Audit Report

True North Troy Preparatory Charter School
Adequacy and Reliability of Internal Controls
for the Period
July 1, 2017 through June 30, 2019

CH-0520-01

September 26, 2023

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

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

New York State Education Department
Office of Audit Services
89 Washington Avenue, EB 524
Albany, New York 12234
518 473-4516

September 26, 2023

Mr. Robert Bellafiore
KIPP Troy Prep (formerly True North Troy Prep)
2 Polk Street
Troy, NY 12180

Dear Mr. Bellefiore:

Enclosed is the final audit report (CH-0520-01) corresponding to our audit of True North Troy Preparatory Charter School for the period July 1, 2017 through June 30, 2019. The objectives of this audit were to determine if internal controls over financial operations, including the policies and procedures for collecting and reporting financial data, were appropriately designed and operating effectively. This audit was conducted pursuant to Section 215, of the Education Law.

Within 90 days of the issuance of this report, we request School officials provide a written response regarding their views of the findings, conclusions, recommendations included in the report, as well as any planned corrective actions. This required report must specifically address what action has been or will be taken for each recommendation and include an estimated completion date for implementation.

If you have any questions or require additional information, please contact Jeanne Day (Jeanne.Day@nysed.gov) or Karen Thornton (Karen.Thornton@nysed.gov) at (518) 473-4516.

Sincerely,

James Kampf
Director of Audit Services

Attachments

c: Betty Rosa, Commissioner
Sharon Cates-Williams, Executive Deputy Commissioner
Angelique Johnson-Dingle, Deputy Commissioner P12 Instructional Support
Lisa Long, Director, Charter School Office
Johanna Martin, Chief Financial Officer - TNTP

Executive Summary

Objectives

To assess the adequacy and reliability of True North Troy Preparatory Charter School's (TNTP's) internal controls over their fiscal and fiduciary duties, including TNTP's policies and procedures for collecting and reporting financial data, for the period July 1, 2017 through June 30, 2019.

Background

The True North Troy Preparatory Charter School (TNTP) is a New York State, non-profit, 501(c)(3) educational corporation located in Troy, New York. On March 11, 2008, the School was granted a provisional charter for a term of five years, renewable upon expiration for a term of five years, 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 Education Law of the State of New York. During the year ended June 30, 2014, the charter was approved for a full-term renewal for a period of five years through July 31, 2019. A request for a third renewal charter, dated February 25, 2019, was submitted to the SUNY Board of Trustees and its approval extended the charter for a term of five years through July 31, 2024.

During the 2017-18 and 2018-19 academic years, TNTP provided education to approximately 580 and 640 students in grades K-9 and K-10, respectively. 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 entered into a five-year agreement on July 1, 2009 with Uncommon Schools, Inc. (USI) that serves as a charter management organization to provide day-to-day management and other administrative support services to the School under the Board's direction.

Key Findings

- We found errors in billings to the school district of residence totaling $18,394; missing records; and special education tuition was only invoiced once per year, instead of in equal installments every two months.
- We sampled 100 students' cumulative education files and records and found five students' files were missing all or some of the documents, such as student enrollment form, proof of residency document, and birth certificate.
- School officials did not ensure goods and services were obtained or received in an economical manner with full and open competition. The purchasing policy lacked procedures for competitive bids, contractors and professional services, federal and

state grants, aggregate purchases, and which purchasing methodology to use if purchases exceed certain thresholds.

- The School's Board delegated nearly all management responsibilities to Uncommon Schools, Inc. (USI), a charter school management company, but did not ensure all services stated in its agreement with USI were provided. We found deficiencies in seven of nineteen services provided by the management company.
- The School did not follow its policies for staff reimbursements, resulting in unnecessary sales tax and expedited shipping costs. There were many instances where the employee's reimbursement costs exceeded $500, lacked a purchase order, documentation of the business purpose, vendor cost/price comparison, and prior approval for the purchase.
- The School did not follow their policies for staff gifts. We found many instances where staff gifts exceeded the $50 limit without the necessary approval and lacked evidence of business purpose.
- The School did not maintain personnel files as required by their payroll policies. We sampled forty employees' personnel files and found all forty files were missing one or more documents and/or there were discrepancies noted with documents.
- We reviewed salary calculations and found one employee was missing the hiring letter, four employees were missing documentation of separation (resignation letter or termination letter), and one employee had a discrepancy between the 2017-18 health benefit withholding amounts on the payroll benefit report and the TNTP Benefit Cost Report.
- School officials did not maintain an adequate asset management system to capture and track all property and equipment.
- School officials did not ensure the Annual Report was publicly available by August 1st of each year or post the report to their website, as required by law.

Key Recommendations

- School officials must ensure staff are trained in student billing procedures to determine the student's school district of residence and policies and procedures are updated to reflect timely student billings to respective school districts, as required by the NYS Education Law.
- School officials must implement policies and procedures to ensure required documentation is maintained for student enrollment records and the documentation is retained in accordance with the SUNY and NYS Retention and Disposition Schedules.
- School officials must update the fiscal policies and procedures to ensure they:
    - Address purchases for consultants and professional services,
    - Include language on aggregate purchase thresholds to ensure competitive bidding is utilized when required and goods and services are purchased in the most economical manner with full and open competition,
    - Ensure cost price analysis is conducted and documentation is maintained on file, when required,

