

OFFICE OF AUDITOR GENERAL



Charter School Tuition
Audit Report

June 23, 2010



Charter School Tuition Executive Summary

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Charter School Tuition Executive Summary

OBJECTIVE

To evaluate the operating control environment supporting Charter Schools as it pertains to students, including our administration, and related activities. This review will specifically evaluate the controls associated with enrollment, RCSD monitoring, payment, and settlement.

BACKGROUND

RCSD has budgeted \$17,789,758 to support charter schools under District-wide Non-Program expense for 2009-2010 school year which represents a 33% increase over the previous year. Charter schools provide an alternative to other public schools in that they receive public monies from RCSD, but are freed from some of the rules, regulations, and statutes that apply to other public schools in exchange for certain performance standards, as specified in their charter. Charter schools are responsible to the Board of Regents for compliance with applicable laws. RCSD is not responsible for oversight and monitoring of charter schools, but is responsible as a Local Education Agency (LEA) to provide certain services under Education Law.

At the conclusion of our audit, we were informed that significant charter school related activities would be transitioning from Office of Accountability to Youth & Family Services' Department of Student Equity and Placement. As a result, the Chief of Youth and Family Services has been included on several recommendations in this report.

SCOPE

This audit evaluated the effectiveness of the internal controls over the charter school tuition process. Internal protocols and procedures governing the activities performed for charter schools, including required services for District students attending charter schools, associated costs and pass-through payments made to charter schools will be evaluated. We will determine if adequate controls have been implemented. This review will collaborate with key personnel to understand the current control environment and test the operating control environment. This process will identify opportunities for improvement and recommendations to improve the control environment.



Charter School Tuition Executive Summary

CONCLUSION

The RCSD operating control environment for charter schools could be improved by developing Board Policy or Superintendent Regulations to formalize District standards for charter schools. The creation of additional charter schools will increase the need for governance in this area. Operating protocols should be enhanced to better manage the administration of charter school students and their related funding. In addition, automation would simplify the significant amount of tracking and communication between District departments that currently occur through the use of manual spreadsheets. More formalized communication and coordination between RCSD departments such as Office of Accountability, Specialized Services, Transportation, Student Support Services, and Accounting could simplify administration of District eligible students at charter schools. There are also additional opportunities related to standard documentation requirements across all charter schools, establishing standard decision criteria for enrollment and payments, and reconciliation of RCSD eligible students at charter schools. Lastly, verification of student enrollment in charter schools, the periodic payment and reconciliation process, and reporting also have opportunities for improvement.



**Charter School Tuition
Summary of Recommendations**

Rec#	Recommendations
1	<i>Consider establishing Board Policy regarding charter schools. At a minimum, establish a Superintendent Regulation for charter schools.</i>
2	<i>Designate oversight responsibility for charter school, general and special education students. Ensure departmental roles are understood and communicated. Formalize procedures to ensure relevant information and process changes are transitioned between RCSD departments.</i>
3	<i>Establish, communicate and implement operating protocols and procedures for charter school processes that support enrollment, transfers, withdrawals, and payments for special education services.</i>
4	<i>Establish formal procedures to simplify the charter student verification process. At a minimum, include:</i> <ol style="list-style-type: none"> <i>1. Procedures to require and obtain proof of city residence upon enrollment.</i> <i>2. Require charter schools to submit only RCSD eligible students for payment.</i> <i>3. Evaluate methods to utilize automation to verify charter school information.</i>
5	<i>Establish, communicate and enforce standard charter school reporting formats and define all required information that must be provided to RCSD. Include timelines and procedures for rejection when information is not received accurately and completely.</i>
6	<i>Review all charter students with non-district addresses in the last and current years. Obtain proof of address for charter students to verify district of residence. Recoup overpayments to charters schools for students that did not or do not live in RCSD boundaries.</i>
7	<i>Evaluate the feasibility of automating payment spreadsheets. Include supporting documentation within the spreadsheets for payment allocations. Establish a formal review and approval process for payment spreadsheets to verify that supporting information is accurate.</i>
8	<i>Determine to what extent IDEA funding overpayments have been made related to RCSD services provided, and recoup the difference.</i>



