



# Washington State Auditor's Office

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## Accountability Audit Report First Place Scholars Charter School

September 21, 2015



Report Number: 1015230



## Washington State Auditor's Office

September 21, 2015

Board of Directors  
First Place Scholars Charter School  
Seattle, Washington

### **Report on Accountability**

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Public Charter School operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the Public Charter School's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

Jan M. Jutte, CPA, CGFM

Acting State Auditor

Olympia, Wa

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Contact information related to this report	Essential Information about the Public Charter School
Address: First Place Scholars Charter School PO Box 22536 Seattle, WA 98122	The school serves approximately 80 students in grades K-5. Located in King County, the school is governed by an 11 member Board of Directors and empowers the School Leader to oversee the school's daily operations. The school operates on an annual budget of approximately \$2 million.
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## *The mission of the Washington State Auditor's Office*

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

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As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

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## To request public records

**Public Records Officer**  
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# Audit Summary

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## Results in brief

We audited to determine whether Public Charter School operations complied with applicable requirements and provided adequate safeguarding of public resources.

We identified areas in which the Public Charter School could make improvements.

We recommended the school:

- Establish internal controls to ensure enrollment and teacher education and experience are correctly reported for apportionment funding.
- Enter into a written agreement that adequately defines the responsibilities between the charter school and the related nonprofit, and clearly separate its operations and accounts from that of the nonprofit.
- Establish policies and procedures over revenues, expenditures and cash management.
- Establish and follow procedures to ensure instructional staff is paid in accordance with contracts.
- Establish and monitor a formal financial plan to address cash flow issues and evaluate actual results to ensure financial condition improves.
- Comply with the Open Public Meetings Act and ensure staff are adequately trained to comply with the Act

These recommendations were included in our report as findings.

We also noted certain matters that we communicated to Public Charter School management in a letter dated August 25, 2015, related to compliance with the charter agreement. We appreciate the Public Charter School's commitment to resolving those matters.

## About the audit

This report contains the results of our independent accountability audit of the First Place Scholars Charter School from February 5, 2014 through February 28, 2015.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the Public Charter School's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Banking Activities
- Payroll
- Contracts
- Charter agreement
- Open Public Meetings Act
- Staff Mix reporting
- Basic Enrollment reporting
- Special Education reporting
- Financial Condition

# Schedule of Audit Findings and Responses

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**2015-001 First Place Scholars Charter School does not have adequate internal controls to ensure enrollment and teacher education and experience are correctly reported for apportionment funding which resulted in an overpayment of \$200,372 in public funds.**

## Background

Charter schools must report student enrollment in the same manner as other public schools using the same definitions of enrolled students and annual average full-time equivalent (AAFTE) enrollment. To receive state or federal funding that is allocated based on student characteristics, charter schools must comply with applicable reporting requirements.

Amounts payable to a charter school in the school's first year of operation must be based on the projections of first-year student enrollment established in the charter contract with the Washington State Charter School Commission. The Office of Superintendent of Public Instruction (OSPI) must reconcile the amounts paid in the first year of operation to the amounts that would have been paid based on actual student enrollment, and make adjustments to the charter school's allocations at the end of the first school year.

School year 2014-15 funding for First Place Scholars Charter School was based on projected basic enrollment of 98 AAFTE with special education enrollment of 12 AAFTE. Actual basic enrollment average was 83 students during the first six months of the school year, and the school was unable to serve any special education students.

Instructional staff must have all applicable qualifications required by state and federal law including, but not limited to, certifications. OSPI establishes the rules and provides instructions on how public schools should report teacher education and experience, known as "staff mix." Charter schools' allocations for staff mix are based on the statewide average staff mix at all noncharter public schools for the previous school year.

During the 2014-15 school year, the charter school received \$695,588 in combined state enrollment and staff mix funding.

## Description of Condition

### Staff Mix

October 1, 2014, is the state deadline for schools to complete signed contracts for certified instructional staff in order to report them to OSPI for staff mix funding in the 2014-15 school year. These contracts must be available for audit, the charter school failed to do so.

During September and October 2014 there were eight instructional staff teaching 93 students. Prior to the September enrollment count, five of the eight staff, teaching 64 students, were not certificated. Prior to the October 1st enrollment count, two of the eight instructional staff, teaching 27 students, were not certificated.

The charter school did not have documentation to support certificated instructional staff degrees, credits, and years of experience, as required by state regulations for reporting and placement on Legislative Evaluation and Accountability Program (LEAP) salary allocation documents.

### **Basic Enrollment**

First Place Scholars Charter School used a manual system for tracking and reporting student attendance and basic enrollment, but did not establish internal controls to oversee and monitor the reporting of either. Our audit identified errors in the basic enrollment numbers reported to OSPI, which resulted in the charter school over-reporting 39 monthly full-time equivalents (FTE) and under-reporting five monthly FTE, for a net over-reporting of 34 monthly FTE or 3.4 AAFTE. In February 2015, the charter school implemented an electronic student reporting system, which will be reviewed during our next regularly scheduled accountability audit.

### **Special Education Enrollment**

Prior to March 2015, the charter school did not serve special education students as required by federal and state regulations, which state that all schools provide specially designed instruction that meets the needs of all qualified special education students.

