



Niagara Charter School

Student Enrollment and Billing

Report of Examination

Period Covered:

July 1, 2012 — September 6, 2013

2013M-294



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of School Officials and Corrective Action	3
STUDENT ENROLLMENT AND BILLING	5
Billing	6
Enrollment	7
Recommendations	8
APPENDIX A Response From School Officials	10
APPENDIX B Audit Methodology and Standards	14
APPENDIX C How to Obtain Additional Copies of the Report	15
APPENDIX D Local Regional Office Listing	16

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2014

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 school 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 Niagara Charter School, entitled Student 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[1][c] of the Education Law, as amended by Chapter 101 of the Laws of 2010.

This audit's results and recommendation 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 and fiscal/financial management plans.

The Niagara Charter School (School), located in the Town of Wheatfield, Niagara County, is governed by a Board of Trustees (Board) that currently has 10 members, including one parent and two teacher representatives. The Board is responsible for the general management and control of the School's financial and educational affairs. The Board appoints a Chief Academic Officer who is responsible, along with the Business Manager and other administrative staff, for the day-to-day management of the School under the direction of the Board. The Business Manager is responsible for the School's financial operations, including the preparation of billings to the students' school districts of residence.

The School's operating expenses for the 2012-13 fiscal year were approximately \$4.1 million. These expenses were funded with revenues of approximately \$4.2 million derived from billing area school districts for resident pupils and from certain State and Federal aid attributable to these pupils. The School has approximately 350 students in grades kindergarten through six.

Objective

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

- Are student enrollment and billings to school districts of residence accurate and supported?

Scope and Methodology

We examined the School's billing process for the period July 1, 2012 through September 6, 2013.

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 is included in Appendix B of this report.

Comments of School Officials and Corrective Action

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 the recommendations and indicated that they have taken, and/or will take, corrective action.

The Board has the responsibility to initiate corrective action. We encourage the Board to prepare a plan of action that addresses the recommendations in this report, and to forward the plan to our office within 90 days. For more information on preparing and filing your Corrective Action Plan (CAP), please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the School Board Secretary's office.

Student Enrollment and Billing

Education Law provides for the funding of charter schools' operating budgets. A charter school derives most of its operating revenues from the public school districts in which its students reside. Charter schools are required to keep an accurate and up-to-date attendance record of student enrollment and to report such data to the school districts of residence in a timely manner. Based on enrollment, count, attendance or full-time equivalent¹ (FTE) attendance, a charter school bills the school districts of residence for providing services to the students enrolled in the charter school.

The school districts directly pay the charter school for each student enrolled in the charter school who resides in their respective school district. The amount paid per student² is based on a reimbursement rate established by the New York State Education Department (SED). Payments are made by the school districts in six installments beginning in July and every two months thereafter. At the end of the fiscal year, school officials are required to reconcile revenues received from school districts of residence to the revenues due, based on the actual FTEs for the fiscal year. Any payment or refund/credit resulting from such reconciliation is to be applied in the subsequent fiscal year's billing cycle.

We found that certain billings were not accurate and enrollment was not always adequately supported. In some instances, for students with less than full-time enrollment, School officials incorrectly calculated the FTEs, which resulted in over-billing school districts by more than \$10,200. We also reviewed the 2012-13 fiscal year FTE report prepared by School officials and found that the School may be owed approximately \$13,500 from one of the school districts. However, due to the incorrect calculations of FTEs identified in our testing, it is unclear whether this amount owed to the School is entirely accurate. We also found that the School's system of collecting and reporting student data could be improved. In addition, of the 22 students' files sampled, the proof of residency on file for five students was either inaccurate or missing.

¹ FTE is the decimal expression of the enrollment of a student in the charter school compared to the length of the annual school session. A student who is enrolled for the full school year has an FTE of 1.0, while a student who is only enrolled for half of the school year has an FTE of 0.5.

² Approved Operating Expenditure

Billing

A key component of any billing process is properly recording information needed to generate accurate billings in a timely manner, and according to applicable laws, regulations and guidelines. The School must bill for eligible students based on the period of enrollment. SED defines the period of enrollment as the portion of the period commencing on the first day of the school year, and ending on the last day of the school year, that the pupil is enrolled and physically present at, or legally absent from, an educational program or service of a charter school. Further, a proper billing reconciliation enables the School to accurately determine revenues due the School.

We selected a judgmental sample of 52 students³ to determine whether billings to the school district of residence were accurate. We found incorrect billings for six students, resulting in the School over-billing the school districts of residence by more than \$10,200, as detailed below.