    - Ensure purchases associated with federal awards comply with Uniform Guidance, 2 CFR 200, Subpart E.
- The Board must take a more active oversight role in the management of the School's finances, perform the required oversight of the management company contract ensuring the School receives all services and benefits stipulated in the agreement, reviews and verifies the allocation of indirect costs by the company, and perform the annual written evaluations of management company, as required by the agreement. Additionally, School officials must ensure all IT equipment and software purchased by the management company and its vendors on the School's behalf are competitively procured, properly accounted for as assets of the School, and tracked in the School's fixed asset inventory management system, where required.
- School officials must implement comprehensive procurement policies and procedures for staff reimbursements that provide detailed guidance to employees with clear language ensuring purchases are made in the best interest of the School, for a specific business purpose, and the business purpose is documented on the purchase order or approval form, costs are planned for in the budget, competition is sought by conducting cost/price analysis of more than one vendor, approval is obtained in advance for the purchase, and documentation is maintained on file.
- School officials must ensure that Directors are trained on the School's gift policy and limit purchases on behalf of staff to necessary business expenses that are approved in advance and appropriately documented.
- School officials must ensure employee personnel files are complete and all required documents are maintained.
- School officials must ensure that the School maintains adequate documentation supporting salaries, employee taxes, and other withholdings. Employee withholdings should be accurate and done timely and retroactive adjustments should be done as soon as possible or the next pay period, if necessary. Additionally, School officials should consider implementing monthly, or at least quarterly, self-audits of processed payroll as an added control to ensure documentation is on file and accurate.
- School officials must implement the use of a fixed asset management system that ensures that it has complete and accurate records for all property and equipment; ensuring the system is always keep up to date, and reconciled with a physical count, at least annually.
- School officials must ensure that all required reports (e.g., Annual Report, Student Handbook, etc.) are readily available to the public on the School's website.

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Introduction

Background

True North Troy Preparatory Charter School (TNTP) is a non-profit educational organization that operates as a charter school in Troy, 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 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 its bylaws, charter agreement, and fiscal/fiscal management plans.

On March 11, 2008, the Board of Regents, and the Board of Trustees of the University of the State of New York, for and behalf of the State Education Department, granted TNTP a provisional charter valid for a term of five years and renewable upon expiration. Subsequently, two full-term renewal charter requests for a term of five years each were approved, extending the charter through July 31, 2024. TNTP opened for instruction in August 2009 and began educating approximately 78 students in the fifth grade with plans to add one grade a year thereafter. Since 2009, TNTP has continued to expand. In 2017-18, they served 580 students in grades K-9 and in 2018-19, they served 640 students in grades K-10.

TNTP's mission is to prepare all students to enter and succeed in college through effort, achievement, and the content of their character. Troy Prep teachers and administrators believe that every child will succeed through hard work and excellent behavior.

TNTP 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. TNTP is supported primarily by state and local per-pupil operating revenues and government grants.

TNTP is governed by a Board of Trustees (the Board) consisting of seven members. The Board entered into a management agreement with a nonprofit charter management organization, Uncommon School, Inc. (USI) who at the time managed nine schools in New York and New Jersey. USI is responsible for the management and implementation of both the academic and non-academic operations of the School, subject to oversight by the School. In return, USI will receive an agreed upon fee, initially of ten percent of core aid (per pupil revenue from school districts and federal entitlement aid) in the first three years, then declining. For the 2017-18 and 2018-19 school years, the fee was eight percent. Additionally, for the two years ended June 30, 2018 and 2019, TNTP reported total operating expenses of $9,763,911 and $11,180,527, respectively.

Objectives, Scope, and Methodology

The Office of Audit Services conducted this audit to assess the adequacy and reliability of TNTP's internal controls, including their policies and procedures for collecting and reporting financial data, and to ensure they maintained adequate substantiating documentation for all transactions for the period from July 1, 2017 through June 30, 2019.

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

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), except for 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. ***STUDENT BILLING***

NYS Education Law, Article 56, Section 2856 states, “The enrollment of students attending charter schools shall be included in the enrollment, attendance, membership and, if applicable, count of students with disabilities of the school district in which the pupil resides. The charter school shall report all such data to the school districts of residence in a timely manner. The school district of residence shall pay directly to the charter school for each student enrolled in the charter school who resides in the school district the charter school basic tuition. The school district shall also pay directly to the charter school any federal or state aid attributable to a student with a disability attending charter school in proportion to the level of services for such student with a disability that the charter school provides directly or indirectly. Payments made pursuant to this subdivision shall be made by the school district in six substantially equal installments each year beginning on the first business day of July and every two months thereafter.”

We selected a sample of 100 students, comprised of 94 general education and 6 special education students. We examined information for each student’s billing, such as invoices, reconciliations, FTE calculations, residency, tuition rates, and level of services provided. We found that the billings for five general education students contained inaccuracies related to, at least, one of the components of student billing. Specifically, we found four billing errors due to students changing school districts of residence. The remaining billing error was associated with a student for which we received no records. Additionally, we noted 13 instances where students either were incorrectly added to an invoice or left off an invoice. Additionally, we examined TNTP’s policies and procedures for special education billing and found that TNTP submits one bill per year to the home district for students with disabilities, as opposed to the six payments required by law.

School officials did not adequately train staff in preparing the invoices to the student’s school district of residence, which led to billing errors in some invoices; both over and under billing errors were found. The Troy City School District was overbilled by $29,518.30, whereas Albany City School District, Lansingburgh Central School District and Schenectady City School District were underbilled by $3,014.40, $2,149.25, and $6,257.50, respectively. The net overbilling totaled $18,394.15. As a result of the billing errors we identified and their untimely billing practices, TNTP is causing additional unknown liabilities for the students’ districts of residence, which could result in undue fiscal stress for them.

Recommendations

School officials must ensure that:

1. Staff are adequately trained in student billing procedures to determine the student’s school district of residence.

2. Policies and procedures are updated to reflect timely student billings.
3. Student billings are sent to respective school districts in the time frames required by NYS Education Law.

2. STUDENT ENROLLMENT FILES

NYS Retention and Disposition Schedule for New York Local Government Records (LGS-01) (2020) Section 948(b) *Student Cumulative Education Record File* states, “Other student records, including but not limited to registration record; screening evaluation reports; home language questionnaire, English language proficiency identification assessment results, and related records; remedial program participation record; Section 504 evaluations, accommodation plans and related records; state assessment opt out records; counselor notes; teacher comments; correspondence; and transfer or discharge notice.”

Further, *Student Cumulative Education Record File* (LGS-01) (2020) Section 948(k) states, “Proof of residency records for student, excluding residency investigations and hearing records: Retain most current until 6 years after student graduates or would normally have graduated from high school. Destroy older proofs 6 years after superseded.”

