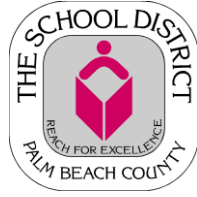


**Review of
Charter Schools'
Independent CPA Reports
October 28, 2016**

Report #2016-09



MISSION STATEMENT

The School Board of Palm Beach County is committed to providing a world class education with excellence and equity to empower each student to reach his or her highest potential with the most effective staff to foster the knowledge, skills, and ethics required for responsible citizenship and productive careers.

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Review of
Charter Schools’ Independent CPA Reports
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Review of Charter Schools' Independent CPA Reports

Executive Summary

Pursuant to the *Office of Inspector General 2015-2016 Work Plan*, we have reviewed the Annual Financial Audits prepared by independent Certified Public Accountants (CPA) for the charter schools operating in Palm Beach County during Fiscal Year 2015. The primary objective of this review was to report any significant financial trends and findings of charter schools identified in their latest audits by outside CPA. There were 48 charter schools in operation in Palm Beach County during Fiscal Year 2015. This review produced the following conclusions:

1. Four Schools Received a “F” Grade In FY2016

During 2016, four charter schools received the “F” grade: (1) Belle Glade Excel Charter School, (2) Glades Academy, Inc., (3) Lakeside Academy, and (4) Learning Path Academy. Pursuant to *Florida Statutes Section 1002.33(9)(n)4*, a charter school’s contract is automatically terminated if the school earns two consecutive grades of F. To protect the best interests of students and the School District, the District should closely monitor the academic and financial performance of the above four charter schools.

2. No Schools In Financial Emergency

None of the 48 charter schools were reported to be in a state of a financial emergency condition.

3. Two Schools In Deteriorating Financial Condition

Two (or 4%) schools were reported to have deteriorating financial conditions. Specifically, during fiscal year 2015,

(a) Belle Glade Excel Charter School. The school’s expenses exceeded revenues by \$538,000.

(b) Learning Path Academy. The school’s expenses exceeded revenues by approximately \$283,000. Additionally, the school’s year-end financial position indicated a “going concern,”¹ due to an increase in the sale of future receivables based on projected FTE funds not yet received.

4. Two Schools With Negative Fund Balance

As of June 30, 2015, two (4%) schools had a negative year-end fund balance², including Learning Path Academy (negative \$360,702) and Toussaint Louverture Arts (negative \$156,707).

¹ A “going concern” citation indicates that the independent auditor was doubtful of the school’s ability to continue as a going concern (i.e. continue its operations without the threat of liquidation) for a reasonable period time.

² Fund balance is the residual amounts at fiscal year-end that are available to finance the school’s subsequent year’s operations.

5. 12 Schools With Negative Net Assets (Net Position)

As of June 30, 2015, 12 (25%) schools had a negative year-end net position balance, ranging from negative \$50,796 to negative \$2,212,596. Moreover, the net position for nine of these 12 schools deteriorated from the prior Fiscal Year 2014. (Please Table 2 on page 12.)

6. Eagle Arts Academy Cited Related Party Transactions With Its Management Company

The Eagle Arts Academy charter school entered into a five-year management agreement with “iSchools, LLC” for the general management of the charter school’s operations. Based on inquiry of charter school personnel and examination of the charter school’s transactions and records, the independent CPA noted that several related party transactions had occurred which were prohibited under the contract. The related party transactions pertained to financial transactions amongst the landlord, management company, and charter school personnel.

7. Eagle Arts Academy Cited “Significant Deficiency” In Internal Controls

Eagle Arts Academy charter school had one significant internal control deficiency identified by the independent auditor. Specifically, the independent auditor noted that 28 checks were unaccounted for and not listed on the School’s bank reconciliation as either issued, outstanding, or voided; and none of the 28 checks had been cashed or processed for payment by the bank.

8. Learning Path Academy Cited One Instance Of Noncompliance Or Other Matters

During 2015, the CPA for Learning Path Academy indicated that *“our tests disclosed one instances [sic] of noncompliance or other matters that are required to be reported under Government Auditing Standards.”* Specifically, the school has *“an ongoing relationship with Charter School Capital, Inc. (CSC) since September 2013 whereby CSC advances working capital funds to Learning Path Academy by purchasing future Florida Education Finance Program (i.e. FEFP) revenues....The increase in the outstanding balance of advances from CSC was due to the school's enrollment continuing to increase after FTE cutoffs, resulting in the requirement of additional instructional staff being added without the receipt of additional funding from the school district.”*

9. Somerset Academy Boca East Did Not Fully Implement Corrective Actions For 2014 Audit Findings

During the 2014 audit, the auditor noted (1) several instances where the deposit summary recap sheets were missing the signature of the School Treasurer and/or the teacher or sponsor, and (2) instances where check request forms were not properly signed by the treasurer and/or principal. During the 2015 audit, the auditor concluded that, *“improvement has been made, but the School has not fully implemented our recommendation.”*

10. Renaissance Learning Center Did Not Comply With *Florida Statute Section 1002.33(9)(p)* Regarding Website Information

The 2015 Audit of Renaissance Learning Center indicated that the school did not maintain certain information on its website as required by *Florida Statutes Section 1002.33(9)(p)*. However, the audit report did not state what information was missing from the school's website but stated that "*partial information was available,*" and recommended that the school's website be monitored on a quarterly basis for compliance with the statutory requirements. As part of the District's periodic monitoring process, the Charter Schools Department should ensure that charter schools maintain the requisite information on their websites.

11. Five Schools Had Recommendations To Improve Financial Management

As required by the *Rule of the Auditor General, Section 10.854(1)(e)3*, the independent auditors included findings and recommendations to improve the schools' financial management for the following five charter schools in their Audit Reports: (i) Ben Gamla Palm Beach, (ii) Franklin Academy C, (iii) Franklin Academy D, (iv) Somerset Academy Boca East, and (v) Somerset Academy Canyons Middle School. As part of the ongoing monitoring, the District's Charter Schools Department should confirm that appropriate actions are taken by the schools to address the independent auditors' concerns and recommendations.

12. Need to Generate and Use Monthly Compliance Reports for All Charter Schools

In fiscal year 2014, the School District purchased the Charter Tools software to assist the monitoring of charter school operations. Prior to the installation of the Charter Tools, each District department was responsible for tracking respective compliance of each charter school. There was no consistency in the reporting and monitoring of charter schools for efficient operations. With the Charter Tools system, benchmarks are now set-up by each District department (i.e. "due dates" for financial information) and Charter Tools sends an automatic reminder and past due reminder to charter school contacts. Additionally, the software also has a Compliance Report function that summarizes the charter school's compliance with provision of its Agreement and Florida Statutes.

Given that the District's Charter Schools Department maintains the compliance reports in the Charter Tools system, the department should generate Monthly Compliance Reports for each charter school so that the School District is well informed of the financial strength and operational performance of charter schools in our county.

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MEMORANDUM

TO: Honorable Chair and Members of the School Board
Robert M. Avossa, Ed.D., Superintendent of Schools
Chair and Members of the Audit Committee

FROM: Lung Chiu, CPA, Inspector General

DATE: October 28, 2016

SUBJECT: Review of Charter Schools' Independent CPA Reports

PURPOSE AND AUTHORITY

Pursuant to the *Office of Inspector General 2015-2016 Work Plan*, we have reviewed the Annual Financial Audits prepared by independent Certified Public Accountants (CPA) for the charter schools operating in Palm Beach County during Fiscal Year 2015. The primary objective of this review was to report significant financial trends and findings of charter schools identified in their latest audits by outside CPA.

SCOPE AND METHODOLOGY

This review covered Fiscal Years 2014 and 2015 Annual Financial Audits prepared by independent CPAs for the 48 charter schools operating in Palm Beach County during Fiscal Year 2015. We reviewed the significant information contained in the CPA reports, and presented a summary of:

- Schools with deteriorating financial conditions.
- Schools with negative fund balances.
- Schools with negative net assets.
- Significant audit findings identified by the CPAs during their audits.

The draft report was sent to management for review and comments. Management's comments are included in the Appendix. We appreciate the courtesy and cooperation extended to us by District staff during the review. The final draft report was presented to the Audit Committee at its October 28, 2016, meeting.

BACKGROUND

Charter schools are non-profit 501(c)(3) organizations that have a contract or *Charter Agreement* with its Sponsor (i.e., the School District) to provide the same educational services to students as traditional public schools. Charter schools receive Florida Education Finance Program (FEFP) funds based on the student enrollments at the schools. Thus, as recipients of tax payer dollars, charter schools are to be good stewards of all public funds received which is critical to the overall success of the charter school.

Annual Financial Audits by Independent Certified Public Accountants. To ensure that charter schools' public funds are spent appropriately and transparently, *Florida Statutes Section 218.39* and the School District's *Charter School Contract* require charter schools to engage an independent Certified Public Accountant (CPA) to conduct an annual financial statement audit prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP). *Florida Statutes Section 218.31(17)*, defines a financial audit as an examination of financial statements in order to express an opinion on the fairness with which they are presented in conformity with GAAP and an examination to determine whether operations are properly conducted in accordance with legal and regulatory requirements.