Between September 2014 and March 2015, the charter school had frequent turnover in certificated staff endorsed in special education, which resulted in the charter school not providing special education services as required. During the period September 2014 and March 2015, charter school management did not report special education enrollment for state funding because they were aware they had not met funding requirements. However, the school had already received funding for the first year based on its projected enrollment of 12 special education students in the contract budget submitted to the Charter School Commission and OSPI. Funding received is reconciled by OSPI at the end of the school year to actual enrollment submitted by the charter school.

For the 2014-15 school year, the charter school received \$695,588 combined funding for staff mix and enrollment, which resulted in overpayment of \$200,372 for the period under audit.

### **Cause of Condition**

First Place Scholars Charter School did not have appropriate policies and procedures in place during its first year as a charter school. As a result, management did not review or reconcile enrollment reported for accuracy. The charter school did not have adequate controls in place to ensure all staff were certificated prior to the beginning of the school year. Additionally, the charter school did not have certificated staff to provide special education services.

Charter school staff were not aware of the reporting requirements for certificated instructional staff and did not maintain adequate supporting documentation for reporting to OSPI, nor did they maintain signed contracts required by state regulation.

## Effect of Condition

Among the charter school contract conditions that were not met:

- All staff shall possess all applicable qualifications required by state or federal law.
- Instructional staff shall maintain active certification.
- The charter school will provide services and accommodations to students with disabilities including providing services to attending students and compliance with all applicable federal and state laws, rules, policies, procedures and directives regarding the education of students with disabilities.

The charter school did not retain documentation supporting contracts of certified instructional staff, their placement on the S-275, or to accurately report student enrollment for apportionment funding to OSPI for September 2014 through February 2015, resulting in overpayment of \$200,372. In addition, the charter school did not provide special education services as required by federal and state laws.

## Recommendation

We recommend the charter school establish internal controls to ensure:

- All instructional staff hold a valid Washington state certification prior to providing instruction.
- A signed contract is in place for every certified instructor.
- The experience and credits of certified instructional staff are reported correctly to OSPI, and appropriate documentation is retained for audit.
- Enrollment reporting for apportionment funding, for both basic education and special education, is accurate.
- Services and accommodations required by federal and state regulations are provided for special education students.

We further recommend the charter school work with OSPI Audit Resolution to determine appropriate funding for the remainder of the 2014-2015 School Year.

## First Place Scholars Response

First Place now has improved processes, systems, and controls in place to ensure that going forward:

- All teachers are Washington State certified prior to instruction;
- A signed contract is in place for each certified teacher;
- All experience and credits of certified instructional staff are reported correctly to OSPI, and appropriate documentation is retained; and
- Services and accommodations required by federal and state regulations are provided for special education students.

## Auditor's Remarks

We thank the Charter School for its cooperation and assistance throughout the audit, and the steps it is taking to address these issues. We will review the status of the Charter School's corrective action during our next audit.

## Applicable Laws and Regulations

RCW 28A.410.010 Certification—Duty of professional educator standards board—Rules—Record check—Lapsed certificates—Superintendent of public instruction as administrator, states in part:

(1)(a) The Washington professional educator standards board shall establish, publish, and enforce rules determining eligibility for and certification of personnel employed in the common schools of this state, including certification for emergency or temporary, substitute or provisional duty and under such certificates or permits as the board shall deem proper or as otherwise prescribed by law. The rules shall require that the initial application for certification shall require a record check of the applicant through the Washington state patrol criminal identification system and through the federal bureau of investigation at the applicant's expense. The record check shall include a fingerprint check using a complete Washington state criminal identification fingerprint card. An individual who holds a valid portable background check clearance card issued by the department of early learning consistent with RCW 43.215.215 is exempt from the office of the superintendent of public instruction fingerprint background check if the individual provides a true and accurate copy of his or her Washington state patrol and federal bureau of investigation background report results to the office of the superintendent of public instruction. The superintendent of public instruction may waive the record check for any applicant who has had a record check within the two years before application. The rules shall permit a holder of a lapsed certificate but not a revoked or suspended certificate to be employed on a conditional basis by a school district with the requirement that the holder must complete any certificate renewal requirements established by the state board of education within two years of initial reemployment.

RCW 28A.710.040 Charter schools—Requirements, states in part:

(c) Employ certificated instructional staff as required in RCW 28A.410.025; PROVIDED, That charter schools may hire noncertificated instructional staff of unusual competence and in exceptional cases as specified in RCW 28A.150.203(7);

RCW 28A.710.220 Student enrollment reporting—Funding—Allocations—Local levy moneys, states in part:

(1) Charter schools must report student enrollment in the same manner and based on the same definitions of enrolled students and annual average full-time equivalent enrollment as other public schools. Charter schools must comply with applicable reporting requirements to receive state or federal funding that is allocated based on student characteristics.

RCW 28A.710.240 Calculation of certificated instructional staff service years, states:

Years of service in a charter school by certificated instructional staff shall be included in the years of service calculation for purposes of the statewide salary allocation schedule under RCW 28A.150.410. This section does not require a charter school to pay a particular salary to its staff while the staff is employed by the charter school.