We examined 100 student cumulative education record files and noted that:

- Four student files had a page missing from their Student Enrollment Form.
- Two student files did not have proof of residency.
- One student file had no birth certificate.
- One student file was unable to be located.
- For seven students on the Student Enrollment forms, the IEP question was not completed.
- Four students listed as Gen-Ed in 2018-19 had information in their file indicating that they should be classified as Special Ed.

TNTP lacks document retention policies and procedures related to student files, which resulted in missing documentation to substantiate student existence and the potential for errors when billing the students’ districts of residence.

Recommendations

School officials must ensure that:

1. The required documentation is maintained for student enrollment records and retained in accordance with the SUNY and NYS Retention and Disposition Schedules.
2. Students are properly classified for billing purposes, so that revenues are accurately calculated and reported.

3. ***PURCHASING***

TNTP utilizes the *Uncommon Schools Inc. Operations Manual – Fiscal Policies and Procedures NY Schools* for its purchasing policies and procedures. In summary, it requires that most school expenditures captured in the summer purchase plan, which is to be developed each June, and utilizing a purchase order process for maximum control in purchasing goods and services. Almost all purchases over $500 should be made utilizing a purchase order, except for: professional services, utilities, equipment/property rentals and other similar recurring expenditures. For anything other than specific curricula and purchases over two thousand dollars in unit costs, research (e.g., prior USI research, price lists from catalogs, web listings, etc.) must be conducted on multiple vendors for price. Additionally, decision factors must be included with the purchase request form and in the purchase order notes in the system. If the vendor selected is a preferred vendor of the state, the state contract number must be included in the purchase order. Whenever the vendor selected is other than the lowest bidder, a justification for the selection must be documented. Vendor research requirements for government grants may differ slightly from the above procedures. Refer to federal, state and city vendor research and competitive bidding guidelines for items purchased through government funding. Additional documentation may be required based on government rules.

School officials did not ensure goods and services were obtained in the most economical manner with full and open competition. TNTP did not perform vendor analysis/research or document that any consideration was given to price or value when the purchase unit costs exceeded $2,000. The management company and School officials did not request the missing documents or review the purchases for completeness. Additionally, the purchasing policy lacked specific language for purchases made with federal and state grant funds, the procurement of contractors and professional services, and no consideration of the aggregate purchase amount when purchasing like kind supplies and materials.

School officials did not provide sufficient oversight over purchasing and established policies and procedures were not followed or were insufficient to ensure goods and services were purchased for the best price or value. Additionally, the management company did not provide sufficient oversight by making payments to vendors without obtaining missing documents. When established controls over purchasing breakdown, there is an increased risk that the School paid more for goods and services than necessary, may not have received all goods and services purchased, may have received damaged goods and/or incur theft of assets which could result in budget deficits and funding loss.

Recommendations

School officials must ensure that:

1. Goods and services are purchased in the most economical manner with full and open competition.

2. Purchasing policies and procedures conform with the requirements for purchases with federal awards. Please review Uniform Guidance, 2 CFR §§200.318 – 200.324, *General Procurement Standards* and §200.459 - *Professional Services* and make the necessary updates, ensuring that procurement methods are established and aggregate dollar amounts, not unit costs, are utilized.

4. CHARTER MANAGEMENT ORGANIZATION

TNTP's by-laws stipulate the Board may delegate the management of the School's activities to others, if the School's affairs are managed, and its powers are exercised and ultimately remain under the Board's jurisdiction. To accomplish these responsibilities, the Board must be informed, vigilant overseers of the School's financial operations, even when it contracts with a company to provide management services for operations.

Best practices for managing contractual agreements include negotiating the terms and conditions (e.g., services and fees), ensuring compliance with the terms and conditions, and documenting any agreed upon changes that may arise during the agreement's implementation or execution. To effectively monitor the agreement with the management company, the Board and School officials must understand the agreement, including the specific agreed-to obligations.

We noted several deficiencies with the business services agreement between TNTP and the management company. The effective date of the agreement was July 1, 2014, and there were provisions for nineteen services to be provided by the management company in return for a service fee. The agreement specified the Board and School officials' responsibilities, such as approving the budget and completing annual written evaluations of the management company. The Board delegated nearly all management responsibilities to the management company and did not ensure all services stated in the agreement were provided. We found deficiencies in five of nineteen service areas where there was either no evidence the service was provided, or we identified issues with the level of service that was provided.

1. The management company was unable to provide supporting documentation of the cost allocation methodology used when requesting reimbursement of expenses it paid on the School's behalf or provide a cost allocation methodology for the operating costs it allocated to TNTP. The management company manages several charter schools throughout New York and Massachusetts and its operating costs should be equitably allocated amongst all schools.
2. The management company transferred funds to itself without the prior approval of TNTP officials. The management company requested payment by emailing each School's Director a fund transfer authorization form that listed the service fee and related expenses. Once the Director approved the request, the management company would initiate a direct debit from TNTP's bank account.

We reviewed two of these transfers and found only one was approved prior to the transfer being made.

3. The management company could not provide documentation that its IT vendor was competitively procured. The IT vendor purchased computer equipment and other related technology products on behalf of TNTP and was to maintain an inventory listing of all purchases. The management company could not provide the contract, bid documents for the vendor selection, or a complete list or inventory of the equipment purchased.
4. The management company did not provide fundraising services.
5. The management company did not conduct a school accountability inspection every two years.

The Board and School officials did not provide sufficient oversight over the management company. Since annual evaluations were not conducted, deficiencies were not brought to USI's attention and potential costs savings were not realized. This resulted in TNTP paying more for goods and services than necessary.