The scope of the independent CPA's annual financial audits includes an examination of the financial statements and the issuance of a report on compliance and internal control in accordance with *Generally Accepted Government Auditing Standards (GAGAS)* issued by the Comptroller General of the United States. Financial audits must be conducted in accordance with *GAGAS* and *Generally Accepted Auditing Standards*.

Florida Statutes Section 218.39 establishes several requirements that independent CPA's must follow when conducting financial audits of charter schools. Independent CPA's performing charter school financial audits must:

- Prepare a management letter that is included as a part of the financial audit report.
- Discuss all the auditor's comments that will be included in the financial audit report with the appropriate official(s); and
- Conduct the audits in accordance with Rules of the Florida Auditor General.

Additionally, the law requires that the charter school's officers respond in writing to findings contained in the independent CPA's audit reports and management letters. The governing body of the charter school is required to submit a written response within 30 days after delivery of the CPA's audit findings.

Florida Auditor General. Pursuant to *Florida Statutes Section 11.45(7)(b)* and *Section 218.39(7)*, the Florida Auditor General (FL AG), in consultation with the State Board of Accountancy, is required to review all charter school financial audit reports prepared by independent CPA's. The financial audit reports for FY 2014-15 year were required to be submitted to the FL AG within 45 days after delivery of the audit report to the charter school's governing body, but no later than nine months after the end of the charter school's fiscal year (i.e., March 31, 2016).

The objectives of the FL AG’s review are to determine whether the charter schools’ audited financial statements were (1) in compliance with *GAGAS, Generally Accepted Accounting Principles (GAAP)*, and Chapters 10.800 and 10.850 of the Rules of the Auditor General; and (2) the financial statements were prepared by CPA’s properly licensed by the Florida Board of Accountancy.

The Florida Auditor General conducted a “desk review” of the independent auditors’ financial statement reports as the FL AG’s reviews are “*necessarily limited to the contents of the audit reports submitted to us,*” and do not, “*extend to a determination of whether the auditors followed all generally accepted government auditing standards in the actual conduct of the audits.*” Additionally, the FL AG’s reviews are limited to the contents of the audit reports provided to the FL AG and thus, the review cannot be used as the basis for determining the extent of the entity’s compliance with applicable laws, rules, regulations, charters, contractual requirements, or bond covenants. Therefore, the FL AG’s “desk review” would not disclose whether the auditor reported all instances of noncompliance or reportable internal control deficiencies noted during the audit, or whether certain required financial disclosures were completely omitted from the audit report.

Similarly, we performed a desk review of the independent CPA’s audit reports for each District charter school’s annual financial statement audit for FY15. Our review was limited to the contents of the CPA’s independent financial statement audit reports and does not include a review of the independent CPA’s workpapers.

Summary of Key Information for District’s Charter Schools

The following four Exhibits summarized the major information relative to the 48 charter schools operated in the School District during Fiscal Year 2015:

Exhibit 1: Location (Map) of the 48 Charter Schools

Exhibit 2: Charter Schools School Grades, Enrollment, and FTE Funds
During Fiscal Years 2014 and 2015

Exhibit 3: Fiscal Years 2014 and 2015 Year-End Financial Positions

Exhibit 4: Summary of Fiscal year 2015 Major Audit Findings

Exhibit 1

Locations (Map) of the 48 Charter Schools

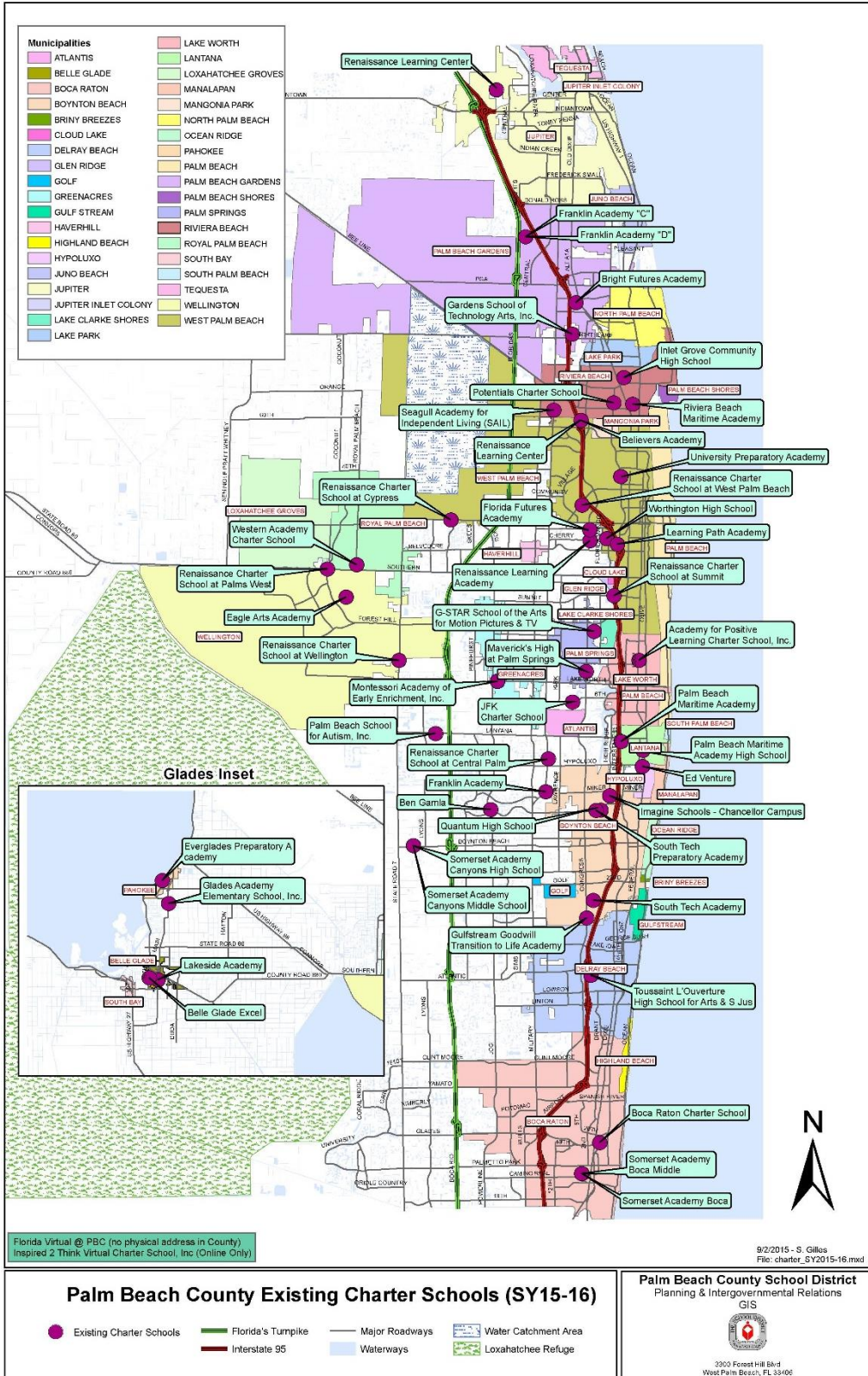


Exhibit 2

Charter Schools School Grades, Enrollment, and FTE Funds During Fiscal Years 2014 and 2015

