
**Thomas P. DiNapoli
COMPTROLLER**



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**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**COMMUNITY
PARTNERSHIP CHARTER
SCHOOL**

**FINANCIAL MANAGEMENT
PRACTICES**

Report 2007-S-103

AUDIT OBJECTIVE

Our objective was to determine whether Community Partnership Charter School (CPCS) established and maintains an adequate system of internal control over the following areas of financial operation: financial oversight, and cash disbursements and procurement.

AUDIT RESULTS - SUMMARY

We determined that CPCS has established and maintains an adequate system of controls over some areas of its financial operations. However, our audit disclosed that controls can be strengthened in other areas, such as, employee background checks, cash disbursements and procurement. Furthermore, CPCS should ensure that Board composition is consistent with the requirements establish in its by-laws. Moreover, the Board should monitor CPCS' transactions more closely to ensure compliance with its policies and procedures.

All personnel who work at the school should be fingerprinted and subjected to background checks. However, we found that two school employees had not been fingerprinted as required. Moreover, eight school employees who began working at the school before receiving fingerprint and background clearances did not receive Emergency Conditional Clearances by the Board of Trustees, as required by Law. We also found no evidence of fingerprint clearance for one consultant who had direct contact with students.

We found that the school did not have a document in place to reflect the prior approval of purchases. We also found that the school was not in compliance with its credit card procedures because we identified payments

valued at \$2,177 that were not adequately supported.

We found that School officials were not always soliciting multiple bids to ensure that the best value is obtained. For example, we found no evidence that required telephone or written quotes were obtained for 8 purchases we tested. The total value of these purchases was \$8,432.

Our report contains nine recommendations for improving internal controls over CPCS' financial management practices.

This report, dated December 21, 2007, is available on our website at <http://www.osc.state.ny.us>.

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Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

In December 1998, the New York State Legislature passed a Law authorizing the creation of charter schools in the State. This legislation is known as the New York Charter Schools Act of 1998 (Act). It authorized the establishment of charter schools as independent public schools governed by not-for-profit boards of trustees and managed according to the terms of a performance contract or "charter" which may not exceed five years. Charter schools provide opportunities for teachers, parents, community members, and not-for-profit organizations to establish and maintain schools that operate autonomously of existing schools and school districts.

Established in 2000, Community Partnership Charter School (CPCS or School) is one of

the 48 schools approved by the State University of New York's (SUNY) Charter School Institute (Institute) and chartered by the Regents of the State of New York. At the end of the initial five-year charter period, the school applied for a full-term charter of five years. However, the Institute recommended that CPCS' charter be renewed only for a period of two years. The Institute stated that the School's academic outcomes were mixed. In April 2007, the Institute stated that the school met or had come close to meeting the academic goals contained in its accountability plan and had demonstrated steady academic progress. The Institute said that CPCS was an effective and viable organization in terms of its corporate governance and in meeting legal requirements. As a result, the School was awarded a full-term five year charter renewal in 2007.

The School is located in Brooklyn, and, as of the school year that ended on June 30, 2006, had 288 students enrolled in Kindergarten through fifth grade. CPCS is the second charter school sponsored by the Beginning with Children Foundation (Foundation). The Foundation provides various support and administrative services to CPCS. Under the Act, CPCS is entitled to receive funding from local, State, and Federal sources. Such funding includes per pupil payments for general operating support, additional State resources for special education, No Child Left Behind Title 1 funds, and in-kind services from the New York City Department of Education (DoE) - the school district in which CPCS is located.

According to CPCS' financial statements for the fiscal year that ended on June 30, 2006, the School's operating expenses totaled \$2.7 million, of which \$2 million was related to personal service costs (including payroll taxes and fringe benefits). Revenue for the same fiscal year totaled about \$2.8 million, of

which \$2.7 million was basic school aid provided by DoE.

AUDIT FINDINGS AND RECOMMENDATIONS

We determined that CPCS has established and maintains an adequate system of controls over some areas of its financial operations. However, our audit disclosed that controls can be strengthened in other areas, such as, employee background checks, cash disbursements and procurement. Furthermore, CPCS should ensure that Board composition is consistent with the requirements establish in its by-laws. Moreover, the Board should monitor CPCS' transactions more closely to ensure compliance with its policies and procedures.