Recommendations

The Board must take a more active oversight role in the management of the School's finances by ensuring that:

1. The management company provides all services and benefits stipulated in the agreement. If contracted services are not provided, the management company should be notified immediately and an attempt to negotiate cost savings or amend the contract to allow for other remedies should be made. Additionally,
2. Controls are implemented to prevent the management company from making unauthorized transfers from TNPT's bank accounts.
3. Annual written evaluations of the management company are performed timely, no later than August 1 of each year.
4. The management company provides documentation for its cost allocation methodologies with each invoice and TNTP reviews it for accuracy before the payment is authorized.
5. The IT consultant is procured in a competitive manner and in the best interest of the School or contract with the vendor directly. All computer and technology assets purchased by the IT vendor on behalf of TNTP are input in TNTP's fixed asset management system, the equipment is tagged as property of TNTP, and title of the asset remains with TNTP until obsolete or disposed of. The IT vendor should provide TNTP with a copy of its IT inventory report monthly and TNTP should reconcile it with purchases, general ledger accounts and its inventory system.

5. STAFF REIMBURSEMENTS

The School's *Fiscal Policies and Procedures Manual* stated, "expense reimbursements for ad hoc purchases should be avoided wherever possible, especially for items more than $500, which generally require a purchase order or formal invoice. Employees are responsible for all non-reimbursable costs, so they should always check with the principal before making large purchases on their own."

In our review of staff reimbursements during the 2017-18 school year, we found six staff members were reimbursed between $10,000 and $80,000 for a total of $239,907. During the 2018-19 school year, seven staff members were reimbursed between $10,000 and $60,000 for a total of $214,619. Many of the costs exceeded $500 and were for purchases that should have been planned in the budget or purchased directly by the school. Furthermore, there should have been a cost/price analysis performed of more than one vendor. The purchases included items such as school visitor software, appliances (e.g., washer, dryers, air conditioner), staff travel, staff lodging at a conference, and physical education equipment.

TNTP did not follow established policies and procedures and there was a lack of oversight over the purchasing process. School officials did not make attempts to seek competition or consider the effects of discounts when purchasing like items in quantities. Staff were reimbursed for sales tax and expedited shipping costs that would not be paid if purchases were planned and paid for by TNTP. Because the School does not utilize a central purchasing system and coordinates purchases throughout all buildings, TNTP paid more than necessary for materials and supplies and paid for unnecessary sales tax and shipping costs on some items. In addition, staff were made to personally incur large out-of-pocket costs and wait for reimbursement, instead of the costs being paid with school funds initially.

If TNTP used a credit card for these purchases, it could have participated in a cash back rewards program and received funds to directly offset these purchases. We reviewed existing credit card offers and found that various financial institutions offered a cash back rewards program that ranged from one to five percent of the total cost of purchases made on the card. If TNTP had used one of these rewards programs, it could have potentially earned between $4,545 and $22,725 in cash back rewards, depending on the program.

Recommendations

The Board must ensure that:

1. Staff purchases are necessary and made in the best interest of the School; a cost/price analysis is conducted from more than one vendor to ensure the most economical purchases; the business purpose is documented; approval is obtained in advance and within the established limit; and documentation is maintained on file.
2. It implements comprehensive procurement policies and procedures for staff reimbursements to provide detailed guidance to employees that addresses the type of goods and services that are allowed under this method, the specific documentation required for each purchase (e.g., receipt, business purpose, account codes charged), when a cost/price analysis is required, the types of purchases eligible to be reimbursed, established limits for purchase amounts and a description of the approval process, at a minimum.

3. It considers obtaining a credit card for the School that offers a cash back rewards program to use for these purchases and offset the cost with the potential cash back rewards. If a credit card is used, a written policy must be developed that includes procedures for its use, including all of the procedures discussed above, the process for reconciling the credit card account monthly, and identifies the limited staff who would have authority to make purchases with the credit card.

6. __STAFF GIFTS__

School employees are not permitted to accept gifts of any kind with a value exceeding fifty dollars, including but not limited to, money, goods, food, entertainment, or services, directly or indirectly from:

1. Individuals, schools, or companies serving as vendors or potential vendors for the School.
2. Elected officials or their representatives.
3. Candidates for public office or their representatives; or
4. Political party officials or their representatives.

Exceptions may be made by the Principal, Director of Operations, or their designee, including instances where such gifts are intended for and will be used by the school.

During expenditure testing, we found that gifts were purchased for three School leaders costing $1,386 each, for a total of $4,158 that was charged in the Staff Outreach account. We performed additional analysis of the Staff Outreach account and found staff gifts purchased during fiscal years 2017-18 and 2018-19 totaling $26,188 and $20,520, respectively. These purchases included gift cards, birthday gifts, baby shower gifts, wedding gifts, end-of-year School leader gifts, and Christmas gifts.

In addition, we found other purchases made on behalf of staff during fiscal years 2017-18 and 2018-19, totaling $85,999 and $85,055, respectively. These were for meals, drinks, snacks, personal care items and miscellaneous expenses (e.g., massages, ice cream, bowling, mini golf, kayak trip, other staff outings, relocation expenses, costumes, etc.). These purchases lacked evidence of the business purpose and may not have had prior approval. Although not all gifts exceeded $50, instances were noted where amounts exceeded the School's policy, and this is not the best use of limited funds.

School officials did not follow the established policies and procedures and there was lack of oversight over the purchasing process. The bulk of these purchases were made through staff reimbursements and no consideration was given for competition or cost. School officials did not ensure that public funds were used in the public's best interest by allowing purchases that were prohibited. There was no consideration of the tax consequences to staff or evidence that costs like relocation expenses or meals were properly treated for tax purposes. Ultimately, these purchases reduce funds available to achieve the School's mission and increase the likelihood of fraud, waste, and abuse.

Recommendation

School officials must ensure:

1. Directors are trained on the School's gift policy and purchases made on behalf of staff are limited to necessary business expenses that are approved in advance and appropriately documented.

7. ***PERSONNEL FILE DOCUMENTATION***

The personnel file for each employee is maintained by the Director of Operations. Each personnel file should contain copies of the signed employee contract, new employee information sheet, tax forms (e.g., W-4, IT-2104, I-9), resume, background/fingerprint clearance, job description, certifications, employee evaluations, employee handbook receipt and resignation/termination letters, if applicable. Also, employees must complete the following forms in the HR systems, benefit forms or declinations (e.g., health, dental, CPI, disability), and a direct deposit form.

