SPECIAL AUDIT – BOARD REQUEST

ABLE Charter School

December 14, 2017

Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

ABLE CHARTER SCHOOL

SPECIAL AUDIT – BOARD REQUEST

DECEMBER 14, 2017

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Report Highlights

WHY WE CONDUCTED THIS AUDIT

As authorized by **74 O.S. § 227.8**, the Oklahoma Statewide Virtual Charter School Board requested the assistance of the Oklahoma State Auditor and Inspector in conducting a special audit of the financial records of ABLE Charter School.

WHAT WE FOUND

Revenue **(Page 2)**

- Based upon our review of deposits, funds received appeared reasonable and for lawful and appropriate purposes.

Expenditures - Non-Payroll **(Page 3-4)**

- Based upon a review of bank statements, checks written, transfers, withdrawals, and additional supporting documentation, payments made by check, transfer, and withdrawal appeared reasonable and appropriate.
- A review of credit card purchases indicated that 10 of 68 transactions totaling $1,191.22 lacked proper supporting documentation.

Payroll **(Page 5-8)**

- Salary and reimbursement payments appeared to be for appropriate services and purchases.
- It appears that all payments to directors complied with the contracts as written. The contracts for directors Tina Barker, Judith Kuczynski, and Kenneth Kuczynski, appeared to specifically define salaries as required by **70 O.S. § 3-135(B)**; however, Director Tanya Chiariello's contract did not define a specific salary amount.
- Based upon communications from the Oklahoma Employment Security Commission, ABLE Charter School currently owes $11,438.15 in unemployment payments.

Inventory **(Page 9-11)**

- Failure to maintain accurate inventory records and current student contact information directly contributed to the loss of approximately $7,000 in electronic equipment. In addition, $895 in office equipment was removed from inventory records without explanation.

Oklahoma State Auditor & Inspector

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December 14, 2017

Oklahoma Statewide Virtual Charter School Board
Rebecca Wilkinson, Executive Director
2500 N. Lincoln Boulevard
Oklahoma City, Oklahoma 73105

To the Oklahoma Statewide Virtual Charter School Board:

Pursuant to the Oklahoma Statewide Virtual Charter School Board's request and in accordance with the requirements of **74 O.S. § 227.8**, we performed a special audit of the ABLE Charter School for the period June 1, 2015 through August 31, 2017.

The objectives of our investigation included a review of the ABLE Charter School financial records. The accompanying report presents our audit findings as related to this objective.

Because our procedures did not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of the ABLE Charter School.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide services to the taxpayers of Oklahoma is of utmost importance.

This report is addressed to and is for the information and use of the Oklahoma Statewide Virtual Charter School Board. This report is also a public document pursuant to the **Oklahoma Open Records Act** in accordance with **51 O.S. §§ 24A.1*, et seq***.

Sincerely,

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

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ABLE CHARTER SCHOOL OFFICIALS
(AS OF JUNE 30, 2017)

School Board Members

President	Dorilynn Gimondo
Secretary	James Skrapka
Treasurer	Larry Gering
Member	Stacey Smith

Directors

Ken Kuczynski
Judith Kuczynski
Tina Barker
Tonya Chiariello

INTRODUCTION

In a letter dated May 9, 2017, the Oklahoma Statewide Virtual Charter School Board (SVCSB), requested the assistance of the Oklahoma State Auditor and Inspector (SA&I) in conducting a “special audit of the school’s financial records” referring to the ABLE Charter School (ABLE).

The previous year, on May 10, 2016, as authorized by **70 O.S. § 3-145.3**, SVCSB voted to proceed with termination proceedings of their sponsorship contract with ABLE. The Board provided the following alleged violations as grounds for termination:

- Failure to maintain financial documents in the state-approved Oklahoma Cost Accounting System;
- Incomplete quarterly financial documents;
- Inability to provide financial documents upon request;
- Failure to initiate and/or complete a Response to Intervention process for students;
- Failure to provide school data to the Board (SVCSB);
- Failure to comply with the Open Meeting Act;
- Failure to maintain the agreed upon four-member governing board;
- Failure to notify the Board (SVCSB) of changes to the four-member governing board;
- Lack of organizational capacity required to provide full-time virtual instruction to enrolled students.