Financial Oversight

Board Oversight

Like all of New York's charter schools, CPCS is governed by a Board of Trustees (Board). The Act gives the Board final authority for policy, operational decisions, and fiscal management of the school. Board members have a fiduciary responsibility for school assets and finances. Accordingly, the Board should design, adopt, and monitor policies and procedures for safeguarding the School's resources from misappropriation and improper use.

We found that the Board met monthly or a total of 14 times between October 2005 and December 2006. The by-laws do not specify how frequent meetings should occur, however we conclude that frequency of the meetings were sufficient given they were held monthly. When we reviewed the Board minutes for these meetings, we found the Board was actively involved in many aspects of the School's operations. However, as detailed

throughout this report, the Board should establish formal policies and procedures in some areas, implement certain oversight mechanisms, and approve purchases above established threshold levels.

Board Composition

CPCS' by-laws state that the Board will be composed of from five to nine voting members, with the School's Director being a non-voting member. Each voting member is elected to a three year term. The by-laws also state that the Board will consist of three entities: parents of students, community members, Foundation members. Section 2.10(d) of the charter states that no single entity should make up more than 40 percent of the voting membership. This ensures that the Board represents the interests of the parents of students, as well as members of the community and the Foundation.

To determine whether the Board was in compliance with its by-laws and charter, we reviewed the minutes prepared for all 14 Board meetings held from October 2005 through December 2006. We found that during the 2005-06 fiscal year, Foundation affiliated members comprised 50 percent of the Boards voting members. In six of the seven Board meetings held from July through December of fiscal year 2006-07, we found that 44 percent of the members represented the community.

Employee Background Checks

According to Article 56, Section 2854(3)(a-2)(i) of the Act, a criminal history record check must be performed for all prospective charter school employees who do not hold a valid clearance from the Commissioner of Education. Part 87 of the Commissioner's Regulations defines a prospective employee as anyone, including Board members,

consultants, and vendors, who will reasonably be expected to provide services to the school or which involve direct contact with students under the age of 21. These requirements are intended to ensure that these individuals pose no threat to the safety and well-being of the school's students.

Employees who cannot be or have not been cleared in advance of their initial employment date can obtain an Emergency Conditional Clearance (ECC) to start work. However, the Board must pass a resolution stating that the employee has been recommended by the Board Chairman for an ECC and that the employee is appointed on an emergency conditional basis. Further, ECC's are valid for just 20 days and must be renewed by the Board or through Board delegation. Finally, clearances obtained prior to July 1, 1990, are not useable; an applicant who was cleared before that time must be re-fingerprinted.

We reviewed the personnel files of all 43 current school employees and one consultant who had regular access to students. We found no documentation that a criminal history check had been performed or valid clearances had been obtained for 2 of the 43 employees. In addition, we found no evidence that such a check had been performed on the consultant. We also found that 8 (19 percent) of the 43 employees began working at the school before receiving fingerprint and background clearances. Further, we found no evidence that Emergency Conditional Clearance was approved by the Board for each of these employees. We also noted that the school had retained the services of substitute teachers without written assurance that these individuals were appropriately cleared.

Although the CPCS charter mandates that the school establish procedures governing background checks for employees, there were no written procedures for determining when

and how to complete the background checks or who would be responsible for this task. School officials acknowledged that when the School first started, it relied on background checks performed by the New York City Department of Investigations and did not have all employee fingerprints processed through the Commissioner of Education. This practice could have allowed individuals whose clearances were conducted prior to July 1, 1990, to be hired without being rechecked. School officials stated that this practice has since been corrected, and that the School is currently in compliance with State law.

Annual Independent Audit

According to Section 2854(1) (c) of the Act, an annual fiscal audit of the school is required. The New York State Education Department also requires that all such audits be conducted in accordance with generally accepted government auditing standards, as issued by the United States Government Accountability Office.

