

Audit of
Spanish Academy Charter School
February 11, 2005

Report 2005-03



MISSION STATEMENT

The School Board of Palm Beach County is committed to excellence in education and preparation of all our students with the knowledge, skills, and ethics required for responsible citizenship and productive employment.

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Superintendent of Schools**

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Audit of
Spanish Academy Charter School
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THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FLORIDA

OFFICE OF DISTRICT AUDITOR
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LUNG CHIU, CPA
DISTRICT AUDITOR

ARTHUR C. JOHNSON, Ph.D.
SUPERINTENDENT

MEMORANDUM

To: Honorable Chair and Members of the School Board
Arthur C. Johnson, Ph.D., Superintendent of Schools
Chair and Members of the Audit Committee

From: ^{RLC} Lung Chiu, CPA, District Auditor

Date: February 11, 2005

Subject: Audit of Spanish Academy Charter School

PURPOSE AND AUTHORITY

In response to the request of the Department of Charter Schools, we have examined the receipts and disbursements of Spanish Academy Charter School (Spanish Academy) during April 2003, through June 2004. The primary objective of this examination was to determine whether expenditures, funded by tax dollars, were properly accounted for and recorded.

SCOPE AND METHODOLOGY

This audit was performed in accordance with *Government Auditing Standards* by Randy Law.

Pursuant to the Spanish Academy's Charter, the school is required to submit an independent annual financial audit to the School District by September 30 every year. Due to this year's hurricanes, the District has extended the due date to October 8, 2004. As of November 15, 2004, Spanish Academy has submitted the required audit to the School District. The audit report included a review of the school's internal control system.

To avoid duplication of audit work, our examination of Spanish Academy's financial transactions and our conclusions only included the areas not reported by the school's independent auditor.

Draft report was sent to the Department of Charter Schools and the Governing Board of Spanish Academy for review and comments. Management response is included in the appendix. The final draft report was presented to the Audit Committee at its February 11, 2005, meeting.

BACKGROUND

The School Board approved Spanish Academy's Charter on November 19, 2002, and the charter school contract was executed on April 23, 2003. The school started its first year of operations in August 2003.

CONCLUSIONS

1. **The School President/Founder Gained \$6,000 From Leasing Arrangement.** Spanish Academy was operated in a leased facility owned by a church. According to leasing records, the president of Spanish Academy, who was appointed as the Executive Director of the school since August 1, 2003, leased the facility for \$18,000 per month from the landlord. He then subleased the property to Spanish Academy for \$21,000 per month through his company, Educational Resource Associates. Based on available bank statements and canceled checks, Spanish Academy (a) paid the school president \$42,000 for rental payment for July and August 2003, and (b) paid the property owner the same monthly rent amount the school president was to pay the landlord for the remaining months in 2003. As a result, the school president gained \$6,000 from the leasing arrangement.

Pursuant to section 30.0 G of the *Charter School Charter*, "The Charter School shall use no public funds received from or through the Sponsor to purchase or lease a property, goods, or services from any director, officer, or employee of the Charter School or the spouse, parent, child, stepchild, or sibling of any director, officer, or employee, or from any business in which any officers or employees have an interest."

Since the school president was a salaried employee of the school, the leasing arrangement resulted in an apparent conflict of interest. The school should recoup the \$6,000 from the school president.

Management Response from the Governing Board of Spanish Academy:

Concurs. The former executive director and president of Spanish Academy Charter School has loaned the school \$12,000 + to cover payroll deficits during the school year 2003-2004. The \$6,000 owed to Spanish Academy will be deducted the monies owed to the president. (Please see page 6.)

2. **Findings Reported by the School's Independent Auditor.** The 2004 Independent Audit of Spanish Academy identified the following deficiencies:

- a) The school incurred a substantial deficit, with a negative fund balance of \$212,524 and a negative assets of \$191,735.
- b) The school received a letter from an attorney representing a former employee, who asserted (a) Spanish Academy's breach of contract and misrepresentation, and (b) the entitlement of severance benefits totaling \$230,158. The former employee has not initiated a lawsuit against the school.
- c) The Board of Director of the school did not adequately monitor the financial activities of the school.
- d) The school did not properly use its budget as a management tool.
- e) The school did not maintain time cards or other evidence to document hours worked by hourly employees.
- f) The school did not have an accounting and policies manual.
- g) The school maintained over ten different bank accounts.
- h) There was a lack of segregation of control over the school's aftercare and Pre-K programs.
- i) The school has not established procedures for fundraising activities conducted by the parent teacher organization.
- j) The school has not received its tax exemption status from the Internal Revenue Service.
- k) Spanish Academy's Charter prohibits any member of the governing board to receive financial benefits from the school's operations. However, a company owned by the president of the school entered into a lease agreement to provide school facilities for the school.
- l) Spanish Academy's Charter requires that the Board of Directors be comprised of at least five members. However, the Board of Directors had only three members.