RCW 28A.155.090 Superintendent of public instruction's duty and authority, states:

The superintendent of public instruction shall have the duty and authority, through the administrative section or unit for the education of children with disabling conditions, to:

- (1) Assist school districts in the formation of programs to meet the needs of children with disabilities;
- (2) Develop interdistrict cooperation programs for children with disabilities as authorized in RCW28A.225.250;
- (3) Provide, upon request, to parents or guardians of children with disabilities, information as to the special education programs for students with disabilities offered within the state;
- (4) Assist, upon request, the parent or guardian of any child with disabilities in the placement of any child with disabilities who is eligible for but not receiving special educational services for children with disabilities;
- (5) Approve school district and agency programs as being eligible for special excess cost financial aid to students with disabilities;
- (6) Consistent with the provisions of RCW 28A.150.390, 28A.160.030, and 28A.155.010 through 28A.155.160, and part B of the federal individuals with disabilities education improvement act, administer administrative hearings and other procedures to ensure procedural safeguards of children with disabilities; and
- (7) Promulgate such rules as are necessary to implement part B of the federal individuals with disabilities education improvement act or other federal law providing for special education services for children with disabilities and the several provisions of RCW 28A.150.390, 28A.160.030, and 28A.155.010 through 28A.155.160 and to ensure appropriate access to and participation in the general education curriculum and participation in statewide assessments for all students with disabilities.

WAC 392-121-220 S-275 Definition—S-275 reporting process, states in part:

This reporting process shall include individuals who are known as of October 1 to be:

- (1) District employees with a contract for certificated employment to provide services during the period September 1 through August 31;

WAC 392-121-280 Placement on LEAP salary allocation documents—Documentation required, states

School districts shall have documentation on file and available for review which substantiates each certificated instructional employee's placement on LEAP salary allocation documents. The minimum requirements are as follows:

- (1) Districts shall document the date of awarding or conferring of the highest degree including the date upon which the degree was awarded or conferred as recorded on the diploma or transcript from the registrar of the accredited institution of higher education.
  - (a) If the highest degree is a master's degree, the district shall also document the date of awarding or conferring of the first bachelor's degree.
  - (b) If the degree was awarded by an institution which does not confer degrees after each term, and all degree requirements were completed at a time other than the date recorded on the diploma or transcript, a written statement from the registrar of the institution verifying a prior completion date shall be adequate documentation.

(c) If the degree program was completed in a country other than the United States, documentation must include documentation in English of degree equivalency for the appropriate degree as allowed by WAC 181-79A-260: Provided, That documentation of degree equivalency is not required if that institution of higher education is already regionally accredited or accredited by the distance education and training council, pursuant to WAC 181-78A-010(7).

(2) Districts shall document academic credits by having on file a transcript from the registrar of the accredited institution of higher education granting the credits. For purposes of this subsection:

(a) An academic credit is deemed “earned” at the end of the term for which it appears on the transcript: Provided, That a written statement from the registrar of the institution verifying a prior earned date may establish the date a credit was earned;

(b) Washington state community college credits numbered one hundred and above are deemed transferable for purposes of WAC 392-121-255(4) subject to the limitations of that same subsection;

(c) Credits are not deemed “earned” at an institution of higher education which transfers-in credits. Such credits must be documented using a transcript from the initial granting institution and are subject to all the limitations of WAC 392-121-255;

(d) If the credits were completed in a country other than the United States, documentation must include a written statement of credit equivalency for the appropriate credits from a foreign credentials’ evaluation agency approved by the office of superintendent of public instruction: Provided, That documentation of degree equivalency is not required if that institution of higher education is already regionally accredited or accredited by the distance education and training council, pursuant to WAC 181-78A-010(7); and

(e) For credits earned after September 1, 1995, districts shall document that the course content meets one or more of the criteria of WAC 392-121-262(1). At a minimum, such documentation must include a dated signature of the immediate principal, supervisor, or other authorized school district representative and must be available to the employee’s future employers.

(3) Districts shall document in-service credits:

(a) By having on file a document meeting standards established in WAC 181-85-107; and

(b) For credits earned after September 1, 1995, districts shall document that the course content meets one or more of the criteria of WAC 392-121-262(1). At a minimum, such documentation must include a dated signature of the immediate principal, supervisor, or other authorized school district representative and must be available to the employee’s future employers.

(4) Districts shall document nondegree credits.

(a) For vocational/career and technical education educator training credits pursuant to WAC 392-121-259(3) districts shall have on file a document meeting standards established in WAC 181-85-107 and evidence that the training was authorized pursuant to WAC 181-77-003 (2), (9), or (12).

(b) For credits calculated from converted occupational experience pursuant to WAC 392-121-259(3) districts shall have on file documents which provide:

(i) Evidence that the occupational experience meets the requirements of WAC 181-77-003(7);

(ii) Evidence of the individual's actual number of hours of employment for each year including dates of employment; and

(iii) The district calculation of converted credits pursuant to WAC 392-121-259(3).

(c) For credits earned after September 1, 1995, districts shall document that the course content meets one or more of the criteria of WAC 392-121-262(1). At a minimum, such documentation must include a dated signature of the immediate principal, supervisor, or other authorized school district representative and must be available to the employee's future employers.

(5) Districts shall document certificated years of experience as follows:

(a) For certificated years of experience obtained and reported on Report S-275 prior to the 1994-95 school year districts shall have on file documents that provide evidence of employment including dates of employment.

