizations, and/or charter schools visited.

We did not identify any potential findings for the authorizers, charter schools and their CMOs, except one potential related party transaction between one charter school, BECS, and its CMO, NHA, and its affiliated company, Charter Development Company (CDC). The affiliated company is wholly-owned subsidiary of the CMO and is the owner of the school building. The CMO leases the building from the affiliated company and is the landlord for the school building sub-leasing it to the school and charging the school an amount that appears to be excessive. However, we did not have enough information and expertise to determine whether the CMO’s lease charges were reasonable. Also, we had other concerns based on the operating model established by the management contract: 1. We found it could be difficult for BECS to end its contract with NHA. Although there are reasonable terms by which BECS may terminate its contract, if BECS were to end its contract it would need to either perform all the functions that were provided by the management organization or contract for those services from another vendor. The contract does not include provisions for the board to adjust its (b) (4) allocation to a higher amount. Any amount that the board does not spend in a school year would be carried over into the next school year. If BECS severed its ties with NHA, it would be left with only the

funds it had carried over from prior years' board allocations and any remaining school revenue disbursements in the school year to hire staff and pay operating costs. 2. The board gave its authority and responsibility over control of funds awarded to BECS, including Federal funds, to NHA. We are concerned because the board does not approve specific expenditures and NHA can contract for services without approval from BECS. Contracting out whole school services and granting NHA the authority to expend program funds may result in the school failing to meet its obligations as grant recipient to sufficiently administer Federal funds.

2. Background

- a. CMOs models. (Describe the models in which the charter schools in your site visits were operating under and include any common themes amongst the CMOs. Some models are listed below, but include other models that do not fit any of the classifications.)
 - i. CMO initiated the process for the charter school, recruited the board members, and handles all finances and has the authority to issue checks in behalf of the charter school without school board approval.
 1. KIPP AMP utilizes this model. However, a board member signature is necessary for large purchases (According to the board chair, he has not had to sign any checks).
 2. EBCS utilizes this model. EBCS was Uncommon's first replication school, and was the first to sign a management agreement with Uncommon. The bills are paid at Uncommon, however EBCS director of operations perform the legwork behind the purchase (bidding, purchase order, etc.)
 - ii. The charter school initiated the process before contracting a CMO. The CMO has access to the charter school's finances, but does not have the authority to issue checks without the board or school approval.
 1. CSEE utilizes this model. It was founded when local parents took initiative to start a charter school. CSEE board members control the school's accounts and sign the checks. Victory is used as a backup for financial transactions.
 - iii. The charter school initiated the process before contracting a CMO, but the CMO has access to all finances and the authority to issue checks in behalf of the school.
 1. Harlem 4 utilizes this model. Success is accountable to the board for both financial and academic success.
 2. BECS utilizes this model. NHA was contracted by BECS board after the charter school's creation. The CMO contract with the Board specifies that NHA is responsible for the administration, operation and performance of the school. The Board received an annual proposed budget for approval. Upon approval of the budget, the Board was required to deposit all funds received by the school in a bank account that both the school and the CMO were

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signatories. NHA was authorized to distribute funds from the account for the purposes of fulfilling its contractual obligations.

- iv. The CMO and the charter school are the same entity, share board members, and make decisions together.
- v. The CMO model is other than the previous four classifications. Please describe the CMO model. Include the charter school initiation process, access to financial systems, bank accounts and check writing authorization.

b. Overview of Funding.

- i. Federal funding awarded. Define fiscal year (FY) if different from July 1st through June 30th.

Federal Funding to Charter Schools			
	FY 2009-10	FY 2010-11	FY 2011-12
Title I, Part A	1,033,445	1,289,245	1,233,403
Title I SIG	0	0	0
IDEA, Part B	207,858	300,590	239,874
CSP	600,000	0	0
Total Revenues	1,841,303	1,598,835	1,473,277

Replication Grant CDFA 84.282M (if applicable)			
	FY 2009-10	FY 2010-11	FY 2011-12
Replication Grant	4,611,987	3,140,970	0

c. Enrollment Trends

Student Enrollment			
	FY 2009-10	FY 2010-11	FY 2011-12
Total Enrollment	2024	2244	2540

- d. Any other relevant authorizer, charter school, and CMO background information and observations about funding, and enrollment, including unique opportunities/challenges/advantages.

- i. Not Applicable at this time.

3. Authorizers Visited

a. Overview of the Authorizers

- i. Indicate the types of authorizers for the charter schools selected in your State. For example, identify whether the authorizer was the SEA, the LEA, or another entity.

Authorizer	Type	School(s) Authorized
New York State Board of Regents (NYS)	SEA	CSEE
SUNY Charter Schools Institute (SUNY)	State entity	BECS Harlem 4 EBCS
NYC Department of Education (NYC DOE),	LEA	KIPP AMP

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- ii. What was their responsibility according to State Charter School Law? Use the matrix in TeamMate C.3.1 through C.3.8.
 1. Authorizer Responsibility:
 - a. Collection and analysis of student outcome data at least annually by authorizers;
 - b. Financial accountability for charter schools (e.g., Generally Accepted Accounting Principles, independent annual audit reported to authorizer);
 - c. Authority to conduct or require oversight activities;
 - d. Notification to their schools of perceived problems, with opportunities to remedy such problems;
 - e. Authority to take appropriate corrective actions or exercise sanctions short of revocation.

- iii. Indicate whether the authorizer is monitored and by whom. If available, describe the results of the last monitoring report performed of the authorizer.
 1. No information was found that any monitoring was performed on any authorizers mentioned above.

- iv. Evaluate whether the monitoring and oversight process of the authorizers for the charter schools in your selection were adequate based on the State Charter School Law requirements.
 1. Indicate and describe the monitoring process used. Such as the renewal process and/or any additional monitoring that the authorizers perform of the charter schools.
 2. List the areas that the authorizers for the charter schools in your selection evaluated as part of their monitoring.
 3. Indicate how frequently charter schools were monitored.
 4. Indicate if the authorizers were required to report outcomes to the SEA or to the Department.

Authorizer	Monitoring
NYS	<p>Year 1 from when charter was approved/renewed (renewal and new schools are treated the same in this five year process). The New Schools Office team performs assistance weekly. There is a performance team that conducts oversight visits and performance evaluation. Year 2: “check” in visit. Each school would get a half day visit; it is considered a mini-renewal visit. They interview the Board, teacher, visit classrooms, review the finances, curriculum and operations to ensure the charter school is operating at an adequate level. Any issues found will be followed up with another visit. Year 3: a full site visit is performed with the performance oversight coordinator. The visit lasts 2-3 days with 2-5 staff members. This visit follows the renewal site visit protocol. It is a thorough site visit, according to (b) (6). Year 4: they make contact and the schools renewal application is due. Year 5: in the Fall, they have a renewal site visit. They do a complete review of education performance, and review the financial dashboard. Other monitoring: If an external auditor has</p>

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	<p>findings on a school (i.e. NYS Comptroller), NYSED charter school office would follow up on the findings and ensure appropriate corrective actions would be in place. There is no information found that required authorizers to report to the SEA or Department.</p>
<p style="text-align: center;">SUNY</p>	<p>SUNY has an accountability plan, in which they have core measures that are reviewed during the year. They have a “boots on the ground” site visit, which lasts about a half a day. SUNY will write a report to the trustee to give results. Charter schools adapt to the basic accountability plan and add on to it to be more characteristic of the school. The accountability plan becomes part of their charter renewal documentation.</p> <p>Monitoring visits occur throughout each year of the five-year charter. If a school has a great year one, in year two, the visit will be less intense. Second year visits last 1-2 days. Third year visit is a mid-review. The fourth year visit means that the charter school is in trouble for a renewal and has had bad quantitative/qualitative data. External reviews may occur, for example, if a charter will not be renewed, or will be revoked.</p> <p>In discussing the NYS Comptrollers report on Brooklyn Excelsior Charter School, which SUNY authorizes, they did not feel they needed to step in with regards to the issues found. They were all issues that SUNY stated they were already aware of, according to (b) (6) stated that they would only step in if they felt that the academic performance of the school was being impacted. (b) (6) also stated that a lawyer did review the lease, and a third party evaluation was performed on the school space. (b) (6) asked them if the reason nothing was done on their part to discuss the high cost of the monthly lease was because they believed the cost was reasonable, (b) (6) said yes. (b) (6) added that the NYS Comptroller’s office was “upset” that they did not get to see what the \$1.7 million was spent on because NHA is a for-profit entity and does not need to show its financials and the State does not have the authority to make them provide the information. (b) (6) also stated that SUNY can sign a disclosure statement with NHA (the management organization) and look over their books, and he stated that they did that for NHA and found no issues. In addition, (b) (6) added that the NYS Comptroller’s office did not address SUNY in their report to perform follow up or corrective action, nor were they sent a letter directly from the NYS Comptroller’s office to act, so they would not act unless requested to do so.</p>
<p style="text-align: center;">NYC DOE</p>	<p>(b) (6) described the renewal process. They launch a call for applications. Applications are submitted with accountability questions. The application is reviewed and the applicants are asked clarifying questions. A team goes on site and spends two days at the charter school. The charter school has to describe a plan of what they have accomplished and what they plan to accomplish for the rest of the charter term. The term depends on charter school performance. (b) (6) added that there are no early renewals. The renewal visit has 3 staff members and other staff joined if needed. The applications are voluminous, and staff members work together to read different areas of the application. Items staff analyzes include:</p> <ul style="list-style-type: none"> • Academic performance • Financial • Compliance • Financial health

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For monitoring purposes, there are yearly accountability reports, an annual comprehensive review, annual site visits, as well as desk audits that allow them to pinpoint red flags. This year, a question was added to the annual report for the charter school to describe their relationship with the management organization. In addition, about half of the charter schools in NYC have management organizations.