In light of the deficiencies identified by the school's independent auditor, the Department of Charter Schools should monitor closely the corrective actions developed and implemented by Spanish Academy in order to ensure that public funds are properly accounted for.

Management Response from the Governing Board of Spanish Academy:

- a) *Concurs. The Governing Board is working diligently to reduce the substantial debt of the school. A debt of this size will take at least three years (2007) to diminish. School purchases and expenditures are closely monitored.*
- b) *Concurs. As of December 21, 2004, a lawsuit initiated by the former employee has been filed. The outcome of this legal action is unknown.*
- c) *Concurs. A new accountant is in place as of June 1, 2004. The accountant prepares the required financial reports for the District in a timely manner. All financial reports are reviewed by management prior to their submittal to the District. Copies of the monthly bank reconciliations, monthly general ledger reports are provided to the Governing Board at their monthly Board meetings. Quarterly financial reports are also made available to the Board.*
- d) *Concurs. The 2004-2005 budget was prepared by the new accountant. Currently, the Governing Board is in the process of reviewing and revising the current budget to match student enrollment numbers.*
- e) *Concurs. A time clock and timecards were installed in February 2004. All employees are given timecards on a weekly basis. All salaried employees sign-in and sign-out daily in a logbook maintained by the administrative assistant. A payroll company has been engaged to complete all payroll checks and accompanying reports, beginning in September 2004.*
- f) *Concurs. A Task Force is in the process of determining accounting policies and procedures. This Task Force will consist of administrative staff members, PTO representative, Governing Board representative, parent, and SACS's accountant. Once the Task Force has created the accounting policies and procedures manual, it will be presented to the Governing Board by May 2005 for its approval.*
- g) *Concurs. In July 2004, SACS's ten bank accounts were reduced to three.*
- h) *Does not concur. During the 2003-2004 school year there was never co-mingling of these funds. The funds earned by these programs were deposited in different bank accounts. Records for the AfterCare program were made available to the Independent Auditor and to the District's Auditors. SACS's administration terminated the Pre K program in June 2004. Currently, the office staff places the pre/after care monies (checks or cash) in an envelope for the SACS's volunteer (a CPA) that records the payments in a database and makes the deposits to the Special Activity account. Additional controls have been established in August 2004: parents are provided a statement of childcare expenses at the beginning of each month, the Director of the Program takes daily attendance, parents sign their children in to pre/care program and they sign their children out of after/care program (this*

documents student attendance in the program). All monies are kept in a locked, secure cabinet in the front office until recorded and made ready for deposit.

- i) Concur. A special Task Force will be established to determine accounting policies and procedures. Once the accounting policies and procedures manual are created, they will be presented in May 2005 to the Governing Board for its approval.*
- j) Concur. SACS's administration applied for 501(c)(3) status on July 6, 2003. The IRS has assigned an exempt organizations specialist to assist with completion of the exempt organization status. Completion of this process is expected prior to the end of the 2005 school year.*
- k) Concur. The former executive director and president of Spanish Academy Charter School has loaned the school \$12,000 + to cover payroll deficits during the school year 2003-2004. The \$6,000 owed to Spanish Academy will be deducted from the monies owed to the president.*
- l) Concur. SACS's administration and current Governing Board has made every effort to advertise the Governing Board vacancies on the Board notice in the office, in the Principal's newsletters, and in the PTO newsletters. It is the intention of the Governing Board to fill these vacancies as soon as possible.*

(Please see pages 7 – 11.)

Management Response from the Department of Charter Schools:

The Department of Charter Schools supports the recommendations made by the Auditor as well as the school regarding the audit of Spanish Academy Charter School. (Please see page 12.)

