
Audit Report

Challenge Preparatory Charter School

for the Period

July 1, 2018 through June 30, 2019

CH-1019-01

October 7, 2022

**The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
Albany, New York 12234**





Office of Audit Services
James Kampf, Director
Tel. (518) 486-5212
Email: OAS@nysed.gov

October 7, 2022

Ms. Frederica Jefferies, Board of Trustees Chair
Challenge Preparatory Charter School
1526 Central Avenue
Far Rockaway, NY 11691

Dear Ms. Jefferies:

Enclosed is the final audit report (CH-1019-01) corresponding to our audit of Challenge Preparatory Charter School for the period July 1, 2018 through June 30, 2019. The objectives of this audit were to ensure the adequacy and reliability of the school's internal controls including the policies and procedures for collecting and reporting financial data. This audit was conducted pursuant to Section 215 of the Education Law.

Within 90 days of the issuance of this audit report, we request that school officials provide a written corrective action plan to the Office of Audit Services which details the specific steps that were taken by Challenge to implement the recommendations in the audit report.

We appreciate the cooperation and courtesies extended to NYSED staff during the audit. If you have any questions, please contact Jeanne Day (Jeanne.Day@nysed.gov) or Karen Thornton (Karen.Thornton@nysed.gov).

Sincerely,

James Kampf

Attachments

c: Betty A. Rosa
Sharon Cates-Williams
Karonne Jarrett-Watson
Lisa Long

Executive Summary

Objectives

To ensure the adequacy and reliability of Challenge Preparatory Charter School's (CPCS's) internal controls over their fiscal and fiduciary duties, including CPCS's policies and procedures for collecting and reporting financial data for the period July 1, 2018 through June 30, 2019.

Background

The Challenge Preparatory Charter School is a non-profit, 501(c)(3) educational corporation located in the New York City borough of Queens. The school was incorporated on February 9, 2010 and granted a provisional charter by the Board of Regents of the University of the State of New York to operate as a charter school pursuant to Article 56 of the New York State Education Law.

During the 2018-19 academic year, CPCS provided education to approximately 800 students in grades K-8 and was approved to start a high school in the 2020-21 academic year. The oversight of the school's operations is provided by an eight-member board of trustees. The Board is responsible for the general management and control of the School's educational and financial affairs. The school appointed a Chief Executive Officer to oversee the day-to-day management under the board's direction.

Key Findings

For the audit period of July 1, 2018 through June 30, 2019, we found:

1. School officials did not follow the school's purchasing policies and procedures, and failed to maintain documentation, such as: purchase orders, approvals, delivery documents, quotes, bids, justifications, and approvals from the Board of Trustees for purchases of goods and services with costs under \$20,000 and purchases subject to competitive bidding (goods and service costing \$20,000 and over).
2. CPCS utilizes a manual purchase order system that does not integrate with the accounting system. The manual purchase order system does not encumber funds when orders are placed, account for all forms, or utilize a continuous numbering system, and purchase orders do not contain an issuance date. Each of CPCS's three school sites make purchases independently of each other. CPCS did not monitor or anticipate aggregate purchasing amounts for each vendor to ensure they did not exceed the competitive bidding threshold of \$20,000, or more.
3. School officials did not maintain personnel files as required by the school's payroll policies and procedures; files were missing documents, discrepancies were

identified between the actual rate of pay and the employment letter rate of pay, certain positions were not included in the approved annual budget or Board of Trustees meeting minutes, justification of salary changes were not maintained, employee annual evaluation forms and separation/termination notifications.

4. School officials did not ensure that employees' compensation was always accurate and failed to maintain certain documentation to support all payroll costs (pay rates, hours worked, supervisor approvals), or policies and procedures that were approved by the Board of Trustees.
5. School officials did not ensure student enrollment files contained all required documentation. We sampled fifty student files, nine were missing one or more required documents, the documents were incomplete or there were discrepancies with documents (e.g., proof of residency, birth certificate, student enrollment registration form, home language survey, student ethnic survey, medical forms/immunization records, individual education plan) and four students were missing their complete file. School officials explained the missing files were the result of a flood sustained at the school, but no backup documents were available, nor were replacement documents obtained.
6. School officials did not ensure related party transactions were disclosed and documented in the Board meeting minutes or in the notes to the financial statements.
7. School officials did not ensure the annual budget was balanced throughout the school year and lacked documentation for changes to the annual budget.

Key Recommendations

1. School officials should review the purchasing process and update their fiscal policies and procedures to ensure the process results in the acquisition of necessary goods and services at the best price and/or value.
2. The Board should ensure that all competitive purchases over the policy threshold of \$20,000 are supported with appropriate documentation which will enable an effective review of the bidding procedures prior to awarding contracts.
3. The school should implement procedures to ensure the accounting and purchase order systems are integrated to enable funds to be encumbered when orders are placed and to ensure the school can account for all purchase documents.
4. School officials should implement procedures to ensure required documentation is maintained in each personnel file.
5. School officials should ensure that the school maintains adequate documentation supporting payroll; each employee must submit a signed timesheet for review and approval by a supervisor or school management.
6. School officials should ensure that complete documentation is maintained for student enrollment records.

