Office of the New York State Comptroller

Division of Local Government
& School Accountability

Oracle Charter School

School Building Acquisition and Leave Accrual Records

Report of Examination

Period Covered:

July 1, 2011 — August 22, 2013

2013M-290

Thomas P. DiNapoli

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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 Oracle Charter School, entitled School Building Acquisition and Leave Accrual Records. 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 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

State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

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 generally have fewer operational requirements than traditional public schools. Many of a charter school's operational requirements are contained in Article 56 and in its by-laws, charter agreement and fiscal/financial management plans.

The Oracle Charter School (School) is governed by an 11-member Board of Trustees (Board) that includes one parent representative. The Board has final authority for policy and operational decisions of the School and, therefore, is ultimately responsible for the general management and control of the School's financial and educational affairs.

The School's 2012-13 fiscal year operating expenses totaled approximately $4.7 million. These expenses were funded primarily with revenues derived from billing school districts for resident pupils. As of June 2013, the School had approximately 340 enrolled students and 55 employees.

The School is located in the City of Buffalo on Delaware Avenue in the Goodyear Mansion, designed by famous Buffalo architect E.B. Green. Most of its students are from the City of Buffalo. The School leased the building in 2005 for 15 years from a not-for-profit corporation which acquired and renovated the property with the assistance of a real estate partnership. The building houses the School's grades nine through 12 and administrative offices.

The School employs a Chief Financial Officer and a Business Administrator to handle financial duties and reporting. The Business Administrator and an Executive Assistant manage the School's business office and handle the School's day-to-day operations, which include maintaining leave accrual records.

Scope and Objectives

The objectives of our audit were to examine the School's process for acquiring building space and the adequacy of the School's leave accrual records for the period July 1, 2011 through August 22, 2013. We also reviewed the minutes of the Board's proceedings and other documents dating back to January 2004 to obtain more information on the School's building acquisition process. Our audit addressed the following related questions:

- Did the Board use an appropriate process to acquire a building that met the School's needs at a reasonable cost?

- Did the School maintain accurate and supported leave accrual records for employees?

Audit Results

The Board did not demonstrate that it used an appropriate process to ensure it obtained a suitable site at a reasonable cost. School officials did not document that the Board performed an appropriate cost analysis of the selected site or alternative sites. Consequently, the School agreed to an arrangement requiring it to pay more than $5.1 million for the acquisition and renovation of its building financed at a 20 percent interest rate. We found that the building was acquired and renovated for approximately $1.4 million, and that a developer fee and interest costs will total more than $3.7 million over the term of the School's 15-year lease. As a result of a recent decision to prepay a portion of the debt, the School was able to save approximately $136,000.

The business office did not maintain accurate and supported leave accrual records for all School employees. The School does not require that all employees submit leave request forms. Those employees required to submit forms did not do so consistently, and the forms did not always include evidence of required approvals. In addition, there was no reconciliation process in place to ensure that all leave time usage was correctly recorded on an employee's leave summary. These weaknesses could result in the School making improper salary and/or leave payouts and incurring unnecessary substitute personnel costs.

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 the findings and recommendations and indicated they either have taken or will take corrective action.

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 generally have fewer operational requirements than traditional public schools. Many of a charter school's operational requirements are contained in Article 56 and its by-laws, charter agreement and fiscal/financial management plans.

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The School employs a Chief Financial Officer (CFO) and a Business Administrator to handle financial duties and reporting. The Business Administrator and an Executive Assistant manage the School's business office and handle the School's day-to-day operations, which include maintaining leave accrual records.

Objectives

The objectives of our audit were to examine the School's process for acquiring building space and the adequacy of the School's leave accrual records. Our audit addressed the following related questions:

- Did the Board use an appropriate process to acquire a building that met the School's needs at a reasonable cost?
- Did the School maintain accurate and supported leave accrual records for employees?

Scope and Methodology

While our audit was for the period July 1, 2011 through August 22, 2013, we reviewed the minutes of the Board's proceedings and other documents that dated back to January 2004.

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 findings and recommendations and indicated they either have taken 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.

Building Acquisition

Because the Board has final authority for policy and operational decisions of the School, it is ultimately responsible for safeguarding School resources. The Board fulfills this responsibility, in part, by fully evaluating available options when selecting a building to serve as the School's site, before committing School resources.