– End of Report –

Management's Response
Spanish Academy Charter School



SPANISH ACADEMY CHARTER SCHOOL
447 N.W. Spanish River Boulevard
Boca Raton, FL 33467
Ph: 561-338-5700
Fax: 561-338-5704

January 13, 2005

Lung Chiu, CPA
Office of the District Auditor
3346 Forest Hill Boulevard, Suite B-302
West Palm Beach, FL. 33406

RECEIVED
JAN 18 2005

DISTRICT AUDITOR

Dear Mr. Chiu:

A previous Management Response to the Independent Audit compiled by Millward & Co. CPAs was submitted to Martin Arroyo on November 18, 2004.

Conclusions

1. **The School President/Founder Gained \$6,000.00 from Leasing Arrangement.**

Spanish Academy was operated in a leased facility owned by a church. According to leasing records, the President of Spanish Academy, who was appointed Executive Director of the school since August 1, 2003, leased the facility for \$18,000.00 per month from the landlord. He then subleased the property to Spanish Academy for \$21,000 per month through his company, Educational Resource Associates. Based on available bank statements and cancelled checks, Spanish Academy (a) paid the school President \$42,000 for the rental payment for July and August 2003, and (b) paid the property owner the same monthly rent amount the school President was to pay the landlord for the remaining months of 2003. As a result, the school President gained \$6,000 from the leasing arrangement.

Management Response:

The Governing Board of Directors concurs with this conclusion. The former Executive Director and President of Spanish Academy Charter School has loaned the school \$12,000 + to cover payroll deficits during the school year 2003-2004. The \$6,000 owed to Spanish Academy will be deducted the monies owed to the President.

Management's Response
Spanish Academy Charter School

2. **Findings Reported by the School's Independent Auditor. The 2004 Independent Audit of Spanish Academy identified the following deficiencies:**

- *The school incurred a substantial deficit, with a negative fund balance of \$212,524 and negative assets of \$191,735.*

Management Response:

The Governing Board of Directors concurs with this conclusion. The Governing Board of Spanish Academy is working diligently to reduce the substantial debt of the school. It is the conclusion of the Board of Directors that a debt of this size will take at least three years (2007) to diminish. School purchases and expenditures are closely monitored by the Governing Board.

- *The school received a letter from an attorney representing a former employee, who asserted (a) Spanish Academy's breach of contract and misrepresentation, and (b) the entitlement of severance benefits totaling \$230,158. The former employee has not initiated a lawsuit against the school.*

Management Response:

The Governing Board of Directors concurs with this conclusion. As of December 21, 2004, a lawsuit initiated by the former employee has been filed. The outcome of this legal action is unknown.

- *The Board of Directors of the school did not adequately monitor the financial activities of the school.*

Management Response:

The Governing Board of Directors concurs with this conclusion. A new accountant (Coyote Accounting) is in place as of June 1, 2004. The accountant prepares Spanish Academy Charter School (SACS) the required financial reports for the District in a timely manner. All financial reports are reviewed by management prior to their submittal to the District. Copies of the monthly bank reconciliations, monthly general ledger reports are provided to SACS's Governing Board at their monthly Board meetings. Quarterly financial reports are also made available to the Board for their review.

- *The school did not properly use its budget as a management tool.*

Management's Response
Spanish Academy Charter School

Management Response:

The Governing Board of Directors concurs with this conclusion. The 2004-2005 budget for SACS's was prepared by the new accountant. Currently, the SACS Governing Board is in the process of reviewing and revising the current budget to match student enrollment numbers.

- *The school did not maintain time cards or other evidence to document hours worked by hourly employees.*

Management Response:

The Governing Board of Directors concurs with this conclusion. The administration of SACS put a time clock and timecards in place in the month of February 2004. All employees including those paid hourly are given timecards on a weekly basis. All salaried employees sign-in and sign-out daily in a logbook maintained by the Administrative Assistant. Through Coyote Accounting, PrimePay a payroll company has been engaged to complete all payroll checks and accompanying reports. PrimePay began their services in September 2004.

- *The school did not have an accounting and policies manual.*

Management Response:

The Governing Board of Directors concurs with this conclusion. Administration is in the process of creating a *Task Force* to determine accounting policies and procedures. This *Task Force* will consist of Administrative Staff members, PTO representative, Governing Board representative, parent, and SACS's accountant. Once the *Task Force* has created the accounting policies and procedures manual, it will be presented to the Governing Board of Directors by May 2005 for their approval.

Management's Response
Spanish Academy Charter School

- *The school maintained over ten different bank accounts.*

Management Response:

The Governing Board of Directors concurs with this conclusion. In July 2004 SACS's ten bank accounts were reduced to three.