(b) For certificated years of experience reported on Report S-275 for the first time after the 1993-94 school year districts shall have on file:

(i) The total number of hours, or other unit of measure, per year for an employee working full-time with each employer;

(ii) The number of hours, or other unit of measure (worked by the employee), per year and dates of employment with each employer, including paid leave and excluding unpaid leave: Provided, That documentation of hours in excess of one full-time certificated year of experience in any twelve-month period is not required;

(iii) The quotient of the hours, or other unit of measure, determined in (b)(ii) of this subsection divided by the hours, or other unit of measure, in (b)(i) of this subsection rounded to two decimal places for each year;

(iv) The name and address of the employer;

(v) For those counting out-of-district experience pursuant to WAC 392-121-264 (1)(a), evidence whether or not the position required professional education certification pursuant to WAC 392-121-264 (1)(a)(ii);

(vi) For those counting experience pursuant to WAC 392-121-264 (1)(b), a brief description of the previous employment which documents the school district's decision that the position was comparable to one requiring certification in the Washington school districts;

(vii) For those counting management experience pursuant to WAC 392-121-264 (1)(e), evidence that the experience meets the requirements of WAC 181-77-003(6);

(viii) For those counting experience (for educational staff associates) pursuant to WAC 392-121-264 (1)(f), evidence that the previous employment meets the requirements in the applicable subsections of WAC 392-121-264 (1)(f).

(6) Any documentation required by this section may be original or copies of the original: Provided, That each copy is subject to school district acceptance or rejection.

(7) The falsification or deliberate misrepresentation, including omission of a material fact concerning degrees, credits, or experience by an education practitioner as defined in WAC 181-87-035 shall be deemed an act of unprofessional conduct pursuant to WAC 181-87-050. In such an event the provisions of chapters 181-86 and 181-87 WAC shall apply.

Washington State Charter School Commission contract, states in part:

4.4.5 Staff Qualifications. Instructional staff, employees, and volunteers shall possess all applicable qualifications as required by state or federal law. Instructional staff shall maintain active certification in accordance with chapter 28A.410 RCW, unless instructional staff meets the requirements of RCW 28A.150.203(7). Instructional staff must also adhere to the code of professional conduct, ethical standards governing educator conduct, and associated laws and regulations. If the Board or School administrator(s) has reason to believe that an employee with a certificate or permit authorized under chapter 28A.410 RCW or chapter 28A.405 RCW, has engaged in unprofessional conduct (Chapter 181-87WAC) or lacks good moral character (Chapter 181-86 WAC) a complaint must be submitted to the Education Service District within which the school operates stating the basis for the belief and requesting submission of the complaint to OSPI. A copy of the School's complaint must simultaneously be sent to the Commission and OSPI's Office of Professional Practices. Certificated and licensed staff shall also be held accountable in accordance with the provisions of Title 28A RCW as well as any applicable state or federal laws.

## Contract

### 4.2.7 Record Keeping

The School will comply with all applicable federal, state, and Commission record keeping requirements including those pertaining to student, governance, and finance.

### 4.4.9 Students with Disabilities.

The School shall provide services and accommodations to students with disabilities as set forth in the Application and in accordance with any relevant policies thereafter adopted, as well as with all applicable provisions of the Individuals with Disabilities Education Act (20 U.S.C. § 1401 et seq.) (the "IDEA"), the Americans with Disabilities Act (42 U.S.C. § 12101 et seq.) (the "ADA"), section 504 of the Rehabilitation Act of 1973 (29 U.S.C. § 794) ("Section 504"), and all applicable regulations promulgated pursuant to such federal laws. This includes providing services to attending students with disabilities in accordance with the individualized education program ("IEP") recommended by a student's IEP team. The School shall also comply with all applicable federal and State laws, rules, policies, procedures and directives regarding the education of students with disabilities including, but not limited to, chapter 28A.155 RCW.

**2015-002 The First Place Scholars Charter School lacks internal controls over locally receipted revenues, expenditures and cash management. Additionally, the charter school's financial condition puts it at risk of not meeting its financial obligations.**

**Background**

First Place Scholars Charter School is a public charter school and the 2014-2015 school year is its first year of operation. During our audit period, February 5, 2014 through February 28, 2015 the school received state funding totaling \$402,149. Additionally, it received \$32,978 in donations and spent \$790,634 including payroll.

**Description of Condition**

The charter school's cash balance declined from September 2014 through February 2015. Expenditures exceeded revenues in each of the first six months resulting in ending cash balances of:

	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Revenue	\$63,421	\$63,421	\$62,801	\$77,829	\$73,906	\$93,749
Expenditures	\$117,201	\$180,018	\$100,705	\$174,230	\$106,654	\$111,826
Ending Cash Balance	\$342,405	\$225,807	\$187,903	\$91,502	\$58,754	\$40,678

The charter school did not establish adequate internal controls or retain supporting documentation for its financial activities including, revenues, expenditures and cash management. Declining cash balances required the charter school to reduce staff and services to students.

We identified the following deficiencies in internal controls over revenues, expenditures and cash management.

**Locally Receipted Revenues**

Locally receipted revenues, such as public donations, were not deposited timely. A check log was not kept supporting checks received by mail. There were no policies and procedures for receipting of locally receipted revenues.

The charter school had frequent turnover in board members and School Leader position with no controls in place to identify allowable individuals as signatories on the bank account. Bank signature cards were not always updated promptly; the previous School Leader remained as a signer on the bank account for 56 days after her last day of employment.

**Expenditures**

The charter school did not get approvals from management or retain supporting documentation for expenditures.

