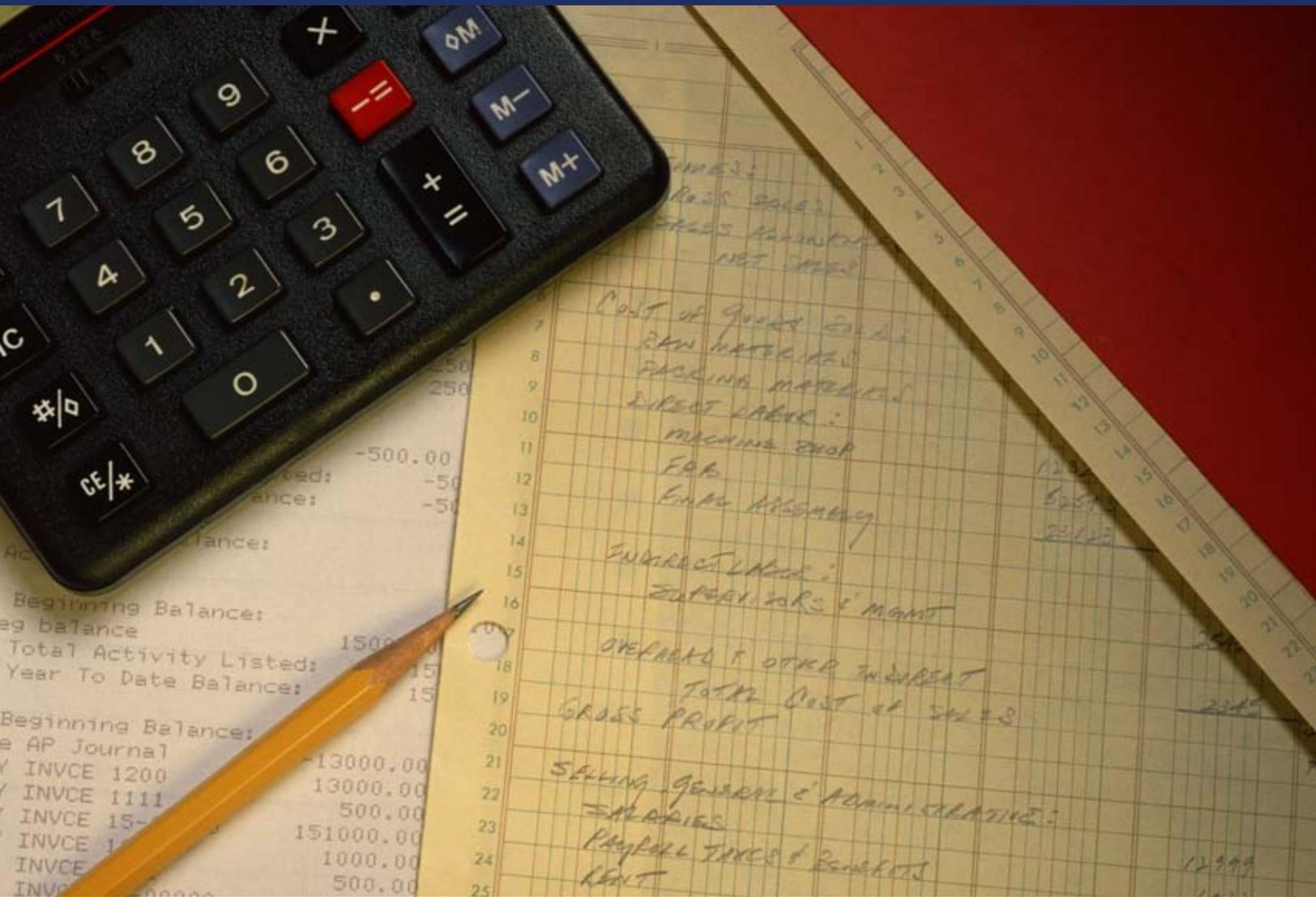




MINNESOTA 2020

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CHECKING IN ON CHARTER SCHOOLS AN EXAMINATION OF CHARTER SCHOOL FINANCES

John Fitzgerald
Minnesota 2020 Fellow
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Executive Summary

Key Findings

The first charter schools opened in Minnesota in 1992. In 2007, 28,034 students were enrolled in 145 charter schools. They receive \$10,500 in taxpayer funds per student. A check of charter school audits from 2007 found:

- 83 percent had at least one financial irregularity;
- 29 percent did not comply with the law regarding board meeting minutes;
- 55 percent had limited control of the school's funds;
- 26 percent didn't have proper collateral for their bank deposit insurance;
- 51 percent of those with problems identified on their 2007 financial audits had the same problems identified on their 2008 audits;
- Although charter schools spend public tax dollars, they are not subject to a publically elected board;
- While recent changes in state law make charter schools slightly more accountable, they do not go far enough in ensuring the financial accountability Minnesota taxpayers demand.

Recommendations

It is unconscionable that financial irregularities can be found in all but 24 of the state's 145 charter schools.

We recommend:

- The state reconsider renewing charters with the 121 charter schools that cannot successfully pass a financial audit or provide board meeting minutes and revoke charters with schools that have long-standing financial problems;
- Boards that cannot or will not comply with meeting laws be immediately reconstituted. This will ensure all government dealings are transparent;
- The state hold sponsor organizations financially accountable for the fiscal health of their charter schools and require them to pay for any discrepancies found in a charter school's audit;
- The state require mandatory financial training for all charter school board members and administrators;
- The state notify parents with children enrolled in charter schools of all financial infractions found in the yearly audits.