A hearing was conducted by SVCSB on September 13, 2016, where after over 11 hours of deliberations SVCSB agreed to defer the decision to the October 6, 2016 meeting.

On October 6, 2016, after an additional six hours of deliberation, the decision, a 3-0 vote, was made to terminate the contract with ABLE. ABLE appealed the decision to the Oklahoma State Board of Education who met on January 26, 2017, and upheld the SVCSB decision by a 4-3 vote.

As noted above, most of the issues addressed in the termination hearings related to a failure to maintain or provide complete financial documents, or a failure to comply with the Open Meeting Act or other governing board issues.

In contrast, the objectives of our audit were focused on the actual financial activity of ABLE. Specifically, to determine if revenues received were appropriate and properly accounted for; if expenditures were appropriate and properly accounted for; and if compensation was appropriate and authorized. We also noted other items during the course of our investigation that have been included in our report.

REVENUE

Background

We reviewed ABLE revenue for the audit period to ascertain whether funds received were from appropriate sources and had been properly received and deposited.

ABLE maintained two bank accounts:

1) A "Free Small Business Checking" account utilized for day-to-day transactions, and

2) A "Business Investor Fund" account used to temporarily invest funds to earn interest. Excess funds were transferred directly from the checking account, when available, and back when needed to maximize the earning of interest. It appears no other transactions were conducted out of this account.

No Findings

Based upon our review of deposits, funds received appeared reasonable and for lawful and appropriate purposes.

An evaluation of checking account deposits indicated the following revenue sources:

- $399,975.34 - Thirty-seven direct deposits made through SVCSB. State aid claims for all deposits were examined and appeared properly sourced and documented.

- $83,007.61 - Seven direct deposits from the Oklahoma State Department of Education. SVCSB budget reports were located which supported and reconciled with all seven of the deposits.

- $1,678.21 - Five deposits made directly by ABLE for donations received.

Revenue sources appeared to be from appropriate sources and were properly deposited.

EXPENDITURES (NON-PAYROLL)

Background In our examination of ABLE expenditures we reviewed the following:

- Checks Written (non-payroll)
- Transfers and Withdrawals
- Credit Card Purchases

Checks Written

No Finding **Based upon a review of bank statements, checks written, and supporting documentation, payments made by check appeared reasonable and appropriate.**

All checks written, approximately 950 transactions, were examined for payee, large, repetitive, or unusual amounts, and for any payments that appeared out of the ordinary.

Upon completing the initial review of all checks written, an additional analysis was performed on the supporting documentation for 37 selected (non-payroll) transactions. All 37 transactions reviewed appeared to be for legitimate school purposes and were supported with proper documentation. (i.e. invoices, receipts, etc.)

Transfers and Withdrawals

No Finding **Based upon a review of bank statements, and supporting documentation, transfers and withdrawals appeared reasonable and appropriate.**

Transfers appeared to be for appropriate purposes including payments to entities such as the Oklahoma Tax Commission, the Internal Revenue Service, the Oklahoma Teacher Retirement System, AT&T, and credit card payments.

Two cash withdrawals, one for $1,046.00 and one for $2,497.85, were made from the checking account. Per documentation provided, the first withdrawal, made July 7, 2015, was used to purchase a cashier's check for payment of insurance coverage. It appears that at this time officials checks for the account had not been obtained. The second withdrawal was made to close out the account with a cashier's check purchased and made payable to "OMES".[1]

Transfers and withdrawals appeared reasonable and appropriate.

[1] Office of Management and Enterprise Services

Credit Card Purchases

Finding

A review of credit card purchases indicated 10 of 68 transactions reviewed, totaling $1,191.22, lacked proper supporting documentation.

Credit card statements reflected 68 credit card transactions had occurred during the audit period. Ten of these transactions totaling $1,191.22 lacked proper supporting documentation. Of these 10 transactions, six purchases totaling $543.35 were for recurring fax and web services. These charges were in line with costs from prior months billings that were supported with receipts.

Three transactions lacking receipts were for postal costs totaling $58.19. ABLE routinely mailed materials and/or electronic equipment to their students. Although not properly receipted, payment of these costs appears to be reasonable.