Between July and August 2014, three separate cash withdrawals from the charter school's bank account totaling \$85,614 were made. We found no documentation to identify the projects or services that were paid for \$550 and whether \$18,579 in payments were allowable or attributable to the operation of the charter school. We identified the school did not retain adequate supporting documentation for \$17,926 paid to vendors.

The charter school contracted with a vendor for food services. The contract itself was contradictory, calling for payments on both a per meal basis, and for 100 student meals per school day per month. For services provided from September 2014 through January 2015, the vendor was paid for 100 meals per day, which totaled \$72,936. However, monthly enrollment was consistently less for that period, averaging only 83 students, which may have resulted in an overpayment.

Instructional staff were paid a total of \$30,459 for work performed in July and August, 2014. Employment contracts were not in place until September 1, 2014 and it appeared that some employees were paid at their gross wage with no taxes or deductions withheld. The September payroll included stipend payments for employees totaling \$7,200, made without a Time, Responsibility and Incentive (TRI) contract. Without contracts in place we were unable to determine when this work was performed and what portion of the September payroll payments were allowable.

In addition, the charter school did not have adequate internal controls to ensure enrollment and teacher education and experience were correctly reported for apportionment funding, resulting in overpayment of \$200,372 detailed in finding 2015-001.

### **Cause of Condition**

The charter school's management did not commit the time and resources needed to establish an effective system of internal controls over the charter school's financial activities.

### **Effect of Condition**

The internal control deficiencies described above creates the potential for charter school resources to be misappropriated without being detected by management. Because documentation was lacking, we were unable to determine whether the expenditures were used for purposes allowable under state law.

As of April 2015 the charter school had cash to cover approximately nine days of expenditures. As a best practice, cash reserves covering 60 days expenditures are considered sufficient. The charter school may not have sufficient cash available to meet its financial obligations which could result in untimely vendor payments, and inability to cover increased or unexpected expenses.

### **Recommendation**

We strongly recommend charter school management take an active role to:

- Establish policies and procedures over revenues, expenditures and cash management.
- Establish and follow procedures to ensure instructional staff is paid in accordance with contracts.
- Establish and monitor a formal financial plan to address cash flow issues and evaluate actual results to ensure financial condition improves.
- Revise the plan as needed to resolve financial issues.

## **First Place Scholars Response**

First Place has implemented enhanced financial controls, policies, and procedures over revenue, expenditure and cash management. These controls include policies and procedures to ensure even further that instructional staff are paid in accordance with all aspects of their contracts and in compliance with state and federal laws. First Place has a formal financial plan in place to address cash flow issues and evaluate actual results to ensure the financial condition improves. The financial plan will be adjusted based on actual results.

It is also important to note that the Audit reflects there were \$85,614 in “cash withdrawals,” which were actually cashier checks, and that First Place has provided documentation and copies of all those checks.

## **Auditor’s Remarks**

We thank the Charter School for its cooperation and assistance throughout the audit, and the steps it is taking to address these issues. We will review the status of the Charter School’s corrective action during our next audit.

## **Applicable Laws and Regulations**

Contract 4.2.7 Record Keeping. The School will comply with all applicable federal, state, and Commission record keeping requirements including those pertaining to students, governance, and finance.

### Contract 4.12 SCHOOL FINANCE

Contract 4.12.1 Legal and Accounting Compliance. The School shall comply with all applicable state financial and budget rules, regulations, and financial reporting requirements, as well as the requirements contained in the Commission’s Charter School Performance Framework, chapter 108-30 WAC. The School shall also adhere to generally accepted accounting principles and be subject to financial examinations and audits as determined by the state auditor, including annual audits for legal and fiscal compliance.

Contract 4.12.2 Governance, Managerial and Financial Controls. At all times, the Charter School shall maintain appropriate governance and managerial procedures and financial controls which procedures and controls shall include, but not be limited to: (1) commonly accepted accounting practices and the capacity to implement them (2) a checking account; (3) adequate payroll procedures; (4) an organizational chart; (5) procedures for the creation and review of monthly financial reports, which procedures shall specifically identify the individual who will be responsible for preparing such financial reports in the following fiscal year; (6) internal control procedures for cash receipts, cash disbursements and purchases; and (7) maintenance of asset registers and financial procedures for grants in accordance with applicable state and federal law.

Contract 4.12.4 Accounting Methods and Records. The School agrees to maintain financial records in accordance with generally accepted accounting principles and to make such records available promptly to the Commission upon request. When the request is for on-site inspection of records, prompt is defined as immediate access. If the request is for reproduction of records, then the Commission will include a timeframe in which the records must be provided; adherence to this timeframe will be considered prompt.

## 2015-003 The First Place Scholars Charter School used public funds for nonprofit expenses.

### Background

Charter schools are independently managed public schools operated by approved nonprofit organizations. First Place, Inc, a qualified nonprofit organization, operates the First Place Scholars Charter School. The school evolved in September 2014 from a private school serving homeless youth, operated for more than 20 years as a core service of a nonprofit organization also known as First Place. The nonprofit provides housing counseling and other social services, in addition to running the charter school.

The day-to-day operations at First Places Scholars Charter School and the nonprofit, known as First Place, Inc., continue to be closely associated. At the time of our audit, they used the same name and were governed by the same board; several employees worked for both the charter school and the nonprofit. Each maintained separate bank accounts but used the same Employer Identification Number (EIN).