7. School officials and the Board should ensure all related party transactions are reviewed for potential conflicts of interest, are fully disclosed, and documentation is maintained.
8. The Board should regularly review the school's adopted budget throughout the year by comparing budgeted amounts to actual expenses and make adjustments where needed. For example, capital projects should have documented budgets that are reviewed and approved and regularly updated throughout the project to avoid cost overruns and budget shortfalls.

Table of Contents

Introduction.....	1
Objectives, Scope, and Methodology.....	2
Audit Findings and Recommendations.....	3
Purchasing.....	3
Integration of the Accounting and Purchase Order Systems.....	5
Personnel Files.....	7
Time and Attendance.....	9
Student Enrollment.....	13
Related Party Transactions – Conflict of Interest.....	15
Budget.....	17

Appendix A – Contributors to the Report

Appendix B – Audit Response from Challenge Preparatory Charter School

Introduction

Background

Challenge Preparatory Charter School (CPCS) is a non-profit educational organization that operates as a charter school in Queens, New York. A charter school is a public school financed by local, state, and federal resources that is under the control of the local school board. Charter schools generally have fewer legal operational requirements than traditional public schools. Most of the regulations for a charter school are contained in Article 56 of the New York State Education Law and the school's bylaws, charter agreement, and fiscal/financial management plans.

On February 9, 2010, the Board of Regents and the Board of Trustees of the State University of New York, on behalf of the State Education Department, granted CPCS a provisional charter valid for a term of five years. Their provisional charter was extended on January 12, 2015 and again on May 17, 2019, and expires on June 30, 2024. CPCS opened for instruction in September 2016 and began educating students in kindergarten and first grade and has continued to expand. Beginning with the current school year, they now serve students in grades K-11.

CPCS's mission is to ensure its students excel academically, master the NYS common core learning standards and achieve their career aspirations. CPCS cultivates and supports the intellectual, aesthetic, social, emotional, and ethical development of its students and prepares them to be responsible 21st century citizens.

CPCS was exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, the school is subject to federal income tax on any unrelated business taxable income. CPCS is supported primarily by state and local per-pupil operating revenues and government grants.

CPCS is governed by a Board of Trustees (the Board) consisting of six members. The Board is responsible for the general management and control of the educational and financial affairs of the school. The Board appoints a Chief Executive Officer, along with Principals at each site, and other administrative staff, who are responsible for the day-to-day school management under the direction of the Board. For the year ending June 30, 2019, CPCS reported expenses of \$15,255,593.

Objectives, Scope, and Methodology

The Office of Audit Services conducted an audit to assess the adequacy and reliability of CPCS's internal controls including their policies and procedures for collecting and reporting financial data; and to ensure that they maintained adequate substantiating documentation for all transactions for the period from July 1, 2018 through June 30, 2019.

To accomplish our objectives, we interviewed school officials at CPCS, assessed financial controls, reviewed policies and procedures for processing revenues, expenses, and payroll, examined documentation provided by school officials to support the financial transactions, reviewed relevant laws, interviewed staff, and reviewed the Charter Agreement for clarification on maintaining appropriate governance, management procedures, and financial controls.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), with the exception of an external peer review. Those procedures 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. In addition, GAGAS requires a review performed by a team of external peers, independent of the audit organization, at least once every three years. Due to recent changes in administrative personnel, an external peer review was not conducted. We anticipate that an external peer review will be performed within the next year and believe that the lack of an external audit peer review has had no material effect on the assurances provided. Furthermore, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Audit Findings and Recommendations

1. Purchasing

According to Challenge Preparatory Charter School's (CPCS) purchasing policy, which is outlined in their *Financial Policies and Procedure Manual 2018-19*, procurements are made using best value contracting, which entails assessing not only the lowest price, but also the best value considering quality, performance, and price. The school is exempt from paying New York State sales taxes. No bidding is required for preferred vendors (vendors that has a contract with New York City or State), vendors that have lower prices than the preferred vendors for the same or comparable product or service, sole source vendors, and for contracts and/or purchases under \$20,000.

For contracts and/or purchases greater than \$20,000 (\$3,000 for purchases funded with federal funds), competitive bidding is required. The school seeks price quotes from at least three vendors and awards a contract to the qualified vendor offering the supply or service for the lowest price or best value. The Director of Operations seeks and documents the quotes and presents the information to the CEO for approval. If best value contracting is utilized, a justification statement must be prepared that includes a brief explanation for the basis of the decision.

School officials did not follow the school's purchasing policies and procedures. We identified issues with the documentation for purchases of goods and services with costs under \$20,000, as well as purchases subject to competitive bidding (goods and service costing \$20,000 and over).