In our review of forty (40) employees' personnel files, we found exceptions for the following:

- All forty employees were missing evidence that salaries were approved by the Board.
- One employee was missing the employment letter.
- Two of the forty employees had a salary change but neither had documentation of the change on file.
- Twenty-four employees were missing background/fingerprint checks.
- One employee was missing the tax forms (W-4 and IT-2104).
- Twenty-one employees' files had exceptions with the I-9 Form; seven employees were missing the I-9 forms on file; one employee's I-9 form was incomplete; eight employees' I-9 forms were dated between five and fifty-six days after the date of hire; and five employees' I-9 forms were dated the day we requested the employee personnel file documents.
- Twenty-two employees were missing a resume.
- Twenty-six employees were missing a job description.
- Thirty-three employees were missing certification(s) and two certifications were expired.
- Thirty-six employees were eligible to participate in the retirement plan; twenty employees were missing the application form.
- Twenty-seven employees were eligible to participate in the health insurance plan; eight employees were missing the application form.
- Thirty-five employees were missing a performance evaluation.

- All forty employees lacked documentation that the employee handbook was received. However, a spreadsheet was provided that thirty-seven employees received the Employee Handbook, but documentation of an employee signature was not provided.
- Four of the forty employees were terminated, three lacked the documentation of their separation.

School officials did not ensure each employee's personnel file contained all the required documents. Incomplete personnel files and missing documents could result in an increase of unemployment claims, non-compliance with record retention requirements, and increased litigation.

Recommendation

School officials must:

1. Implement additional controls, such as the use of checklists, supervisory review of the file during the employment life cycle, and self-audits of personnel files at select intervals, at least annually, to ensure the required documentation is maintained in accordance with their policies and procedures.

8. PAYROLL – TIME AND ATTENDANCE

Employees are paid semi-monthly, on the fifteenth and last day of the month and annual salaries are divided by 24 pay periods to determine the gross salary to be paid per pay period. The standard work week is generally 40 hours and hours over 40 are paid at time and a half to overtime-eligible employees. The School contracts with Automatic Data Processing (ADP) to process payroll for each pay period. The Director of Operations (DOO) is responsible for updating changes to ADP for semi-monthly payroll and ensuring that each employee is paid the correct amount each pay period.

TNTP uses an Excel workbook called HR Tracker that stores, tracks, and shares information about an employee's Human Resources (HR) information, payroll data, attendance, and pay details. The HR tracker is setup with the employee ID number, name, rate of pay (i.e., salary or hourly rate), position, general ledger account, status (i.e., new, existing, terminated, transfer-in, transfer-out, not-retuning), start date and termination date upon separation. Staff are either classified as exempt (i.e., not eligible for overtime) or non-exempt (i.e., eligible for overtime) and there are tabs in the HR Tracker for each type, which are pre-populated from the staff set-up and employee rooster. The semi-monthly payroll processing information is input in the applicable tab to generate the employees' pay for the period.

We selected twenty (20) employees and reviewed two pay periods in each fiscal year for each employee to evaluate if they were accurately paid for each period. We compared the payroll register report to the employee timesheet for hours worked, verified the timesheet was signed by the employee and approved by their supervisor. We verified the employee's pay rate by comparing the ADP payroll register pay rates with the employment letter or salary change form and employee benefits and other withholdings were verified with the enrollment form or other applicable forms to ensure amounts were properly withheld. For separated employees, we determined if final payments were accurate.

We found that:

- Generally, employees were accurately paid and most employees had the required documents on file.
- One employee's letter of agreement for the payroll period ending September 30, 2018 was not provided.
- One employee's health benefit deductions (e.g., dental, vision, medical) for the payroll period ending September 30, 2017 did not agree to the amounts reported in the Benefit Report or ADP Benefits printouts. We noted when comparing the employee benefit amounts for medical, dental and vision per the payroll register to the ADP Benefit Printouts by employee, the amounts per ADP were effective after the payroll periods sampled and did not agree with the payroll register.
- The final paychecks for four of the employees who separated from TNTP were accurately calculated. However, there was no documentation, such as resignation or termination letter, documenting the date of separation on file.

TNTP was missing or did not provide documentation for some employee’s salary, benefits, and separation notice. As a result, we could not determine if employees were always paid correctly. Lack of documentation of salaries, employee benefits, and staff separations could result in over or under payments to staff, incorrect employee benefit withholdings and staff receiving compensation for which they are not entitled.

<u>Recommendations</u>

School officials must ensure that:

1. All payroll documentation is maintained and have one file for each employee to ensure accuracy and reduce the risk of mistakes in the timekeeping and payroll procedures.
2. They consider implementing added controls to the payroll process and implement monthly or at least quarterly, self-audits of processed payroll to ensure documentation is on file and accurate.

9. ***<u>FIXED ASSET INVENTORY</u>***

TNTP’s financial policies required that they established a physical inventory tracking system to ensure the School’s equipment is properly inventoried and tagged. The Directors of Operations (DOO) at each school site is to maintain a record of all government-furnished equipment, using the “Inventory Tagging and Logging Excel worksheet” and perform an annual physical inventory of all capital assets belonging to the TNTP to ensure the completeness and accuracy of the School’s records.

Inventory generally includes computer hardware, other technology equipment, and equipment with a unit price of $3,000 or more. The Management Company's IT consultant generally purchases the computer and technology equipment. The IT Consultant is to inventory and tag all computer/technology assets purchased for the School. Equipment generally includes purchases for projectors, televisions, and classroom and staff furniture (desks and chairs). In addition, all equipment should be tagged to denote TNTP's ownership, and record the location, serial number, date of purchase, cost(s), and funds used. All assets are to be safeguarded, with the appropriate controls to prevent theft and loss; valuable assets are to be locked up and stored in safe places. The principal must authorize all asset disposals and the Director will consult with the Management Company and It Consultant for disposals of all computer and technology equipment.