### Description of Condition

First Place Scholars Charter School and First Place Inc., do not have agreements or contracts in place to define their relationship and responsibilities. We found numerous areas where this lack of definition allowed public funds to be used for nonprofit expenses.

**Rent** Although the nonprofit owns the building used by the charter school, there was no agreement in place establishing the amount of rent to be paid each month and the responsibilities of each party.

**Expenditures and reimbursements** Although the charter school has reimbursed the nonprofit for various expenditures, there was no agreed schedule for what expenditures would be reimbursed. Among the instances we found:

- The charter school paid the nonprofit \$7,386.76 for repairs and maintenance services, \$18,000 in rent and an additional \$2,000 which had no supporting documentation.
- The school paid \$26,000 to replace a boiler in the building owned by the nonprofit and was reimbursed by the nonprofit.
- The school paid a vendor \$1,288 for repairs to the elevator in the building and was not reimbursed by the nonprofit. Adequate supporting documentation was not retained for this payment.
- The school paid a vendor \$5,494 for repairs to the building and was not reimbursed by the nonprofit. Adequate supporting documentation was not retained for \$4,000 of this amount

**Donations** The charter school received \$1,777 in donations where we could not determine whether they belonged to the school or the non-profit.

**Allocation of human resources** There was no supporting documentation to define allocation of staff time, effort or salary attributed to the charter school. Among the issues we found:

- The School Leader, whose salary was paid through public funds, also served as the Director of the nonprofit. The nonprofit's receptionist and volunteer coordinator performed functions on behalf of the charter school, including receipting of public funds. However, the school did not maintain an agreement with the nonprofit covering these activities.

- First Place Scholars Charter School contracted with a consultant to provide services related to the operations of the school. The charter school paid the consultant \$12,969 during the school year, but did not have an agreement in place with the consultant prior to services being performed. Furthermore, the scope of work included services not related to the charter school, such as the development of best practices for management of the housing program operated by the nonprofit. This included \$5,000 paid in November 2014 by the school for services which included the development of job descriptions for the nonprofit's family services committee.
- Charter school funds paid the salaries of two case managers. There was no documentation to support whether the duties, responsibilities or activities performed by these employees in whole or in part supported the charter school or the nonprofit.

### **Cause of Condition**

First Place Scholars Charter School did not clearly identify its responsibilities or clearly separate its activities and funds from the nonprofit.

### **Effect of Condition**

The Charter School used public funds for nonprofit expenses.

### **Recommendation**

We recommend First Place Scholars Charter School:

- Enter into a written agreement that adequately defines the responsibilities between the charter school and the related nonprofit .
- Clearly separate its operations and accounts from that of the nonprofit.

### **First Place Scholars Response**

The introductory section of this finding suggests a misunderstanding of the corporate structure of the First Place entities. The audit reports makes the distinction between First Place Scholars Charter School and the “non-profit,” First Place, Inc. These are one in the same: First Place Scholars Charter School is a d/b/a/ of First Place, Inc., which is the entity with which the State of Washington State Charter Commission has a charter school contract. As also noted in the audit, First Place, Inc., and the charter school have the same employer ID, because First Place, Inc., d/b/a First Place Scholars Charter School is not a separate corporate entity. The effort to create a separate corporate entity that would run the charter school was abandoned because of concerns expressed by the Charter Commission that the separate entity would not have sufficient assets of its own (as opposed to those of First Place, Inc.) to operate the school.

First Place Scholars Charter School, which is a d/b/a of First Place, Inc., is housed in a building owned outright by First Place, Inc. The school is not a separate corporate entity, and therefore does not have agreements with First Place, Inc.. The School does maintain its own, separate bank account, which is funded as provided in the charter school contract, and from which the school's expenses are paid, included a rental fee for the building.

In the coming year, First Place, Inc., will explore changes to the corporate structure to optimize operation of the charter school and its Board as distinct enterprises from the other First Place entities. In addition, the School will more clearly document expenditures and reimbursements related to rental and maintenance of the school building.

## Auditor's Remarks

We thank the Charter School for its cooperation and assistance throughout the audit, and the steps it is taking to address these issues. We will review the status of the Charter School's corrective action during our next audit.

## Applicable Laws and Regulations

RCW 28A.710.040 Charter Schools—Requirements, states in part:

(3) Public charter schools must comply with all state statutes and rules made applicable to the charter school in the school's charter contract and are subject to the specific state statutes and rules identified in subsection (2) of this section. Charter schools are not subject to and are exempt from all other state statutes and rules applicable to school districts and school district boards of directors, for the purpose of allowing flexibility to innovate in areas such as scheduling, personnel, funding, and educational programs in order to improve student outcomes and academic achievement. Charter schools are exempt from all school district policies except policies made applicable in the school's charter contract.

Washington State Charter School Commission contract, states in part:

4.2.8 Non-Commingling. Assets, funds, liabilities and financial records of the School shall be kept separate from assets, funds, liabilities, and financial records of any other person, entity, or organization unless approved in writing by the Commission. Additionally, public funds and assets received by the School shall be tracked and accounted for separately.

4.12.2 Governance, Managerial and Financial Controls. At all times, the Charter School shall maintain appropriate governance and managerial procedures and financial controls which procedures and controls shall include, but not be limited to: (1) commonly accepted accounting practices and the capacity to implement them (2) a checking account; (3) adequate payroll procedures; (4) an organizational chart; (5) procedures for the creation and review of monthly financial reports, which procedures shall specifically identify the individual who will be responsible for preparing such financial reports in the following fiscal year; (6) internal control procedures for cash receipts, cash disbursements and purchases; and (7) maintenance of asset registers and financial procedures for grants in accordance with applicable state and federal law.