Charter School	2015 Board Chair	Programs / Students Served	Opening Date	School Grades			2015 Enrollment	FTE Funds	
				2014	2015	2016		2014	2015
Academy for Positive Learning	Doris Wesley	K-8/ KAGAN	08/16/04	B	A	B	137	\$811,568	\$805,605
Believers Academy	Melissa Smith	Ages14-21/ ESE	08/11/06	N/A	N/A	N/A	117	\$1,328,838	\$1,428,826
Belle Glade Excel CS	Susan Hanas	K-5/ Traditional	08/20/13	-	F	F	123	\$718,398	\$834,934
Ben Gamla Charter School	Kelly Mallon	K-6/Hebrew Language	08/22/11	A	A	A	292	\$1,849,362	\$1,972,828
Boca Raton Charter School	Bivian L. Free	K-5/ Internat'l Bacc.	03/01/06	A	C	C	101	\$640,103	\$646,090
Bright Futures Academy	Lawrence Larmer	K-8/ Traditional Curric.	08/11/01	C	C	D	547	\$4,908,658	\$4,153,298
Eagle Arts Academy	Greg Blount	K-8/ Performing Arts	08/18/14	-	C	D	686	\$-	\$4,079,548
Ed Venture	Candice Everhart	Ages16-22/ ESE	08/01/98	N/A	N/A	N/A	74	\$1,534,633	\$1,299,785
Everglades Preparatory Academy	Emilia Fanjul	9-12/ Alternative H.S.	08/14/02	N	TBD	N/A	88	\$538,941	\$520,685
Florida Virtual Academy @ PBC	Philip E. Morgaman	K-12/ Traditional	08/20/13	D	I	I	87	\$259,395	\$441,449
Franklin Academy B	Scott E. Sznitken	K-8/ Traditional	08/20/13	D	A	B	1179	\$7,278,381	\$8,466,229
Franklin Academy C	Scott E. Sznitken	K-5/ Traditional	08/18/14	N/A	B	B	808	\$-	\$4,513,984
Franklin Academy D	Scott E. Sznitken	K-5/ Traditional	08/18/14	N/A	A	C	306	\$-	\$947,717
Gardens School of Technology Arts	Debra K. Moore	K-8/ Technology Arts	08/02/11	C	A	C	269	\$1,369,230	\$1,458,564
Glades Academy	Emilia Fanjul	K-8/ Traditional	08/14/01	C	TBD	F	198	\$767,253	\$1,325,626
G-Star School of the Arts	Cindy D'Agostino	9-12	08/13/03	A	A	B	982	\$6,268,834	\$6,340,977
Gulfstream Goodwill LIFE Academy	Dr. Ronald Albano	Ages14-22/ ESE	08/01/05	N/A	N/A	N/A	77	\$1,109,322	\$1,168,403
Imagine Schools - Chancellor Campus	Chris Johnson	K-8/ Technology Arts	08/14/01	B	C	A	1002	\$6,290,383	\$6,578,010
Inlet Grove Community HS	Dr. Charles Woodward	9-12/ Career Academy	08/11/04	B	A	B	691	\$3,987,875	\$3,852,353
JFK Medical Center Charter School	Bernard Kimmel, MD	K-7/ Traditional	08/14/02	B	B	B	507	\$3,373,770	\$3,514,935
Lakeside Academy	Rickey S. Butts	K-6/ Traditional	01/20/99	A	F	F	118	\$612,320	\$680,132
Learning Path Academy	Lorraine Alexander	PreK-5	08/20/13	N	F	F	162	\$1,189,849	\$1,378,691
Mavericks High School at Palm Springs	Tony Batallan, Jr.	9-12/ Alternate H.S. At-Risk	08/22/11	N	TBD		442	\$3,062,844	\$3,339,447
Montessori Academy of Early Enrichment	Ella Murphy	Ages3-10/ PreK-5 th grade	09/06/05	F	B	B	210	\$1,412,668	\$1,496,514
Palm Beach Maritime Academy	Andrew C. Binns	K-8/ Maritime Studies	01/04/00	B	C	C	1075	\$6,663,209	\$7,311,342
Palm Beach Maritime Academy HS	Andrew C. Binns	9-12/ Maritime Studies	08/18/14	N	B	C	100	\$-	\$343,923
Palm Beach School for Autism	Ms. Randee Gabriel	PreK-9/ Autism	08/11/03	N/A	N/A		266	\$5,196,568	\$5,746,975
Potentials CS	Christy Chane	Age3-10/ ESE/	08/11/01	N/A	N/A		26	\$741,899	\$647,458

Exhibit 2

Charter Schools School Grades, Enrollment, and FTE Funds During Fiscal Years 2014 and 2015

Charter School	2015 Board Chair	Programs / Students Served	Opening Date	School Grades			2015 Enrollment	FTE Funds	
				2014	2015	2016		2014	2015
Quantum High School	Angela Narine	Physically impair Grade9-12/Alternate H.S./At-Risk	08/20/12	N	TBD		326	\$2,613,671	\$2,541,820
Renaissance Charter School at Central Palm	Ken Haiko	K-8	08/18/14	N/A	D	C	768	\$-	\$3,461,498
Renaissance Charter School at Cypress	Ken Haiko	K-8	08/18/14	N/A	C	D	354	\$-	\$2,987,284
Renaissance Charter School at Palms West	Ken Haiko	K-8/ Traditional Curric.	08/20/13	B	B	C	774	\$4,357,440	\$4,885,494
Renaissance Charter School at Summit	Ken Haiko	K-8/ Traditional Curric.	08/20/13	C	D	C	970	\$3,956,714	\$5,298,037
Renaissance Charter School at Wellington	Ken Haiko	K-8/ Traditional Curric.	08/18/14	N	C	C	491	\$-	\$2,521,184
Renaissance Charter School at WPB	Ken Haiko	K-8/ Traditional Curric.	08/20/12	C	C	B	929	\$4,831,250	\$6,085,667
Renaissance Learning Academy	Richard Busto	Ages14-21/ ESE Autism	08/18/09	N/A	N/A		100	\$1,869,184	\$2,087,405
Renaissance Learning Center / Learning Center at the Els Center of Excellence	Cynthia Perini	PreK- Age14/ ESE Autism	08/16/99	N/A	N/A		107	\$2,529,183	\$2,689,505
Riviera Beach Maritime Academy	George Carter	9-12/ Maritime, Science, Tech	08/16/06	B	A	B	157	\$1,091,157	\$1,012,396
Seagull Academy for Independent Living	Laura Fowler	6-12/ Ages 11-22/ ESE	08/14/02	N/A	N/A		48	\$655,457	\$642,602
Somerset Academy Boca EAST	David Concepcion	K-5/ Traditional Curric.	08/20/12	B	A	A	339	\$1,847,304	\$2,105,671
Somerset Academy Boca Middle School	David Concepcion	6-8/ Traditional Curric.	08/20/12	A	A	A	61	\$132,012	\$243,704
Somerset Academy Canyons High School	David Concepcion	9-12/ Traditional Curric.	08/20/13	B	A	B	432	\$651,300	\$1,417,164
Somerset Academy Canyons Middle School	David Concepcion	6-8/ Traditional Curric.	08/20/13	B	A	B	872	\$3,121,690	\$4,424,104
South Tech Charter Academy	James F. Notter	9-12/ Career Academy	08/11/14	A	A	B	1130	\$7,069,428	\$7,328,453
South Tech Preparatory Academy (MS)	James F. Notter	9-12/ Career Academy	08/20/13	N	C	D	370	\$488,105	\$1,140,672
Toussaint L' Ouverture High School	Mackenson Bernard	9-12/ Arts & Social	08/14/01	N	TBD		149	\$1,204,728	\$1,070,693
Western Academy Charter Scholl	Craig Salisbury	K-8/ Project Child	09/02/03	A	A	A	456	\$2,431,850	\$2,748,807
Worthington High School	Angela Narine	9-12/ Alternate H.S. At-Risk	08/20/12	N	TBD		284	\$2,114,190	\$2,022,994
Total (48 Schools)							19,787	\$103 Million	\$132 Million

Exhibit 3

Charter Schools Year-End Fund Balances and Total Net Assets During Fiscal Years 2014 and 2015

