



KIPP Tech Valley Charter School

Enrollment and Billing

Report of Examination

Period Covered:

July 1, 2011 — August 31, 2012

2012M-256



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2013

Dear School Officials:

A top priority of the Office of the State Comptroller is to help school officials manage their schools efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support school operations. The Comptroller oversees the fiscal affairs of charter schools statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard school assets.

Following is a report of our audit of the KIPP Tech Valley Charter School, entitled Enrollment and Billing. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Section 2854 of the Education Law.

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

Respectfully submitted,

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

Introduction

Background

A charter school is a public school financed by local, State, and Federal resources that is not under the control of the local school board and is governed under Education Law Article 56. Charter schools have less legal operational requirements than traditional public schools. Most of a charter school's requirements are contained in its by-laws, charter agreement, fiscal/financial management plans, and the Financial Oversight Handbook for those schools that are authorized by the State University of New York (SUNY).

The KIPP Tech Valley Charter School (School), located in the City of Albany, is governed by a Board of Trustees (Board) which comprises eight voting members. The Executive Director is the chief executive officer and oversees all the school operations including the financial operations. The day-to-day financial operations are conducted by the School's Finance Manager.

The School was established in 2004 under SUNY authorization and provides elementary education for approximately 300 students in the fifth through the eighth grades. The School's budgeted operating expenses for the 2012-13 fiscal year are about \$4.4 million. These expenses are funded with revenues derived from billing area school districts¹ for resident pupils and from certain State and Federal aid attributable to these pupils.

Objective

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

- Are resident school district billings accurate and supported?

Scope and Methodology

We examined the School's financial operations for the period July 1, 2011, to August 31, 2012. To accomplish this, we evaluated selected areas by performing the following survey procedures:

- General Governance – We reviewed the School's charter, by-laws, and Board policies and found that the Board has adopted adequate financial policies regarding purchasing, cash receipts and disbursements, payroll, conflicts of interest and/or code of ethics, investments, and appointment of Board members.
- Financial Oversight and Condition – We found that generally the internal controls over Board oversight of school financial operations were sufficient. The Finance Manager prepares and

¹ KIPP Charter School bills various local school district tuition charges to provide educational services to students residing in the respective districts.

presents various financial reports to the Executive Director for review.

- **Purchasing** — We reviewed five purchases totaling \$22,000 that the School made during our audit period and did not find any exceptions. We determined that the School’s purchasing practices effectively enabled the School to acquire goods and services in accordance with its procurement policy.
- **Cash Disbursements** — We reviewed the School’s internal controls over cash disbursements. Specifically, we reviewed the cash disbursement process, ensured that bank reconciliations were completed regularly and in a timely manner, reviewed controls over check stocks, and interviewed employees involved with the process. We also obtained and reviewed the School’s disbursement records for the 2011-12 fiscal year.
- **Payroll and Personal Services** — We reviewed the internal controls over the payroll process and randomly selected one payroll during the 2012-13 fiscal year for review. We found that the payments were properly authorized, were supported with adequate documentation, and appeared to be for proper amounts, and, therefore, we determined that the internal controls were sufficient.
- **Inventory and Asset Controls** — We reviewed the School’s controls over inventories and fixed assets and identified no exceptions.

After evaluating these areas, it appears that School officials have established adequate controls and, therefore, limited risk exists. Accordingly, we determined that further testing in these areas was not necessary.

We also reviewed cash receipts and found that, while overall the internal controls over this area appears adequate, risk existed in the area of enrollment and billing school districts of residence. Therefore, we examined the School’s current related billing process for the period July 1, 2011, through August 31, 2012.

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

**Comments of
School Officials**

The results of our audit and recommendations have been discussed with School officials and their comments, which appear in Appendix A, have been considered in preparing this report. School officials generally agreed with our findings.