We found that the Board did not demonstrate that it used an appropriate process to ensure it obtained a suitable site at a reasonable cost. School officials did not document that the Board performed an appropriate cost analysis of the selected site or alternative sites. Consequently, the School agreed to an arrangement requiring it to pay more than $5.1 million for the acquisition and renovation of its building financed at a 20 percent interest rate. We found that the building was acquired and renovated for approximately $1.4 million, and that a developer fee and interest costs will total more than $3.7 million over the term of the School's 15-year lease. As a result of a recent decision to prepay a portion of the debt, the School was able to save approximately $136,000.

Site Selection and Cost Analysis

When locating an existing building for purchase or lease, the Board should identify and document the needs of the School (including location, building size, suitability for intended use and future expansion) and use a process to document whether related costs are appropriate to help ensure the School's long-term financial viability. The Board should strive to identify multiple sites that meet its needs and analyze all costs associated with each site in light of current market conditions. This would provide assurance that the option chosen meets the School's needs and that the terms of the transaction are reasonable in light of prevailing market conditions.

The New York State Office of General Services (OGS) is required to publish annually a list of vacant and unused buildings, or portions thereof, that are owned by the State and may be suitable for the operation of a charter school. The Education Law requires that this list, when requested, be provided to a charter school. Further, at the request of a charter school or a prospective applicant, a school district is required to make available a list of vacant and unused school buildings, or portions thereof, including private school buildings, within the school district that may be suitable for the operation of a charter school.

School officials could not demonstrate that the Board requested or reviewed information from OGS regarding available buildings or considered any such potential sites. Further, Board and committee minutes, and related Board meeting reports contained very few discussions pertaining to the building site selection process. The only documented analysis we found was a bar graph rating four properties[1] on location, program needs and a category titled "overall." No additional information was available to interpret or define this rating method.

Current and past Board Trustees and School officials stated that they considered numerous building sites. However, none of these individuals could provide any documentation to support their statements. Both the Board's minutes and other correspondence indicate that their attention appeared to have quickly focused on the current School location.

At the end of our fieldwork, the School's attorney prepared a letter for us containing information on three additional properties that were purportedly considered, along with rationale as to why they were not viable sites. We question whether certain properties were even realistic options for a charter school. For example, one of the properties is located in a more sought-after section of the City containing restaurants, a hotel and retail businesses, where property values and rents tend to be above average and, therefore, beyond the School's means.[2] While the attorney's letter may provide background information on other properties that School officials may have considered, it does not change the fact that School officials could not provide documentation to substantiate that they conducted a comprehensive building site search prior to the Board's decision to proceed with the current site.

School officials also could not demonstrate that they performed an appropriate cost analysis for each site or a comparative cost analysis of any of these sites. Based on interviews with past Board Trustees and School officials and reviews of the School attorney's correspondence, a $5 to $6 per square foot per year cost range was consistently indicated as the determining factor for the selection of the School's building. However, School officials did not provide us with any cost per square foot comparisons or any other cost analysis of alternative sites. As such, School officials did not demonstrate that the current arrangement was a reasonably economical option for the School's location.

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[1] The four properties include the current School location.

[2] This property was sold and redeveloped into a commercial property shortly after the School contacted the owner regarding its availability.

Lease and Development Agreements

On February 28, 2005, the School entered into a 15-year building lease that requires the School to pay rent plus the costs of utilities, general maintenance and repairs. The School leases the building from Oracle Building Corporation (OBC), a not-for-profit corporation affiliated with the School.[3] The School's rent under the lease is equal to the principal and interest on a $1,050,000 promissory note (Loan #1) payable by OBC to a real estate partnership (Partnership),[4] plus any other debt service or other costs incurred by OBC with respect to the building.

Also, on February 28, 2005, the School, OBC and the Partnership entered into a Development Agreement. Under the Development Agreement, the Partnership agreed to provide certain services in connection with the acquisition, development, renovation and financing of the School building. The Development Agreement required OBC to pay the Partnership, in installments, a $267,352 developer fee.[5] The Development Agreement also required OBC to borrow from the Partnership $150,000 on July 1, 2007 (Loan #2), and another $225,000 on July 1, 2009. Due to a delay in the School's obtaining a charter renewal,[6] the terms of the $225,000 borrowing were modified so that OBC borrowed $112,500 on July 1, 2009 (Loan #3), and another $67,500 on July 1, 2010 (Loan #4), with the remaining $45,000 to be borrowed by OBC in the future. The unpaid balances of the developer fee and the amounts borrowed are subject to a 20 percent interest rate. The Development Agreement did not provide OBC with any prepayment or future loan modification options.[7]

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[3] At the time the lease was entered into, OBC's by-laws required it to be controlled by the School, but that requirement was deleted in 2012. Although the circumstances surrounding the formation of OBC are generally beyond the scope of this audit, it appears that OBC was formed to better the position of the real estate partnership that financed the acquisition and renovation of the building in the event that the School's charter was not renewed, and as a means of providing for the property to be tax exempt.