The one remaining unreceipted purchase for $589.68 was with AT&T. ABLE purchased most of their electronic equipment, including cell phones, computers, and hot spots from AT&T. Additionally, AT&T was their service provider for phone and internet service. Even though AT&T was a routine provider, without a properly defined receipt or invoice it could not be determined if the $589.68 charge was for a proper school purpose.

PAYROLL

Background

We examined all checks payable to school employees including directors and staff. Our review included salary payments and employee reimbursements such as travel, postage, and phone allowance.

We also evaluated director contracts and associated payments. Our review included a determination if payments made were allowable under the contracts. In addition, we assessed the compliance of each director's contract with statute.

Salary and Reimbursements

No Finding

Salary and reimbursement payments appeared to be for appropriate services and purchases.

Separate purchase orders existed authorizing each individual payroll payment. Per board minutes, these purchase orders were approved and each paycheck was signed by two board members.

All reimbursements reviewed, except one, were supported with proper invoices and receipts, and mileage claimed was supported with travel logs. One check for $47.39 was not supported with an invoice or receipt. However, a substantial amount of circumstantial evidence indicated that the expense was for postage.

Director Contracts and Payments

We evaluated the employment contracts and associated purchase orders for the four school directors, including end-of-the-year contract payments.

Finding

It appears that all payments to directors complied with the contracts as written. The contracts for directors Tina Barker, Judith Kuczynski, and Kenneth Kuczynski, specifically defined salaries as required in 70 O.S. § 3-135(B); however, Director Tanya Chiariello's contract appeared to not define a specific salary amount.

The employment contracts of directors Tina Barker, Judith Kuczynski, and Kenneth Kuczynski included the following clause reflecting annual salary.

Compensation

Co-Administrator/Instructor shall receive an annual salary in consideration of the Co-Administrator/Instructor's faithful performance of duties under this Agreement as follows:

2015-2016: $20,000.00
2016-2017: $40,000.00
2017-2018: $60,000.00

Co-Administrator/Instructor's salary shall be paid in twelve monthly installments. Co-Administrator/Instructor's salary payments are subject to the availability of funds and may be temporarily reduced or suspended in the Board's discretion. The Board shall make every effort to pay Co-Administrator/Instructor's salary in full by June 30 of each year. If funds are available, Co-Administrator/Instructor's salary must be paid in full.

Payroll records and board minutes indicated that the three directors received salaries for the FY 2016 school year that exceeded the $20,000 amount authorized in the compensation clause of their contracts.

Accumulative Earnings Report Wages – Director Pay				
Fiscal Year	Tina Barker	Kenneth Kuczynski	Judith Kuczynski	Tanya Chiariello
2016	$30,342.80	$29,428.71	$24,814.40	$10,862.30[2]
2017	$32,810.04	$32,810.04	$32,810.04	$34,984.68

Upon further review, it was noted that each contract also contained the following provision:

The Board retains the right to adjust Co-Administrator/Instructor's salary upward during the term of this Agreement without such adjustment constituting a new Agreement or extending the length of this Agreement.

Based on this provision, it appears that the director's salaries could be adjusted *upward*, exceeding the originally noted FY 2016 limit of $20,000 without any additional contract adjustments.

Tanya Chiariello, also a director, was paid a salary based upon her educational level. Chiariello's teaching certificate stated that she held a Juris Doctorate, and as per her teaching contract, this qualified her for a salary between $35,150 and $47,523. Her salary never exceeded the minimum salary of $35,150.

[2] Tanya Chiariello did not become a director until March 2016.

It appears that director compensation complied with existing contracts. However, the contracts in place may not have adequately complied with statutory requirements.

Title **70 O.S. § 3-135(B)** requires that contracts "*specifically* set forth the salary" of the employee.

The contracts for directors Tina Barker, Judith Kuczynski, and Kenneth Kuczynski, appeared to specifically define salaries. However, they also included clauses allowing for the payment of less than or more than the stated salary. As to whether this additional language complied with statute was beyond the scope of this audit.

In contrast, the contract for Director Tanya Chiariello, which was based on her original teaching contract, included a range-of-pay based on educational qualifications. This range-of-pay did not "specifically" define her salary as required by statute.