We reviewed the reports provided by CPCS' auditing firm for the 2005-06 fiscal year. The reports provided by the auditing firm indicate that the audit was conducted in accordance with generally accepted government auditing standards. The firm provided all of the required auditor's reports and the audit results were discussed with the Board.

Recommendations

1. Ensure that the composition of Board membership complies with CPCS's by-laws.

(CPCS officials disagree with our conclusion that the composition of the

Board was not consistent with CPCS' by-laws and charter.)

2. Comply fully with the Act, Commissioner's regulations and CPCS policies and procedures regarding fingerprinting and background checks.

(CPCS officials agree with the recommendation. However, they disagree with our determination that a background check was required for the consultant because the consultant had no unsupervised contact with the students.)

Cash Disbursements and Procurement

Supporting Documentation

According to CPCS' Financial Policies and Procedures Manual (Manual), all purchases must be approved before a purchase can be made. CPCS' Director can approve all purchases valued at \$5,000 or less. For purchases costing more than \$5,000, two approvals are required, indicated by the signatures of both the school's Director and a designated Board member on both the purchase request form and the check.

When the School receives an invoice, the Business Manager is required to prepare a check request. Then the entire invoice package, which includes the invoice and receiving report, is sent to the Director for review and approval. The Director then forwards the invoice package to the accounting department for processing of the payment. Checks are issued based on the supporting documentation provided in the invoice package. If bids are required, or if a sole source letter has been prepared for the purchase, those documents should be attached to the invoice package. For the fiscal year ending June 30, 2006, CPCS made 479 disbursements totaling \$958,328.

To determine whether School officials were in compliance with the procedures in the Manual, we selected a judgmental sample of 42 cash disbursements, totaling \$108,955, which the School made between July 1, 2005, and June 30, 2006. Our sample consisted of various expenditures including those for equipment and for personal services.

We found that CPCS' internal controls related to cash disbursements need to be strengthened. For example, School officials were not able to locate any supporting documentation for 2 of the 42 expenditures, totaling \$265. For the remaining 40, we found that the school did not have a document in place to reflect the prior approval of all purchases. Further, 9 receiving reports were missing. In addition, we found that three disbursements that each totaled over \$5,000 and collectively totaled \$51,384, lacked the required dual purchase approvals of the School's Director and a designated Board member.

Credit Cards

The School has a corporate credit card that can be used for general business use. The Manual states that the School Director is the only employee who is to be issued such a card, and that all credit card purchases must be supported by approved purchase request forms and/or receipts. Any unsupported or unauthorized expenditures are to be reimbursed by the CPCS employee making the purchase.

To determine whether School officials were following established policies and procedures, we reviewed all eight credit card transactions totaling \$25,987 for fiscal year 2005-06. We found that the school was not always in compliance with the Manual. Our review found that \$2,177 of the credit card purchases were not supported by proper invoices or receipts from the store. Of that amount,

\$1,822 was spent for purchases made by the Director (e.g., classroom supplies, textbooks, and meals). The remaining \$355 was for expenditures made by a former Administrative Assistant. (Our follow up disclosed the School had two active credit card numbers. One of these was in the name of the former Administrative Assistant; the other was in the name of the Director.)

CPCS officials state that these purchases were made on behalf of the school and they advised us that the two credit cards had been issued under one master account. They added that they currently have just one active credit card, which is assigned to the Director. The second card has been de-activated and destroyed.

Duplicate Payments

The School makes most payments through computer-printed checks. In addition, the School's Director maintains a credit card and manual checkbook that, according to the Manual, should be used only on rare occasions. Internal controls should be designed and implemented that will ensure that effective processes are used for all cash disbursements to protect against the risk for duplicate payments.

During our audit, we found two instances in which duplicate payments were made. In one example, we found that a credit card had been used to pay for a purchase of "tee" shirts in the amount of \$4,764 by the Director. We found that other officials paid two invoices for the same items with computer-printed checks totaling \$4,764. School officials told us they recognized that a mistake had been made but, instead of having the duplicate payment refunded, they proposed that the "tee" shirt vendor credit the payments toward other outstanding invoices of the School. The School recently received a refund check for the credit balance of \$400 from the vendor.