- b. Identify any potential findings identified during the visit to the authorizers.
 (Reference to authorizer write-ups)
- i. Although the monitoring and oversight of the schools from the authorizers seems adequate, OIG auditors question authorizers’ perception of what is “reasonable” within their monitoring. In discussing the NYS Comptrollers report on Brooklyn Excelsior Charter School, which SUNY authorizes, they did not feel they needed to step in with regards to the issues found. They were all issues that SUNY stated they were already aware of, according to (b) (6). (b) (6) stated that they would only step in if they felt that the academic performance of the school was being impacted. (b) (6) also stated that a lawyer did review the lease, and a third party evaluation was performed on the school space. SUNY, according to (b) (6) did not act on the report because SUNY found the cost was reasonable.

4. Charter Schools Visited and Common Threads

- a. Charter School Governance
- i. Describe the governance model of the charter school Board, consider:
1. Instances of affiliations between the charter school and the CMO
 None found.
 2. The level of the board members’ involvement with the CMO

Charter School	Board Members Involvement with CMO
KIPP AMP	The board delegates KIPP NYC for making the financial statements, fiscal policies and procedures, signing checks. Board chair hasn’t signed any checks because they don’t make large purchases that would require his signature. The CMO is also delegated to prepare the budget and present it to the schools to vote upon
CSEE	Board makes decisions for the school. CMO assists in a support (backup) capacity.
EBCS	The board delegated to CMO for various services, including curriculum development, finding and maintaining facilities, preparing financial statements, payroll and bookkeeping, and maintaining human resources.
Harlem 4	Board is highly involved in assuring CMO is held accountable for services set forth in the management agreement.
BECS	The CMO contract with the Board specified that NHA is responsible for the administration, operation and performance of the school.

3. The level of the board members’ authority regarding decisions that affected the school

Charter School	Board Members’ authority regarding decisions
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KIPP AMP	Full authority
CSEE	Full authority
EBCS	Full authority
Harlem 4	CMO hired Principal and purchased goods and services under \$ (b) (4). Education and instruction related services are established by CMO. However, it also makes CMO fully accountable. If board does not agree with decisions, it can choose to cancel contract
BECS	Full authority. CMO is responsible for the daily operations of the charter school as stated in the Board approved budget.

4. Whether the CMO had the capacity to make decisions for the charter school

Charter School	CMO Capacity to Make Decisions for School
KIPP AMP	Small purchase decisions are made for school without need for board approval.
CSEE	No decision making authority.
EBCS	No decision making authority.
Harlem 4	CMO hires school Principal, makes purchases for goods and services on behalf of the school, establishes education and instruction related services.
BECS	CMO was authorized to distribute funds. CMO was responsible to implement the educational goals as specified in the schools charter contract with the authorizer, make the necessary purchases and agreements with subcontractors, recruit and evaluate students and their performance in accordance with State charter school laws, and recruit and recommend qualified personnel for the Board’s approval. All purchases, services, and instructional expenses were included in the annual budget.

ii. Was there any board member or school official identified that made any decisions that would represent a conflict of interest, or related party transaction? If yes, what was the relationship?

No decisions of this nature were identified.

iii. Identify any potential findings identified during the interview with the charter school board member and/or document review. Include concerns regarding, but not limited to, conflict of interest, related party transactions, and segregation of duties.

None at this time.

b. Charter School Fiduciaries and Agents

i. Indicate whether the charter schools’ external auditor, attorney, real estate broker, broker-dealer, banker or other agent were sourced independently from the CMO? Was this an example of a best practice by the charter school?

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Charter School	Independent Fiduciaries and Agents
KIPP AMP	Auditors are the same for school and CMO, but they have separate engagement letters. CMO and school had a combined engagement letter for a law firm to provide pro bono legal consultation.
CSEE	No issues noted; part of contract allows CSEE to utilize CMO legal consultation.
EBCS	No issues noted
Harlem 4	No issues noted; part of contract allows Harlem 4 to utilize CMO legal consultation.
BECS	No issues noted.

- ii. Identify any potential findings identified during the visit and/or document review of the charter school and CMO. Include concerns regarding, but not limited to, conflict of interest, related party transactions, and segregation of duties.
None noted at this time.

c. The CMO Contract and Fees

- i. Identify how the charter school contracted the CMO based on the CMO model classifications from the Background section of this document. Based on the classifications, was the contract and fees paid reasonable? [The criteria used to determine reasonableness of fees paid to the CMO depends on the situation. For example, the services provided to the school, the number of students served, the size and location of the school’s building. The applicable criteria to contracts that are paid with Federal funds are 34 CFR 80.36, and reasonableness OMB Circular A-87.] Consider:

1. How was the contract sourced?

Charter School	Contract Sourced
KIPP AMP	KIPP NYC perform an RFP for very large purchases. The contracts we received from KIPP NYC did not have bid packages, as they do not create files for bids they receive unless it is an RFP. The review is an internal review. KIPP NYC staff may email upper management to give their analysis of the best options for contracts. The contracts have been approved informally in this manner, and the upper management would then sign the contract with the vendor.
CSEE	No issues noted.
EBCS	No issues noted.
Harlem 4	For RFP’s, Success has established a competitive bid committee in order to evaluate submitted proposals independently and impartially. There is an evaluation scoring sheet, which is prepared solely by each team member. There is also time set aside in bid committee meeting to compare and discuss vendor proposals. There is a rubric, which the member scores the proposal on various factors. Success does not

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	choose its vendors solely on lowest price, but also on the ability for the vendor to be accountable, responsible, and able to perform various special instructions, including split deliveries in buildings and floors.
BECS	Not applicable, only “contract” reviewed was the lease between CMO and school board.

2. What was the fee structure of the contract? Did the contract include contingency fees such as reimbursements?

Charter School	Contract Fee Structure
KIPP AMP	(b) (4) % of government revenue, paid monthly; (b) (4)
CSEE	\$ (b) (4) (and (b) (4) \$ (b) (4)
EBCS	2010-2014: (b) (4) %; 2014-2015: (b) (4) %; 2015-2016: (b) (4) % (In 2011, CMO was paid about \$ (b) (4) and in 2012 \$ (b) (4))
Harlem 4	(b) (4) % of per pupil allocation, paid bi-monthly; (b) (4)
BECS	(b) (4) contract – CMO takes (b) (4)

3. Was the charter school, its employees, or its board members affiliated with the CMO or its employees?
 No.

4. Did the CMO have access to the charter schools’ finances and bank accounts, and had check writing capabilities?

Charter School	Financial Access
KIPP AMP	Yes, access to bank account and check writing capability.
CSEE	No access to bank account or check writing ability.
EBCS	Yes, access to bank account, but no check writing ability.
Harlem 4	Yes, access to bank account and check writing ability.
BECS	Yes, access to bank account and check writing ability.

5. Did the contract include a reasonable termination clause?

Yes, all contracts for the five schools visited had all reasonable termination clauses.

6. Assess whether the charter school would be able to continue if the CMO contract was terminated. Why or why not?

(b) (5)

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- ii. Identify any potential findings identified during the interview and/or document review with the charter school and CMO. (Including, but not limited to, any issues regarding the reasonableness of the fees paid to the CMO, services provided, access to bank accounts, termination clauses, lease arrangements, and financial systems. Include any conflict of interest, related party, or segregation of duties concerns.)