We selected a sample of seven (7) credit card transactions and eighty-nine (89) check disbursement transactions for a total of 96 purchase transactions. Federal funds were only used for staff salaries; therefore, the lower competitive bidding threshold for purchases funded with federal awards was not applicable in our sample. We found the following:

- Nine (9) purchase transactions where no documentation was provided,
- Three (3) debit card transactions were missing a debit card authorization form,
- Two (2) debit card transactions included sales tax in the purchase, even though the school is tax-exempt,
- Seventy-three (73) purchase transactions lacked a purchase request form,
- Nineteen (19) of thirty-five (35) purchase transactions had no purchase order in the cash disbursement package,
- Twelve (12) purchases transactions did not have a complete cash disbursement package, seven (7) were missing a packing slip or receipt of delivery of the items ordered, two (2) were missing the canceled check, and two (2) were missing an invoice,

- Six (6) purchase transactions were not properly classified to the correct general ledger account,
- Seven (7) purchase transactions fit the criteria for competitive bidding, of which six (6) were awarded contracts without obtaining price quotes, requests for bids, or other price comparison documentation.

School officials did not maintain sufficient documentation for all purchases. The school lacks a central purchasing unit; instead, each site performs their own purchasing, which contributed to goods and services not being competitively bid or items not being purchased at the best value. The school does not coordinate between the different sites when the same items are purchased and does not track or plan for aggregate purchases that could exceed \$20,000 and potentially be subject to competitive bidding. The Board did not provide sufficient oversight over the purchasing process, including approval of documentation of price comparison or best value.

School officials cannot ensure that the purchasing process resulted in the acquisition of necessary goods and services at the best value. Moreover, the school may have incurred unnecessary costs and increased the risk for fraud, waste, and abuse.

School officials must ensure that:

1. The purchasing process results in the acquisition of necessary goods and services at the best price and/or value and that required documentation is maintained. Prudent purchasing practices help increase the quality of programs and control costs. Controls over purchasing should enforce:
 - a. Procedures for the initiation, approval, and use of purchase requisitions and purchase orders. All requisitions/purchase orders are reviewed for appropriateness and the necessity of the items ordered.
 - b. Limiting the use of confirming purchase orders (i.e., issuance of purchase order after an item is purchased) for emergency purchases.
 - c. Upon receipt, ordered items are verified for condition, quantity, and quality before making payment.
 - d. The purchase order and invoices match and any exceptions are investigated before payment.
 - e. All purchase request forms and purchase orders are maintained as part of the cash disbursement package.
2. All purchases requiring competitive bidding are supported with appropriate documentation that will enable an effective review of the bidding procedures prior to awarding contracts over the policy threshold of \$20,000.
3. The school maintains documentation of Board review and approval for all contracts.

2. Integration of the Accounting and Purchase Order System

As a best practice, NYSED's *Financial Oversight Guidebook* suggests a charter school's accounting system be integrated with key business functions including: accounts payable, budgeting, general ledger, inventory/depreciation, requisitions and purchase orders, accounts receivable, and payroll. Charter schools should have a working purchase order system that ensures that funds are available before orders are placed or will not be issued if there are insufficient funds. All purchase orders should be pre-numbered, all numbers should be accounted for, and all forms are strictly controlled. The charter school limits use of confirming purchase orders (i.e., issuance of purchase order after an item is purchased) to emergency purchases. All blanket purchase orders should have a fixed monetary limit. Upon receipt of goods, the charter school verifies the condition, quantity, and quality of the goods prior to making payment.

CPCS procurement guidelines state the school will make all purchases in the best interests of the school, its funding sources, and in accordance with any grant restrictions, as applicable. Approval to fulfill a purchase order is garnered by first filling out a Purchase Request form, which can be solicited and filled out by any qualified CPCS employee. Completed forms for purchases are submitted to appropriate staff for review and approval. All Purchase Request Forms require two signatures and one of which must be from the CEO; the Chairperson of the Board of Trustees may sign in the event any one of authorized signatories are not available. The cash disbursement packet does not contain a purchase order unless the purchase is greater than \$10,000.

In reviewing CPCS's purchasing system through discussion with school officials and testing of procurement transactions, we noted the school has three sites that each order their own goods and services when needed. None of the sites encumber funds when purchase orders are issued, utilize the same numbering system for purchase orders, integrate the transaction with the accounting system, or ensure each purchase order has an issuance date. Lastly, none of the sites maintained purchase orders for transaction for \$10,000 or less, and the documents were missing for many of these transactions.

CPCS lacks a central purchasing system, each school site makes purchases independently of each other, and utilizes a manual purchase order system that does not integrate with the accounting system. The manual purchase order system does not: encumber funds when orders are placed, account for all forms, utilize a continuous numbering system, or contain issuance dates. The schools did not monitor or anticipate aggregate purchasing amounts for some vendors to ensure they did not exceed the competitive bidding threshold of 20,000 or more. The school's policy only requires it maintain purchase orders for procurements of \$10,000 or more in the cash disbursement packet, which results in missing documentation and an incomplete audit trail.

Without integration of the purchase order and accounting systems, the school cannot ensure they are accounting for all orders placed and encumbered, which may result in

monetary shortfalls, incurrence of unnecessary costs, and ineffective internal controls over procurement to safeguard assets. Policies that do not require maintaining all documents in the procurement process circumvent the audit trail and give the appearance of impropriety.