Finding

Based upon communications from the Oklahoma Employment Security Commission, ABLE currently owes $11,438.15 in unemployment payments.

After ABLE closed, Tanya Chiariello, a former director, applied for unemployment benefits with the Oklahoma Employment Security Commission (OESC). According to an OESC official, Chiariello's request was denied because ABLE had not made any payments to OESC.

SA&I made SVCSB aware of this issue, and SVCSB confirmed that they had received a letter from OESC dated September 14, 2017, stating a claim had been filed by an employee of ABLE and that wages earned were reportable. The letter did not state a specific amount due from ABLE.

According to Paragraph 8.12 of the contract between SVCSB and ABLE, ABLE was required to pay unemployment tax. The contract states:

> 8.12. **Employees.** The Charter School shall ensure that employment of the Charter School's personnel is conducted in accordance all applicable state and federal statutes and regulations pertaining to labor and employment, unemployment compensation and worker's compensation, and withholding and reporting of employee wages. In addition,

Additionally, **Section 1029** of the **Oklahoma School Code** also addresses unemployment compensation as follows:

> In lieu of contributions required of employers under the Employment Security Act of 1980, as provided by this act, the State of Oklahoma and its instrumentalities shall pay each quarter beginning after March 31, 1978, including any political subdivision and its instrumentalities after December 31, 1977, one percent (1%) of taxable wages, as defined in this act, paid to employees covered by this act. Such payments made in lieu of contributions shall be paid on or before the last day of the month following the calendar quarter to be reported and shall be paid into the Unemployment Compensation Fund.

On November 29, 2017, an email update received from OESC confirmed that ABLE had not made the required payments and currently owed $11,483.15.

SA&I recommends that a determination as to the financial liability for the unpaid unemployment benefit payment be sought from SVCSB legal counsel.

Nepotism/Conflict of Interest

An allegation of a potential conflict of interest, and/or nepotism, was made concerning the relationship between a contract employee, a director, and an ABLE board member.

Title **70 O.S.§ 3-136(A)(17)** indicates that:

> The governing body of a charter school shall be subject to the same conflict of interest requirements as a member of a local school board…

Additionally, Paragraph 8.8.2 Conflicts of interest. of the contract between ABLE and SVCSB states:

> The governing body of the Charter School shall be subject to the same conflicts of interest requirements as members of local public school district school boards in the State of Oklahoma, including but not limited to the provisions of **70 O.S. § 5-113 and 70 O.S. § 5-124.**

The relationships in question were reviewed and, based on statute, hiring, and appointment dates, we found no evidence that a conflict of interest or nepotism existed.

OTHER ISSUES

Inventory

Finding

Failure to maintain accurate inventory records and current student contact information directly contributed to the loss of approximately $7,000 in electronic equipment. In addition, $895 in office equipment was removed from inventory records without explanation.

As required in Paragraph 5.2.1. of the Contract for Charter School Sponsorship:

> 5.2.1. **Inventory.** No later than August 1 of each year of operation, the Charter School shall provide the Sponsor with an itemized inventory of all real and/or property leased and/or purchased with public funds.

The original inventory records of ABLE, as uploaded into Epicenter, a web based organization and performance system for schools, did not itemize inventory, but merely grouped them by item type. See inventory records below:

ABLE Charter School				
2015-2016 Inventory				
Items		**# of Units**	**Purchase Price**	**Current Value**
	Student Equipment			
	Computers (Gov Ed)	35	160	5600
	Computers (STS)	10	258	2580
	Hot Spots (Contract)	5	0	0
	Hot Spots (GoPhones)	2	79.99	159.98
	Student Cell Phones	1	59.99	59.99
	Office Equipment			
	Office Desks	2	Donation	125
	Desk Chairs	2	Donation	100
	Formal Seating	2	Donation	75
	Table	1	Donation	25
	Wall Hangings	2	Donation	10
	Printers	2	Donation	350
	File Cabinet	1	Donation	75
	Mail Box	1	Donation	25
	White Board	1	Donation	100
	Coffee Pot	1	Donation	10
Total		**68**		**9294.97**

Subsequent inventory records listed electronic equipment identified by serial numbers only. The $895 of office equipment reported on the inventory record above was not reported at all on the subsequent inventory, as shown on the December 15, 2016, inventory below.