- *There was a lack of segregation of control over the school's aftercare and PreK programs.*

Management Response:

The Governing Board of Directors does not concur with this conclusion. During the 2003-2004 school year there was never co-mingling of these funds. The funds earned by these programs were deposited in different bank accounts. Records for the AfterCare program were made available to the Independent Auditor and to the District's Auditors. SACS's administration terminated the Pre K program in June 2004. Currently, the office staff places the pre/after care monies (checks or cash) in an envelope for the SACS's volunteer (a CPA) that records the payments in a database and makes the deposits to the Special Activity account. Additional controls have been established in August 2004: parents are provided a statement of childcare expenses at the beginning of each month, the Director of the Program takes daily attendance, parents sign their children in to pre/care program and they sign their children out of after/care program (this documents student attendance in the program). All monies are kept in a locked, secure cabinet in the front office until recorded and made ready for deposit.

- *The school has not established procedures for fundraising activities conducted by the parent teacher organization.*

Management Response:

The Governing Board of Directors concurs with this conclusion. As was previously stated, administration is in the process of creating a *Task Force* to determine accounting policies and procedures. This *Task Force* will consist of Administrative Staff members, PTO representative, Governing Board representative, parent, and SACS's accountant. Once the Task Force has created the accounting policies and procedures manual (including appropriate procedures to monitor fundraising activities of the PTO) it will be presented in May 2005 to the Governing Board of Directors for their approval.

Management's Response
Spanish Academy Charter School

- *The school has not received its tax exemption status from the Internal Revenue Service.*

Management Response:

The Governing Board of Directors concurs with this conclusion. SACS's administration applied for 501c3 status in July 6, 2003. The IRS has assigned an Exempt Organizations Specialist, Ms. Elizabeth L. Hofacre to assist with completion of the exempt organization status. Completion of this process is expected prior to the end of the 2005 school year.

- *Spanish Academy's Charter prohibits any member of the governing board to receive financial benefits from the school's operations. However, a company owned by the President of the school entered into a lease agreement to provide school facilities for the school.*

Management Response:

The Governing Board of Directors concurs with this conclusion. The former Executive Director and President of Spanish Academy Charter School has loaned the school \$12,000 + to cover payroll deficits during the school year 2003-2004. The \$6,000 owed to Spanish Academy will be deducted the monies owed to the President.

- *Spanish Academy's Charter requires that the Board of Directors be comprised of at least five members. However, the Board of Directors had only three members.*

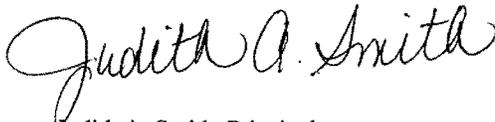
Management Response:

The Governing Board of Directors concurs with this conclusion. SACS's administration and current Governing Board of Directors have made every effort to advertise the Governing Board vacancies-on the Board notice in the office, in the Principal's newsletters, and in the PTO newsletters. It is the intention of the Governing Board to fill these vacancies as soon as possible.

Management's Response
Spanish Academy Charter School

It is the desire of the current administration and governing Board of Directors of Spanish Academy Charter School to clear these financial discrepancies as soon as possible and to become both an academically and financially effective charter school. Should you require additional information, please do not hesitate to contact my office.

Sincerely,



Judith A. Smith, Principal

cc: Tony C. Smith, Chair
Jodi Whitehead, Vice Chair
Sam Barcia, Member
Randy Law, Auditor
Martin Arroyo, District Accountant
Chuck Shaw, Director of Charter Schools

Management's Response
Department of Charter Schools



THE SCHOOL DISTRICT
OF PALM BEACH COUNTY
DIVISION OF QUALITY ASSURANCE
DEPARTMENT OF CHARTER SCHOOLS
3300 FOREST HILL BOULEVARD, C-206
WEST PALM BEACH, FL 33406-5813
(561) 434-8779 FAX (561) 963-3845

CHUCK SHAW
DIRECTOR

ARTHUR C. JOHNSON, Ph.D.
SUPERINTENDENT

January 26, 2005

MEMORANDUM

To: Lung Chiu, CPA
District Auditor

From: Chuck Shaw, Director
Department of Charter Schools 

Subject: Audit of Spanish Academy Charter School

The Department of Charter Schools supports the recommendations made by the Auditor as well as the school regarding the audit of Spanish Academy Charter School.

CS:ss

RECEIVED
JAN 28 2005

DISTRICT AUDITOR

Palm Beach County Schools # 3 in the NATION!

www.palmbeachschools.org for details