School officials must:

1. Ensure procedures are implemented to integrate the accounting and purchase order systems to include encumbering funds when orders are placed.
2. Ensure the school can account for all purchase orders issued at each site and utilize one consecutive numbering system for all sites.
3. Ensure purchase orders are accurate, complete, contain an issuance date, and include a written description for each item ordered, quantity, unit price and total price.
4. Maintain all documentation of each procurement transaction, including purchase orders for purchases under \$10,000.

3. Personnel Files

According to CPCS's *Financial Policies and Procedures Manual 2018-19*, individual employee personnel files should contain the following documentation:

- Acceptance/employment letter (the position and salary has been approved in the board meeting minutes),
- Resume,
- Job description,
- Federal Withholding Form W-4,
- Professional license/certification (if required),
- Background/fingerprint check,
- Payroll change documentation (e.g., change of salary/title),
- Enrollment/discontinuance of benefits, (Retirement Account Application, Retirement Beneficiary Information),
- Paid bonus calculations and bonus information,
- Benefit enrollment forms,
- Evaluation documentation, and
- Resignation letter or termination letter.

School officials did not maintain personnel files as required by the school's payroll policies and procedures. We sampled thirty (30) of one hundred fifty-five (155) employee personnel files to determine if they contained the required documentation and found the following:

- One (1) of thirty (30) employees' salary, as stated in the employment letter (\$109,500), was different than what they were paid (\$109,000).
- Eight (8) of thirty (30) employees' job positions were not included in the approved annual budget or the salary in the approved budget did not match the amount stated in the employment letter.
- One (1) of thirty (30) employees received a significant salary increase, although approved in the budget, the school lacked sufficient justification, such as, change in duties, annual evaluations, or other documentation and board approval.
- Eleven (11) of thirty (30) employees had no annual evaluation in the file.
- One (1) of five (5) former employees was missing the resignation or termination letter in the employee's personnel file.

School officials did not reconcile pay rates per the employee's employment letters with the payroll register; compare employee salaries with the budget throughout the year and ensure it was updated to reflect staff changes, including new hires and salary changes; maintain justification for large salary increases or document Board notification and approval; complete annual employee evaluations for all staff; and maintain documentation of termination or resignation letters for all former employees.

When school officials do not follow written financial policies and procedures, there is an increased risk that errors and irregularities could occur and not be detected and corrected in a timely manner.

School officials must implement procedures to:

1. Ensure required documentation is maintained in each personnel file. Developing tools, such as a checklist for the hiring and termination processes to ensure required steps are followed and documentation is maintained.
2. Ensure periodic reviews of all personnel files are completed to ensure required documentation is maintained.
3. Ensure the budget is updated throughout the year to ensure costs are maintained and budget shortfalls do not occur.
4. Ensure annual evaluations are conducted for all staff in accordance with established procedures.
5. Ensure salary increases for all staff are supported with documented justifications and Board approval.
6. Address situations when conflicts of interest exist between school officials and employees which include Board notification and approval.

4. Time and Attendance

Payroll wages represent a significant portion of the school's annual expenses. As such, school officials must ensure the payment of employee compensation is made according to Board-authorized policies and procedures and employee agreements/individual contracts, which set forth employees' salaries and benefits to be paid. Additionally, it is important that policies and procedures are developed and implemented to ensure pay, overtime, shift differential rates, and severance/termination payments are calculated and paid correctly to avoid errors and opportunities for fraud. The school has approved payroll procedures covering areas such as hiring, salary determinations, time reporting, payroll processing, changes in payroll information and resignations and terminations, which are detailed in the *Financial Policies and Procedures Manual 2018-19*. Key highlights of some of the pertinent policies are as follows:

- **Hiring** - Requests for new employees are approved by the CEO and compared with the approved annual personnel budget. Any new hire will be subject to a full investigation, including a background check, fingerprinting, and references from former employers. Once the new employee is approved to be hired, a contract with the established salary is issued by the Director of Finance/Senior Advisor.
- **Salary Determination** - The CEO, Principals (K-5 & 6-8) and Senior Advisor/Director of Finance use DOE salary guidelines as a guide to create a competitive wage structure aimed to attract potential employees. Each year, the CEO will review and refine the schedule to ensure wages will be attractive to new hires, as well as retaining current staff members. The schedule is presented to the Board annually for final approval. Non-instructional staff schedules are established by the CEO and Senior Advisor/Director of Finance.
- **Time Reporting Procedures** - All employees are responsible for recording the actual time they have worked. All employees must record the time they begin and end work, begin and end each meal period, and begin and end times of any split shift or departure from work for personal reasons. Overtime pay is provided to non-exempt employees and is calculated at time-and one-half the employee's regular rate of pay for any hours worked beyond 40 hours in a workweek. All overtime work must have prior supervisory authorization. Completed timesheets must be signed by both the employee and their direct supervisor. The Director of Operations will keep track of all sick days, personal days, vacation days, professional development days, holidays, bereavement, or any other days that exempt employees are not at work. This is reviewed and approved by the CEO on a monthly basis.
- **Payroll Processing** - The school uses a payroll service to process its payroll. The payroll process requires the Director of Finance (DOF) to maintain a spreadsheet containing the school's entire payroll, which is updated bi-monthly on the 15th and last day of the month. The payroll data is input or transferred into the ADP system creating a Payroll Register Preview Report,

which is reconciled to the spreadsheet. Both documents are forwarded to the CEO for approval. Once approved, the DOF submits the payroll to ADP.