We identified a potential related party transaction between BECS and NHA and its affiliated company, Charter Development Company (CDC). The affiliated company is wholly-owned subsidiary of the CMO and is the owner of the school building. The CMO leases the building from the affiliated company and is the landlord for the school building sub-leasing it to the school and charging the school an amount that appears to be excessive. In its December 2012 audit report, New York State Comptroller reported that the lease agreement between BECS and NHA was overpriced. We agree with the New York State Comptroller finding that the BECS board did not execute the lease in the best interest of the school. However, we did not have enough information and expertise to determine whether the CMO's lease charges were reasonable. We did not identify any other potential findings during the interview and/or document review with the other four charter schools and their CMOs.

d. Other Contracts Reviewed

- i. List the types of other contracts that the charter school had in effect during the audit period.
- ii. Indicate how the charter schools in your selection entered into other contracts. Include:
 - 1. How the contract was sourced?
 - 2. Were the fees reasonable?
 - 3. Was the charter school, its board members, or its employees affiliated to the vendor contracted?
 - 4. Was the charter school obliged to contract the vendor to receive services from the CMO?

No issues noted for the five schools in the other contract reviewed.

- iii. Identify any potential findings identified during the interview and/or document review with the charter school and CMO. Include any concerns

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regarding, but not limited to, conflict of interest, related party transactions, and segregation of duties concerns.

None noted at this time.

5. OSM

- a. QAR checklist
 - i. Complete QAR Checklists for Fieldwork, Reporting, and Draft Issuance, as applicable to the work performed and the team summary. Please copy checklist from PA6, and place a copy of your completed checklists in PA9 in TeamMate.
- b. OSM, Sampling Selection, and Methodology
 - i. What was your rationale for choosing the charter schools? Please add previously submitted site selection document to your respective row in section M in TeamMate.
 1. See M.1.3 for site selection information.
- c. Describe any work performed at the State, LEA, authorizer, and CMOs.
 - i. Authorizer
 1. Interviews
 - a. NYSED CSO
 - i. (b) (6), (b) (6), CSO
 - ii. (b) (6), (b) (6) with Charter School of Educational Excellence
 - iii. (b) (6), (b) (6)
 - b. SUNY
 - i. (b) (6), (b) (6)
 - ii. (b) (6), (b) (6) and (b) (6)
 - c. NYC DOE
 - i. (b) (6), (b) (6) Charter Schools Office
 - ii. (b) (6), (b) (6)
 - iii. (b) (6), (b) (6)
 - iv. (b) (6), (b) (6)
 - v. (b) (6), (b) (6)
 - vi. (b) (6), (b) (6)
 - vii. (b) (6), (b) (6)
 - ii. CMO
 1. Interviewed individuals at respective management organizations while performing site work at each school. See K.2 section for various interview work papers.

Team Summary Outline

The objective of this audit is to assess the current and emerging risk that charter school relationships with charter management organizations (CMOs) and education management organizations (EMOs) pose to the Office of Elementary and Secondary Education (OESE), Office of Special Education and Rehabilitative Services (OSERS), and Office of Innovation and Improvement (OII) program objectives and evaluate the effectiveness of OESE's, OSERS', and OII's internal controls to mitigate the risk. Specifically, we will evaluate whether there are any conflicts of interest in charter schools and the oversight, audits and investigations of CMOs.

This Team Summary Outline should be placed in your respective row in section M in TeamMate and independently referenced. Based on your sample of charter schools and authorizers, please briefly provide information on the following:

State: Pennsylvania

1. Overall Conclusion/Results

- a. Answer the audit objective by summarizing conclusions and results for your work performed at the authorizer, school, and CMO.*
 - i. Briefly summarize the State Charter School Law. Note: Describe whether the State law included policies regarding conflict of interest, related party transactions, segregations between the charter school and Charter Management Organizations (CMOs). Use the matrix from the TeamMate section C.*

Pennsylvania law requires authorizers to annually assess whether each charter school is meeting the goals of its charter and conduct a comprehensive review prior to granting a five-year renewal. The law requires charter schools to complete an annual financial audit. As authorizer, the law specifies that it has ongoing access to the records and facilities of the charter school to ensure compliance.

The law does not require authorizers to produce and publish annual school performance reports aligned with the performance framework set forth in the charter contract as provided in the model law. Instead, it requires charter schools to participate in the state assessment system and submit annual reports to their local school board and the state secretary of education (using a form prescribed by the secretary for charter schools). It requires authorizers to annually review such assessment data.

Pennsylvania law is silent regarding MOs, and thus there are no explicit statutes requiring that authorizers review and approve MO arrangements and that charter school boards be independent of a MO. However, case law exists which requires a fully executed management agreement to be submitted with an application if the charter school is going to use a management company.

The law's only conflict of interest provision states that an administrator in a school cannot receive compensation from a company that provides management or other services to another

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charter school. In addition, statute makes it clear that any administrator and trustee are public officials and subject to ethics standards and financial disclosure.

ii. Describe the authorizer's oversight and monitoring practices regarding charter schools in our audit selection.

Chester Upland School District (CUSD) is the authorizer for Chester Community Charter School (CCCS). As the authorizer, CUSD reviewed the initial charter application and renewal application for CCCS. The initial application process and renewal application process includes portions of the application being provided to subject matter experts to make a determination as to whether the initial charter applicant or renewal applicant is satisfying the state mandated curriculum requirements. CUSD does not conduct site visits of Chester Community Charter School (CCCS), except on a monthly basis to reconcile the monthly child accounting report for the purpose of validating CCCS' enrollment claims which determines funding. CUSD officials explained that they review excessive absence reports and if students appear on an excessive absence report, the school does not receive payments for those students. CUSD also explained that it reviews student accounting reports to ensure that the charters do not receive duplicate payments for students who may be placed in facilities or cyber charters.

CUSD officials added that they have to be cautious with CCCS because they have a habit of making students a part of their Special Ed program (Special ED students entitle CCCS to more funding than regular students). CUSD officials mentioned that CCCS has never had so many students designated as Special Education students.

School District of Philadelphia's (SDP) Auditing Services Department does a periodic cursory review of the charter's financials and they conduct periodic enrollment audits. The Audit Services Department also looks at management fees, leases, the structure of leases, and bond deals. In addition, prior to a charter school being renewed, SDP has a contractor, Schoolworks, perform an onsite review of the charters, inclusive of reviewing academics, facilities, fiscal stability, safety, and speaks with a few parents and board members.

SDP officials stated that their Special finance Department reviews enrolment files to ensure that students who are classified as Special ED have a valid Individual Education Plan. They acknowledged that because of staffing, they have one person is responsible to check all of the files but given the amount of files that individual is not able to do a complete check of the files.

iii. Identify common themes among the charter schools in our selection. (Such as who initiated the charter school application process, the governing structure of the charter school and CMO. Include any instances of conflict of interest, related party transactions, and incompatible duties by count and type.)

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- b. Summarize potential reporting themes and other interesting/unique information/observations of interest regarding authorizers, management organizations, and/or charter schools visited.*

Chester Upland School District

Our fieldwork at Chester Upland School District (CUSD) and Chester Community Charter School (CCCS) identified potential conflicts of interest.

Conflicts of interest: We identified two individuals that have potential conflicts of interest related to the scope of their responsibilities with CUSD. One of the individuals is employed with CUSD's Child Accounting division, and has a contract with CCCS. According to the contract, the employee provides services in the area of technology database management of student information systems. After speaking with a CCCS official about the services being provided under the contract, we were informed that technology database management of student information systems would cover the student enrollment and attendance system. The other individual, whom according to the CUSD Board meeting minutes is identified as the CUSD Solicitor, also provided services to CCCS. We requested copies of the contracts, but have not received them to date. We were provided with invoices for the services provided under the contract; however, key information had been redacted and we were unable to determine if this was an actual conflict of interest. The lawyer representing CCCS stated that the information was redacted because it could potentially reveal strategies, which they considered attorney-client privilege.

Chester Community Charter School (CCCS)

Our fieldwork at Chester Community Charter School identified related party transactions.

Related Party Transactions: (b) (6) is the CEO of Charter School Management Inc. During (b) (6) tenure as the CEO of Charter School Management Inc, he owned and leased properties to CCCS. Lease agreements existed between (b) (6) and CCCS. In 2010, the properties owned by (b) (6) were sold to Friends of Chester Community Charter School. We identified lease agreements between Friends of Chester Community Charter School and CCCS. The lease agreements identified that the interest of Friends of Chester Community Charter School was collaterally assigned to Wells Fargo bank N.A as Trustee.