ABLE Charter School Serial Number List
2016-2017

Vendor	Computers (Gov Ed)	Computers (STS)	Computers (BestBuy)	Hot Spots	Cell Phone
# of Units	35	10	12	7	4
Model/Info	14-DL-E6400-15	Dell E6400	Lenovo	Unite/Velocity	Various
Serial #'s					
1	10018116	2V469K1	5136301-1	14260000874507	35786063442899
2	10018117	2SM3LK1	5136301-2	14260000486740	356266077450473
3	10018118	BPB2JM1	5136301-3	865135023744525	86964121646782
4	10018119	HM37WL1	5136301-4	865135023583493	013828002954450 (off)
5	10018120	26QKHJ1	5136301-5	865135023400789	
6	10018121	6QR2XL1	5136301-6	865135023400631	
7	10018122	29295L1	5136301-7	865135023597154	
8	10018123	90D3NK1	4815200-1		
9	10018124	682KLJ1	4815200-2		
10	10018125	CZZWLL1	4456500-1		Tablet
11	10018126		4456500-2		1
12	10018127		4456500-3		358169065782139

All inventories failed to provide the data required to properly track individual inventory items. Records did not include purchase dates, prices, inventory numbers, or locations for each individual item.

It appears ABLE did not track individual equipment items issued to students. The form letter sent by certified mail at the close of FY 2017 requested that each student return school issued electronic equipment. The letter did not list the item(s) to be returned by type of equipment, serial number, or inventory number, but merely requested the return of any equipment issued. Twenty-one of the certified letters sent to students were returned to ABLE as "undeliverable."

Dear Former ABLE Charter School Student:

Our records indicate that you have not yet returned the equipment (school laptop, cell phone, and/or hotspot) provided for your use while enrolled at ABLE Charter School.

ABLE inventory records from December 15, 2016, listed 58 computers, seven hot spots, and four cell phones. Six months later, on June 27, 2017, the inventory list of items to be transferred by ABLE to SVCSB only contained 19 computers and four hot spots.[3]

[3] One laptop was retained by ABLE to complete financial reporting.

According to SVCSB, a number of items that were returned were not listed in the ABLE inventory records. Based on prior inventory records, at least 37 computers, seven hot spots, one Wi-Fi and four cell phones, with an approximate value of $7,000, appeared to be unaccounted for.

The lack of proper inventory records made it impossible to ascertain precisely how many of the missing inventory items were a result of students not returning issued electronic equipment, or how much inventory was missing for other reasons (i.e. poor record keeping or misappropriation).

We recommend SVCSB evaluate the methods and requirements for maintaining inventory by virtual charter schools. The accountability for inventory noted in the charter school contracts should be adhered to and SVCSB should approve the disposal of all assets.

SA&I recommends that a determination as to the financial liability for missing inventory be sought from SVCSB legal counsel.

Independent Audit June 30, 2016

ABLE's independent audit report and management letter of June 30, 2016, reflected several audit findings. The areas noted included:

- A lack of segregation of duties.
- Bank statements were not being properly reconciled.
- Board minutes were not properly documented making it difficult to determine if a quorum was present.
- Purchase orders were not always encumbered prior to the obligation being incurred.
- Surety bond coverage for the school treasurer was not at the minimum required amount of $100,000.
- Federal quarterly 941 reports were not filed timely.
- District administrative expenses exceeded cost limits as defined in **70 O.S. § 18-124** by $30,808.

During the course of our audit we discovered corroborating evidence for a number of these findings. However, because these issues had been previously identified, we made no specific attempt to investigate and document their occurrence.

DISCLAIMER

In this report, there may be references to state statutes and legal authorities which appear to be potentially relevant to the issues reviewed by this Office. The State Auditor & Inspector has no jurisdiction, authority, purpose, or intent by the issuance of this report to determine the guilt, innocence, culpability, or liability, if any, of any person or entity for any act, omission, or transaction reviewed. Such determinations are within the exclusive jurisdiction of regulatory, law-enforcement, and judicial authorities designated by law.

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