For fiscal years 2017-18 and 2018-19, TNTP's financial statements reported net property and equipment of $1,647,068 and $1,628,741, respectively, which represented 34 and 30 percent of the TNTP's total assets. We requested the complete inventory report for fiscal years 2017-18 and 2018-19 from the physical inventory tracking system and/or the Inventory Tagging and Logging Excel worksheet and the IT consultant inventory reports they were to maintain. TNTP could not provide either report requested, and instead, provided a depreciation report. However, it did not contain any serial numbers or asset tag numbers to identify specific assets or their location. Additionally, School officials indicated that they did not have an asset management system in place that tracked assets by serial number, date of purchase, cost, location, and other required information. For the IT consultants, we were given a report prepared by the management company's IT Department; it did not have serial numbers or asset tag numbers and we could not identify the asset and location. In our sample, the IT consultant had invoices that included several equipment purchases. We attempted to trace these items to the report, but we could not find them on the report.

We were not able to complete inventory testing since TNTP was unable to provide a complete or accurate accounting of its fixed asset inventory. The reports provided did not include sufficient information to identify specific assets by serial number or asset tag number. School officials could not provide a reason for the lack of a comprehensive asset management system or tracking method. Additionally, no annual physical inventory was performed, even though required.

TNTP's lack of inventory controls diminishes its ability to identify and account for all assets and provide effective, timely, and accurate equipment balances on the financial statements. Furthermore, if equipment is disposed of or lost, but stays on the control records, depreciation expense and assets will be overstated.

Recommendations

School officials must ensure:

1. TNTP implements an asset management system that will have complete and accurate records for all equipment and other assets, and it is maintained at all

times. The system must include a description of each asset, listing make, model, serial number, and asset class (i.e., machinery, equipment, etc.); purchase date, purchase value (or estimated value if the asset was a gift); accumulated depreciation, the amount of current year depreciation, and the funding or financing source(s) used to acquire the asset (i.e., general funds, federal funds, contributions or donations, bank loan, bond issuance, etc.). All equipment and other assets must be marked or tagged with decals or labels identifying TNTP's ownership. Additionally, the asset management system must be updated timely for new purchases, dispositions, relocation of physical assets, or other events to ensure the system is up to date, reconciled with a physical count, at least annually, and in agreement with the financial statements.

2. Once the system is up to date, TNTP must provide the New York State Education Department's Office of Audit Services (OAS) with complete asset inventory reports for fiscal years 2017-18 and 2018-19 that reconcile with general ledger accounts. The reports must include all of the information listed in number 1 above and be provided as soon as available. We will then coordinate with TNTP to complete the equipment inventory review.

10. ANNUAL REPORT

Each charter school in New York State is required by law to complete and submit an Annual Report to the New York State Education Department's Charter School Office (CSO) and to the school's charter entity. Each charter school is required to make the Annual Report publicly available by August 1st each year and post the report on the charter school's website in accordance with NYS Education Law §2857(2).

TNTP did not make the Annual Report publicly available by August 1st of each year or post the report to their website, as required by law.

School officials indicated they were not aware of the requirement to make the report publicly available and post it on their website. TNTP lacks accountability and transparency to the public by not providing the required information about their financial and academic performance in prior years and progress towards performance goals agreed upon in the charter contract.

Recommendations

1. School officials should ensure that all required reports (e.g., Annual Report, Student Handbook, etc.) are readily available to the public and posted on the School's website.

Appendix A

Contributors to the Report

- James Kampf, Director of Audit Services
- Jeanne Day, Audit Manager
- Karen Thornton (Bates), Auditor-in-Charge
- Kendal Dwyer, Staff Auditor

KIPP Capital Region
PUBLIC SCHOOLS

August 27, 2023

Mr. James Kampf
Director of Audit Services
New York State Department of Education
89 Washington Avenue, Room 524EB
Albany, NY 12232

Dear Mr. Kampf,

The Board of Trustees of KIPP Capital Region Charter School acknowledges receipt of the draft audit report of True North Troy Prep covering the period July 1, 2017-December 31, 2019. As you know, the Board of Trustees for True North Troy Prep ceased to exist upon the 2022 merger with KIPP Albany.

We recognize and take seriously our responsibility to provide the necessary oversight to ensure that our school is financially viable and can fulfill its educational mission. We are committed to ensuring that our internal control environment efficiently allocates resources in the best interest of public education, is consistent with best practices, exemplifies our commitment to our students and families, and is sustainable over the long term.

KIPP Capital Region is committed to accountability through sound fiscal oversight, conservative budgeting, appropriate internal controls, accurate financial reporting, and meaningful policies. The referenced recommendations will assist in structuring an improved internal control environment. Thank you for the opportunity to provide a response to the draft audit report.

Sincerely,
Stephanie Valle, CEO
Jon Thatcher, COO
KIPP Capital Regional Public Charter Schools
On behalf of the full Board of Trustees

Background Context

Since 2019 many changes have been implemented as a part of the natural course of improving school operations. In addition, there have been school leader transitions resulting in the creation of policies and procedures to enhance and secure the operational health of the school.

Importantly, in the summer of 2022 the SUNY Board of Trustees approved an application to allow Troy Prep to leave Uncommon Schools and merge with KIPP Albany to form a new local network of seven schools named KIPP Capital Region. All three Troy Prep schools are now governed by KIPP Capital Region policies in all areas and overseen by the KIPP Capital Region board. You will see references to KIPP Capital Region policies that have been scaled for use across our seven schools.

In the spring of 2023, SUNY Charter School's Institute conducted an on-site renewal evaluation visit as part of its ongoing oversight and evaluation of SUNY authorized charter schools. The visits enabled the Institute to gather important information about the program and provided data that will ultimately inform the Institute's renewal recommendation to the SUNY Board of Trustees at the end of the charter term. We are awaiting the full report which should be completed by October 2023.