Charter School	Fund Balance			Total Net Asset		
	2014	2015	Change (FY15-FY14)	2014	2015	Change (FY15 - FY14)
Academy for Positive Lrn	\$150,746.00	\$128,105.00	(\$22,641)	\$388,271	\$331,292	(\$56,979)
Believers Academy, inc.	\$452,941.00	\$537,543.00	\$84,602	\$443,613	\$518,949	\$75,336
Belle Glade Excel Cht School	(\$106,334.00)	\$40,634.00	\$146,968	(\$501,819)	\$537,622	\$1,039,441
Ben Gamla - Palm Beach	\$234,411.00	\$112,262.00	(\$122,149)	\$765,390	\$805,973	\$40,583
Boca Raton Charter School	\$520,809.00	\$370,831.00	(\$149,978)	\$540,687	\$381,357	(\$159,330)
Bright Futures Academy	\$157,767.00	\$164,354.00	\$6,587	\$345,984	\$377,204	\$31,220
Eagles Art Charter	\$0.00	\$54,988.00	\$54,988	\$0	\$91,184	\$91,184
Ed Venture Charter School	\$1,166,686.00	\$1,047,669.00	(\$119,017)	\$1,275,058	\$1,130,190	(\$144,868)
Everglades Prep Academy	\$64,330.00	\$53,910.00	(\$10,420)	\$708,683	\$663,286	(\$45,397)
FloridaVirtualAcademyPBchCnty	\$8,629.00	\$8,629.00	\$0	\$8,629	\$8,629	\$0
Franklin Academy Cht School B	\$1,110.00	\$271,184.00	\$270,074	\$282,898	\$895,715	\$612,817
Franklin Academy Cht School C	\$0.00	\$44,003.00	\$44,003	\$0	\$331,484	\$331,484
Franklin Academy Cht School D		\$135,145.00	\$135,145	\$0	\$191,581	\$191,581
Gardens Sch of Tech Arts, Inc	\$211,605.00	\$225,607.00	\$14,002	\$215,313	\$255,467	\$40,154
Glades Academy, Inc	\$48,842.00	\$257,149.00	\$208,307	\$79,690	\$281,179	\$201,489
G-Star Charter	\$1,030,700.00	\$1,330,872.00	\$300,172	(\$983,463)	(\$918,510)	\$64,953
GulfstreamGoodwil LIFE Academy	\$51,197.00	\$83,422.00	\$32,225	(\$142,573)	(\$92,305)	\$50,268
Imagine Sch-Chancellor Campus	\$487,976.00	\$276,726.00	(\$211,250)	\$703,064	\$1,015,040	\$311,976
Inlet Grove Community High	\$381,209.00	\$392,610.00	\$11,401	\$361,189	\$277,106	(\$84,083)
JFK Medical Center Charter Sch	\$563,629.00	\$660,840.00	\$97,211	\$236,317	\$193,150	(\$43,167)
Lakeside Academy Charter	\$299,687.00	\$285,617.00	(\$14,070)	\$317,074	\$293,770	(\$23,304)
Learning Path Academy	(\$61,053.00)	(\$360,702.00)	(\$299,649)	\$7,584	(\$275,512)	(\$283,096)
Mavericks HS of Palm Springs	\$66,716.00	\$904,667.00	\$837,951	\$1,213,050	\$1,306,342	\$93,292
Montessori Acad Early Enrich	\$197,518.00	\$254,110.00	\$56,592	\$489,251	\$493,420	\$4,169
Palm Beach School for Autism	\$1,270,268.00	\$1,427,885.00	\$157,617	\$1,555,496	\$2,056,117	\$500,621
PB Maritime Academy Charter	\$515,312.00	\$490,895.00	(\$24,417)	(\$336,923)	(\$2,212,596)	(\$1,875,673)
PB Maritime High School	\$0.00	\$1,078.00	\$1,078	\$0	\$1,078	\$1,078
Potentials Charter School	--	\$0.00	\$0	\$119,735	\$89,582	(\$30,153)
Quantum High School	\$128,954.00	\$454,443.00	\$325,489	\$583,222	\$906,822	\$323,600
Renaissance Cht Sch at Summit	\$463,898.00	\$263,662.00	(\$200,236)	(\$630,990)	(\$911,135)	(\$280,145)
Renaissance Cht Sch at WPBch	\$355,237.00	\$421,582.00	\$66,345	(\$664,790)	(\$754,573)	(\$89,783)
Renaissance Cht Sch PalmsWest	\$34,599.00	\$113,544.00	\$78,945	(\$1,028,968)	(\$1,177,599)	(\$148,631)
Renaissance CS at Central Palm		\$93,367.00	\$93,367	\$-	\$39,715	\$39,715
Renaissance CS at Cypress		\$954,569.00	\$954,569	\$-	(\$893,197)	(\$893,197)
Renaissance CS at Wellington		\$100,877.00	\$100,877	\$-	\$53,953	\$53,953
Renaissance Learning Academy	\$613,148.00	\$543,278.00	(\$69,870)	\$689,450	\$596,463	(\$92,987)
Renaissance Learning Center	\$1,343.00	\$195,816.00	\$194,473	\$125,791	\$298,260	\$172,469
Riviera Beach Maritime Academy	\$32,259.00	\$48,368.00	\$16,109	\$104,486	\$122,029	\$17,543
Seagull Acad-Independent Chart	\$120,721.00	\$95,536.00	(\$25,185)	\$169,662	\$127,658	(\$42,004)
Somerset Acad Canyons Hg Sch	\$120,526.00	\$218,416.00	\$97,890	\$221,386	\$300,280	\$78,894
Somerset Acad Canyons Md Sch	\$72,626.00	\$656,375.00	\$583,749	\$638,032	\$1,197,836	\$559,804
Somerset Academy Boca East	\$288,766.00	\$441,002.00	\$152,236	\$202,114	\$350,816	\$148,702
Somerset Academy Boca Middle	\$214.00	\$71,223.00	\$71,009	\$214	\$71,223	\$71,009
South Tech Charter Academy	\$2,501,698.00	\$1,363,778.00	(\$1,137,920)	(\$6,606)	(\$136,470)	(\$129,864)
South Tech Preparatory Academy	\$240,779.00	\$323,826.00	\$83,047	(\$233,847)	(\$50,796)	\$183,051
Toussaint Louverture Arts	(\$87,682.00)	(\$156,707.00)	(\$69,025)	\$21,562	(\$85,420)	(\$106,982)
Western Academy Charter School	\$858,836.00	\$128,391.00	(\$730,445)	\$1,920,562	\$1,192,447	(\$728,115)
Worthington High School	\$323,645.00	\$400,797.00	\$77,152	\$667,176	\$756,283	\$89,107

Exhibit 4

Summary of FY2015 Audit Findings

Charter School	Report on Internal Controls & Compliance		Management Letter				
	Internal Control Deficiencies	Instances of Noncompliance or Others Matters	Corrective Actions Taken on Prior Audit Findings or Recommendations	Deteriorating Financial Condition	Website Includes Information Specified in FL Statutes Section 1002.33(9)(p)	Recommendations to Improve Financial Management	Noncompliance with Provisions of Contracts or Grant Agreements
Academy for Positive Lrn	No	No	N/A	No	Yes	None	No
Believers Academy, inc.	No	No	N/A	No	Yes	None	No
Belle Glade Excel Cht School	No	No	Yes	Yes	Yes	None	No
Ben Gamla - Palm Beach	No	No	N/A	No	Yes	Yes	No
Boca Raton Charter School	No	No	N/A	No	Yes	None	No
Bright Futures Academy	No	No	N/A	No	Yes	None	No
Eagles Art Charter	Yes	No	N/A - 1st year	No	Yes	None	Yes
Ed Venture Charter School	No	No	N/A	No	Yes	None	No
Everglades Prep Academy	No	No	N/A	No	Yes	None	No
FloridaVirtualAcademyP BchCnty	No	No	N/A	No	Yes	None	No
Franklin Academy Cht School B	No	No	N/A	No	Yes	None	No
Franklin Academy Cht School C	No	No	N/A -1st year	No	Yes	Yes	No
Franklin Academy Cht School D	No	No	N/A -1st year	No	Yes	Yes	No
Gardens Sch of Tech Arts, Inc	No	No	N/A	No	Yes	None	No
Glades Academy, Inc	No	No	N/A	No	Yes	None	No
G-Star Charter	No	No	N/A	No	Yes	None	No
GulfstreamGoodwil LIFE Academy	No	No	N/A	No	Yes	None	No
Imagine Sch-Chancellor Campus	No	No	N/A	No	Yes	None	No

Exhibit 4

Summary of FY2015 Audit Findings

Charter School	Report on Internal Controls & Compliance		Management Letter				
	Internal Control Deficiencies	Instances of Noncompliance or Others Matters	Corrective Actions Taken on Prior Audit Findings or Recommendations	Deteriorating Financial Condition	Website Includes Information Specified in FL Statutes Section 1002.33(9)(p)	Recommendations to Improve Financial Management	Noncompliance with Provisions of Contracts or Grant Agreements
Inlet Grove Community High	No	No	Yes	No	Yes	None	No
JFK Medical Center Charter Sch	No	No	N/A	No	Yes	None	No
Lakeside Academy Charter	No	No	N/A	No	Yes	None	No
Learning Path Academy	No	Yes	N/A	Yes	Yes	None	No
Mavericks HS of Palm Springs	No	No	N/A	No	Yes	None	No
Montessori Acad Early Enrich	No	No	N/A	No	Yes	None	No
<i>Number of Schools with the Citations</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>2</i>	<i>1</i>	<i>5</i>	<i>1</i>
Palm Beach School for Autism	No	No	N/A	No	Yes	None	No
PB Maritime Academy Charter	No	No	N/A	No	Yes	None	No
PB Maritime High School	No	No	N/A - 1st year	No	Yes	None	No
Potentials Charter School	No	No	N/A	No	Yes	None	No
Quantum High School	No	No	N/A	No	Yes	None	No
Renaissance Cht Sch at Summit	No	No	N/A	No	Yes	None	No
Renaissance Cht Sch at WPBch	No	No	N/A	No	Yes	None	No
Renaissance Cht Sch PalmsWest	No	No	N/A	No	Yes	None	No
Renaissance CS at Central Palm	No	No	N/A - 1st year	No	Yes	None	No
Renaissance CS at Cypress	No	No	N/A - 1st year	No	Yes	None	No
Renaissance CS at Wellington	No	No	N/A - 1st year	No	Yes	None	No
Renaissance Learning Academy	No	No	Yes	No	Yes	None	No

Exhibit 4

Summary of FY2015 Audit Findings

Charter School	Report on Internal Controls & Compliance		Management Letter				
	Internal Control Deficiencies	Instances of Noncompliance or Others Matters	Corrective Actions Taken on Prior Audit Findings or Recommendations	Deteriorating Financial Condition	Website Includes Information Specified in FL Statutes Section 1002.33(9)(p)	Recommendations to Improve Financial Management	Noncompliance with Provisions of Contracts or Grant Agreements
Renaissance Learning Center	No	No	Yes	No	No	None	No
Riviera Beach Maritime Academy	No	No	N/A	No	Yes	None	No
Seagull Acad-Independent Chart	No	No	N/A	No	Yes	None	No
Somerset Acad Canyons Hg Sch	No	No	Yes	No	Yes	None	No
Somerset Acad Canyons Md Sch	No	No	Yes	No	Yes	Yes	No
Somerset Academy Boca East	No	No	No	No	Yes	Yes	No
Somerset Academy Boca Middle	No	No	N/A	No	Yes	None	No
South Tech Charter Academy	No	No	N/A	No	Yes	None	No
South Tech Preparatory Academy	No	No	N/A	No	Yes	None	No
Toussaint Louverture Arts	No	No	N/A	No	Yes	None	No
Western Academy Charter School	No	No	N/A	No	Yes	None	No
Worthington High School	No	No	N/A	No	Yes	None	No

Notes: (1) All schools received unqualified opinions from their CPAs.