- **Changes in Payroll Information** - Personnel actions forms are completed when making any changes to payroll, including new hires, terminations, pay rate changes, or certain payroll deductions. The form is approved by the CEO and maintained in the employee's file.
- **Termination and Resignations** - The Director of Finance ensures removal of employees that are terminated or resigned from the payroll immediately following their last check. Since employment with CPCS is at will, the school or the employee has the right to terminate employment, with or without consent, at any time.

School officials did not ensure that employees' compensation was always accurate; lacked sufficient documentation to support all payroll costs, such as, pay rates, hours worked, and supervisor approvals; did not always follow payroll policies and procedures; lacked policies and procedures for having personnel transactions approved by the Board of Trustees, and personal activity reports were not supported with documentation of actual hours worked per pay period.

We sampled fifty-four (54) payroll disbursements for thirty (30) employees from July 1, 2018 through June 30, 2019; supporting documentation provided included: payroll policies and procedures, timesheets, employment acceptance letters, benefit enrollment forms, salary change forms, board meeting minutes, payroll register, resignation/termination letters, and personal activity reports. We noted the following:

Compensation was not accurate for:

- One (1) of fifty-four (54) employees; the rate of pay reported in the payroll register (\$109,000 annually) did not agree with the rate of pay per the employment contract (\$109,500 annually), due to a payroll register reporting error. The employee was being underpaid by \$500 annually.
- One (1) of fifty-four (54) employees; one employee worked overtime hours of 6.07 that were never paid. Overtime is normally paid in the pay period following the period in which it was worked. The overtime hours from the previous period were not included in total overtime hours when calculating the hours to pay for the period.

The school lacked documentation for:

- Seven (7) of fifty-four (54) payroll disbursements; seven employees' timecards were missing or the timecards were incomplete for the pay period. For three (3) of the seven (7) employees with missing/incomplete timecards, the Director of Finance (DOF) stated they were exempt from completing timecards, and one (1) of the remaining four (4) employees completed some electronic timecards, but stopped, for which the DOF had no explanations. However, the CPCS's policy states all staff must complete timecards.

The school did not follow their policies and procedures:

- Fifty-two (52) of fifty-four (54) timecards did not have the supervisor's approval documented. CPCS utilizes an electronic timecard system but has no process in place for an electronic supervisory sign-off.

The school did not have Board-approved policies and procedures for payroll advances, stipend payments, or severance payments:

- One (1) of fifty-four (54) employees received a payroll advance of \$6,000 to be repaid over a two-year period with no interest. The school has no policy for employee advances or loans and incurs a risk that these funds may not be recouped if the employee resigns or is terminated.
- One (1) of fifty-four (54) employees received stipend pay at a rate of \$40 per hour, but the rate of pay was not documented by a personnel action form or other documentation in the employee file, and the school has no policy for stipend payments. The school provided a copy of an email sent to the eligible staff, but this does not follow the school's policy for documentation of rates of pay or payroll changes and does not include the appropriate approvals for pay rate changes.
- One (1) of fifty-four (54) employees received a payment for severance pay that was not approved by the Board, only the CEO, and the school has no policy for severance payments. The employee's last day was March 8, 2019 and was to be paid through March 22, 2019, but instead was paid through March 31, 2019, which is over a week more than stated in the severance agreement. The Director of Finance stated the CEO makes decisions on severance payments on a case by case basis, and in this instance, the payment amount was incorrect and should have only been paid through March 22, 2019.

Personal Activity Reports:

- One (1) of fifty-four (54) employees charged time to two (2) or more projects. Personal Activity Reports are prepared with the percentage of effort by project, but they are not supported with documentation of actual hours worked by project for a given pay period, such as time studies or timecards documenting hours worked by activity or project.

School officials did not ensure:

- They followed their own payroll policies and procedures;
- The payroll register review report was reconciled with source documentation before processing the payroll each period;
- There is adequate review and oversight of the payroll process for each pay period;
- Board approval was obtained for payments when no policies and procedures were approved by the Board;

- Staff activity reports were supported with actual hours worked or other documentation supporting the allocation of charges to the respective programs when staff worked in more than one program.

The school's lack of adequate documentation and sufficient oversight over the payroll process resulted in increased errors, including: paying staff incorrect hours and using incorrect pay rates; paying for services without approved policies and procedures; paying for services without Board approval; and certain payroll costs were not accurate and complete.