While reviewing the vendor list supplied by CCCS officials, we identified payments considered as potential related party transactions. For the period we reviewed, July 2007 through March 2013, we identified that payments were made to (b) (6) for approximately \$(b) (4) million. Of the \$(b) (4), about \$(b) (4) was classified as rent. After we inquired about the other \$(b) (4) million paid directly to (b) (6), we were informed by a CCCS official that these payments consisted of the management fees. The Management agreement between the two entities specifically identifies Charter School Management Inc., a Pennsylvania business corporation as "the manager", and further states in Section 7.01 Management Fee, under Compensation-Method of Payment that "the School shall pay the Manager a Management Fee." Because the payments were made to the CEO of the CMO, CCCS was not in compliance with the Management agreement it executed on June 30, 2009. Further we questioned whether the

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classification of the \$(b)(4) million as management fees is accurate because it does not correspond with the figures reflected on IRS Form 990 for years 2008, 2009, 2010, and 2011. In addition, we requested supporting documentation and were provided with documents that did not satisfy our request. We followed up our request with a discussion with (b)(6), (b)(6) on August 13th.

We also identified that Charter School Management Inc. was paid a total of \$(b)(4) and CSMI, LLC was paid a total of \$(b)(4), both of which were for management fees. In addition, Friends of Chester Community Charter School was paid \$(b)(4) and as a result of the collaterally assigned lease agreement, Wells Fargo was paid a total of nearly \$(b)(4).

Vendor	Jul 07 - Jun 08	July 08- Jun 09	Jul 09 - Jun 10	Jul 10 - Jun 11	Jul 11 - Jun 12	Jul 12 - Mar 13	Total
(b)(6) (management fees)	(b)(4)					\$ -	(b)(4)
(b)(6) (rent)	(b)(4)				\$ -	\$ -	(b)(4)
Charter School Management, Inc	\$(b)(4)						
CSMI, LLC	\$ -	\$ -	\$ -	(b)(4)			
Friends of Chester Community Charter School	\$ -	\$ -	\$ -	(b)(4)			
WFCTSPACS	\$ -	\$ -	\$ -	(b)(4)			

John B. Stetson Charter School (Stetson)

Our fieldwork identified potential conflicts of interest, significant non-compliance, and the absence of a system of checks and balances between Aspira and the charter school.

Conflicts of Interest: The CMO, Aspira of Pennsylvania (Aspira), appointed the first three members of Stetson’s board, and then those three members appointed the remainder of the board. This enables Aspira to indirectly participate and restrict Stetson’s activities and control.

In section 3.1 of the ByLaws, it states that “The Board shall have the authority to decide all matters regarding the operation and functioning of the corporation, including but not limited to the authority to:

- a. Sign a written charter with the Board of Education of the School District of Philadelphia;
- b. Establish and maintain policies governing the operation of the School;
- c. Approve the appointment of a Chief Administrative Officer;
- d. Adopt the School calendar;
- e. Adopt textbooks;

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- f. Adopt courses of study;
- g. Appoint or dismiss school administrators or staff members;
- h. Adopt the annual budget and conduct an annual independent audit of the School's finances;
- i. Buy or sell land;
- j. Locate new buildings or change the location;
- k. Create or increase indebtedness;
- l. Designate depositories for school funds;
- m. Enter into contracts of any kind where the amount of the contract exceeds five hundred dollars (\$500);
- n. Enter into contracts with and making appropriations to an intermediate unit, school district or Area Vocational/Technical School for the charter's proportionate share of the cost of services provided or to be provided by the foregoing entities;
- o. Determine compensation and terms and conditions or employment of administrators, teachers and other employees of the School.

The ByLaws also state (section 3.2) that "A majority of board Trustees at all times shall be appointees of ASPIRA Inc*. The membership of the board shall include two parents, one of whom shall be the President of the Parents Association." Based on our review of the bylaws, it appears as though a majority vote, or at maximum, 2/3 of the votes are needed to approve a motion. If a majority of the Board of Trustees has been appointed by Aspira, then Aspira can both participate in, and restrict the governance and oversight of the school. Even though the bylaws state that the board shall include two parents, one of whom shall be the President of the Parents Association, only one parent is represented on Stetson's board (and is the Parents Association President).

Non-Compliance: According to the Master Service Level Agreement (MSLA), which is signed by both Aspira and Stetson, Aspira is required to (b) (4)

[REDACTED]

[REDACTED] Based on interviews with Aspira (its CEO, CFO, and financial contractor), Stetson's Principal, and the Board's Treasurer and Secretary, we concluded that Aspira does not comply with the MSLA's invoice requirement quoted above. Failure to comply with this requirement prevents Stetson from reviewing, approving, reconciling, and/or validating the monthly management fees charged by Aspira.

Absence of Checks and Balances: Aspira acknowledged that it does not have documented policies and procedures regarding its management and/or operation of Stetson. According to Aspira's CFO and the financial contractor present, the journal entry is simultaneously entered into the accounting system upon creation of an invoice that is based on the services provided by Aspira. Upon review of the invoices, there are a multitude of discrepancies contained therein, and a severe lack of accurate and complete information. Aspira does not have a process to review, approve, validate, or reconcile the invoices for the monthly expenditures related to its management of Stetson. In addition, Stetson is not given an opportunity to perform any of the

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above tasks regarding the fees its being charged monthly. Both constitute the absence of checks and balances, while the lack of policies and procedures constitutes internal control weaknesses within Aspira.

Universal Institute Charter School (UICS)

Our fieldwork at UICS identified significant and blatant conflicts of interest and related party transactions. Four officers of the charter management organization, Universal Community Homes (UCH), are also members of the UICS Board of Directors. UCH's Chairman, the (b) (6), the President and the CFO are all voting members of the charter school's board. The CMO has 4 of the 9 school board member positions.

The CMO contract between UCH and UICS is signed on behalf of the CMO by (b) (6), and on behalf of the charter school by (b) (6). The CMO representative (b) (6) is also on the charter school's board of directors, while the charter school representative (b) (6) is the (b) (6) of the CMO.

The CMO essentially represents the charter school because the charter school board contains four member of the CMO. As a result, the charter school's board could not have independently determined that the cost for the CMO's services was reasonable. In addition, we noted vendor payments made from the charter school to a company called Universal Education Companies Inc., which is part of the same company as Universal Community Homes. Based on the CMO contract, UICS agreed to pay UCH a management fee of \$(b) (4) per student, or about \$(b) (4) per year.

KIPP Dubois Collegiate Academy had no potential reporting themes to note.

Alliance for Progress Charter School had no potential reporting themes to note.

2. Background

- a. *CMOs models. (Describe the models in which the charter schools in your site visits were operating under and include any common themes amongst the CMOs. Some models are listed below, but include other models that do not fit any of the classifications.)*
 - i. *CMO initiated the process for the charter school, recruited the board members, and handles all finances and has the authority to issue checks in behalf of the charter school without school board approval.*

Chester Community Charter School began in September 1998, under the name of Archway Charter School of Chester. CCCS has a management agreement with CSMI LLC. CSMI LLC provides the design, development, implementation, management, and operation of the school and facilities which are all subject to the School and its Board of Trustees.

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- ii. *The charter school initiated the process before contracting a CMO. The CMO has access to the charter school's finances, but does not have the authority to issue checks without the board or school approval.*
- iii. *The charter school initiated the process before contracting a CMO, but the CMO has access to all finances and the authority to issue checks in behalf of the school.*

Alliance for Progress Charter School has a business service agreement with an entity that provides business and educational administration services. The entities do not share any board members. The CMO does have access to the finances but board approval is required for all expenditures greater than \$ (b) (4).

- iv. *The CMO and the charter school are the same entity, share board members, and make decisions together.*

Universal Institute Charter School and its CMO share four board members. The contract between the school and the CMO is signed by one representative from each entity, and each person is on the school board and employed by the CMO.

- v. *The CMO model is other than the previous four classifications. Please describe the CMO model. Include the charter school initiation process, access to financial systems, bank accounts and check writing authorization.*

John B. Stetson Charter School (Stetson) is considered a Renaissance Charter of the School District of Philadelphia (SDP). The Renaissance Charters are for what SDP considers to be turn-around schools that are problematic, underperforming, or persistently dangerous. For these schools, organizations apply for a charter by way of a Request for Proposal (RFP). Parent groups within the schools review proposals and decide which CMO they want to run the school. Based upon their selection a recommendation is made to the School Reform Commission (SRC) and then the SRC selects the CMO to operate the school.

Aspira of PA was awarded Stetson for the 2010-2011 school year. Stetson's CEO selected the initial members of Stetson's school board, and those members completed selection of the remaining board members. Aspira of PA provides support services to the schools, including kitchen services, maintenance, cleaning, finances and HR, so the school administration can focus on curriculum. Aspira handles all of the finances on behalf of Stetson and does not need school board approval.

Kipp Philadelphia (Kipp Dubois Collegiate Academy) is the CMO and was granted a charter to operate as KIPP Philadelphia. Under its charter, KIPP Philadelphia operates Kipp Dubois Collegiate Academy (high school) KIPP Philadelphia Academy (middle school) KIPP Elementary Academy (elementary school). KIPP Philadelphia provides back-office and management services to KIPP West Philadelphia Preparatory Academy, which operates under a

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separate charter. All of the entities share the same board and each school has two parents that represent its school as members of the school board.