We also found that two checks (one manual and another computer-printed), for the same item, had been made payable to a vendor. Both checks had been stamped "for deposit" with the vendor's bank account. The vendor had returned one of the un-cashed checks. School officials told us that they requested that the vendor return one of the un-cashed checks. The Director and the Business Manager also explained that they frequently update each other via e-mail, by phone, or at meetings, in an effort to prevent duplicate payments from occurring.

Foundation Salary Allocation

During fiscal year 2006-07, a Memorandum of Understanding (MOU) between the School and the Foundation stated that the Foundation's support services were to be allocated according to the actual costs incurred by Foundation staff, and in proportion to the percentage of staff time spent on School work. These cost of service allocations are to be reviewed annually by the Foundation and the Board and are subject to Board approval at its annual budget meeting. We found the Foundation has approximately ten employees who provide various support and administrative services to both CPCS and another charter school affiliated with the Foundation. For fiscal year 2005-06, the Foundation charged CPCS \$300,580 for administrative employee salaries.

We found that neither CPCS nor the Foundation has kept track of the actual time Foundation employees spent on administrative services for CPCS. Instead, estimates were used for billing purposes. Although an elaborate time-tracking system would not be warranted, CPCS should periodically validate the estimates. For example, the Foundation could track its employees' time for selected periods and determine how much of it is spent on

administrative services for CPCS. These results could be used to validate or adjust the estimates.

School officials agreed with our findings and stated that they are exploring different ways of documenting the allocation of expenses for services the Foundation delivers to CPCS.

Sales Tax

According to Section 2853(1) (d) of the Act, a charter school shall be exempt to the same extent as other public schools from all taxation, fees, assessments, or special ad valorem levies on its earnings and its property, including property leased by the School.

To determine whether the School was paying sales tax when it made purchases, we reviewed a judgmental sample of 40 cash disbursements. Our testing revealed that the School had paid a total of more than \$100 in sales taxes on six of those disbursements. We also reviewed all eight of the credit card payments made during fiscal year 2005-06, and found that four of them included sales tax payments totaling \$110.

School officials told us they are continually challenged to convince vendors that CPCS is a tax-exempt organization and therefore does not have to pay sales tax. They said most vendors accept their tax-exempt certificate. They added that CPCS makes every effort to remove or recover sales taxes when such taxes are billed or paid. School officials also pointed out that they try to deal only with vendors who accept the School's tax-exempt certificate.

Procurement

A good system of internal controls includes a comprehensive procurement policy that

outlines procedures for the purchasing of goods and services. The appropriate use of competition provides School officials with the greatest assurance that goods and services are being acquired at the lowest possible price without favoritism, extravagance, or fraud.

The Manual requires that School officials ensure the best value by researching vendors and soliciting multiple written or telephone bids. It has established the following bidding thresholds: purchases valued between \$250 and \$2,500 require telephone quotes from two vendors; purchases with a value greater than \$2,500 but less than \$5,000 require two written bids and purchases costing more than \$5,000 require two written bids. In addition, purchases of more than \$5,000 require two approvals (the Director and an authorized Board member).

To determine whether School officials were complying with the Manual, we reviewed a judgmental sample of 20 purchases that were made between July 1, 2005, and June 30, 2006. The 20 were selected from the previously discussed sample of 42 disbursements. We selected the 20 purchases because the value of each surpassed the \$250 bidding threshold. The total value of these purchases was \$80,458. We found no evidence that telephone or written quotes had been obtained for 8 of them, totaling \$8,432. For example, in June 2006, CPCS purchased testing supplies costing \$3,026 from one vendor; however, we found no evidence that school officials had followed the written bidding policies outlined in the Manual when making the purchase. Since the required two written quotes had not been obtained, there was a lack of reasonable assurance that the school received the best value. School officials told us these purchases had been informally bid; however, they did not retain the bidding documents that could verify that claim. The Manual does not provide

sufficient details to advise staff in the proper retention procedures for bidding documents. CPCS officials contend that they have since implemented procedures to improve their bidding practices.