- One student attended the School for approximately half of the 2012-13 school year and should have been reported and billed at 0.5 FTE. Instead the student was reported and billed as a 1.0 FTE, which resulted in an over-billing of approximately \$5,400.
- School officials often offset refunds/credits due to departing students with delayed billing for incoming students from the same school district.⁴ However, this requires a perfect match between two students (one departing and one incoming) in the number of enrolled days to result in the FTE offset having no impact. Two students from one school district left the School in March 2013 and two students were enrolled from the same district in May 2013. School officials stated that the four students' billings offset each other. However, the incoming students' FTEs did not match the departing students' FTEs, resulting in the school district of residence being over-billed approximately \$2,000. The refund/credit had not been applied to the school district's June or August 2013 billing.
- One student was enrolled for the 2012-13 school year, but never attended the School and was officially exited on August 23, 2012, 10 days after the first day of school. The School had already billed the school district for two of the six billing periods for a total of \$3,304. The School should have refunded/credited the school district of residence the amount

³ Includes 22 students from the Niagara Falls City School District (NFCSD) and all 30 students from three other school districts

⁴ Charter schools are allowed to bill school districts one month in advance; this creates a timing difference in billing for incoming and departing students.

billed. However, the School reported a credit of only \$446, resulting in an over-billing of \$2,858.

We also found that, as of the end of field work,⁵ the Business Manager had not yet prepared the end of fiscal year reconciliation, even though a FTE report was prepared. We reviewed the FTE report and found that the School may have under-billed the Niagara Falls City School District (NFCSD) by more than \$13,500. The Business Manager subsequently provided us a reconciliation report indicating that the School had under-billed NFCSD more than \$13,900. However, the FTEs for one of the other school districts remained incorrectly computed. Due to these deficiencies in the calculation of certain FTEs and School officials' practice of offsetting incoming and departing student FTEs from the same school district, we question the accuracy of the data contained in the FTE report and the periodic billings.

Furthermore, the School's system for collecting and reporting student data could be improved and streamlined. The School uses two software programs to maintain and report student data used for billing purposes. The School uses one program to record daily attendance and track entry and exit dates of students. Any changes recorded by that system are given to the School's Operations Manager, who uses another program to account for student information. The Business Manager also maintains a spreadsheet, which he uses to compute FTEs to bill school districts of residence. The Business Manager periodically updates it with the information provided by the Operations Manager. Maintenance of multiple databases and manual updates or transfer of information between individuals increases the risk of miscoding and untimely updates of the billing schedule and potentially inaccurate billings.

If School officials do not improve their billing processes, they will continue to bill school districts of residence incorrectly.

Enrollment

A parent/guardian wishing to enroll their child at the School is required to complete a written application form and provide documentation, including proof of residence. Acceptable documents showing proof of address include a driver's license, utility bills, lease agreements, social services correspondence or other official documents addressed to the parent/guardian the student lives with.

A School official verifies the proof of residence and a copy is placed in the student file. When a student changes residence, a parent/guardian is asked to complete and submit a form to the School indicating the new address and the school district of residence. The School provides

⁵ September 6, 2013

transportation for its students from the NFCSD and a request for a new transportation arrangement is used as an additional control procedure to monitor and update changes of residence.

We reviewed the supporting documentation for the 22 students from the NFCSD in our sample to determine if there was current and sufficient proof of residency in the student's file. Our review identified five students' files with proof of current residency deficiencies, as indicated below.

- For four students, their residence addresses on the billing schedule was different than the proof of addresses in the students' files. However, all the addresses were within the NFCSD.
- One student did not have proof of residence documentation on file.

These deficiencies occurred because School officials did not verify student information by periodically requiring new proof of residence or requiring that one be submitted when a student's address changes. School officials indicated that they relied on a request for a new transportation arrangement to update a student's file and that a form completed by a parent or guardian for change of residence within the same district was sufficient. Although a change of residence within the same school district will not affect the billing, the lack of verification procedures increases the risk that a student with alternative means of transportation may move to a different school district and not be detected in a timely manner.

Recommendations

1. School officials should properly bill based on each student's period of enrollment and cease the practice of offsetting incoming and departing student FTEs.
2. School officials should follow SED guidelines for computing FTEs to ensure accurate billings to the school districts of residence.
3. School officials should prepare a billing reconciliation in a timely manner and ensure applicable adjustments, payments due to the School and/or any refunds/credits due to the school districts are accurately accounted for.
4. School officials should consider using only one software program to collect and report data for student billings.

5. School officials should periodically verify the residence of students and require a student who moves to provide a new proof of residence, even if the residence is within the same school district, and ensure that proof of residence documentation is on file for all students.