KIPP Dubois Collegiate Academy has a license agreement with the KIPP Foundation. The KIPP Foundation currently has no representation on the school’s board; however, according to the CEO, he was a Fisher Fellow¹ prior to becoming the CEO.

b. Overview of Funding.

- i. Federal funding awarded. Define fiscal year (FY) if different from July 1st through June 30th.*

<i>Federal Funding to Charter Schools</i>			
	<i>FY 2009-10</i>	<i>FY 2010-11</i>	<i>FY 2011-12</i>
<i>Title I, Part A</i>	\$3,207,623	\$3,294,328	\$3,069,196
<i>Title I SIG</i>	\$89,200	\$767,146	\$855,991
<i>IDEA, Part B</i>	\$1,583,101	\$1,408,032	\$895,567
<i>CSP</i>	\$0	\$676,214	\$410,136
<i>Total Revenues</i>	\$4,879,924	\$6,145,720	\$5,230,890

<i>Replication Grant CDFR 84.282M (if applicable)</i>			
	<i>FY 2009-10</i>	<i>FY 2010-11</i>	<i>FY 2011-12</i>
<i>Replication Grant</i>	0	0	0

c. Enrollment Trends.

<i>Student Enrollment</i>			
	<i>FY 2009-10</i>	<i>FY 2010-11</i>	<i>FY 2011-12</i>
<i>Total Enrollment</i>	746	967	1060

- d. Any other relevant authorizer, charter school, and CMO background information and observations about funding, and enrollment, including unique opportunities/challenges/advantages.*

3. Authorizers Visited

a. Overview of the Authorizers

- i. Indicate the types of authorizers for the charter schools selected in your State. For example, identify whether the authorizer was the SEA, the LEA, or another entity.*

The two authorizers for the charter schools selected are both LEAs.

- ii. What was their responsibility according to State Charter School Law? Use the matrix in TeamMate C.3.1 through C.3.8.*

¹ The Fisher Fellowship is a one-year program that prepares Fellows to found and lead a new KIPP school in an underserved community.

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Pennsylvania law requires authorizers to annually assess whether each charter school is meeting the goals of its charter and conduct a comprehensive review prior to granting a five-year renewal. As authorizer, the law specifies that it has ongoing access to the records and facilities of the charter school to ensure compliance.

The law does not require authorizers to produce and publish annual school performance reports aligned with the performance framework set forth in the charter contract as provided in the model law. It requires authorizers to annually review the state assessment system and submit annual reports to their local school board and the state secretary of education (using a form prescribed by the secretary for charter schools).

Pennsylvania law is silent regarding MOs, and thus there are no explicit statutes requiring that authorizers review and approve MO arrangements and that charter school boards be independent of a MO. However, case law exists which requires a fully executed management agreement to be submitted with an application if the charter school is going to use a management company.

- iii. Indicate whether the authorizer is monitored and by whom. If available, describe the results of the last monitoring report performed of the authorizer.*
- iv. Evaluate whether the monitoring and oversight process of the authorizers for the charter schools in your selection were adequate based on the State Charter School Law requirements.*
 - 1. Indicate and describe the monitoring process used. Such as the renewal process and/or any additional monitoring that the authorizers perform of the charter schools.*
 - 2. List the areas that the authorizers for the charter schools in your selection evaluated as part of their monitoring.*
 - 3. Indicate how frequently charter schools were monitored.*
 - 4. Indicate if the authorizers were required to report outcomes to the SEA or to the Department.*
- b. Identify any potential findings identified during the visit to the authorizers. (Reference to authorizer write-ups)*

4. Charter Schools Visited and Common Threads

- a. Charter School Governance*
 - i. Describe the governance model of the charter school Board, consider:*
 - 1. Instances of affiliations between the charter school and the CMO*
 - 2. The level of the board members' involvement with the CMO*
 - 3. The level of the board members' authority regarding decisions that affected the school*
 - 4. Whether the CMO had the capacity to make decisions for the charter school*
 - ii. Was there any board member or school official identified that made any decisions that would represent a conflict of interest, or related party transaction? If yes, what was the relationship?*

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- iii. Identify any potential findings identified during the interview with the charter school board member and/or document review. Include concerns regarding, but not limited to, conflict of interest, related party transactions, and segregation of duties.*

Universal Institute Charter School is governed by its CMO. Four members of the charter school's board are officers of the CMO. Essentially, the CMO and the charter school have a severe lack of separation, considering the overlapping of personnel, resulting in the appearance of a conflict of interest which could hinder the ability of the school board to act independently. The contract between the CMO and the charter school entitles the CMO to handle all non-curriculum related decisions.

We noted no other potential findings related to governance at Universal.

John B. Stetson Charter School is governed by its CMO. According to the contract between the two, the CMO handles the school's day-to-day operations, with the exception of the actual teaching of the students. While the CMO and the charter school do not have direct affiliations, the CMO's CEO appointed the initial school board members, so he has indirect influence over the school board.

Stetson's board members have little involvement with the CMO. The board's authority exists, according to the service level agreement, but according to the board's secretary, 51% of the board members are always appointed by the CMO, so again there is an indirect influence over the school board which essentially allows the CMO to make decisions for the charter school.

We did not note any school board member or official that made any decisions representing a conflict of interest or related party transaction.

During the interviews with the CMO, the charter school principal and the two school board members, we identified noncompliance with the Master Level Service Agreement (MSLA). In section 4.2 of the MSLA, it states that "ASPIRA shall invoice STETSON monthly for Services performed in accordance with the applicable Service Schedule. Each monthly invoice shall include an itemized breakout by Service Schedule and will include a summary report of tasks performed, additional information may be requested by STETSON management staff for review or if required for audit purposes." As stated by the school's principal and the school board members, CMO does not provide invoices to the charter school. The CMO confirmed that it does not send invoices to the charter school, despite the requirement set forth in the MSLA. Instead, the CMO enters a journal entry into their financial accounting system for the monthly management fees (both direct fees and indirect fees). The CMO's process for recording the management fees is not supported by documented policies and procedures, and also suffers from a lack of a system of checks and balances, as a single person enters the journal entry without review or approval from another CMO employee.

Chester Community Charter School is governed by its Board of Trustees. According to the Management agreement, in Section 6.01, CSMI LLC (the manager) agrees to prepare and present

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to the Board, at its monthly meetings, reports on the academic and financial results of operations. Based upon our review of the Board Minutes we were not able to identify whether this occurred.

We identified instances where it appeared that the CMO had the authority to make financial decisions on behalf of CCCS. More specifically, for the period of July 2008 through June 2009, we reviewed 24 cancelled checks, totaling about \$11.1 million. These checks were drawn on the CMO's account and were made payable to the (b) (6) (b) (6) of the CMO) and were signed by the (b) (6) of the CMO². We also noted that the payee endorsement on the back of the check appeared to be the signature of the (b) (6) of the CMO. We were not provided with any additional support or explanation for these expenditures. As a result, we concluded that these instances represent concerns related to related party transactions, a lack of segregation of duties, and a lack of internal controls, all on behalf of the CMO. In addition, we were not able to identify whether there was an approval process in place for the Board of Directors to approve expenditures. If the Board has plans going forward to delegate its authority over expenditures to the CMO, it does not relieve the Board of Directors from its fiduciary responsibility over public funds.

Other Concern:

CCCS provided redacted invoices which prevented us from assessing the services being provided and the relationship between CCCS and the vendor. These invoices included CUSD's Solicitor and other law firms. When asked why the invoices were redacted, CCCS informed us that invoices for legal services could potentially reveal strategies which they consider attorney-client privilege.

Alliance for Progress Charter School

We noted no potential findings related to governance at Alliance for Progress Charter School.

KIPP Dubois Collegiate Academy

We noted no potential findings related to governance at KIPP Dubois Collegiate Academy.

b. Charter School Fiduciaries and Agents

- i. Indicate whether the charter schools' external auditor, attorney, real estate broker, broker-dealer, banker or other agent were sourced independently from the CMO? Was this an example of a best practice by the charter school?*
- ii. Identify any potential findings identified during the visit and/or document review of the charter school and CMO. Include concerns regarding, but not limited to, conflict of interest, related party transactions, and segregation of duties.*

Universal Institute Charter School and its CMO share four board members, so its agents were not sourced independently.

² Although the checks provided reflect Charter School Management, Inc. as the account holder, the funds belong to Chester Community Charter School.