Resident School District Billings

Education Law² provides for the funding of charter schools' operating budgets. The public school district in which a student resides is considered the student's resident school district. A charter school derives most of its operating revenues from the school districts in which its students reside. Charter schools are required to keep an accurate, up-to-date attendance record of student enrollment and report this data to the students' resident school districts in a timely manner. Based on enrollment, count, attendance, or full-time equivalent (FTE)³ attendance, a charter school bills the resident school districts for providing services to the students enrolled in the charter school. The resident school districts directly pay the charter school based on a reimbursement rate established by the New York State Education Department (SED). The school bills the resident school districts for their students' tuition in six installments during the fiscal year.

The School had approximately 300 students enrolled as of August 31, 2012. We reviewed four resident school district bills for three resident school districts whose students comprised an average of 95 percent of the student population during the 2011-12 and 2012-13 fiscal years to determine whether the billing invoices were accurate and supported. The following chart shows the number of students and amounts billed for each bill selected for the three school districts:

Bill Date	Number of Students	Total Billed
October 1, 2012	294	\$695,078
June 1, 2012	290	\$683,074
February 1, 2012	260	\$612,195
December 1, 2011	265	\$623,212

We found that the School accurately billed the school districts of residence.

We also randomly selected every 20th student on the student roster, for a total of 17 students, and reviewed the School's records for these students to determine whether the School maintained adequate documentation of the students' addresses and proof of their residence in each of the resident school districts. We found that the School maintained adequate supporting documentation for the students

² Article 56, Section 2856

³ FTE is the decimal expression of the enrollment of a student in a charter school compared to the length of the annual session of the charter school. A student who is enrolled for the full school year has FTE of 1.0, while a student who is enrolled for only half of the school year has an FTE of 0.50.

reviewed. Furthermore, at the end of the fiscal year, the Finance Manager completes a reconciliation of amounts billed and collected. We reviewed his reconciliation for the 2011-12 school year and the reconciliation appeared reasonable.

APPENDIX A

RESPONSE FROM SCHOOL OFFICIALS

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



January 25, 2013

[REDACTED]
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

[REDACTED],
We have reviewed your office's audit of KIPP TECH VALLEY Charter School and are glad that you found that we have established adequate controls in the areas of General Governance, Financial Oversight and Condition, Purchasing, Cash Disbursements, Payroll and Personal Services, and Inventory and Asset Controls, and that we are adhering to them in order to limit risk exposure in these areas.

We also appreciate the confirmation that we are billing our student's host school districts appropriately. We believe strongly that all schools need to be accountable for both academic and fiscal performance, and are gratified that your findings indicate that we are acting responsibly in the areas that you reviewed.

Your audit did not have any adverse findings and did not recommend any improvements to our controls or systems. Therefore, we will not be taking any specific action based on the audit findings other than to acknowledge the hard work of our CEO and management team, as well as our Board, in ensuring that we are worthy of the trust the public places in us.

Regards,

John P. Reilly, Board Chair
KIPP Tech Valley Charter School

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

During the initial assessment, we interviewed appropriate School officials, performed limited tests of transactions, and reviewed pertinent documents such as School policies, the SUNY Financial Oversight Handbook, Board minutes, and financial records and reports. In addition, we reviewed the School's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined that the controls appeared to be adequate and that limited risk existed for most of the financial areas we reviewed. We then decided upon the reported objective and scope by selecting for audit the areas most at risk. We selected resident school district billings for further testing. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed appropriate School officials to gain an understanding of the billing process.
- We reviewed documentation to identify the number of resident school districts billed during the 2011-12 and 2012-13 fiscal years.
- We verified that the rates used to bill the resident school districts agreed with the basic tuition rates set by the New York State Education Department.
- We recalculated the billing invoice amounts and reviewed supporting documentation to determine if they were accurate and supported.
- We reviewed resident school district billings to determine if the School had adequate procedures to verify student addresses and verify resident districts. We selected a sample of 17 students to verify support for student addresses.
- We reviewed the year-end resident school district billing reconciliation for the 2011-12 year to determine its reasonableness.

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

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