Response to Findings

Finding #1: Student Billing Issues

Recommendation

School Officials should ensure that:

1. Staff are adequately trained in student billing procedures to determine the student's school district of residence.
2. Policies and procedures are updated to reflect timely student billings.
3. Student billings are sent to respective school districts in the time frames required by the NYS Education Law

Response

Since December 2019 Troy Prep's district billing policies and procedures have been updated to ensure greater efficiency and accuracy. In addition, all relevant staff have undergone training to support their success in navigating the process.

Supporting Documentation:

22-23 Core Aid Invoicing System

Finding #2: Record Retention

Recommendation

School Officials should ensure that:

1. The required documentation is maintained for student enrollment records and retained in accordance with the SUNY and NYS Retention and Disposition Schedules.
2. Students are properly classified for billing purposes, so that revenues are accurately calculated and reported.

Response

Since 2019 our student file documents have been collected during the enrollment process through SchoolMint and maintained in hard copy files in each school's Main Office. SchoolMint is an application and records management system that has provided an efficient method for acquiring documents and consistency in maintaining records across our three schools. Student file records consist of:

1. Student Enrollment Form
2. Residency Verification
3. Birth Certificate
4. Proof of Residency
5. Parent ID
6. Tech Consent
7. Media Consent
8. Medical information which is kept in the file within the nurses office. Including immunization required physical and dental forms.

In addition we conduct annual drives for updated *Proofs of Residency* to ensure that files have the most up to date information.

Finding #3: Purchasing

Recommendation

School Officials should ensure that:

1. Goods and services are purchased in the most economical manner with full and open competition.
2. Purchasing policies and procedures conform with the requirements for purchases with federal awards. Please review Uniform Guidance, 2 CFR §§200.318 – 200.324 General Procurement Standards and §200.459 Professional Services and make the necessary updates, ensuring that procurement methods are established and aggregate dollar amounts, not unit costs, are utilized.

Response:
The Board agrees that a strong control environment ensures taxpayer funds are spent in a sound and prudent manner. The Board recognizes the need for comprehensive procurement policies and procedures to provide adequate guidance to employees and allow for sound and prudent procurement practices. All schools now follow KIPP's fiscal policies and procedures.

Supporting Documentation:
KIPP Capital Region's Fiscal Policies and Procedures Manual

Finding #4: Uncommon Schools, Inc. Contract
Recommendation
The Board should ensure that:

1. The management company provides all services and benefits stipulated in the agreement. If contracted services are not provided, the management company should be notified immediately and an attempt to negotiate cost savings or amend the contract to allow for other remedies should be made. Additionally,
2. Controls are implemented to prevent the management company from making unauthorized transfers from TNPT's bank accounts.
3. Annual written evaluations of the management company are performed timely, no later than August 1 of each year.
4. The management company provides documentation for its cost allocation methodologies with each invoice and TNTP reviews it for accuracy before the payment is authorized.
5. The IT consultant is procured in a competitive manner and in the best interest of the School or contract with the vendor directly. All computer and technology assets purchased by the IT vendor on behalf of TNTP are input in TNTP's fixed asset management system, the equipment is tagged as property of TNTP, and title of the asset remains with TNTP until obsolete or disposed of. The IT vendor should provide TNTP with a copy of its IT inventory report monthly and TNTP should reconcile it with purchases, general ledger accounts and its inventory system.

Response:
The USI contract is no longer in effect. In 2021 Uncommon Schools implemented 1:1 Chromebooks for all students at Troy Prep as well as an up-to-date hardware and software inventory that is managed through Asset Panda which is an inventory management system.

Finding #5: Staff Reimbursement

Recommendation

The Board should ensure that:

1. Staff purchases are necessary and made in the best interest of the School; a cost/price analysis is conducted from more than one vendor to ensure the most economical purchases; the business purpose is documented; approval is obtained in advance and within the established limit; and documentation is maintained on file.
2. It implements comprehensive procurement policies and procedures for staff reimbursements to provide detailed guidance to employees that addresses the type of goods and services that are allowed under this method, the specific documentation required for each purchase (e.g., receipt, business purpose, 11 account codes charged), when a cost/price analysis is required, the types of purchases eligible to be reimbursed, established limits for purchase amounts and a description of the approval process, at a minimum.
3. It considers obtaining a credit card for the School that offers a cash back rewards program to use for these purchases and offset the cost with the potential cash back rewards. If a credit card is used, a written policy must be developed that includes procedures for its use, including all of the procedures discussed above, the process for reconciling the credit card account monthly, and identifies the limited staff who would have authority to make purchases with the credit card.

Response:

The Board recognizes the need for comprehensive procurement policies and procedures to provide adequate guidance to employees and allow for prudent procurement practices. It is our practice to ensure that all claims processed comply with organizational guidelines and include necessary support documentation prior to payment. However, we acknowledge that much of our process is manual and human error can occur. With this understanding, the Board will work with the Regional Operations leaders to ensure there is adherence to the policies outlined in the Fiscal Policies and Procedures.

The Board acknowledges the benefits of corporate credit cards as opposed to personal credit cards and agrees with this recommendation. The use of corporate credit cards has allowed for better management of expenses (i.e. spending limitations per transaction and/or category) and facilitated the use of the School's sales tax exemption. In 2020 Directors of Operations were granted credit cards and this practice has continued post-merger. In addition the use of corporate credit cards is also part of a rewards program with KIPP Capital Region's bank. See Appendix C - Comment 1

All schools adhere to the KIPP Capital Region Fiscal Policies & Procedures, which outlines detailed procurement policies and procedures that staff are trained on annually.

Supporting Documentation:
KIPP Capital Region's Fiscal Policies and Procedures Manual

Finding #6: Staff Gifts
Recommendation
School officials should ensure that:
1. Directors are trained on the School's gift policy and limit purchases on behalf of staff to necessary business expenses that are approved in advance and appropriately documented.

Response:
Since the merger, Troy Prep has followed KIPP Capital Region's purchase policy and all relevant staff have been trained on new policies.