Contract 4.12.10 Disbursement Procedures. The School shall establish procedures for ensuring that funds are disbursed for approved expenditures consistent with the School's budget.

## **2015-004 The First Place Scholars Charter School board did not comply with the Open Public Meetings Act.**

### **Background**

The state's Open Public Meetings Act [OPMA] requires charter schools to prepare minutes of all public meetings, except executive sessions, and to have those minutes available for public inspection. Executive sessions are limited to the specific purposes identified in RCW 42.30.110.

- In order to conduct business a charter school board must have a quorum both in the number of appointed members and the number attending a business meeting.
- The transactions of the official business of a public agency by a governing body include but are not limited to approval of expenditures, contracts, discussions, reviews, evaluations and final actions taken by the board.

First Place Scholars Charter School's contract initially required it to establish a board with 15 to 21 members. This was amended in November 2014 to require a minimum of 11 and maximum of 15 board members. The contract also required the school to notify the Washington State Charter School Commission of amendments to the board or to the bylaws within five days of the amendment.

### **Description of Condition**

The minimum number of charter school board members required to establish a quorum and conduct business was never met. The charter school failed to communicate to the Commission, charter school board members present at the September 2014 meeting and the appointment of new board members in October within five days as required by the contract.

The minutes did not adequately document whether board members were properly appointed.

Existing minutes did not include:

- The board's approval of claims and expenditures.
- An allowable purpose for the executive session on October 28, 2014.
- Proper notice required for the special meeting held on February 6, 2015 was not retained.

### **Cause of Condition**

The charter school's board does not have an adequate understanding of the Open Public Meetings Act.

In addition, staff in charge of preparing the minutes lacked knowledge on properly documenting meetings and ensuring proper public notice of special meetings.

### **Effect of Condition**

Citizens may have been denied the right to participate in an open public meeting and to observe the actions taken and deliberations of the board. Under the OPMA, board actions not in compliance with the Act may not be considered valid.

### **Recommendation**

We recommend the charter school board comply with the Open Public Meetings Act. And ensure staff is adequately trained to comply with the Act.

## First Place Scholars Response

One objective of the effort to evaluate the corporate structure is to create a Board of Directors for First Place Inc., d/b/a First Place Scholars Charter School that would be distinct from the larger Board of First Place, Inc., such that the latter would not be subject to the Open Public Meetings Act (OPMA), and to clarify the functions of the Board specifically with respect to the charter school. Part of this effort will include training of the Board members responsible for operation of the charter school about the requirements of the OPMA.

## Auditor's Remarks

We thank the Charter School for its cooperation and assistance throughout the audit, and the steps it is taking to address these issues. We will review the status of the Charter School's corrective action during our next audit.

## Applicable Laws and Regulations

RCW 28A.710.040 Charter Schools—Requirements, states in part:

A charter school established under this chapter:

(2)(h) Comply with the open public meetings act in chapter 42.30 RCW and public records requirements in chapter 42.56 RCW[.]

RCW 42.30.020 Definitions, states in part:

(3) "Action" means the transaction of the official business of a public agency by a governing body including but not limited to receipt of public testimony, deliberations, discussions, considerations, reviews, evaluations, and final actions. "Final action" means a collective positive or negative decision, or an actual vote by a majority of the members of a governing body when sitting as a body or entity, upon a motion, proposal, resolution, order, or ordinance.

(4) "Meeting" means meetings at which action is taken.

RCW 42.30.010 Legislative declaration, states:

The legislature finds and declares that all public commissions, boards, councils, committees, subcommittees, departments, divisions, offices, and all other public agencies of this state and subdivisions thereof exist to aid in the conduct of the people's business. It is the intent of this chapter that their actions be taken openly and that their deliberations be conducted openly. The people of this state do not yield their sovereignty to the agencies which serve them. The people, in delegating authority, do not give their public servants the right to decide what is good for the people to know and what is not good for them to know. The people insist on remaining informed so that they may retain control over the instruments they have created.

RCW 28A.710.010 Definitions, states in part

(6) "Charter school board" means the board of directors appointed or selected under the terms of a charter application to manage and operate the charter school.

RCW 42.30.110 Executive Sessions, states:

(1) Nothing contained in this chapter may be construed to prevent a governing body from holding an executive session during a regular or special meeting:

(a) To consider matters affecting national security;