School officials must ensure that:

- The school maintains adequate documentation supporting payroll (e.g., timesheets, leave accruals) to ensure that payments are made only for services actually rendered;
- Each employee submits a time sheet for review and approval by a supervisor or school management;
- Each payroll register is reviewed, approved, and certified by an employee designated by the Board or school leadership to ensure the payments are accurate and justified;
- Documentation is maintained for all salary or wage rates, and personnel change forms are completed and maintained on file;
- There are written policies and procedures for stipend and severance payments, and Board approval is obtained for any payment that is not addressed in the *Financial Policies and Procedures Manual 2018-19*.
- Personnel charges to federal programs are supported with proper documentation to support the percentage-of-effort charges to federal projects.

5. *Student Enrollment*

Challenge's (CPCS) student enrollment policies and procedures require the following documents to be provided and maintained in the student file:

- Student Application,
- Student enrollment/registration form (ATS Form),
- Birth Certificate/Passport,
- Student enrollment/registration form (ATS Form),
- Scholar Application,
- Home Language Identification Survey,
- Student Ethnic Identification Survey,
- Proof of residency to include two (2) of the following documents verifying proof of address:
 - lease agreement, deed, or mortgage statement for the residence, a residential utility bill (gas or electric) in the resident's name issued by a utility company and dated in the last 60 days, cable television bill, documentation or letter on letterhead from a federal, state, or local government agency, current property tax bill, water bill, rent receipt which includes the address of residence dated within the past 60 days, income tax form for the last calendar year, official payroll documentation from an employer issued within the past 60 days (e.g., a paystub with home address),
- Medical Form/immunization records,
- Photo/Media Release Form,
- Special Education only: Individualized Education Program (IEP),
- Students records from previous school (if transferred).

In our review of fifty (50) student files, we found instances of missing documentation, as follows:

- Two (2) student files for special education students lacked a current IEP;
- Three (3) student files had an incomplete special education services form;
- Two (2) student files lacked proof of residency documentation;
- One (1) student file included proof of residency documentation that didn't match the address on the admission list;
- Four (4) student files requested were not provided. The Director of Finance informed us that three (3) of the files were destroyed in a flood at the school. The other file could not be located.
- One (1) student file was missing a birth certificate or passport, student enrollment/registration form, home language survey, student ethnic survey, medical forms/immunization records (same student for all documents).

School officials did not follow their policies and procedures and failed to maintain the required documentation.

Missing documentation could result in incorrect billing to the individual districts, students not receiving required services, and the potential loss of revenue for the school.

School officials must:

- Ensure all required forms are maintained in student files;
- Develop a checklist to ensure all forms are received and reviewed; and
- Implement a supervisory review of student files as a final step in the review process to ensure files are complete.

6. Related Parties – Conflict of Interest

The school's Conflict of Interest Policy states, "General Municipal Law defines prohibited conflicts of interest for school trustees, officers and employees. Under the General Municipal Law, no school officer or employee may have an interest, direct or indirect, in any contract with the School, when such officer, trustee, or employee, individually or as a member of the Board, has the power or duty to (a) negotiate, prepare, authorize or approve the contract, or authorize or approve payment under the contract; (b) audit bills or claims under the contract; or (c) appoint an officer or employee who has any of the powers or duties set forth above."

Any trustee, officer or employee who has, will have, or later acquires an interest in any actual or proposed contract with the Board must publicly disclose the nature and extent of such interest in writing to the directors and members of committees with governing board delegated powers considering the proposed transaction or arrangement.

During our audit, we inquired with school officials regarding the existence of transactions with related parties, examined Board minutes, agreements, and other underlying documents to ascertain whether there are any material related party transactions not being disclosed. We found the following relationships that could be seen as potential conflicts of interest:

1. CPCS 's CEO is also the minister of the Community Church of the Nazarene. The church is using the school's gymnasium for Sunday services and other community functions while a new church building is built. We inquired whether an agreement existed between the school and the church. However, school officials told us there was no lease/rental agreement in place between the parties, but later provided a rental agreement that appeared to be prepared subsequent to our discussions with school officials, and no funds were received from the church until 2020.

The school's internal control structure lacks sufficient controls and segregation of duties, as the CEO has sole authority to make contracts on behalf of the school without any Board approval.

Lack of proper segregation of duties and Board oversight increase the risk of fraud and mismanagement of the school's resources.

School officials must ensure that:

- They review the school's internal control structure and segregation of duties to ensure the CEO does not have sole authority for entering into contracts over the \$20,000 competitive bidding threshold or an agreed upon dollar amount. The CEO should recuse themselves on any school contracts where

- the appearance of a conflict of interest exists, and Board approval should be required.
- Executive management, all other staff, and consultants are required to file annual conflict of interest statements to be kept on file and updated if changes occur during the year.
 - Lease/rental agreements are in place for all entities using school property for non-school related activities and appropriate insurance certificates are required and maintained.
 - All related party businesses and relationships are disclosed to the school's auditors performing the annual audit and required disclosures are included in the school's financial statements.

7. *Budget*

CPCS has policies and procedures in place for the preparation and review of the annual budget. The budgets are updated based on actual expenses and programmatic changes that occur during the fiscal year. Historical information is used when available and applicable. The budget process should result in an overall budget that fairly represents the school's revenues and expenses necessary for the operation in the next fiscal year. Once completed, the budget is presented to the Finance Committee for review, and then presented to the entire Board for approval. The budget must be approved and passed by June 30th, prior to the start of the new fiscal year.