[4] The Partnership is a limited partnership.

[5] The developer fee is part of the mechanism used to provide the developer with a predetermined rate of return and is not contingent on any specific duties.

[6] The School received a short-term renewal of three years on January 2010 and in February 2013 received its five-year renewal through 2018.

[7] The promissory note for Loan #1 expressly states that OBC has no right to prepay the loan. With respect to Loan #2, we have a copy of what appears to be an executed "promissory note," dated July 1, 2007, in the principal amount of $150,000, which expressly states that OBC has the right to prepay the loan. However, despite the express language in this promissory note, we also have documentation indicating that the attorneys for OBC and the Partnership agreed that the loan could not be prepaid. Although we do not have copies of executed promissory notes for Loans #3 and #4, we have documentation indicating that the attorneys agreed that OBC did have the right to prepay these loans. We also note that the Development Agreement expressly provides that OBC has no right to prepay the developer fee.

Thus, the net effect of these arrangements is to require the School to pay rent to OBC in an amount sufficient to discharge OBC's obligations to the Partnership, as set forth in Table 1.

Table 1: Lease/Loan/Fee Payment Schedule

	Loan Amount	2005 Payments	2006 Payments	2007 Payments	2008 Payments	2009 Payments	2010 - 2019 Payments	Total Payments
Loan #1	$1,050,000	$210,000	$210,000	$227,244	$227,244	$227,244	$2,272,440	$3,374,172
Loan #2	$150,000			$32,463	$32,463	$32,463	$324,630	$422,019
Loan #3	$112,500					$17,096	$256,450	$273,546
Loan #4	$67,500						$156,940	$156,940
Development Fee	$267,352	$15,000	$55,000	$65,293	$115,293	$64,570	$561,610	$876,766
Total	**$1,647,352**	**$225,000**	**$265,000**	**$325,000**	**$375,000**	**$341,373**	**$3,572,070**	**$5,103,443**

In addition to the $267,352 developer fee, interest costs on these loans total approximately $3.5 million. We question why the Board would agree to a financing arrangement that commits the School to pay 20 percent interest. The School's attorney explained that focusing only on the 20 percent interest rate "obscures the considerable savings the School has realized"[8] and that "there simply were no other possible financing arrangements, even after diligent attempts to induce other participants to consider this transaction." Furthermore, the School's attorney stated that "no other facility as suitable as the present one was available."

The financing arrangement was developed in negotiations with a limited liability company (LLC) that became a general partner in the Partnership. During the initial negotiations, it appears that the LLC rejected an arrangement under which it would acquire and renovate the building and then rent it for School purposes under a triple net lease.[9] The LLC rejected the arrangement as not financially viable because, among other reasons, continuation of the School's charter was not assured and the building was not readily marketable for other uses. As an alternative, the parties agreed to restructure the transaction to have OBC acquire and renovate the building with financing provided by the Partnership, and to have the School pay for the project through its rental payments to OBC. The restructured transaction, including the future loan commitments, developer fee and 20 percent interest

[8] The savings to which the attorney referred to were for the School not having to pay property taxes, owning the building at the end of the lease term and cost per square foot. The cost per square foot issue was addressed in the section entitled "Site Selection and Cost Analysis." We also note that there is nothing in the School's lease, the Development Agreement or any other document of which we are aware that provides for the School to acquire title to the building at the expiration of the lease.

[9] A triple net lease is a lease agreement on a property where the tenant or lessee agrees to pay all real estate taxes, building insurance and maintenance (the three "nets") on the property in addition to any normal fees that are expected under the agreement (rent, utilities, etc.).

rate, were established to ensure a financial benefit to the Partnership similar to the one the LLC would have received under the original triple net lease proposal. As a result, it appears that the arrangement under which the School acquired use of the building was designed primarily to protect the financial interests of the Partnership/LLC.