Recommendations

3. Comply with established cash disbursement policies and procedures.
(CPCS officials agree with this recommendation.)
4. Recover \$2,177 for unsupported credit card purchases in accordance with CPCS policy.
(CPCS officials disagree with this recommendation. Although they agree that documentation should be improved, they state the transactions in question were proper.)
5. Use manual checks only for urgent situations.
6. Periodically determine how much Foundation staff time is spent on CPCS administrative services. Use these results to adjust the estimates used to bill for Foundation services.
7. Comply with established policies and procedures to ensure that sales taxes are not paid.
8. Comply with established policies and procedures for bidding.
9. Retain all documentation to support that competitive bidding occurred.
(CPCS officials agree with recommendations 5 through 9 and have implemented procedures to address them.)

AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. We audited CPCS' controls over selected financial management practices for the period July 1, 2005, through May 15, 2007. To accomplish our objective, we interviewed officials of CPCS and reviewed laws, policies, and procedures related to the financial operations of the School. We also examined the financial operating records of CPCS and the work performed by the firm of certified public accountants engaged to audit CPCS' financial statements. Our review also included CPCS' Financial Policies and Procedures Manual, which sets out criteria for the school's financial practices.

To determine whether the Board had been complying with criminal history checks, we reviewed the fingerprint files of all 43 CPCS employees and one consultant hired by School officials.

To determine whether School officials maintained adequate documentation to support cash disbursements, we reviewed 42 of 479 checks disbursed between July 1, 2005 and June 30, 2006.

To determine whether School officials had adequate internal controls over their procurement practices, we reviewed 20 purchases made between July 1, 2005 and June 30, 2006.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated

duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution, and Section 33 of the General Municipal Law.

REPORTING REQUIREMENTS

We provided a draft copy of this report to CPCS officials for their review and comments. A copy of their response to the draft report is contained in Appendix A. Their comments were considered in preparing this report. Appendix B contains State Comptroller's comments which address matters contained in CPCS's response and changes to the final report based on CPCS's response.

CPCS officials agree with most of our recommendations and state that they either have already implemented them or will be implementing them.

Within 90 days after the final release of this report, we request the Chairman of the CPCS

Board of Trustees to report to the State Comptroller, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

CONTRIBUTORS TO THE REPORT

Major contributors to this report were Kenrick Sifontes, Stephen Lynch, Joan Williams, Mostafa Kamal, Teeranmattie Mahtoo-Dhanraj, Natalie Sherman, and Daphnee Sanon.

APPENDIX A - AUDITEE RESPONSE

November 20, 2007



Mr. Kenrick Sifontes, Audit Manager
Office of the State Comptroller
Division of State Government Accountability
123 William Street – 21st Floor
New York, NY 10038

Re: **Community Partnership Charter School
Report 2007-S-103**

Dear Mr. Sifontes:

The Community Partnership Charter School (CPCS) administration and Board of Trustees wants to thank you for the professionalism of your staff and the respectful manner in which the audit was conducted. The process was ably supervised by Stephen Lynch and Joan Williams. The audit team was considerate of the daily operations of the school and the children we serve.

We believe the audit conducted by your office was informative for all involved. Our expectation is to run a high performing, fiscally sound accountable school that protects the use of public funds; complies with all appropriate laws and regulations; and aligns financial resources to achieve the greatest academic and programmatic outcomes for our students. This audit process has helped us achieve this goal and provided valuable insights and opportunities for reflection.

Below please find our response to the draft report's findings and recommendations.

Board Composition

CPCS accepts recommendation 1. Additional Board members were subsequently recruited and the current Board make up is consistent with the By-laws and state law.