The approved budget is used to run several monthly budget analysis reports - *Budget vs. Actual Report* and *Budget vs. Forecast Report*. Significant differences are thoroughly researched and ultimately identified as either permanent or temporary. In the event a variance significantly impacts the budget, a contingency budget is prepared.

The school has policies and procedures in place for the budgeting process; however, through discussions with management and review of the financial statements and projected budget for 2018-19, we found discrepancies with the actual process.

1. School officials did not ensure the budget is balanced throughout the year. They stated they review the budget to actual expenses at monthly Board meetings and provide explanations to the Board, but do not make provisions to balance the budget. Rather, the amounts are carried through the fiscal year.
2. The school sustained a fund balance deficit for the last three consecutive years.
School officials explained the reason for the fund balance deficit was due to:
 - a.) Initial outlay costs of \$136,000 associated with the property originally chosen to build the new high school. The school decided to abandon this site as a result of needing additional permits and construction costs which would have significantly increased the project's costs.
 - b.) The school incurred additional staff costs with security personnel. The school's security contractor ceased operations, and the school retained the contractor's staff by making them full-time school employees. While we understand the reasoning behind this decision, no cost analysis was done to determine if this was in the best interest of the school, fiscally.
3. The school did not make reasonable estimates in the projected budget for 2019-20 for the costs associated with the building located at 15-20 Central Avenue, which is to be used for Grades 9 to 12. The school could not provide a budget for the leasehold improvements of the building that includes sources of funding and total costs for the project. They did not provide the lease agreement when requested. The school provided a confirmation letter, dated

August 7, 2019, referencing "Sublessee Construction Contribution" for 15-20 Central Ave containing a payment schedule totaling of \$518,375. However, these costs were not broken down by budget category to determine if the costs were reasonable, necessary or within budgeted amounts.

School officials are neither ensuring that budgeted costs stay within established parameters in order to operate in an efficient manner, nor maintaining sufficient documentation of costs. The Board is not providing sufficient oversight of the budget process.

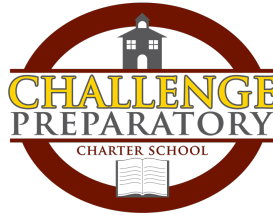
The school is not meeting the financial standards outlined in the NYCDOE *Accountability Handbook* and NYSED's *Financial Oversight Guidebook's* recommended best practices. If the school continues current practices, they could become a going concern and face loss of their charter.

The Board must implement procedures to ensure:

1. Lease agreements for all CPCS buildings are available upon demand by auditors or representatives of the NYS Education Department.
2. It provides sufficient financial oversight of the budget process by reviewing financial reports at monthly Board meetings, reviewing shortfalls and overages, and making budget amendments, if necessary.
3. The budget is in balance through-out the year and any changes are documented in the monthly Board meeting minutes.
4. It reviews and approves of all leases and building construction costs, project budgets are in place, all changes are reviewed and approved, and signed lease agreements and all relevant documentation is maintained on file.
5. It accurately estimates future projected budgets to reduce the risk of future significant shortfalls.

Contributors to the Report

- Jeanne Day, Audit Manager
- Karen Thornton (Bates), Auditor-in-Charge
- Kendal Dwyer, Staff Auditor



September 26, 2022

THE STATE EDUCATION DEPARTMENT
THE UNIVERSITY OF THE STATE OF NEW YORK
ALBANY, NY 12234

Via Email to:

Karen Thornton (Karen.Thornton@nysed.gov)

Jeanne Day (Jeanne.Day@nysed.gov)

Dear Ms. Thornton & Ms. Day,

Attached you will find Challenge Preparatory Charter School's (CPCS) response to the Audit Report for the period of July 1, 2018 to June 30, 2019 (CH-2019-01).

CPCS has served not only our scholars and parents, but we have served the Far Rockaway community throughout the twelve-plus years of our existence. As a community school, we are proud of our wrap-around services delivered by the school and our community partners. This was significantly evident in our response to Super Storm Sandy and most recently with the delivery of resources and medical education in response to the pandemic brought on by COVID-19.

CPCS has been able to do this and remain debt free while providing four leased high-quality state-of-the-art facilities for our scholars.

CPCS is committed to following all the laws and regulations of the federal, state, and city governments. We are also committed to following all the appropriate financial best practices for public charter schools.

CPCS did not wait for the final findings to begin to respond to the recommendations of the state auditors who performed the 2018-19 audit. We began immediately to address the primary findings presented in April-May 2020.



Thank you for the opportunity to respond to your findings and for allowing the board and leadership of CPCS to share its perspective on some of the findings.