Past Board Trustees, School officials and the School's attorney stated that the Partnership/LLC assumed substantial risk by entering into this financial arrangement without any initial money provided by the School, including the risk that the School's charter would not be renewed. The attorney stated that in the event of a default, the Partnership/LLC would own a property that would not be marketable in the usual way. However, many of the mansions located in this area are used by a wide array of businesses, including the Red Cross, University at Buffalo Development Center, various corporate headquarters, law offices and a Catholic high school. So, while there may be renovation costs to potential buyers, it is not clear how the School's building would be undesirable.

By July 2009, the Partnership was paid $1.2 million in relation to the School's building. Had the School's charter not been renewed in 2009, and had there been a default, the Partnership would most likely have wound up owning a historical building that was acquired for approximately $1 million and had undergone substantial renovations and updates that were, in effect, paid for by the School. At that time, it appears that the building was worth much more because a 2008 City of Buffalo assessment valued the building at approximately $2.5 million. We also question whether this building would be as difficult to sell as School officials suggest, as it is in a desirable area of the City. In 2012, a prominent developer, who purchased a Delaware Avenue property, indicated that the area is in high demand, whether the uses are for office, retail or residential.

Since the Board and School officials could not document any thorough analysis of other building and/or financing options, they could not demonstrate that the School's lease of its building was the best option available to the School. A 2004 Buffalo News article quoted one of the original School founders, who was also the former Head of School, acknowledging that the School was paying a high risk mortgage rate, but concluding that it was appropriate because "our square footage rate is still outstanding and, in 15 years, it goes away." Because of this decision, the School is committed to a costly long-term building arrangement that affects the Board's ability to respond to the School's changing needs through 2019.

Recently, certain actions have been taken with these agreements to achieve cost savings. The current Board Chairman became a

Board Trustee in the 2010-11 school year and was appointed Board Chairman for the 2011-12 through 2013-14 school years. During our interview, he characterized the building as not being a good fit for a school because of the complicated floor plan and the maintenance requirements of a historical preservation building. At his request, the School's attorney examined the loans for any prepayment options and concluded that Loans #3 and #4 in the amounts of $112,500 and $67,500, respectively, could be prepaid. In January 2013, the School CFO, on behalf of the Board, made a request to the Partnership to refinance the existing lease, loans and developer fee at a current market rate of 4 percent. When that offer was rejected, the Board authorized the CFO to pay off these two loans totaling $180,000 and stated that the School would not borrow the remaining $45,000 at a 20 percent interest rate under the terms of the development agreement. As a result of the prepayment and foregone debt, the Board was able to save the School approximately $136,000.[10]

Recommendations

1. The Board and School Committees should ensure that all of their proceedings are properly documented and all such records are maintained by the Board Secretary.

2. The Board should fulfill its responsibility for safeguarding School resources by conducting and documenting thorough analyses of alternatives before making major financial commitments.

3. For future building acquisitions, the Board should initially request a list of buildings available from OGS and the local school district to ensure all available buildings are evaluated for suitability and cost.

4. The Board should determine whether any outstanding loans are able to be prepaid and, if applicable, evaluate whether it would be cost beneficial to prepay the loan(s).

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[10] Interest savings of approximately $84,000 on Loans #3 and #4, and interest savings of approximately $52,000 had the $45,000 been borrowed for nine years (2010 – 2019) at a rate of 20 percent

Leave Accrual Records

Charter schools should generally document the compensation and benefits provided to their employees in employment contracts negotiated with individual employees and, where applicable, collective bargaining agreements. To ensure employees receive intended leave time benefits, it is important for the School's business office to maintain accurate accrued leave records so that employees and the School are aware of leave time usage and balances at any point in time.

Full-time School employees earn leave time for vacation and/or personal use and receive cash payments for unused personal days at the end of the school year.[11] A report of leave days is prepared for each employee, which includes leave days awarded, an itemized log of days used, and leave days rolled over.[12] The instructional employees' contract does not require them to submit leave request forms prior to taking time off. The employee manual states that all non-instructional employees must request and get approval from the Head of School before using personal or vacation leave. The business office prepares and distributes a leave acknowledgement form to employees twice each year to verify their leave balances.[13]

The business office did not maintain accurate and supported leave accrual records for all School employees. We reviewed leave records for all 56 full-time employees in the 2011-12 school year and all 62 full-time employees in the 2012-13 school year,[14] and found the following discrepancies.