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UICS had vendor payments made to Universal Education Companies Inc. We identified payments of about \$ (b) (4) made over the past six school years. The CMO/Charter School official interviewed explained that this is a Universal company (related to CMO) that provided (supplemental) educational services (academic management) to students. There is no contract between UICS and UEC, and therefore no support documentation to validate payments made from UICS to UEC for any services. The management contract between UICS and UCH did not contain academic services, so no transfer of services is possible. Whatever fee schedule used by UEC is not documented, and therefore could not have been approved by the UICS school board. In addition, since the CMO essentially represents the charter school, the school board does not have the ability to independently determine whether the cost for the CMO services is reasonable.

John B. Stetson Charter School seemed to source its agents appropriately, and aside from the potential issues noted above, there are no other fiduciary items to note.

Chester Community Charter School

We were not able to determine how Chester Community Charter School sources its fiduciaries and agents. We did note that CCCS had vendor payments, over the past six years, to the following individuals / entities:

(b) (6) \$ (b) (4)
(b) (6) (rent) \$ (b) (4)
Charter School Management, Inc \$ (b) (4)
CSMI, LLC \$ (b) (4)

Alliance for Progress Charter School appeared to source its fiduciaries and agents appropriately.

KIPP Dubois Collegiate Academy appeared to source its fiduciaries and agents appropriately.

c. The CMO Contract and Fees

i. Identify how the charter school contracted the CMO based on the CMO model classifications from the Background section of this document. Based on the classifications, was the contract and fees paid reasonable? [The criteria used to determine reasonableness of fees paid to the CMO depends on the situation. For example, the services provided to the school, the number of students served, the size and location of the school's building. The applicable criteria to contracts that are paid with Federal funds are 34 CFR 80.36, and reasonableness OMB Circular A-87.] Consider:

- 1. How was the contract sourced?*
- 2. What was the fee structure of the contract? Did the contract include contingency fees such as reimbursements?*
- 3. Was the charter school, its employees, or its board members affiliated with the CMO or its employees?*
- 4. Did the CMO have access to the charter schools' finances and bank accounts, and had check writing capabilities?*
- 5. Did the contract include a reasonable termination clause?*

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6. *Assess whether the charter school would be able to continue if the CMO contract was terminated. Why or why not?*
- ii. *Identify any potential findings identified during the interview and/or document review with the charter school and CMO. (Including, but not limited to, any issues regarding the reasonableness of the fees paid to the CMO, services provided, access to bank accounts, termination clauses, lease arrangements, and financial systems. Include any conflict of interest, related party, or segregation of duties concerns.)*

Universal Institute Charter School and its CMO share four board members indicating a lack of separation. The fee structure of the contract is solely based on student enrollment where the CMO is paid \$(b) (4) per enrolled student on a monthly basis. There are no other fees or reimbursements paid to the CMO. The CMO handles all of the charter school's finances.

If the CMO contract was terminated, the charter school would not be able to continue its operation, as the CMO handles the school's non-curriculum related activities.

John B. Stetson Charter School was an underperforming, persistently dangerous school that the School District of Philadelphia awarded to Aspira of PA. The fees paid to the CMO are based on the actual operational expenses of running Stetson (direct fees), plus an allocation of administrative support staff (CEO, CFO... of Aspira), plus a seven percent indirect fee based on the actual operational expenses. The CMO handles all of the school's finances, which includes its bank accounts. The contract between the two sets forth conditions for termination and appear to be fair to both parties.

The fees charged to Stetson appear reasonable, as the only monies charged above and beyond the actual costs of running the school are capped at seven percent.

If the CMO contract was terminated, the charter school would not be able to continue its operation, as the CMO handles the school's non-curriculum related activities.

Chester Community Charter School is operated by its CMO, CSMI LLC. The CEO of CSMI LLC previously owned the property where the charter school operates. After the sale of the property to Friends of Chester Community Charter School, CCCS entered into a (b) (4) -year lease agreement with Friends of Chester Community Charter School. The lease agreement between CCCS and Friends of Chester Community Charter School is collaterally assigned to Wells Fargo Bank.

We requested documentation to support the fee structure of the management fees in comparison with the amounts paid to the CMO but we were not provided with documentation to satisfy our request. In the most recent management agreement between CCCS and CSMI LLC, which was made effective on October 19, 2010, it states that CSMI LLC would be paid \$(b) (4) per pupil. This management agreement is for a (b) (4) -year term and automatically renews for an additional (b) (4) years on October 18, 2013.

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CCCS provided spreadsheets that provide details of how the management fees were calculated monthly, and then reconciled annually (by school year). The calculations are based on enrollment, and charged at per pupil amounts around \$(b) (4) so they appear correct. We did not reconcile the management fee calculations considering they adjust for the changes in the CPI. At \$(b) (4) per pupil, the management fees appear to be excessive.

Prior to this management agreement being executed, CCCS had a management agreement with Charter School Management, Inc. for a (b) (4) -year term. Charter School Management Inc. now operates as CSMI LLC.

Alliance for Progress Charter School was founded by The Women’s Christian Alliance. APCS is operated by its CEO who reports to the Board. AFPCS has a Business Services Agreement and pays the CMO an annual management fee of \$(b) (4) with an annual (b) (4) percent increase.³ The fee is not a percentage of revenue but contingent upon the (b) (4) .

KIPP Dubois Collegiate Academy is the name of the high school location of KIPP Philadelphia. Under the charter, KIPP Philadelphia also operates an elementary location and a middle school location, respectively named KIPP Philadelphia Elementary Academy and KIPP Philadelphia Charter School. KIPP Philadelphia Dubois Collegiate Academy has a license agreement with the KIPP Foundation. The license agreement permits KIPP Dubois Collegiate Academy use of the KIPP name and its trademarks. The agreement entitles the KIPP Foundation to a fee equal to (b) (4) percent of the state and local per-pupil allocation, not to exceed \$(b) (4) annually. Either party can terminate the agreement at any time; however, if KIPP Dubois Collegiate Academy chose not to renew or discontinue its agreement with the KIPP Foundation, it must provide (b) (4) days notice prior to the expiration of the license agreement. Failure to do so could result in the payment of a termination fee, not to exceed \$(b) (4) .

The license agreement specifically provides the KIPP Foundation with the right to approve any school principal or school leader of KIPP Dubois Collegiate Academy. After discussion with the CEO, we learned that a school principal must have successfully completed the Fisher Fellowship.

d. Other Contracts Reviewed

- i. List the types of other contracts that the charter school had in effect during the audit period.*
- ii. Indicate how the charter schools in your selection entered into other contracts. Include:*
 - 1. How the contract was sourced?*
 - 2. Were the fees reasonable?*
 - 3. Was the charter school, its board members, or its employees affiliated to the vendor contracted?*

³ The \$(b) (4) is from the 2008-09 school operating year.

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4. *Was the charter school obliged to contract the vendor to receive services from the CMO?*
- iii. *Identify any potential findings identified during the interview and/or document review with the charter school and CMO. Include any concerns regarding, but not limited to, conflict of interest, related party transactions, and segregation of duties concerns.*

Universal Institute Charter School paid Universal Education Companies Inc. (UEC) to provide educational services to its students, however, there is no contract entitling UEC to provide services, nor are there invoices from UEC to UICS for anything during the audit period. Beginning on July 1, 2013, UICS contracted UEC as its charter management organization.

John B. Stetson Charter School has entered into a contract with Success School, LLC for the purpose of providing educational services to students under disciplinary action. The third floor of the school has been set aside for these students. There are no potential issues with the contract.

The other contracts in effect generally relate to curriculum and educational consultants, and we have no issues or concerns with them.

5. OSM

- a. *QAR checklist*
 - i. *Complete QAR Checklists for Fieldwork, Reporting, and Draft Issuance, as applicable to the work performed and the team summary. Please copy checklist from PA6, and place a copy of your completed checklists in PA9 in TeamMate.*
- b. *OSM, Sampling Selection, and Methodology*
 - i. *What was your rationale for choosing the charter schools? Please add previously submitted site selection document to your respective row in section M in TeamMate.*

Our sampling methodology was as follows:

The Alliance and Universal schools were assigned by the lead region.

The Chester Community Charter School was automatic because it's the only Charter School Management Inc. school provided. In addition, Investigative Services provided some insight into reported issues with the management company.

The Aspira Stetson School was selected because its 990 Form revealed issued bonds.

The KIPP Dubois School was selected because we could not locate a 990 Form for this institution, and through Internet research, we found that it received funding from a foundation. We wanted to include at least one school where the 990 Form could not be located.

- c. *Describe any work performed at the State, LEA, authorizer, and CMOs.*

We conducted interviews of CMO officials, school officials, school board members and authorizers. We did not perform any work at the SEA level.

Team Summary Outline

The objective of this audit is to assess the current and emerging risk that charter school relationships with Charter Management Organizations (CMOs) pose to the Office of Elementary and Secondary Education (OESE), Office of Special Education and Rehabilitative Services (OSERS), and Office of Innovation and Improvement (OII) program objectives and evaluate the effectiveness of OESE’s, OSERS’, and OII’s internal controls to mitigate the risk. Specifically, we will assess the conflicts of interest in charter schools and the oversight, audits and investigations of CMOs.