Supporting Documentation:
KIPP Capital Region's Fiscal Policies and Procedures Manual

Finding #7: Payroll
Recommendation
School officials must:
1. Implement additional controls, such as the use of checklists, supervisory review of the file during the employment life cycle, and self-audits of personnel files at select intervals, at least annually, to ensure the required documentation is maintained in accordance with their policies and procedures.

Response:
In 2020 USI implemented Workday, an online platform which automated our financial management, spend management, HR onboarding, and payroll. Since the merger in July 2022, employment files have been managed by KIPP Capital's Human Resources team and through use of UKG, an online HRIS platform.

Supporting Documentation:
KIPP Record-Keeping Policy - Record Maintenance, Retention, and Destruction

Finding #8: Payroll – Time and Attendance

Recommendation

School officials should ensure that:

1. All payroll documentation is maintained and have one file for each employee to ensure accuracy and reduce the risk of mistakes in the timekeeping and payroll procedures.
2. Consider implementing monthly or at least quarterly, self-audits of processed payroll for an added step to ensure documentation is on file and accurate.

Response:

In 2020 Uncommon Schools implemented Workday, an online platform which automated our financial management, spend management, HR onboarding, and payroll. Since July 2022, payroll has been managed by the KIPP Capital Region Financial Management Team who adheres to the policies and procedures outlined in the documentation noted below.

Supporting Documentation:

KIPP Capital Region's Fiscal Policies and Procedures Manual - see Part 6

Finding #9 - Inventory

Recommendation

School officials should ensure that:

1. TNTP implements an asset management system that will have complete and accurate records for all equipment and other assets, and it is maintained at all times. The system must include a description of each asset, listing make, model, serial number, and asset class (i.e., machinery, equipment, etc.); purchase date, and purchase value (or estimated value if the asset was a gift); accumulated depreciation, and the amount of current year depreciation; and the funding or financing source(s) used to acquire the asset (i.e., general funds, federal funds, contributions or donations, bank loan, bond issuance, etc.). All equipment and other assets must be marked or tagged with decals or labels identifying TNTP's ownership. Additionally, the asset management system must be updated timely for new purchases, dispositions, relocation of physical assets, or other events to ensure the system is up to date, reconciled with a physical count, at least annually, and in agreement with the financial statements.
2. Once the system is up to date, TNTP must provide the New York State Education Department's Office of Audit Services (OAS) with complete asset inventory reports for fiscal years 2017-18 and 2018-19 that reconcile with general ledger

accounts. The reports must include all of the information listed in number 1 above and be provided as soon as available. We will then coordinate with TNTP to complete the equipment inventory review.

Response:
KIPP Capital Region follows generally accepted accounting principles as applicable to special purpose business- type activity governmental units. All fixed asset purchases are capitalized in the year of purchase and recorded in the general ledger. All fixed asset purchases are required to follow Procure to Pay Policies and Procedures above via Sage Intacct. The School follows the policy of capitalizing all fixed assets purchased greater than any individual purchase greater than $1,000 and any groups of fixed assets purchase greater than $2,500. The fixed assets module within Sage Intacct contains the full history of each capital asset acquired: original acquisition cost, and any costs incurred to prepare the asset for use. Additionally, we have instituted asset tagging of all computers as described above. See Appendix C - Comment 2

Finding #10 – Annual Report
Recommendation
School officials should ensure that:

1. All required reports (e.g., Annual Report, Student Handbook, filed IRS Form 990s) are readily available to the public on the School's website.

Response:
Since 2019 changes to our School Website have been implemented. Please see here for required reports noted above:

Supporting Documentation:

SY 23-24 Student & Family Handbooks pending board approval on August 30, 2023

Annual Report: https://www.kippcapital.org/about/

Financial Statements & COVID Grant: https://www.kippcapital.org/governance/

Accountability Progress Plan:
https://app2.boardontrack.com/public/tG1I81/documents?categoryId=31834

Appendix C

OAS' Comments to Audit Response

Comment 1 – KIPP Capital Region's (formerly True North Troy Preparatory) response included SY 23-24 Credit Card Expectations policy that details the employee's acceptable credit card use which should be limited to organizational or school-related expenditures and only be used when it is not possible or reasonable to pay for an expense using another means. Employees receiving credit cards are required to sign and acknowledge that they are responsible for charges made on the corporate credit card. OAS has reviewed the policy and noted several areas that it recommends improvements to strengthen the policy.

KIPP Capital Region should:

- include language that states the titles of staff eligible for a credit card and the established credit limit, preferably limiting credit cards to one card per school,
- the expense report must include information for each charge that identifies the business purpose, account charged, fund utilized, and allocation percentages, if appliable, along with a copy of the credit card receipt,
- strengthen language regarding personal use of the corporate credit card. Personal use of the corporate credit card should be strictly prohibited. Staff should not be allowed up to four instances of misuse or abuse of the corporate credit card before action is taken to suspend their credit card. Personal charges are not allowable for business purposes and continuous non-compliance with the credit card policy would be considered theft, fraud, and abuse that could result in criminal charges for the employee.

Comment 2 - OAS requested that True North Troy Preparatory (TNTP) provide complete asset inventory reports for fiscal years 2017-18 and 2018-19 that reconcile with general ledger accounts. The reports were to include a description of each asset, including make, model, serial number, asset class (i.e., machinery, equipment, etc.), purchase date, purchase value or estimated value if the asset was a gift, the amount of current year depreciation and accumulated depreciation to date, and the funding or financing source(s) used to acquire the asset.

Once received, OAS was to schedule a follow-up visit to complete the equipment inventory review. KIPP Capital Region (formerly TNTP) did not provide the requested inventory reports in its response to the draft audit report, nor address a follow-up visit by OAS. As a result, TNTP cannot provide assurances that assets were adequately accounted for and would be detected if lost, stolen, or misused. Further, complete, accurate, and up-to-date inventory records help School officials ensure that assets are properly insured, tracked through their life cycle, and replaced as necessary. Finally, when inventory records are incomplete, and assets are not properly accounted for, School officials cannot ensure taxpayers that money invested in assets has been appropriately spent or safeguarded.