- For the 2011-12 school year, we compared the leave request forms for 20 employees[15] totaling 154.5 days to the individual leave records for each employee and found 30.5 days where a leave request form was not available and 34 days where the leave request form was not signed by the Head of School. In addition, we found leave request forms for seven days that were not recorded on the employees' accrued leave records.

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[11] Full-time instructional employees earn personal leave but do not earn vacation leave.

[12] Where applicable, full-time employees are permitted to roll over up to 20 vacation days and are paid for up to 10 days of personal leave each school year at a rate of $100 per day.

[13] Leave verification forms are sent to employees in December and June.

[14] The 2011-12 school year full-time employees consisted of 43 active and 13 separated, and the 2012-13 school year full-time employees consisted of 45 active and 17 separated.

[15] See Appendix B, Audit Methodology and Standards, for details on our sample selection.

- For the 2012-13 school year, we reviewed leave request forms for the same 20 employees totaling 133 days and found 24 days where leave request forms were not available and 27 days where the leave request form was not signed by the Head of School. In addition, we found leave request forms for two-and-one-half days that were not recorded on the employees' accrued leave records.

- During the 2011-12 school year, 11 employees over-charged a total of 36.5 leave days. To correct the problem, School officials rolled over the negative days to reduce beginning leave balances in the 2012-13 school year. The over-use of leave days continued to occur in the 2012-13 school year, as 10 employees charged 48.5 days more than they had available. However, the School implemented a new policy in the 2012-13 school year whereby School officials deducted from these employees' pay checks the dollar value of the excess leave days.

The exceptions occurred because School officials do not consistently enforce the proper use of leave request forms or conduct reconciliations to ensure that employee leave records are complete and accurate. Although leave data is updated on a routine basis, the business office does not maintain a cumulative balance of available leave days for each employee. The business office does not verify that all semi-annual leave verification forms are returned and has not used these forms to update the employees' leave records when there is a discrepancy. Further, School officials did not ensure that all leave request forms were submitted and included required approvals. Even though the School was reimbursed for over-charged leave days, these weaknesses could result in unnecessary costs to the School, such as improper salary and/or leave payouts or unnecessary substitute personnel costs.

Recommendations

5. The business office should maintain a cumulative and up-to-date record of leave time for each employee and review this record throughout the school year to ensure its accuracy.

6. If the business office continues to use semi-annual leave verification forms, it should ensure that employees complete the form, the information is reconciled to the employee leave record and differences are resolved in a timely manner.

7. School officials should ensure that leave request forms are completed and include required authorizations.

8. The business office should develop and implement a process to compare leave accrual records with other attendance records to ensure that the leave records are complete and accurate.

APPENDIX A

RESPONSE FROM SCHOOL OFFICIALS

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

Oracle Charter School

888 Delaware Avenue
Buffalo, NY 14209
p. 716.362.3188
f .716.362.3187
oraclecharterschool.org

January 6, 2014

Mr. Robert E. Meller
Chief Examiner of Local Government and School Accountability
State of New York Office of the State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Dear Mr. Meller:

The Board of Trustees of Oracle Charter School has reviewed your draft report of School Building Acquisition and Leave Accrual Records Report of Examination for Oracle Charter School for the period from July 1, 2011 to August 22, 2013. We appreciate your input and welcome the opportunity to strengthen the existing internal controls of our School.

We recognize and appreciate the need to revisit and evaluate the effectiveness of our processes and procedures on an on-going basis. We also appreciate the opportunity to have met with you at the exit conference on December 16, 2013, which afforded us the opportunity to address findings and further clarify certain items noted in your preliminary report. We believe the following responses address the matters reported in the preliminary draft and we are committed to developing a corrective action plan within 90 days of the date of the preliminary report.

We now present for you our responses to the State Comptroller's recommendations:

Building Acquisition

1. Recommendation:
The Board and School Committees should ensure that all of their proceedings are properly documented, and all such records are maintained by the Board Secretary.

Response:
The Board and School Committees will ensure that all proceedings are properly documented and that all such records are maintained by the Board Secretary.

2. Recommendation:
The Board should fulfill its responsibility for safeguarding School resources by conducting and documenting thorough analyses of alternatives before making major financial commitments.

Response:
The Board of Trustees will ensure that adequate documentation will be retained to support proper due diligence performed prior to making all major financial commitments.