(b) (5)

State: **TEXAS**

Table 1: Selected Charter Schools and Management Organization

Charter School	Management Organization
A.W. Brown Fellowship Charter School	A.W. Brown Fellowship Leadership Academy
A.W. Brown Fellowship North Campus	A.W. Brown Fellowship Leadership Academy
Faith Family Academy of Oak Cliff - Elementary School	Faith Family Kids, Inc.
Faith Family Academy of Oak Cliff - Middle School	Faith Family Kids, Inc.
Dallas Can Academy Oak Cliff	America Can (d/b/a Texans Can)
Dallas Can Academy Ross Avenue	America Can (d/b/a Texans Can)

1. Overall Conclusion/Results

Based on the OII definitions of a CMO and an EMO, we determined the three charter holders (A.W. Brown Fellowship Leadership Academy, Faith Family Kids, Inc., and America Can) that managed the six charter schools we visited were a CMO. OII defines a CMO as a non-profit organization that operates, manages, and oversees multiple charter schools by centralizing or sharing certain functions and resources among the schools. In addition, OII defines an EMO as an entity that provides “whole-school operation services”.

We determined how Texas defines a charter holder and a management company. Texas Education Code (TEC) Sec. 12.1012 states:

“(1) "Charter holder" means the entity to which a charter is granted, and

(4) "Management Company means a person, other than a charter holder, who provides management services for an open enrollment charter school.”

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Texas Administrative Code (TAC) §100.1011(14)(A) states “a charter holder and its employees may provide management services to a charter school that is under the charter holder's supervision and control pursuant to the open-enrollment charter, and such charter holder is not thereby a management company.”

According to Texas Education Agency (TEA), there are seven CMOs operating in Texas. TEA does not consider the three charter holders we visited as CMOs.

In addition, we identified the laws regarding conflict of interest requirements in Local Government Code, Chapter 171, TAC §100.1131-100.1135, and TEC Chapter 12. Specifically, TAC §100.1133 requires that a local public official of a charter school that has a substantial interest in a business entity must file, before a vote or decision on any matter involving the business entity, an affidavit stating the nature and extent of the interest of the business with the official record keeper. TEC Section 12.1054 defines a local a public official as a member of the governing body of a charter holder, a member of the governing body of an open-enrollment charter school, or an officer of an open-enrollment charter school.

We determined at the three charter holders we visited, a local public official had a substantial interest in a business entity. Specifically, the local public official did not complete and file an affidavit stating the nature and extent of the interest with the official record keeper of the charter holder before the vote or decision was made involving the business entity as required by TAC §100.1133.

Authorizer’s Oversight and Monitoring Practices

Texas open-enrollment charter schools are authorized by the Texas State Board of Education (SBOE), but all aspects of oversight and monitoring of charter schools are maintained by TEA. TEA monitors and evaluates, annually, the academic performance of all charter schools under the Texas state accountability system, and the financial ratings through the Texas Charter School Financial Integrity Rating System (FIRST). In addition, the charter school accreditation is based on annual examinations of the financial and academic condition of the charter schools, and may include performance in other areas, including program effectiveness, program compliance, and data integrity.

2. Background

Based on how OII defines a CMO and EMO we determined for the three charter holders we visited, the three charter holders were CMOs. We determined the three charter holders represent the governing board that made decisions for their charter schools.

Governing Structure

A.W. Brown Fellowship Leadership Academy

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A.W. Brown Fellowship Leadership Academy was founded by the Chief Executive Officer (CEO). The charter was authorized by the SBOE in September 1998.

A.W. Brown Fellowship Leadership Academy is a charter holder which operates two charter schools (A.W. Brown Fellowship Charter School and A.W. Brown Fellowship North Campus). There is one Board of Directors that governs both charter school campuses. Appointed officers (that is, the CEO, the Chief Financial Officer (CFO), and the Executive Director) are held responsible by the governing board to supervise the financial and administration functions of the charter schools.

Faith Family Kids, Inc.

Faith Family Kids, Inc. and its charter schools were founded by the Board President and (b) (6) (who is also a board member). The charter was authorized by the SBOE in September 1998.

Faith Family Kids, Inc. is a charter holder that operates two charter school districts (that is, Faith Family Academy of Oak Cliff and Faith Family Academy of Waxahachie). Each charter school district consists of three charter school campuses. In addition to the charter holder governing board, there is a charter school board. The same individuals, including the Board President, form both the charter holder governing board and charter school governing board (with the exception of one individual which is the secretary). All financial and administrative matters concerning the charter schools are decided by the charter holder governing board. The Superintendent is responsible for the daily supervision of all financial and administrative matters as determined by the charter holder governing board.

America Can (d/b/a Texans Can)

Dallas Can Academy initially started as a general education development program in 1985. Texans Can applied and was approved to open a charter school, Dallas Can Academy, in April 1996. According to the Superintendent, Dallas Can Academy was the pilot for the other Can Academies that were planned to open in Texas and other states. Therefore Texans Can changed its name to America Can. America Can is a charter holder that currently operates five charter school districts that consists of 10 charter schools as shown in Table 2.

Table 2: America Can Charter School Districts and Schools	
Charter School District	Number of Charter Schools
Austin Can	1
Dallas Can	4
Fort Worth Can	2
Houston Can	2
San Antonio Can	1
Total	10

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America Can does not currently operate any charters outside of Texas; therefore it does business as Texans Can.

The charter holder, America Can (d/b/a Texans Can), has the authority to make decisions, appoint officers, and influence the financial and administrative operations of all five charter school districts. Appointed officers, such as CFO, CEO, and Superintendent, supervise the daily operations of the five charter school districts.

Federal Funding

We determined for the six charter schools we visited, federal funds were awarded to each of the three charter holders. Our audit period covered July 1, 2011, through March 31, 2013; therefore we determined the federal funds awarded to the three charter holders for fiscal years 2010–2011 and 2011–2012.

Federal Funding to A. W. Brown Fellowship Leadership Academy			
	FY 2010–2011	FY 2011–2012	FY 2012–2013
Title I, Part A	\$353,190	\$463,819	\$491,220
Title I, School Improvement Grant (SIG)	\$0	\$0	\$15,000
Individuals with Disabilities Education Act (IDEA), Part B	\$211,822	\$221,836	\$242,570
Charter School Program (CSP)	\$0	\$0	\$0
Total Federal Funding	\$565,012	\$685,655	\$748,790

Replication Grant CDFA 84.282M (if applicable)			
	FY 2010–2011	FY 2011–2012	FY 2012–2013
Replication Grant	\$0	\$0	\$0

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Federal Funding to Faith Family Kids, Inc.			
	FY 2010–2011	FY 2011–2012	FY 2012–2013
Title I, Part A	\$593,652	\$641,871	\$831,962
Title I, SIG	\$0	\$193,471	\$284, 523
IDEA, Part B	\$186,806	\$188,458	\$238, 249
CSP	\$0	\$0	\$0
Total Federal Funding	\$780,458	\$1,023,800	\$1,354,734

Replication Grant CDFR 84.282M (if applicable)			
	FY 2010–2011	FY 2011–2012	FY 2012–2013
Replication Grant	\$0	\$0	\$0

Federal Funding to America Can (d/b/a Texans Can) – Dallas Can Academy			
	FY 2010–2011	FY 2011–2012	FY 2012–2013
Title I, Part A	\$818,141	\$904,297	\$1,068,787
Title I, SIG	\$1,528,249	\$889,701	\$561,211
IDEA, Part B	\$1,663,247	\$1,463,386	\$905,942
CSP	\$0	\$0	\$0
Total Federal Funding	\$4,009,637	\$3,257,384	\$2,535,940

Replication Grant CDFR 84.282M (if applicable)			
	FY 2010–2011	FY 2011–2012	FY 2012–2013
Replication Grant	\$0	\$0	\$0

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Student Enrollment

	Student Enrollment A.W. Brown Fellowship Leadership Academy					
	A.W. Brown Fellowship Charter School			A. W. Brown Fellowship – North Campus		
	FY 2010–2011	FY 2011–2012	FY 2012–2013	FY 2010–2011	FY 2011–2012	FY 2012–2013
Total Enrollment	992	1051	Unavailable ¹	402	519	520

	Student Enrollment Faith Family Kids, Inc.					
	Faith Family Academy of Oak Cliff Elementary School – grades PK-5			Faith Family of Oak Cliff Middle School – grades 6-8		
	FY 2010–2011	FY 2011–2012	FY 2012–2013	FY 2010–2011	FY 2011–2012	FY 2012–2013
Total Enrollment	901	1146	1294	268	339	425

	Student Enrollment America Can (d/b/a Texans Can)					
	Dallas Can Academy Oak Cliff			Dallas Can Academy Ross Avenue		
	FY 2010–2011	FY 2011–2012	FY 2012–2013	FY 2010–2011	FY 2011–2012	FY 2012–2013
Total Enrollment	641	710	713	513	589	554

3. Authorizers Visited

The six charter schools we visited were authorized by the Texas SBOE. Once the charter contract was signed, a county district number was issued and the charter became a local education agency (LEA) in Texas. As an LEA, the new charter becomes part of the public education system and subject to state and federal requirements as they apply to charter schools. We determined TEA maintained all aspects of oversight and monitoring of charter schools.