(2) None of the schools were in financial emergency pursuant to *Florida Statute §218.503*.

CONCLUSIONS

1. Four Schools Received a “F” Grade In FY2016

On July 8, 2106, the Florida Department of Education (DOE) released the FY2016 District and School Grades. During 2016, four charter schools received the “F” grade: (1) Belle Glade Excel Charter School, (2) Glades Academy, Inc., (3) Lakeside Academy, and (4) Learning Path Academy.

Pursuant to *Florida Statutes Section 1002.33(9)(n)4* and the DOE’s June 17, 2016, memorandum,

“As of July 1, 2016, a charter school’s contract is automatically terminated if the school earns two consecutive grades of F after all school grade appeals are final. Importantly, districts are no longer required to issue a 90-day notice of termination in this circumstance.”

Recommendation

To protect the best interests of students and the School District, the District should:

- (1) Monitor closely the academic and financial performance of the above four charter schools.
- (2) Withhold the FY2018 FTE funds beginning July 2017 until after DOE has released the FY2017 school grades indicating that the related schools did not receive an F grade in FY2017.
- (3) Include provisions in future *Charter Agreement* allowing the School District to withhold the next year’s FTE funds from schools who received an F grade in prior year, until after DOE has released the new school grade indicating that the school did not receive a consecutive second F grade.

Management’s Comments: The District closely monitors the academic and financial performance of the three remaining schools and will withhold the July 2017 payment if grades have not been released. Lakeside Academy voluntary terminated in August 2016. (Please see page 27.)

2. No Schools In Financial Emergency

Based on review of all charter schools’ independent CPA reports for FY 2015, none of the 48 charter schools were reported to be in a state of a financial emergency condition. Per *Florida Statute §218.503*, a financial emergency exists when any one of the following conditions occurs:

1. Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term debt payments when due, as a result of a lack of funds.
2. Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds.
3. Failure to transfer at the appropriate time, due to lack of funds:
 - a. Taxes withheld on the income of employees; or
 - b. Employer and employee contributions for:
 - i) Federal social security; or
 - ii) Any pension, retirement, or benefit plan of an employee.
4. Failure for one pay period to pay, due to lack of funds:
 - a. Wages and salaries owed to employees; or
 - b. Retirement benefits owed to former employees.

3. Two Schools In Deteriorating Financial Conditions

Pursuant to *Florida Statute §1002.345(1)(a)3.*, a “deteriorating financial condition” means a circumstance that significantly impairs the ability of a charter school to generate enough revenues to meet its expenditures without causing the occurrence of financial emergency.

Based on the 2015 CPAs’ Reports for the 48 charter schools, two (or 4%) schools were reported to have deteriorating financial conditions: (1) Belle Glade Excel Charter School and (2) Learning Path Academy.

a. Belle Glade Excel Charter School

Deteriorating Financial Condition. The independent auditor reported that Belle Glade Excel Charter School’s expenses exceeded revenues by \$538,000 during fiscal year 2015. Also, the independent auditor applied financial condition assessment procedures in accordance with the Rules of the Auditor General Sections 10.854(1)(e)6.a. and 10.855(12), and concluded that:

“Based on our procedures, it appears that the School has a deteriorating financial condition; however, LSF Charter Schools, LLC and its single member, Lutheran Services Florida, Inc. have committed to funding the School through 2016. Additionally, the school expects the financial condition to improve since this is the third year of operations and there are no more start-up expenses.”

b. Learning Path Academy

Deteriorating Financial Condition. For the fiscal year ended June 30, 2015, the School’s expenses exceeded revenues by approximately \$283,000. The independent auditor applied

financial condition assessment procedures in accordance with the Rules of the Auditor General Sections 10.854(1)(e)6.a. and 10.855(12), and concluded that:

“Based on our procedures, it appears that the School has a deteriorating financial condition; however, the school is eligible to continue to be funded by Charter School Capital assuming the school remains in good standing with its sponsor. Additionally, the school expects the financial condition to improve since this is the third year of operation and student count has continue to increase.”

Going Concern. Moreover, the auditor also indicated that:

“The School’s financial position at the end of the fiscal year indicates a going concern. This is primarily due to an increase in the sale of future receivables. The School is eligible to continue to be funded by Charter School Capital assuming the School remains in good standing with its Sponsor.”

Sale of Future Receivable. “Factoring accounts receivable” is the advancement of working capital funds by purchasing the charter school’s future revenue to be earned based on student enrollment (i.e. “full-time equivalency – FTE”). A “**factor**” company purchases the charter school’s accounts receivable by advancing payment to the charter school up front **before** the accounts receivable are paid by the School District via the monthly FTE payments (i.e. *Florida Financial Education Program Revenues (FEFP) funds paid to the charter school based on the number of students enrolled at the school.*)

Learning Path Academy has had an ongoing relationship with Charter School Capital, Inc. (CSC) since September 2013, whereby CSC advances working capital funds to the charter school by purchasing Learning Path Academy’s future FEFP revenues. CSC affirmed with the independent auditor that it will continue this association with Learning Path Academy as long as needed and the charter school continues to be in good standing with the School District of Palm Beach County.

Corrective Action Plan. Learning Path Academy Charter School submitted a Corrective Action Plan (CAP) for the fiscal year-ended 2015 due to its deteriorating financial condition noted in its independent auditor’s report. Specifically, the charter school provided a description of the actions that will resolve the deteriorating financial condition in the CAP. The charter school stated that school enrollment and FTE counts have continued to increase from 157 to 177 students in its October 2015 FTE count, which will increase FTE funding by \$180,200. Further, the charter school management has implemented other cost cutting measures, such as reducing its utility costs by \$1,000 per month. Learning Path Academy Charter School’s management expects to have a positive total net position by June 30, 2016.

OIG Follow-Up. According to the 2015 CPA Report, Learning Path Academy Charter School had a negative net position of \$275,512 as of June 30, 2015. However, based on the June 30, 2015, unaudited “Statement of Financial Activities” for fiscal year 2016, the school’s net position had further deteriorated to a negative \$285,541 as of June 30, 2016.

4. Two Schools With Negative Fund Balance

Fund financial statements are a component of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

Fund balances generally represent residual amounts at fiscal year-end that are available to finance the charter school's subsequent fiscal year's operations and may provide some indication of the financial health of the entity as of the end of the reporting period. Fund balances provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year. The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the School's most significant funds.

As of June 30, 2015, two schools, or 4% of the 48 charter schools, had a negative year-end fund balance:

Table 1
Charter Schools with Negative Fund Balance
As of June 30, 2015

School	Fund Balance		Dollar Change
	June 30, 2014 (A)	June 30, 2015 (B)	(B) – (A)
Learning Path Academy	(\$61,053)	(\$360,702)	(\$299,649)
Toussaint Louverture Arts	(\$87,682)	(\$156,707)	(\$69,025)

5. 12 Schools With Negative Net Assets (Net Position)

Net Assets or Net Position is the difference between the assets and liabilities and is a measurement of the financial health of the charter school. The Statement of Net Position provides information about the school's financial position, its assets and liabilities, using an economic resources measurement focus. An increase or a decrease in net position is an indication of whether the School's financial health is improving or deteriorating.

Of the 48 charter schools in operation during Fiscal Year 2015, 12 (25%) schools had a negative year-end net position balance. See Table 2 below for a list of the charter schools with a negative net position. Net position for nine of the 12 schools deteriorated from prior year.

Table 2
Charter Schools with Negative Net Positions
As of June 30, 2015

School	Net Assets / Position Balance		Dollar Change (B) – (A)
	June 30, 2014 (A)	June 30, 2015 (B)	
1 PB Maritime Academy	(\$336,923)	(\$2,212,596)	(\$1,875,673)
2 Renaissance Palms West	(\$1,028,968)	(\$1,177,599)	(\$148,631)
3 G-Star Charter School	(\$983,463)	(\$918,510)	\$64,953
4 Renaissance at Summit	(\$630,990)	(\$911,135)	(\$280,145)
5 Renaissance at Cypress	\$0 *	(\$893,197)	(\$893,197)
6 Renaissance at West Palm Bch	(\$664,790)	(\$754,573)	(\$89,783)
7 Belle Glade Excel Charter	(\$501,819)	(\$537,622)	(\$35,803)
8 Learning Path Academy	\$7,584	(\$275,512)	(\$283,096)
9 South Tech Charter Academy	(\$6,606)	(\$136,470)	(\$129,864)
10 Gulfstream Goodwill LIFE	(\$142,573)	(\$92,305)	\$50,268
11 Toussaint Louverture Arts	\$21,562	(\$85,420)	(\$106,982)
12 South Tech Prep	(\$233,847)	(\$50,796)	\$183,051

* The school opened in August 2014.

6. Eagle Arts Academy Cited Related Party Transactions With Its Management Company

Rules of the Auditor General, Section 10.854(1)(e)4., requires the independent auditor to address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but warrants the attention of those charged with governance. In connection with the audit of “Eagle Arts Academy,” the independent auditor noted noncompliance with the management agreement between “Eagle Arts Academy” and its Management Company, “iSchools,” as discussed below.