3. Recommendation:
For future building acquisitions, the Board should initially request a list of buildings available from OGS and the local school district to ensure all available buildings are evaluated for suitability and cost.

Response:
In the event that Oracle Charter School would consider a future building acquisition, the Board will request a list of buildings available from OGS and the local school district to ensure that all available buildings are evaluated for suitability and cost.

4. Recommendation:
The Board should determine whether any outstanding loans are able to be prepaid and, if applicable, evaluate whether it would be cost beneficial to prepay the loan(s).

Response:
The Board has identified all outstanding loans that are able to be prepaid. They have evaluated the cost benefit of prepaying the loan, concluded that there would be cost savings, and have prepaid two loans.

Follow-up Note About The Building

On December 16, 2013, by a unanimously adopted resolution, the Board of Directors of Oracle Building Corporation has acknowledged its continuing obligation to hold the Oracle Charter School property at 888 Delaware Ave., Buffalo, NY in trust for the sole use and benefit of Oracle Charter School, and further, Oracle Building Corporation has granted to Oracle Charter School the unrestricted option to purchase the real property for one dollar at the end of the current 15 year lease.

Leave Accruals

5. Recommendation:
The business office should maintain a cumulative and up-to-date record of leave time for each employee and review this record throughout the school year to ensure its accuracy.

Response:
Management has established policies and procedures to maintain a cumulative and up-to-date record of leave time for each employee. These records will be reviewed at routine intervals throughout the year in order to strengthen control over employee leave time. The ongoing review will serve to provide an additional layer of control over maintaining accurate employee leave time.

6. Recommendation:
If the business office continues to use semi-annual leave verification forms, it should ensure that employees complete the form, the information is reconciled to the employee leave record, and differences are resolved in a timely manner.

Response:
All leave verification forms given to employees to complete will be reconciled with Oracle Charter School's internal records in order to confirm consistency of information. Any and all discrepancies will be followed up with and resolved in a timely manner.

7. Recommendation:
School officials should ensure that leave request forms are complete and include required authorizations.

Response:
Oracle Charter School will ensure that all leave request forms are completed and signed by authorized personnel.

8. Recommendation:
The business office should develop and implement a process to compare leave accrual records with other attendance records to ensure that the leave records are complete and accurate.

Response:
Oracle Charter School will compare leave accrual records with other attendance records to ensure that the leave records are complete and accurate. The cross-referencing of leave date with attendance data will provide a further layer of control to ensure integrity of employee leave accrual data.

Very truly yours,

J. Costantini, President – Board of Trustees

cc: J. Ashwood, Head of School
R. Spampata, Treasurer – Board of Trustees
L. Chestnut, Business Manager

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: financial oversight, control environment, cash receipts and disbursements, purchasing, payroll and information technology.

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

After reviewing the information gathered during our initial assessment, we decided upon the reported objectives and scope for the areas with the greatest risk. We selected building acquisition and accrued leave records for further audit testing. To accomplish our audit objectives and obtain valid audit evidence, our procedures included the following steps:

- We interviewed Trustees and key personnel to gain an understanding over the building acquisition and leave accrual processes.

- We reviewed all available Board and committee minutes from 2004 to present for information related to the building site selection, financing and loan prepayments.

- We reviewed all available building documents including the Oracle Building Corporation Form 990 filings, building lease, Development Agreement, loan amortization schedules, building assessment, articles, e-mails and other correspondence.

- We reviewed School by-laws, ethics policies and Board financial disclosure forms.

- We reviewed employee policy handbooks, collective bargaining agreements and individual employee agreements for leave benefit information.

- We tested all full-time employees' leave records, which included 43 active and 13 separated employees for the 2011-12 school year and 45 active and 17 separated employees for the 2012-13 school year. We recalculated leave balances and compared this information to the School's 2011-12 and 2012-13 year-end summaries of accrued personal and vacation leave. In addition, we traced leave payments to the third party payroll report for eight separated employees in 2011-12 and nine separated employees in 2012-13, and all active employees for both school years.

- For the 2011-12 and 2012-13 school years, we judgmentally selected 13 non-instructional and seven instructional employees and examined all available leave request forms for these employees for both school years. Our sample included 12 employees who worked all 12 months of the year, in addition to five instructional and three non-instructional employees with the most accrued leave at the end of the 2012-13 school year. We traced leave request forms to the employee leave record as well as examined leave request forms for compliance with School policy.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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