Charter School Tuition Observations, Recommendations and Action Plans

OBSERVATION: #1

Board Policy

Existing Board policies do not exist to align with legal requirements for district monitoring of charter schools. Since RCSD students are eligible to attend charter schools, the district maintains limited responsibility for ensuring that educational objectives are achieved. Board Policies and Superintendent Regulations are not in place for charter schools. Without an overall Board Policy and a Superintendent Regulation to support the policy, adequate guidance regarding the Board's expectations do not exist for monitoring charter schools. Current policy does not exist and district personnel did not have holistic knowledge in this area.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Consider establishing Board Policy regarding charter schools. At a minimum, establish a Superintendent Regulation for charter schools.

Management Responses: This recommendation will be referred to the Policy Committee for consideration in their priorities. The timing of completion will be dependent on existing Board Policy Committee priorities that have already been established.

Responsibility: Debra Flanagan, Executive Assistant BOE - Policy Committee

Due Date: December 31, 2011



Charter School Tuition Observations, Recommendations and Action Plans

OBSERVATION: #2

Process Oversight

Overall responsibility and process oversight has not been designated for charter school students. Office of Accountability (Accountability), Specialized Services, Transportation and Accounting departments have responsibility for charter school procedures. Formal process transitions and communications did not consistently occur between departments to assure completeness and accuracy. As a result, some inconsistencies exist. Prior to completion of our review, it was communicated that eligibility functions occurring in Accountability would transfer to the Student Equity and Placement Department (Placement).

We also noted a lack of formal communication between Special Education and Student Support Services to verify all relevant supporting information for Special Education students at charter schools. When student related changes occurred, formal processes were not in place to ensure completeness of information. There also were no formal approvals required prior to submitting payment information to Accounting. Ultimately, there was no one responsible for the entire charter school process to provide oversight from beginning to end. Each department operated independently performing their respective roles.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Designate oversight responsibility for charter school, general and special education students. Ensure departmental roles are understood and communicated. Formalize procedures to ensure relevant information and process changes are transitioned between RCSD departments.

Management Responses: Currently verification procedures are performed by the Office of Accountability. We will establish clarity between the roles and timing for Student Equity and Placement and Office Accountability for the various items that must be verified for charter school students. This verification has been a challenge in the past due to timing for actual student enrollment and withdrawal at the charter, address verification, and transportation changes.

Responsibility: Jeanette Silvers, Chief of Accountability; Gladys Pedraza-Burgos, Chief Youth and Family

Due Date: July 31, 2011



Charter School Tuition Observations, Recommendations and Action Plans

OBSERVATION: #3

Operating Protocols and Procedures

The enrollment and transfer processes for charter schools was neither documented nor consistently performed. The district must verify enrollment eligibility for RCSD students attending charter schools to facilitate pass through funding for charter school students. For regular students attending RCSD, this process is performed by Placement. For charter school students, this process is performed by Accountability. We noted that there were no formal documented procedures for the enrollment eligibility review. We also noted that the two departments do not require the same information for eligibility documentation. For example, Student Placement requires proof of guardianship and address, when Accountability does not. Operating procedures should specify what documentation is required to substantiate student eligibility, as well as verification of withdrawals.

Procedures are also performed to ensure valid students are reconciled against school rosters, prior to payment. The reconciliation process is complex, yet documented procedures do not exist. Procedures should specify the source for data, the reconciliation process, approvals, payment assumptions and support for calculations.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Establish, communicate and implement operating protocols and procedures for charter school processes that support enrollment, transfers, withdrawals, and payments for special education services.

Management Responses: Office of Accountability will work in conjunction with Student Equity and Placement to establish, communicate and implement procedures for the charter school process.