The Eagle Arts Academy charter school entered into a five-year management agreement with “iSchools, LLC” for the general management of the charter school’s operations. The contract detailed the responsibilities of both parties along with various provisions for compensation and performance. Based on inquiry of charter school personnel and examination of the charter school’s transactions and records, the independent CPA noted that several related party transactions had occurred which were prohibited under the contract. With regards to related party transactions, the management agreement contains the following disclosure requirement:

“This Agreement has been negotiated at arms-length, with each party represented by its own legal counsel; this Agreement contains performance requirements for the Manager (iSchools) and requires the Manager to disclose to the Charter School and the Sponsor any affiliations it has with individuals or entities doing business with the Charter School.”

The independent auditor stated, “*Considering the relationship between the landlord, Management Company and School personnel and financial transactions occurring between them, it would appear there is a violation with terms of the contract.*” However, the independent auditor did not indicate the nature of the charter school’s related party financial transactions in its financial audit report. The independent auditor recommended that the School’s governing board institute procedures to properly monitor contracts.

In response to the auditor’s comment, the charter school Governing Board stated that, “*The Contract Administration matter is one that will be addressed by the Board. The Board will work to adopt a policy to properly monitor contracts and address a conflict of interest policy.*”

Recommendation

The District’s Charter Schools Department should verify if the Governing Board of Eagles Arts Academy has adopted a contract monitoring policy as well as a conflict of interest policy. If the Governing Board has not yet adopted these policies, the District should request in writing that the Governing Board adopt such policies in a time certain manner and provide the Charter Schools Department with copies of the actual policies approved by the charter school’s Governing Board. Further, the District should ensure that the school is proactively enforcing its conflict of interest and contract monitoring policies when performing its onsite monitoring of the charter school’s operations.

7. Eagle Arts Academy Cited “Significant Deficiency” In Internal Controls

Pursuant to Government Auditing Standards and AICPA requirements, auditors should communicate in writing significant deficiencies and material weakness in internal controls identified during the audit:

- a. A ***deficiency in internal control*** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.
- b. A ***significant deficiency*** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- c. A ***material weakness*** is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Eagle Arts Academy charter school had one significant internal control deficiency identified by the independent auditor. Specifically, the independent auditor noted that 28 checks were unaccounted for and not listed on the School’s bank reconciliation as either issued, outstanding or voided. As indicated by the *Audit Report*, none of the 28 checks had been cashed or processed for payment by the bank. However, “*Internal controls over cash disbursements should be designed to provide reasonable assurance that no unauthorized payments are made, all liabilities are timely paid, and payments are accurately recorded. These controls include*

accounting for the sequential order of checks as they are released. We recommend the implementation of procedures that all pre-numbered checks be accurately accounted for. Void checks should be defaced and retained and accounted for in numerical sequence.”

In response to the independent auditor’s finding, the management of Eagle Arts Academy charter school stated that, “The school is *providing for an in-house accountant who will have responsibility to ensure that all checks stock is on site, and not off-site as it appears to have been during most of last year. The school has also provided for a filing procedure where all used or voided checks are filed sequentially, and the filing is reviewed monthly by management other than the accountant to ensure that all checks are accounted for. Additionally, the School will close this bank account to prevent any of these checks being presented for payment.”*

Recommendation

The District’s Charter Schools Department should verify that Eagle Arts Academy has a qualified in-house accountant who is responsible for the internal controls associated with the bank account, check stock, check issuance and dual signatures, among other best practices for a treasury function. The District should also request for the charter school to provide a letter from the banking institution, on the bank’s letterhead, that the bank account with the missing checks has in fact been closed by the bank. A copy of the bank letter should be maintained on file at the District.

8. Learning Path Academy Cited One Instance Of Noncompliance Or Other Matters

As part of obtaining reasonable assurance about whether a charter school’s financial statements are free of material misstatement, the independent CPA performs tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. Noncompliance with these governing authorities could have a direct and material effect on the determination of financial statement amounts.

During 2015, the CPA for Learning Path Academy indicated that “*our tests disclosed one instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.*” Specifically, the school has “*an ongoing relationship with Charter School Capital, Inc. (CSC) since September 2013 whereby CSC advances working capital funds to Learning Path Academy by purchasing future Florida Education Finance Program (i.e. FEFP) revenues....The increase in the outstanding balance of advances from CSC was due to the school's enrollment continuing to increase after FTE cutoffs, resulting in the requirement of additional instructional staff being added without the receipt of additional funding from the school district.*”

The advancement of working capital funds by purchasing future charter school revenue earned based on student enrollment (i.e. “full-time equivalency – FTE”) is referred to as “**factoring accounts receivable.**” The definition of “**accounts receivable factoring**” is the selling of accounts receivable in order to secure immediate, working capital (cash). A “**factor**” company purchases the charter school’s accounts receivables by advancing payment to the charter school up front **before** the accounts receivable are paid by the School District via the monthly FTE payments (i.e. *FEFP funds paid to the charter school based on the number of students*

enrolled). This advanced payment is usually 70 – 90% of the total value of the receivables. After charging a small fee (2% and up) the remaining balance is released upon full receipt of payment for all the receivables/invoices. This allows a charter school to be able to have the working capital to continue operations and further growth.

The OIG contacted the District’s Legal Department regarding the practice of a charter school selling at a discount the future receipt of FTE funds based on the enrollment of students. Per the District Legal Department, the District has experienced much difficulty with charter schools entering into factoring agreements, particularly when it appears that the charter school has foreseen financial difficulties that could reasonably lead to financial deterioration and financial non-compliance under the terms of the ***Charter Agreement***.

Due to the fact that several charter schools were closed or had its charter terminated, the District’s Legal Department stated that the factoring agreements are quite an obstacle in the transition and termination process. As a result, the District has revised the current charter agreements to deter/prevent charter schools from entering into “factoring of accounts receivable agreements” as it is not fiscally prudent nor responsible to sell future, unearned FTE revenues.

Recommendation

It is a proactive initiative to revise the District’s current ***Charter School Agreements*** which now include a clause to deter/prevent charter schools from entering into factoring of accounts receivable agreements as it is not fiscally prudent nor responsible to sell future, unearned FTE funds.

Management’s Comments for Conclusions #2 through #8:

The charter contract requires that audited financial statements are submitted by September 30 each year. The District’s review of the audited financial statements was completed in October and November 2015. In addition to review of the annual audited financial statements, monthly unaudited financial statements are reviewed as required under FAC 6A-1.0081 throughout the year. The governing body of the charter school is responsible for reviewing and approving the audit report, including audit findings and recommendations for the financial recovery plan. The district reviews each audit report for unmodified opinion, deteriorating financial condition, financial emergency, significant deficiencies or material weaknesses. Based on the District review of the audited and monthly financial statements four schools were placed on a Corrective Action Plan during FY 2016:

- *Learning Path – Learning Path is currently under a Financial Corrective Action Plan (CAP) with the District due to having insufficient reserves to absorb the deficit incurred in first two years of operation of \$360,702. The CAP submitted to the District projected a surplus in FY 2016 of \$180,200. The actual unaudited surplus is only \$11,567. The FY 2017 school budget is based on 219 students although current enrollment is well below at 184. If enrollment does not increase by the October Survey period (October 10-14, 2016) additional action may be taken by the District.*

- *Toussaint Louverture - Toussaint is currently under a CAP with the District due to declining enrollment and lack of sufficient reserves to absorb the deficit. The CAP submitted to the District identified target minimum enrollment necessary to operate the school. The current enrollment of 126 is well below the projected minimum enrollment determined by the school necessary to operate. If enrollment does not comply with the minimum enrollment of 152 included within the CAP by the October Survey period (October 10-14, 2016) additional action may be taken by the District.*
- *Florida Futures is currently under a CAP with the District due to declining enrollment and lack of sufficient reserves to absorb the deficit. The CAP submitted to the District identified target minimum enrollment necessary to operate the school. The current enrollment of 118 is well below the projected minimum enrollment determined by the school necessary to operate. If enrollment does not comply with the minimum enrollment of 225 included within the CAP by the October Survey period (October 10-14, 2016) additional action may be taken by the District.*
- *Riviera Beach Maritime - Viking Yacht Company provided a letter of commitment pledging resources to support the school's continued operation and to guarantee construction and financing of a new facility. The commitment letter addressed the District's financial concerns. It is noted that the school has not been able to increase enrollment in FY 2017.*

Based on the District review of the audited and monthly financial statements two schools were placed on a Corrective Action Plan during FY 2015:

- *Belle Glade Excel is not currently under a CAP with the District since outside funding has covered the deficit incurred due to declining enrollment. Lutheran Services of Florida Inc. (LSF) pledged to fund the school through FY16. LSF provided a cash advance to Belle Glade Excel in the amount of \$636,131 in 2015, to cover the school's general fund deficit and operating capital. The FY 2017 Budget submitted to the district is based on an enrollment of 129 students although current enrollment is well below at 88. If enrollment does not increase by the October Survey period (October 10-14, 2016) additional action may be taken by the District.*
- *Eagle Arts – As a result a concerns, District staff first requested the Inspector General perform a review of the school in September 2014. The review resulted in an audit of FY 2015. Due to the nature of the findings in the Inspector General report, District staff sent a written notification of non-compliance with charter school contract and statute on September 7, 2016. District staff also requested the Inspector General perform a follow-up audit for FY 2016. Eagle Arts has contracted with Charter School Management Corporation for business support services from July 1, 2016 through June 30, 2019.*

(Please see page 27.)