- (b) To consider the selection of a site or the acquisition of real estate by lease or purchase when public knowledge regarding such consideration would cause a likelihood of increased price;
  - (c) To consider the minimum price at which real estate will be offered for sale or lease when public knowledge regarding such consideration would cause a likelihood of decreased price. However, final action selling or leasing public property shall be taken in a meeting open to the public;
  - (d) To review negotiations on the performance of publicly bid contracts when public knowledge regarding such consideration would cause a likelihood of increased costs;
  - (e) To consider, in the case of an export trading company, financial and commercial information supplied by private persons to the export trading company;
  - (f) To receive and evaluate complaints or charges brought against a public officer or employee. However, upon the request of such officer or employee, a public hearing or a meeting open to the public shall be conducted upon such complaint or charge;
  - (g) To evaluate the qualifications of an applicant for public employment or to review the performance of a public employee. However, subject to RCW 42.30.140(4), discussion by a governing body of salaries, wages, and other conditions of employment to be generally applied within the agency shall occur in a meeting open to the public, and when a governing body elects to take final action hiring, setting the salary of an individual employee or class of employees, or discharging or disciplining an employee, that action shall be taken in a meeting open to the public;
  - (h) To evaluate the qualifications of a candidate for appointment to elective office. However, any interview of such candidate and final action appointing a candidate to elective office shall be in a meeting open to the public;
  - (i) To discuss with legal counsel representing the agency matters relating to agency enforcement actions, or to discuss with legal counsel representing the agency litigation or potential litigation to which the agency, the governing body, or a member acting in an official capacity is, or is likely to become, a party, when public knowledge regarding the discussion is likely to result in an adverse legal or financial consequence to the agency.
- This subsection (1)(i) does not permit a governing body to hold an executive session solely because an attorney representing the agency is present. For purposes of this subsection (1)(i), “potential litigation” means matters protected by RPC 1.6 or RCW 5.60.060(2)(a) concerning:
- (i) Litigation that has been specifically threatened to which the agency, the governing body, or a member acting in an official capacity is, or is likely to become, a party;
  - (ii) Litigation that the agency reasonably believes may be commenced by or against the agency, the governing body, or a member acting in an official capacity; or
  - (iii) Litigation or legal risks of a proposed action or current practice that the agency has identified when public discussion of the litigation or legal risks is likely to result in an adverse legal or financial consequence to the agency;

(j) To consider, in the case of the state library commission or its advisory bodies, western library network prices, products, equipment, and services, when such discussion would be likely to adversely affect the network's ability to conduct business in a competitive economic climate. However, final action on these matters shall be taken in a meeting open to the public;

(k) To consider, in the case of the state investment board, financial and commercial information when the information relates to the investment of public trust or retirement funds and when public knowledge regarding the discussion would result in loss to such funds or in private loss to the providers of this information;

(l) To consider proprietary or confidential nonpublished information related to the development, acquisition, or implementation of state purchased health care services as provided in RCW 41.05.026;

(m) To consider in the case of the life sciences discovery fund authority, the substance of grant applications and grant awards when public knowledge regarding the discussion would reasonably be expected to result in private loss to the providers of this information;

(n) To consider in the case of a health sciences and services authority, the substance of grant applications and grant awards when public knowledge regarding the discussion would reasonably be expected to result in private loss to the providers of this information.

(2) Before convening in executive session, the presiding officer of a governing body shall publicly announce the purpose for excluding the public from the meeting place, and the time when the executive session will be concluded. The executive session may be extended to a stated later time by announcement of the presiding officer.

RCW 42.30.080

Special meetings.

(1) A special meeting may be called at any time by the presiding officer of the governing body of a public agency or by a majority of the members of the governing body by delivering written notice personally, by mail, by fax, or by electronic mail to each member of the governing body. Written notice shall be deemed waived in the following circumstances:

(a) A member submits a written waiver of notice with the clerk or secretary of the governing body at or prior to the time the meeting convenes. A written waiver may be given by telegram, fax, or electronic mail; or

(b) A member is actually present at the time the meeting convenes.

(2) Notice of a special meeting called under subsection (1) of this section shall be:

(a) Delivered to each local newspaper of general circulation and local radio or television station that has on file with the governing body a written request to be notified of such special meeting or of all special meetings;

(b) Posted on the agency's web site. An agency is not required to post a special meeting notice on its web site if it (i) does not have a web site; (ii) employs fewer than ten full-time equivalent employees; or (iii) does not employ personnel whose duty, as defined by a job description or existing contract, is to maintain or update the web site; and

(c) Prominently displayed at the main entrance of the agency's principal location and the meeting site if it is not held at the agency's principal location.

Such notice must be delivered or posted, as applicable, at least twenty-four hours before the time of such meeting as specified in the notice.

(3) The call and notices required under subsections (1) and (2) of this section shall specify the time and place of the special meeting and the business to be transacted. Final disposition shall not be taken on any other matter at such meetings by the governing body.

(4) The notices provided in this section may be dispensed with in the event a special meeting is called to deal with an emergency involving injury or damage to persons or property or the likelihood of such injury or damage, when time requirements of such notice would make notice impractical and increase the likelihood of such injury or damage.

Contract 4.2.7 Record Keeping. The School will comply with all applicable federal, state, and Commission record keeping requirements including those pertaining to students, governance, and finance.

GS50-05A-13

Rev. 2

**Meetings – Governing/Executive**

Records documenting all meetings of the local government agency's governing bodies and executive management.

Includes:

- Meetings regulated by the Open Public Meetings Act (chapter 42.30 RCW), such as regular and special meetings, public hearings, etc.;
- All other meetings (including executive sessions regulated by RCW 42.30.110(2)).

Includes, but is not limited to:

- Agendas, meeting/agenda packets (briefs, reference materials, etc.);
- Speaker sign-up, written testimony;
- Audio/visual recordings and transcripts of proceedings;
- Minutes.

Includes indexes and other finding aids.

Excludes records covered by GS2011-173, GS2011-174, GS2011-175, and GS2011-176.

Retain for 6 years after end of calendar year then

Transfer to Washington State Archives for permanent retention.

ARCHIVAL

(Permanent Retention)

ESSENTIAL