Sincerely,

Frederica Jeffries

Frederica Jeffries
Board of Trustees Chair
Challenge Preparatory Charter School
15-20 Central Avenue
Far Rockaway, NY 11691

CC: Rev. Dr. Les Mullings, CEO
CPCS Board of Trustees Members
Betty Rosa <Betty.Rosa@nysed.gov>
Sharon Cates-Williams <Sharon.Cates-Williams@nysed.gov>
James Kampf <James.Kampf@nysed.gov>
Karonne Jarrett Watson <Karonne.JarrettWatson@nysed.gov>
David Frank <David.Frank@nysed.gov>

CHALLENGE PREPARATORY CHARTER SCHOOL
Response to Key Recommendations

- 1. School officials should review the purchasing process and update their fiscal policies and procedures to ensure the process results in the acquisition of necessary goods and services at the best price and/or value.***

School's Response: The school in its most recent version of the Financial Policies and Procedures has taken steps to ensure that procurements are made using the "best value" approach. The school has renewed its commitment to solicit "price quotes from at least three vendors, and awards the contract to the qualified vendor offering the supply or service needed for the lowest price".

- 2. The Board should ensure that all competitive purchases over the policy threshold of \$20,000 are supported with appropriate documentation, which will enable an effective review of the bidding procedures prior to awarding contracts.***

School's Response: We are in agreement and continue to strive to meet this requirement by updating our procedures and training our staff. We have historically solicited and effectively secured Bids/RFPs for purchases of \$20,000 and over. The school uses a Request for Proposals (RFP) to solicit proposals for specific services. CPCS may hold more than one round seeking proposals for each RFP. The selected proposal is based on a number of criteria, including the number of qualified proposals submitted. CPCS aims to have at least three proposals submitted and commits to providing ample opportunity for such a request. However, in the event fewer than three proposals are submitted, CPCS chooses among the number of qualified proposals submitted. The Director of Operations is tasked with the responsibility of documenting the quotes and submitting them, with recommendations, to the CEO for approval. This process

is subject to Board oversight and final approval. All documentation of applicable bids and/or quotes obtained will be retained and filed in the Competitive Bidding electronic folder, organized by the check number that ultimately paid for the item(s) in the order.

That said, let it be noted that the school occasionally has emergencies that do not allow enough time for the bidding process to be undertaken.

- 3. The school should implement procedures to ensure the accounting and purchase order systems are integrated to enable funds to be encumbered when orders are placed and to ensure the school can account for all purchase documents.***

School's Response: The school has acquired Procurify (www.procurify.com) to support a seamless purchasing process. Procurify is a purchasing platform that integrates with QuickBooks online and allows streamlining of purchasing activities. The school continues to work on centralizing purchasing activities to ensure appropriate bidding, purchase approval, and inventory control. The Operations Manager at each site submits bids to the Director of Operations for review and submission to the Finance Department for final review and approval based upon the approved annual budget. The school is currently working with Procurify to enable the encumbrance of funds once purchases are initiated.

- 4. School officials should implement procedures to ensure required documentation is maintained in each personnel file.***

School's Response: The school currently uses ADP TotalSource onboarding processes to ensure state and federal compliance and has implemented a checklist system to ensure physical files have all the required documents. The personnel files are maintained and monitored by our HR personnel, to ensure compliance at all times. A separate binder in a locked location is maintained for I-9s, (including

copies of Driver's Licenses/State IDs and Social Security Cards or Passports), as required by the U.S. Department of Homeland Security.

- 5. School officials should ensure that the school maintains adequate documentation supporting payroll; each employee must submit a signed timesheet for review and approval by a supervisor or school management.***

School's Response:

Challenge now has an HR department to handle the above issues with the support of HR software including Lever, which is a recruitment software (www.lever.com), and DocuSign for documenting written offers and the signing of contracts by new employees and the CEO.

Promotions and raises are included in the monthly personnel reports for the Board to review and approve. Going forward these will be noted in Personnel Action forms to be signed by the Board Chair and placed in the employee's file. The school is in the process of having supervisors review and approve timesheets in the payroll system.

- 6. School officials should ensure that complete documentation is maintained for student enrollment records.***

School's Response: The school currently uses PowerSchool to manage student records. We have also accessed an updated version of SchoolMint to address any student file issues. The school has a checklist process similar to that being used for employees and will be tightening the procedures to ensure full compliance. The Director of Operations will oversee this.

- 7. *School officials and the Board should ensure all related party transactions are reviewed for potential conflicts of interest, are fully disclosed, and documentation is maintained.***

School's Response: The school is in agreement and moving forward will ensure that it makes note of any, and all, conflicts of interest involving employees, members of the Board, and that the Board takes appropriate actions including, the recusal of associated parties, as needed. In addition, the school would like to note that the community's use of the school's locations is a part of the services of the school to the Community.

- 8. *The Board should regularly review the school's adopted budget throughout the year by comparing budgeted amounts to actual expenses and make adjustments where needed. For example, capital projects should have documented budgets that are reviewed and approved and regularly updated throughout the project to avoid cost overruns and budget shortfalls.***

School's Response: The school prepares monthly financial reports for the Board. These reports show projected spending to the end of the school year as well as projected cash flow. This gives the Board the data needed to make cost-saving recommendations. In addition, monthly personnel reports are reviewed and approved at Board meetings. The school will adjust other budget lines, where possible without affecting program activities, to prevent overspending.