9. Somerset Academy Boca East Did Not Fully Implement Corrective Actions For 2014 Audit Findings

Somerset Academy Boca East had a prior year audit finding which had not been fully addressed. During the 2014 audit, the auditor noted (1) several instances where the deposit summary recap sheets were missing the signature of the School Treasurer and/or the teacher or sponsor, and (2) instances where check request forms were not properly signed by the treasurer and/or principal. During the 2015 audit, the auditor concluded that, *“improvement has been made, but the School has not fully implemented our recommendation.”*

Recommendation

The District’s should verify whether the School Treasurer for Somerset Academy Boca East has implemented the independent auditor’s recommendation regarding the deposit summary recap sheets as well as the check request forms having the proper authorized signatures affixed on the face of these accounting documents. Further, the District should ensure that the school consistently adheres to all internal controls associated with bank deposits and check request forms when performing its onsite monitoring of the charter school’s operations.

Management’s Comments: The District reviews each audit report for unmodified opinion, deteriorating financial condition, financial emergency, significant deficiencies or material weaknesses, and deficiencies that have repeated for three consecutive years. (Please see page 29.)

10. Renaissance Learning Center Did Not Comply With Florida Statute Section 1002.33(9)(p) Regarding Website Information

The rules of the Auditor General, specifically Sections 10.854(1)(e)7 and 10.855(13), require that the independent CPA apply appropriate procedures to determine whether the charter school maintains a website that allows the public to obtain information regarding the school, which is specified in *Florida Statutes Section 1002.33(9)(p)*. To comply with the Florida statutes requirements, the following information is required to be on all charter schools’ websites:

- a) The school’s academic performance;
- b) The names of the governing board members;
- c) The programs at the school;
- d) Any management companies, service providers, or education management corporations associated with the school;
- e) The school’s annual budget and its annual independent fiscal audit;
- f) The school’s grade pursuant to s.1008.34; and,
- g) On a quarterly basis, the minutes of governing board meetings.

The 2015 Audit of Renaissance Learning Center indicated that the school did not maintain certain information on it’s website as specified in *Florida Statutes Section 1002.33(9)(p)*.

However, the audit report did not state what information was missing from the school’s website but did state that “*partial information was available,*” and recommended that the school’s management monitor its website on a quarterly basis for compliance with the statutory requirements.

Recommendation

The Department of Charter Schools should ensure that charter schools maintain the requisite information on their websites as specified in *Florida Statutes Section 1002.33(9)(p)*. Compliance with this website requirement should be part of the District’s periodic monitoring process.

Management’s Comments: The management letter comment has been addressed. (Please see page 29.)

11. Five Schools Had Recommendations To Improve Financial Management

As required by the *Rule of the Auditor General, Section 10.854(1)(e)3*, the independent auditors included findings and recommendations to improve the schools’ financial management for the following five charter schools in their Audit Reports: (i) Ben Gamla Palm Beach, (ii) Franklin Academy C, (iii) Franklin Academy D, (iv) Somerset Academy Boca East, and (v) Somerset Academy Canyons Middle School.

i) Ben Gamla Palm Beach

The 2015 Audit revealed that Check Requisition and Purchase Order Forms were not being used consistently; and two of 20 checks did not have the required dual signature. The independent auditor recommended that the School adhere to its internal control policies and procedures manual relating to the internal account so that Check Requisition and Purchase Order Forms are properly completed and approved, as applicable. In addition, it was recommended that the charter school’s personnel who handles the internal account activity receive training on internal account policies and procedures.

The management of Ben Gamla Palm Beach stated that the School would adhere to the independent auditor's recommendation. The School’s management indicated that all Check Requisitions and Purchase Order Forms would be completed in their entirety and approval signatures would be obtained. Lastly, the school’s management stated that the School Treasurer would be thoroughly trained on internal accounting policies and procedures.

Recommendation

The District’s Charter Schools Department should verify that Ben Gamla Palm Beach’s School Treasurer / in-house accountant is adhering to the school’s procedures for Check Requisitions and Purchase Order Forms. Additionally, during the on-site visit to Ben Gamla Palm Beach charter school, the District should determine whether the School Treasurer is in fact receiving proper training on the internal controls and procedures associated with the various accounting functions.

ii) Franklin Academy C

The independent auditor noted that there were a number of transactions involving the charter school, “Franklin Academy C,” and its charter holder, “Florida Charter Foundation,” and transactions with other charters schools under the ownership of the “Florida Charter Foundation,” that share a facility with Franklin Academy C. The Management Letter stated that the transactions included advances, allocation of costs and revenue that create balances for due to and from, recoverable grants, and payments for management and administrative services. Additionally, the independent auditor found that there are no complete agreements or policies that govern these transactions and thus, large due to/from balances and offsetting balances have been created between the charter schools and the charter holder, the Foundation.

The independent auditor recommended that because of the significant dollar amount of these transactions, management should establish with the Board, policies that govern these transactions. These policies should establish the rates for services, criteria for receiving recoverable grants, basis for allocations, and procedures for fund transfers. The Franklin C Academy management responded that it would present to the governing board a set of policies to support such transactions.

Recommendation

The District’s Charter Schools Department should verify whether the Governing Board of Franklin C Academy has adopted a set of policies that govern transactions among Franklin Academy C, its charter holder, “Florida Charter Foundation,” and transactions with other charters schools under the ownership of the “Florida Charter Foundation,” which share a facility with Franklin Academy C.

The adopted policies established by the Governing Board should address transactions such as advances, allocation of costs and revenue that create balances due to and from, recoverable grants, and payments for management and administrative services amongst these related entities. Additionally, the school should establish procedures for rates of services, criteria for receiving recoverable grants, basis for allocations, and fund transfers.

The District may request in writing that the Governing Board adopt such policies in a time certain manner and provide the Charter Schools Department with copies of the actual policies approved by the charter school’s Governing Board.

iii) Franklin Academy D Charter School

Comments are similar to Franklin Academy C’s audit. The independent auditor noted that there were a number of transactions involving the charter school, “Franklin Academy D,” and its charter holder, “Florida Charter Foundation,” and transactions with other charters schools under the ownership of the “Florida Charter Foundation,” that share a facility with Franklin Academy D. The Management Letter stated that the transactions included

advances, allocation of costs and revenue that create balances for due to and from, recoverable grants, and payments for management and administrative services. Additionally, the independent auditor concluded that there are no complete agreements that govern these transactions and thus, large due to/from balances and offsetting balances have been created between the charter schools and the Foundation.

The independent auditor recommended that because of the significant dollar amount of these transactions, management should establish with the Board, policies that govern these transactions. These policies should establish the rates for services, criteria for receiving recoverable grants, basis for allocations, and procedures for fund transfers. The Franklin Academy D management responded that it would present to the governing board a set of policies to support such transactions.

Recommendation

The District's Charter Schools Department should verify whether the Governing Board of Franklin D Academy has adopted a set of policies that govern transactions among Franklin Academy D, its charter holder, "Florida Charter Foundation," and transactions with other charters schools under the ownership of the "Florida Charter Foundation," which share a facility with Franklin Academy D.

The adopted policies established by the Governing Board should address transactions such as advances, allocation of costs and revenue that create balances due to and from, recoverable grants, and payments for management and administrative services amongst these related entities. Additionally, the school should establish procedures for rates of services, criteria for receiving recoverable grants, basis for allocations, and fund transfers.

The District may request in writing that the Governing Board adopt such policies in a time certain manner and provide the Charter Schools Department with copies of the actual policies approved by the charter school's Governing Board.

iv) Somerset Academy Boca East

In connection with the independent audit, the following recommendations to improve financial management were noted in the charter school's Annual Financial Audit:

- a. With regards to the charter school's internal accounts, the independent auditor noted instances where cash receipts were not given to the students when \$15 or more in cash was collected from the student. It was recommended by the independent auditor that the School Treasurer follow the charter school's internal policy and that all cash receipts over the established threshold are accompanied by an official school receipt.
- b. Status of Prior Year Findings and Recommendations: In the prior fiscal year (2014), the independent auditor noted several instances where the deposit summary recap sheets were missing the signature of the School Treasurer and/or the teacher or sponsor. Additionally, the independent auditor noted instances where Check Request Forms were not properly signed by the treasurer and/or principal. It was recommended that

the School Treasurer follow the School's internal policy and that all deposit recap sheets contain both the teacher and sponsor's signature when submitting funds for deposit, and with the treasurer's signature as acknowledgment and verification of the deposits received. Additionally, the auditor recommended proper archiving procedures over deposits' support. Finally, all Check Request Forms must have the required dual signatures.

The independent auditor's report noted that the status of the prior year (2014) audit finding was that "improvement has been made, but the School has not fully implemented our recommendation."

