



University Preparatory Charter School for Young Men Student Enrollment and Billing

Report of Examination

Period Covered:

July 1, 2011 — July 16, 2013

2013M-292



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 Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard school assets.

Following is a report of our audit of the University Preparatory Charter School for Young Men, 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 recommendations are resources for school officials to use in effectively managing operations and in meeting the expectations of taxpayers, students and their parents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

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

Introduction

Background

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

The University Preparatory Charter School for Young Men (School), located in the City of Rochester, Monroe County, is governed by a Board of Trustees (Board) which comprises 10 voting members. The School Principal is the Chief Executive Officer and oversees all the School operations including the School's financial operations. The day-to-day financial operations are conducted by the School's Business Manager. The Business Manager and other office staff are responsible for tracking student enrollment and attendance and use this information to prepare the billings to the respective school districts of residence.

The School's initial charter is in its fourth of five years and will need to be renewed in 2014. The School currently has 393 students and 68 employees. The School's budgeted appropriations for the 2013-14 fiscal year are approximately \$4.9 million. These appropriations are funded with revenues derived from billing area school districts¹ for resident pupils and from certain State and Federal aid attributable to these pupils.

Objective

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

- Are 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, 2011 through July 16, 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.

¹ The School bills various local school districts tuition charges to provide educational services to students residing in their respective districts.

**Comments of
School Officials and
Corrective Action**

The results of our audit and recommendation have been discussed with School officials and their comments, which appear in Appendix A, have been considered in preparing this report. School officials agreed with our recommendation and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days. For more information on preparing and filing your 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 Secretary's office.

Student Enrollment and Billing

Education Law² 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 equivalent (FTE)³ 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 student is based on a reimbursement rate established by the New York State Education Department. Payments are made by the school districts in six installments beginning in July and every two months thereafter.

The School had approximately 400 students enrolled as of September 1, 2013. In the 2012-13 fiscal year, all students were from the Rochester City School District (RCSD) except for four students from two other school districts. For the 2011-12 and 2012-13 fiscal years, we compared billings totaling approximately \$7.4 million for all three school districts of residence to revenues received and reported and did not identify any discrepancies.

We also selected a random sample of 25 students to determine if billings to the school districts of residence were accurate and supported. We found that the School did not maintain adequate supporting documentation regarding students' residency. We found that seven students' files did not contain a proof of residency. In addition, three of the students had moved and their files had a different verified address than the School used when it billed RCSD.

These errors occurred because the School's residence verification process needs to be improved. The School requires that proof of residence be submitted before a student is admitted to the School. In addition, the School annually requests that parents/guardians update student information and relies on parents/guardians to notify the

² Article 56, Section 2856

³ FTE is the decimal expression of the enrollment of a student in a charter school compared to the length of the annual session of the charter school. A student who is enrolled for the full school year has FTE of 1.0, while a student who is enrolled for only half of the school year has an FTE of 0.5.

School if a student's address changes during the school year. However, the School does not verify student information by periodically requiring new proof of residence, such as a utility bill, or requiring that a new proof of residence be submitted when a student's address changes. As a result, the risk is increased that the School could bill a school district of residence incorrectly for students who are no longer residing in that district.

Recommendation

1. School officials should periodically verify students' residences and require new proof of residence when a student moves. School officials should periodically update changes in students' addresses in the School's master file used for billing.

APPENDIX A

RESPONSE FROM SCHOOL OFFICIALS

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

University Preparatory Charter
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180 Raines Park
Rochester, NY 14613
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Phone: 585.672.1280
Fax: 585.458.7269

Mr. Joseph Munno
President

January 14, 2014

Dr. Connie Lucchese
Principal

Mr. Jay Costanza
Director of Instruction

To whom it may concern:

Mr. Arkee Allen
*Assistant Principal of
Student Management*

This letter is in response to The State Comptroller's audit on our Student Enrollment and Billing. I feel that the auditors did a thorough job evaluating UPrep's financials and that their findings regarding our student enrollment and billing were fair.

Mr. Michael Nally
*Assistant Principal of
Student Management*

We do agree with the auditor's findings and recommendations. It is difficult to keep track of the financial numbers associated with students that move in and out of UPrep during the school year. I do understand that it is very important for billing purposes that we work on keeping accurate records and apply days of attendance to the reimbursement formula(s).

Mr. Richard Cerone
Athletic Director

We appreciate the recommendation and look forward to creating the corrective action plan.

Sincerely,

Joseph Munno
President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

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

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

- We interviewed appropriate School officials to gain an understanding of the student enrollment and billing process.
- We reviewed documentation to identify the number of resident school districts billed during the 2012-13 fiscal year.
- We verified the rates used to bill the resident school districts agreed with the basic tuition rates set by the New York State Education Department.
- We recalculated select billing invoice amounts and reviewed supporting documentation to determine if they were accurate and supported.
- We verified that the amount collected from resident school districts was properly recorded and deposited in School bank accounts.
- We examined the randomly selected 25 students' files for proof of residence documentation and compared residence addresses on file to residence addresses used for billing.
- We reviewed the randomly selected 25 students' attendance records, enrollment, and exit dates to verify that computed FTEs matched attendance records and were accurate.

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

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