The TEA is responsible for monitoring all public schools in Texas. TEA outlines the monitoring process in TEC Chapter 39 for public schools, and in TEC §12.013(b)(3)(P), §12.055(b)(2)(I),

¹ Per TEA Adhoc, A.W.Brown Fellowship Charter School did not report student enrollment for school year 2012–2013.

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§12.104(b)(2)(L), and in §12.156(a). Specifically, Texas provides for the following annual charter evaluations:

- School and district ratings through the state accountability system;
- District financial ratings through the Charter School FIRST; and
- District accreditation statuses.

Monitoring

According to TEA Assistant Director of Division of Charter Schools, TEA maintains all aspects of oversight and monitoring of charters.

TEA monitors and evaluates the academic performance of all public schools, including charter schools approved by the Texas State Board Of Education, annually under a state accountability system. TEA has implemented monitoring and intervention strategies to assist public schools that are not performing well academically. Such activities are performed by the Division of Program Monitoring and Intervention (PMI). The purpose of the PMI Division is to support the state's goals for public education by reviewing, evaluating, monitoring, sanctioning, and intervening with school districts and campuses to ensure excellence in education for all students.

In addition, charter district financial ratings are issued annually by the TEA through the Charter School Financial Integrity Rating System of Texas (FIRST). Indicators for Charter School FIRST cover fiscal responsibility; data quality; budgeting; personnel; and cash management.

Furthermore, TEA accreditation system examines annually the financial and academic health of public school districts, including charter districts, and may examine performance in other areas, including program effectiveness, program compliance, and data integrity. These areas are monitored using a variety of strategies, including indicator analysis, charter self-evaluations, agency desk reviews, and on-site monitoring to identify areas in need of improvement or correction for a given program.

Generally, the reporting division within the TEA reports any findings to the Division of Charter School Administration, the CEO or board president of the charter holder, and the superintendent of the charter school.

Renewal

We determined an application is posted to TEA charter school website and a notification letter is mailed to the charter holder (6 months prior to the renewal date) explaining the renewal process. According to TEA Assistant Director of Division of Charter Schools, the letter provides information for accessing the renewal application on the division's website and states the due date for the application.

According to TEA Assistant Director of Division of Charter Schools, charter schools are given two months to complete and submit the application to TEA. The original copy of the renewal application is reviewed by and kept in the permanent files in the charter division. A copy is also

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forwarded to the Division of Legal Services for review. When all TEA divisions (such as legal services) have indicated “all clear” on a renewal application, staff in the Division of Charter School Administration will generate a charter renewal memorandum for the commissioner to sign.

4. Charter Schools Visited and Common Threads

We determined at the three charter holders a local public official (that is a board member or officer of the school) had a substantial interest in a business entity that provided services to the charter holder and/or charter school. TAC §100.1133(a) and (b) requires that the local public official file an affidavit stating the nature and extent of the business entity with the official record keeper before a vote or decision is made involving the business entity. We determined that none of the individuals with substantial interest in a business filed an affidavit as required.

Specifically, we determined the following at each charter holder:

A.W. Brown Fellowship Leadership Academy

(b) (6) is the (b) (6) of A.W. Brown Fellowship Leadership Academy. According to meeting minutes (dated October 11, 2012) a vote and decision was made to compensate the (b) (6) (b) (6) a maximum amount of \$(b) (4) for legal fees. We identified a payment of \$(b) (4) to (b) (6) & Associates on October 16, 2012 (for services provided from April 2011 through October 2012).

We determined the board president did not complete and file an affidavit (stating the nature and extent of the interest) with the official record keeper of the charter holder before the board of directors voted to approve payment up to \$30,000 to the business entity.

Faith Family Kids, Inc.

(b) (6) is the former (b) (6) Faith Family Kids, Inc. and is (b) (6) (b) (6) NOSSA, LLC. (b) (6) is (b) (6) who is the current (b) (6) of Faith Family Kids, Inc. (b) (6) is (b) (6) (b) (6) who (b) (6) Data and Diagnostics Consulting, LLC and is also the (b) (6) at Faith Family Kids, Inc. In addition, (b) (6) (b) (6) and (b) (6) (board member) are (b) (6) of (b) (6).

NOSSA, LLC and Data and Diagnostics, LLC contracted as vendors with Faith Family Kids, Inc. in fiscal years 2010–2011, 2011–2012, and 2012–2013. We determined total payments received by NOSSA, LLC and Data and Diagnostics Consulting, LLC in each fiscal year as shown in Table 3.

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Table 3: Total Amounts Paid to NOSSA, LLC & Data and Diagnostics Consulting, LLC.		
Fiscal Year	NOSSA, LLC	Data & Diagnostics Consulting, LLC.
2010-2011	\$8,280	\$193,845
2011-2012	\$90,113	\$209,015
2012-2013	\$48,375	\$120,175

For fiscal years 2010–2011 and 2011–2012, none of the individuals (b) (6), board member, (b) (6) completed and filed an affidavit as required. Subsequently, in October 2012, affidavits were completed and filed by the (b) (6) (b) (6), a board member, and the (b) (6) documenting their substantial interest in NOSSA LLC and Data and Diagnostics Consulting LLC. According to the (b) (6) (b) (6) the (b) (6) retried in January 2012 and did not file an affidavit.

America Can (d/b/a Texans Can)

(b) (6) is the (b) (6) of Marqcom, Inc. and (b) (6) of America Can. America Can entered into a contract agreement in September 2010 with Marqcom, Inc. to use (b) (6) learning tools for \$ (b) (4). The contract was amended on April 1, 2013 to pay Marqcom, Inc. \$ (b) (4) annually per school over a six year period. We identified that payment was made to Marqcom, Inc.

We determined the (b) (6) did not complete and file an affidavit with the official record keeper of the charter holder stating the nature and extent of his interest in Marqcom, Inc. prior to a vote or decision by the board of directors to conduct business with Marqcom, Inc.

Charter School Fiduciaries and Agents

We determined for all six charter schools, the external auditor, attorney, and other fiduciaries were sourced by their respective charter holder.

CMO Contract and Fees

For three charter holders and the six charter schools we visited, there were no contracts or fees between the charter schools and the charter holder. All financial and administrative functions of the charter schools are decided by the charter holder governing board and performed by employees or selected officers of the charter school.

5. OSM

The objective of this audit is to assess the current and emerging risk that charter school relationships with CMOs pose to the OESE, OSERS, and OII program objectives and evaluate the effectiveness of OESE’s, OSERS’, and OII’s internal controls to mitigate the risk. Specifically, we will assess the conflicts of interest in charter schools and the oversight, audits and investigations of CMOs. Our audit period covered July 1, 2011, through March 31, 2013.

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For our audit, we selected three charter holders (A.W. Brown Fellowship Leadership Academy, Faith Family Kids, Inc., and America Can) and two charter schools that were managed by each charter holder. (See Table 1 on page 1)

To accomplish our objective, we—

- Were provided a list of 14 charter schools and corresponding management organizations by the lead region to select at a minimum five charter schools to review. We obtained and examined the Internal Revenue Service (IRS) Tax Form 990 for each management organization for each of the 14 charter schools. We conducted a risk analysis and selected six charter schools and three charter holders that managed the charter schools. We based our selection on the related party transactions and family relationships that we identified on the charter holder IRS Tax Form 990.
- Interviewed Texas SBOE Director of the subcommittee for Charter Schools.
- Interviewed TEA Director of Charter School Administration, Assistant Director of Charter School Administration, Assistant Legal Counsel for Charter School Administration, and Senior Advisor to the Commissioner.
- Interviewed board members of the three charter holders and officers of the six charter schools.
- Reviewed charter documentation such as the charter application (original and renewal), charter contracts, charter school bylaws, board meeting minutes, and TEA Annual Governance Forms.
- Reviewed the A-133 single audit reports for A.W. Brown Fellowship Leadership Academy, Faith Family Kids, Inc., and America Can (for fiscal years that ended August 31, 2010, August 31, 2011, and August 31, 2012).