Recommendation

During its periodic onsite monitoring, the District's Charter Schools Department should verify that School Treasurer for Somerset Academy Boca East is sufficiently trained on the internal controls and procedures associated with the various accounting functions.

Specifically, the School's internal policy requires that all deposit recap sheets contain both the teacher and sponsor's signature when submitting funds for deposit and the treasurer's signature as acknowledgment and verification of the deposits received. Additionally, the School Treasurer should follow proper archiving procedures over supporting documentation for deposits and that all check request forms must have the required dual signatures.

v) Somerset Academy Canyons Middle School

For the 2015 audit, the independent auditor noted exceptions regarding documentation and procedures for disbursements from the charter school's internal accounts. Check Requisition and Purchase Order Forms were not being used consistently and two (2) of 20 check disbursements (or 10%) did not have the required dual signature.

It was recommended by the independent auditor that the School adhere to its internal control procedure manual for internal account. Check Requisitions and Purchase Orders should be properly completed and approved, as applicable. In addition, it was recommended that personnel that handle the internal account activity receive training on internal account policies and procedure.

Recommendation

During the periodic onsite monitoring, the District's Charter Schools Department should verify that School Treasurer for Somerset Academy Canyons Middle School is adhering to its internal control procedures relating to the internal account so that Check Requisitions and Purchase Orders are properly completed and approved.

The District should also verify that the School Treasurer is receiving sufficient training regarding the internal controls and procedures associated with the various accounting functions.

Management's Comments: The management letter comment has been addressed. (Please see page 29.)

12. Need to Generate and Use Monthly Compliance Reports for All Charter Schools

In fiscal year 2014, the School District purchased the Charter Tools software to automate the monitoring of charter school operations. The Charter Tools is a software application to (1) assist charter schools create and submit their charter application online to their respective sponsor; (2) allow the charter application evaluators to efficiently review the quality of the school; (3) streamline the process in monitoring charter schools in adhering to Florida statutes in a sustainable manner and provide quality educational choices to the communities served; and (4) provide an “accountability manager” tool which enables the charter school to be in compliance with all required benchmarks and response quickly to remedy any operational and/or financial deficiencies.

Prior to the installation of the Charter Tools, each District department was responsible for tracking respective compliance of each charter school; there was no consistent reporting and monitoring of charter schools for efficient operations. With the Charter Tools, certain benchmarks are set-up by each District department such as “due dates” and the Charter Tools system send automatic reminders and past due reminders to charter school contacts. There is also a Compliance Report that summarizes the charter school’s compliance.

Specifically, Charter Tools allows certain benchmarks to be set-up for monitoring a charter school’s performance and compliance in the following strategic areas:

I. Education Plan

- Mission, guiding principles and purpose
- Target population and student body
- Educational Program Design
- Curriculum Plan
- Student Performance, assessment and evaluation
- Exceptional Student Education – ESE
- English for Speakers of Other Languages – ESOL
- School climate and discipline

II. Organizational Plan

- Governance
- Management
- Education Service Providers
- Human Resources and Employment
- Student recruitment and enrollment

III. Business Plan

- Facilities
- Transportation Services
- Food Services
- Budget
- Financial Management Oversight
- Action Plan

Recommendation

The Charter Tools software has streamlined the District’s oversight responsibilities pursuant to *Florida Statutes §1002.33(5), Charter Schools, Sponsor duties*; and *Florida Statute §1002.345, Determination of deteriorating financial conditions and financial emergencies for charter schools*.

Given that the District’s Charter Schools Department maintains the compliance reports in the Charter Tools system, the Charter Schools Department should generate monthly compliance reports for each charter school to keep the School District informed of the financial health and operational performance of charter schools in our School District.

Management’s Comments: The Department of Charter Schools will work with the Charter Tools software developer to produce a monthly summary for each charter school's status of compliance that can be made available to leadership, and when necessary the School Board, for review. (Please see page 29.)

– End of Report –

Management's Comments



THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FL

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CHIEF FINANCIAL OFFICER

ROBERT M. AVOSSA, Ed.D.
SUPERINTENDENT

MEMORANDUM

TO: Lung Chiu
Inspector General

FROM: Michael J. Burke *MJB*
Chief Financial Officer

DATE: September 19, 2016

SUBJECT: REVIEW OF CHARTER SCHOOLS' INDEPENDENT CPA REPORTS

RECEIVED
SEP 19 2016
INSPECTOR GENERAL

The District as the Sponsor is required to monitor charter school compliance with the charter contract, duties in Florida Statute 1002.345 - Determination of deteriorating financial conditions and financial emergencies for charter schools and charter technical career centers, and Florida Administrative Code (FAC) 6A-1.0081 - Charter School and Charter Technical Career Center Financial Statements and Financial Conditions.

Finding 1

Four Schools Received an "F" Grade in FY2016

Response:

The District closely monitors the academic and financial performance of the three remaining schools and will withhold the July 2017 payment if grades have not been released. Lakeside Academy voluntary terminated in August 2016.

Findings 2 through 8

The charter contract requires that audited financial statements are submitted by September 30 each year. The District's review of the audited financial statements was completed in October and November 2015. In addition to review of the annual audited financial statements, monthly unaudited financial statements are reviewed as required under FAC 6A-1.0081 throughout the year. The governing body of the charter school is responsible for reviewing and approving the audit report, including audit findings and recommendations for the financial recovery plan. The district reviews each audit report for unmodified opinion, deteriorating financial condition, financial emergency, significant deficiencies or material weaknesses. Based on the District review of the audited and monthly financial statements four schools were placed on a Corrective Action Plan during FY 2016:

MJB

Management's Comments

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September 19, 2016

Review of Charter Schools' Independent CPA Reports

- Learning Path – Learning Path is currently under a Financial Corrective Action Plan (CAP) with the District due to having insufficient reserves to absorb the deficit incurred in first two years of operation of \$360,702. The CAP submitted to the District projected a surplus in FY 2016 of \$180,200. The actual unaudited surplus is only \$11,567. The FY 2017 school budget is based on 219 students although current enrollment is well below at 184. If enrollment does not increase by the October Survey period (October 10-14, 2016) additional action may be taken by the District.
- Toussaint Louverture - Toussaint is currently under a CAP with the District due to declining enrollment and lack of sufficient reserves to absorb the deficit. The CAP submitted to the District identified target minimum enrollment necessary to operate the school. The current enrollment of 126 is well below the projected minimum enrollment determined by the school necessary to operate. If enrollment does not comply with the minimum enrollment of 152 included within the CAP by the October Survey period (October 10-14, 2016) additional action may be taken by the District.
- Florida Futures is currently under a CAP with the District due to declining enrollment and lack of sufficient reserves to absorb the deficit. The CAP submitted to the District identified target minimum enrollment necessary to operate the school. The current enrollment of 118 is well below the projected minimum enrollment determined by the school necessary to operate. If enrollment does not comply with the minimum enrollment of 225 included within the CAP by the October Survey period (October 10-14, 2016) additional action may be taken by the District.
- Riviera Beach Maritime - Viking Yacht Company provided a letter of commitment pledging resources to support the school's continued operation and to guarantee construction and financing of a new facility. The commitment letter addressed the District's financial concerns. It is noted that the school has not been able to increase enrollment in FY 2017.

Based on the District review of the audited and monthly financial statements two schools were placed on a Corrective Action Plan during FY 2015:

- Belle Glade Excel is not currently under a CAP with the District since outside funding has covered the deficit incurred due to declining enrollment. Lutheran Services of Florida Inc. (LSF) pledged to fund the school through FY16. LSF provided a cash advance to Belle Glade Excel in the amount of \$636,131 in 2015, to cover the school's general fund deficit and operating capital. The FY 2017 Budget submitted to the district is based on an enrollment of 129 students although current enrollment is well below at 88. If enrollment does not increase by the October Survey period (October 10-14, 2016) additional action may be taken by the District.
- Eagle Arts – As a result a concerns, District staff first requested the Inspector General perform a review of the school in September 2014. The review resulted in an audit of FY 2015. Due to the nature of the findings in the Inspector General report, District staff sent a written notification of non-compliance with charter school contract and statute on September 7, 2016. District staff also requested the Inspector General perform a follow-up audit for FY 2016. Eagle Arts has contracted with Charter School Management Corporation for business support services from July 1, 2016 through June 30, 2019.

Management's Comments

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September 19, 2016
Review of Charter Schools' Independent CPA Reports

Finding 9

Somerset Academy Boca East Did Not Fully Implement Corrective Actions for 2014 Audit Findings

Response:

The District reviews each audit report for unmodified opinion, deteriorating financial condition, financial emergency, significant deficiencies or material weaknesses, and deficiencies that have repeated for three consecutive years.

Finding 10

Renaissance Learning Center Did Not Comply with Florida Statute Section 1002.33(9)(p) Regarding Website Information

Response:

The management letter comment has been addressed.

Finding 11

Five Schools had Recommendations to Improve Financial Management

Response:

The management letter comment has been addressed.

Finding 12

Need to generate and use monthly compliance reports for all charter schools

Response:

The Department of Charter Schools will work with the Charter Tools software developer to produce a monthly summary for each charter school's status of compliance that can be made available to leadership, and when necessary the School Board, for review.