Responsibility: Jeanette Silvers, Chief of Accountability; Gladys Pedraza-Burgos, Chief Youth and Family

Due Date: July 31, 2011



Charter School Tuition Observations, Recommendations and Action Plans

OBSERVATION: #4

Charter Student Verification

Charter schools provide enrollment listings with addresses to RCSD for pass-through State Aid payments. The student addresses are verified to ensure that the students live within the City of Rochester. Procedures are performed to verify the addresses; however, the process is manual and as a result errors were noted. Our testing revealed that some students included on the charter listings resided outside of the district.

Since Charter students were not required to provide proof of address to RCSD, if erroneous information is received from charter schools, non-district students can be entered in Chancery as district students. As a result, all departments that rely on Chancery information assume that Chancery includes valid students for Charter Schools and Related Services.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Establish formal procedures to simplify the charter student verification process. At a minimum, include:

- 1. Procedures to require and obtain proof of city residence upon enrollment.*
- 2. Require charter schools to submit only RCSD eligible students for payment.*
- 3. Evaluate methods to utilize automation to verify charter school information.*

Management Responses: Office of Accountability and Student Equity and Placement will work to establish a comprehensive student verification process that includes proof of city residence, additional expectations that charter schools will produce accurate eligible student information for payment, and enhance the level of automation in the process.

Responsibility: Jeanette Silvers, Chief of Accountability; Gladys Pedraza-Burgos, Chief Youth and Family; Joseph Capezzuto, Student Equity and Placement; Joanne Bakeman, Office of Accountability.

Due Date: July 31, 2011



Charter School Tuition Observations, Recommendations and Action Plans

OBSERVATION: #5

Standard Charter School Reporting

Standard information formats are not established, although all schools are required to submit information to RCSD. Enrollment rosters are received from all charter schools; however, the format and content varies based on the school. As a result, significant additional work was required to utilize and verify the information received. Due to a recent process change, charter schools are required to provide RCSD a listing of RCSD students at their schools. Examples of problems noted include the following:

1. Student identification numbers did not consistently align with Chancery.
2. Rosters did not include the most current students, start dates, addresses, grade, parent contact, or disability information.
3. Non-RCSD students were included on the Charter school submissions.
4. File effective dates were not consistently included.

Significant work by Accountability was performed on the files prior to payment. A standardized format with accuracy expectations should be communicated and enforced to facilitate a more efficient and effective process.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Establish, communicate and enforce standard charter school reporting formats and define all required information that must be provided to RCSD. Include timelines and procedures for rejection when information is not received accurately and completely.

Management Responses: A process to formalize charter school submissions commenced within the past year. The District has been using information in Microsoft Excel to facilitate monitoring and review. Required information and enforcement of standards will be documented and distributed to Charter schools to simplify and reduce the amount of time needed to review charter files for payment.

Responsibility: Jeanette Silvers, Chief of Accountability; Joanne Bakeman, Office of Accountability

Due Date: March 31, 2011



Charter School Tuition Observations, Recommendations and Action Plans

OBSERVATION: #6

Overpayment & Reimbursement of Charter School Tuition

State aid for charter school students have been paid for non-district students in error. Students that live outside of the city are not eligible for charter school tuition payments from RCSD. Out of two charter schools reviewed in our testing, there were seven student addresses that were not within the city limits, when compared against a City of Rochester Street Address list. Those seven students have Chancery student ID's and were included for payment. All charter schools that have students who live outside of the district and have received charter school tuition payments from RCSD should be required to reimburse the district for the prior payments. The payment made to the charter schools for the period from 2008 thru 2010 was \$10,868 per pupil per year for general enrollment. Additional charges related to high cost aid could apply if those students received special education services.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Review all charter students with non-district addresses in the last and current years. Obtain proof of address for charter students to verify district of residence. Recoup overpayments to charters schools for students who did not or do not live within RCSD boundaries.

Management Responses: The information in this observation was evaluated by Office of Accountability and Accounting. All items in question were individually reviewed to ensure that monies are reimbursed for any overpayments and payments made are for legitimate district students.