APPENDIX A
RESPONSE FROM SCHOOL OFFICIALS

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



NIAGARA
Charter School

December 19, 2013

[REDACTED]
Division of Local Government
And School Accountability
Office of the State Comptroller
295 Main Street
Room 1032
Buffalo, New York 14203-2510

Dear [REDACTED]

Thank you very much for meeting with us earlier this month to review your Report of Examination of Niagara Charter School for the period July 1, 2012 through September 6, 2013. Pursuant to instructions, the Board of Trustees met to review your report in its entirety including your Recommendations. I have enclosed a copy of our response to those recommendations including our Action Plan for each of the items you addressed.

Thank you again for the courtesies you extended during the course of this Examination.

Sincerely,

~~James~~ C. Muffoletto
President, Board of Trustees

cc: Niagara Charter School Board of Trustees
Darci Novak
Gregory Norton

Enclosure

G:\WP\Niagara Charter School\Niagra Charter School 2013\2013.12.18 Ltr to NYS Comptroller.doc

2077 Lockport Road Niagara Falls, NY 14304 PHONE: 716-297-4520 FAX: 716-297-4617
www.niagaracharter.org

Recommendations

1. School officials should properly bill based on each student's period of enrollment and cease the practice of offsetting incoming and departing student FTEs.

The school is aware of the onetime incident the auditor has noted with the offsetting of one student's enrollment with another who entered the school at the time of the other student's departure. The school administration has addressed the issue with the appropriate staff and has implemented a process to ensure that all student enrollments are calculated independently.

2. School officials should follow SED guidelines for computing FTEs to ensure accurate billings to the school districts of residence.

The school process for confirming an enrolled student's attendance is as follows-

- 1.) The parent/guardian for an absent student will be called to confirm reason for absence.*
- 2.) If no contact with parent/guardian is made through repeated phone calls, the school's Parent Liaison will be directed to make direct contact through a home visit.*
- 3.) Upon final determination as to the intention of the parent/guardian to withdraw their child from Niagara Charter School, the school will immediately adjust the home district's billing for the student. The adjustment will be immediately reflected in the subsequent district invoice.*

3. School officials should prepare a billing reconciliation in a timely manner and ensure applicable adjustments, payments due to the School or any refunds/credits due to the school districts are accurately accounted for.

School officials will complete the year-end student FTE reconciliation prior to the start of the school's annual internal audit.

4. School officials should consider using one software program to collect and report data for student billings.

School officials understand that the consolidation of the two existing software programs is desirable, but current conditions, both internally and externally, have prevented the shift to one of the systems exclusively. The school continues to work diligently to reach a point where a move to one system only is possible without risking usability, accessibility and security.

5. School officials should periodically verify the residence of students and require a student who moves to provide a new proof of residence, even if the residence is within the same school district, and ensure that proof of residence documentation is on file for all students.

Updated Process

- 1.) When a parent or guardian registers a child with Niagara Charter School, proof of address is required when the application is submitted to the school.*
- 2.) Completed application and proof of address are maintained in the student's file.*
- 3.) All of our students are bused and when request for change of pick up or drop off location, a confirmation of address is documented.*
- 4.) When the school learns of a student's move to a new address, office staff send a change of address form home with the student. Note: School will include a request for proof of new address with the change of address form.*
- 5.) The completed change of address form and new proof of address form will added to the student's file.*

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, cash receipts and disbursements, purchasing, payroll information technology and inventory and asset controls.

During the initial assessment, we interviewed appropriate School officials, performed limited tests of transactions and reviewed pertinent documents, such as School by-laws, procedures, Board minutes and financial records and reports.

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 for the area with the greatest risk. We examined the School's enrollment and billing processes for the period July 1, 2012 through September 6, 2013. Our audit included various procedures to gather relevant evidence concerning our stated objective, as follows:

- We interviewed Board members and School officials to gain an understanding of the School's operations.
- We interviewed management staff to gain an understanding of the School's billing processes and procedures.
- We reviewed pertinent sections of the Education Law and the related SED regulations and guidelines.
- We reviewed the School's charter agreement, by-laws, annual report and Board meeting minutes.
- We compared the various factors used by the School for billing the school districts of residence against factors established by SED.
- For the 52 students tested, we selected all 30 students billed to the three school districts other than NFCSD and judgmentally selected 22 students billed to NFCSD. We reviewed selected students' files for proof of residence documentation and compared residence addresses on file to residence addresses listed on the billing schedule, and for all tested students we recalculated their FTEs used for billing.

We conducted this performance audit in accordance with 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313