CPCS submits that its Board membership was consistent at all times with the By-laws. The By-laws allow for between five and eleven members and designate three categories of members: "Parent seats," "BwCF Seats," and "Community Seats." There are specific procedures for nominating representatives from each category; the Board does not have the authority to dictate the nominating process for the Parent and BwCF seats. It is possible for Parent or BwCF seats to go unfilled because either organization does not nominate candidates. This was, in fact, the situation during the time period that was subject to the audit, with respect to the Parent. It should also be noted that the By-laws do not require an even 33 1/3% division between the categories. In fact, by allowing between five and

*
Comment
1

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*See State Comptroller Comments, page 14

eleven members, the By-laws contemplate that due to seats being unfilled or the Board creating new seats, an even three-way division may not be possible.



Employee Background Checks

CPCS accepts recommendation 2. As stated in the report, CPCS is currently in full compliance with state law and its policies requiring all employees have their fingerprints processed and approved through the Commissioner of Education.

The consultant referred to in the report did not have direct contact with students and was thus not required under state law or the school procedures to have fingerprints processed and approved through the Commissioner of Education.

*
Comment
2

Cash Disbursements and Procurement

Supporting Documentation

Beginning in September 2006, CPCS implemented several new procedures in the area of pre-approval and maintenance of supporting documentation. CPCS conducts staff trainings in order to better implement the new procedures.

CPCS accepts recommendation 3 and has implemented procedures to reflect this recommendation.

Credit Cards

As mentioned above, CPCS has implemented several new procedures in the area of pre-approval and maintenance of supporting documentation. These new procedures include credit card purchases. However, CPCS maintains that the unsupported items mentioned in the report were items that were purchased on behalf of the School.

Duplicate Payments

CPCS uses manual checks infrequently. When a manual check is needed notification and documentation is immediately sent to the Business Manager.

CPCS accepts recommendation 5 and has implemented procedures to reflect this recommendation.

Salary Allocation

While the Community Partnership Foundation employees perform services at two different charter schools, each year during the budget process, careful consideration is given to the needs of each school and the allocation of Foundation staff to support these needs. While timesheets are not maintained, Foundation staff has defined roles and responsibilities at each school and can

*See State Comptroller Comments, page 14



monitor their time individually to meet the needs of each school. During the year, the percentage allocation to each school by the ten employees whose time is shared is reviewed by Foundation officials to ensure that no school is overcharged.

Please note that the Foundation has spent additional personnel time in the areas of compliance, oversight and facilities without allocation of costs to CPCS.

CPCS accepts recommendation 6. CPCS is currently in the process of investigating time sheet programs that both effectively and efficiently meets the needs of the school.

Sales Tax

CPCS attempts to only deal with vendors that recognize its tax-exempt status. On the extremely rare occasion where sales tax was paid, CPCS made every attempt to remove or recover the sales tax charges.

CPCS accepts recommendation 7.

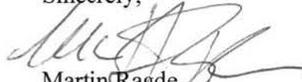
Procurement

CPCS accepts recommendations 8 and 9 and has implemented procedures to reflect this recommendation; including staff training on bidding procedures.

In summary, CPCS implemented recommendations 2, 3, 5, 7, 8 and 9. As for recommendation 1 and 6, CPCS is in the process of recruiting board members and is investigating appropriate procedures and systems to effectively and efficiently meet the recommendation requirements.

If you have any questions regarding our responses to either the findings or recommendations, please do not hesitate to contact us. Thank you.

Sincerely,


Martin Ragde
Chairman of the Board

Cc: Mr. Kenrick Sifontes, Office of the State Comptroller
Ms. Melanie Bryon, School Director
CPCS Board of Trustees

APPENDIX B - STATE COMPTROLLER COMMENTS ON AUDITEE RESPONSE

1. Section 2.10(d) of CPC's charter states that no more than 40 percent of the Board members can be from any one group (Foundation, community or staff). Our review of the Board minutes found that the Foundation members exceeded 50 percent of the membership at one point in time and the community members exceeded 40 percent of the members at other times. Therefore, we cannot agree that the composition of the Board was proper at all times.
2. The contractor did have contact with the students and a background check should have been conducted. CPCS officials state that the consultant's contact was supervised and therefore a background check was not required. We disagree with this conclusion. The State's regulations make no distinction between supervised and unsupervised contact. Therefore a background check was required.