Responsibility: Jeanette Silvers, Chief of Accountability

Due Date: Completed



Charter School Tuition Observations, Recommendations and Action Plans

OBSERVATION: #7

Payment Spreadsheets

Payment validation spreadsheets exist to allocate charter payments based on services provided. Some services are provided by the charter schools and others are performed by RCSD staff. Reimbursements are paid based on the origin of the service provider. This process is not adequately automated or documented. In addition, the spreadsheets lack attributes to support public excess cost aid calculations such as student grade, school year calendar, date of entrance or exit at the charter school, services provided by RCSD, and the methodology used for service allocations. Because many attributes are missing, the spreadsheets cannot be used to automate the decisions manually made. The spreadsheets are created by Student Services and used by Accounting to calculate payments. This has occurred without a formal internal review and approval process prior to forwarding to Accounting for payment.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Evaluate the feasibility of automating payment spreadsheets. Include supporting documentation within the spreadsheets for payment allocations. Establish a formal review and approval process for payment spreadsheets to verify that supporting information is accurate.

Management Responses: Please be advised that this observation is not related to tuition, but to the excess cost aid paid to charter schools in support of specialized services needed due to an IEP. The spreadsheet that has been in place prior to the audit does not contain the grade nor is it a determining factor in the calculation for the particular service to a student. Further review will be completed by the staff to support the need of this attribute. A review and approval process does exist in identifying students with specialized services. This is provided through IEP reports. Information is received from charter schools as to who provides the services (Charter or District staff). To strengthen our review and approval process and the communication of the process, a written document will be provided. This will be used to train staff members and allow for clarity of the function. The documentation will also provide clarity concerning our internal review and approval of information prior to submission to the Accounting Department. Currently, information is downloaded from IEP to an excel spreadsheet. Improvements will be made to the spreadsheet to ensure that correct formulas are used and assumptions for calculations are clearly expressed. This file will be modified with a worksheet/tab that will include the service provider information obtained from the charter schools. Automation of payment spreadsheets will be reviewed by Finance, Office of Accountability and the IM&T department. If efficiencies can be created at a cost that is not prohibited to the District finances, advancements will be made toward automation.

Responsibility: Joyce Martelli, Chief Financial Officer **Due Date:** December 31, 2010



Charter School Tuition Observations, Recommendations and Action Plans

OBSERVATION: #8

IDEA Funding

IDEA Flow-thru payments have not consistently accounted for RCSD services provided to charter schools. RCSD executes contracts for public or private agencies that receive allocations of flow-thru funding under the Individuals with Disabilities Act (IDEA) and the American Recovery and Reinvestment Act (ARRA). The contract was not created for Rochester Academy Charter School because RCSD provided all of the Special Education Services at the charter school for 2009 and 2010. The NYSED agreed with this action; however, they stated that RCSD will need to reconcile Special Education Services and who provided them for the remaining charter schools and then adjust the proportionate share of federal IDEA funds to be allocated.

RECOMMENDATIONS and MANAGEMENT RESPONSES

Determine to what extent IDEA funding overpayments have been made related to RCSD services provided, and recoup the difference.

Management Responses: The District will make every effort to identify overpayments that may have occurred through allocation of IDEA funding to charter schools. Information will need to be obtained from individual charter schools clarifying services rendered and by whom. The effort for clarification will be a joint effort of financial staff and the specialized services staff. Plans to correct this situation as we move into the 2010-11 year will be discussed with program staff and SED. The 2010-11 allocations will be modified to reflect actual service percentages based on who delivered the specialized services (RCSD or Charter School). Purchase orders will not be completed for the 2010-11 year until actual service percentage has been modified and notification given to the charter schools. The prior process has been based on information received after BEDS day. This is the support for the enrollment at the charter schools upon which the percentage of service has been provided. The new process will include the assumptions made in creating service projections with “true-ups” occurring on a quarterly basis. Documentation for actual services provided and by who will be designed and consistently used with all charter schools. Adjustments will be made to the next payment to ensure the recouping of overpayments. If there is a 10% difference in the original amount budgeted for the 2010-11 payments, the IDEA FS-10 will be amended.

Responsibility: Joyce Martelli, Chief Financial Officer, Shirley Green; Director of Specialized Services

Due Date: December 31, 2010