Introduction

Seventeen years after the first charter school opened in Minnesota, this examination of fiscal year 2007 charter school financial audits shows that the vast majority of charter schools do not follow basic financial guidelines or, in some cases, state law. Since this analysis agrees with a recent report by the Office of the Legislative Auditor and audit examinations written in 2001, 2002 and 2003, we conclude that these financial problems are

not being adequately addressed by the Minnesota Department of Education (MDE) and, further, are endemic of the charter school system.

Efforts by the 2009 Legislature to provide more accountability to charter schools was welcome, but shorthanded. The charter school program is financially flawed and basic concepts about charter schools – such as unelected school boards and under informed business management – need to be changed.

In November and December, 2008 and January, 2009, Minnesota 2020 combed through the financial audits of 145 charter schools for the fiscal year that ended on June 30, 2007 – reports that were filed with MDE by December 31, 2007. Our research found several trends in charter school financial management:

- 83 percent were found to have at least one financial irregularity in their audit – five years earlier, that figure was 73 percent;
- 51 percent of those schools with problems identified on their 2007 financial audits had the same problems identified on their 2008 audits, according to the MDE;
- 29 percent did not respond to a request for board minutes – five years earlier, that figure was 33 percent;
- 55 percent were found to have “limited segregation of duties,” a requirement that ensures no single charter school official has control of the school’s funds;
- 26 percent didn’t have proper collateral for deposit insurance, a requirement that ensures the charter school can pay its bills.

Unlike private schools, charter schools are funded by taxpayer dollars. While traditional public schools get roughly \$9,500 per-student from the state, charter schools get \$10,500 for each student from the state.¹ State officials say charter schools deserve more taxpayer money because they can’t ask local taxpayers for additional taxes to operate their schools or for bonds to build school buildings the way traditional districts can.

A major component of the 1991 charter school legislation allows the taxpayer dollars to follow the student: if a student leaves a traditional school and enrolls in a charter school, the per-student money leaves the school and is allocated to the charter school.

Although charter schools receive taxpayer funds, they are not subject to the same checks and balances taxpayers have the right to expect. Traditional schools are governed by elected school boards. Taxpayers who disagree with the way their money is being spent need only go to the school board meeting and voice their concern. Ultimately, voters can exercise their rights and vote school board members off the body.

There is no such remedy for taxpayers concerned about the financial dealings of charter schools. Their boards are not publically elected and taxpayers have no say in how their money is spent. As mentioned above, many charters are poorly run and almost one-third refused to provide school board meeting minutes.

The financial audits used to create this report were stored in the basement of the Minnesota Department of

¹Office of the State Auditor, “Financial Trends of Minnesota School Districts and Charter Schools for the Period 2001 to 2005,” <http://www.osa.state.mn.us/default.aspx?page=20050620.001>, Accessed 4/15/09

Education building. Other than the 2008 OLA report and the audit examinations conducted in 2001-03, we are aware of no other attempt to make this information available to the public.

The fact that so many charter schools have difficulty following state law and balancing their own books using taxpayer money, and have had these problems for many years, does not speak well about the charter school movement. Almost every charter school has some difficulty meeting state laws and financial standards while receiving millions of dollars of taxpayer money. If a public entity can't manage the money it gets from taxpayers, then why do taxpayers give it money? The state should reconsider its agreements with the 121 charter schools that cannot successfully pass a financial audit. Further, taxpayers should not continue to fund the 50 percent of charter schools that do not resolve financial problems.

Schools with finances that have been stunningly mismanaged for years should be cut off from public funds and closed.

If charter schools can't run their schools in a financially competent manner, Minnesota should reconsider whether charter schools are worthy of public funding at all.

Methodology

The information gathered in this report was found in financial audits that charter schools are required to file yearly with the Minnesota Department of Education and stored at its headquarters in Roseville. Schools are required to hire private auditors to conduct the reports. When an auditor finds an infraction, the school must file a Corrective Action Plan which must be approved by MDE. If the CAP was not followed or if it was not effective, a note is made on the next year's audit. Until 2009, that was the only recourse for those violations. New laws this year will allow the Commissioner of Education to potentially reduce charter school aid if the school doesn't correct financial problems.

In November and December, 2008 and January, 2009, Minnesota 2020 made electronic copies of all the 2007 financial audits, then examined them to find what auditors defined as infractions. There are fewer than 10 audit firms that conducted the audits, and while all the audits followed the same format, there were some vagaries in their description of infractions. Where applicable, we combined like items.

History

In 1991, Minnesota was one of the first states in the nation to pass legislation to create charter schools. In 1992, eight charter schools were formed.² In 2007, there were 145 charter schools serving 28,034 students – or about three percent of the state’s K-12 student population. Of that total, 52 percent of charter students were minority students, 53 percent qualify for free or reduced-price lunch, and 21 percent have limited English proficiency.³

To open a charter school, parents, teachers, or community members first must find a sponsor. Sponsors must be either a school district, nonprofit organizations with an end-of-year fund balance of at least \$2 million, or a Minnesota higher education institution.

Once MDE approves a sponsor’s application, the sponsor and developers enter into a contract, or “charter,” through which the school must show how it will fulfill at least one of the following charter school purposes:

- Improve student learning;
- Increase learning opportunities;
- Encourage the use of different and innovative teaching methods;
- Require the measurement of learning outcomes and create different and innovative forms of measuring outcomes;
- Establish new forms of accountability for schools; or create new opportunities for teachers, including the opportunity to be responsible for the learning program at the school site.

Charter schools take many forms. Some charter schools emphasize civic responsibility while others focus on specific careers. Some focus on immigrant students, or students recovering from alcohol or drug dependency. Some center their programs on an educational model, such as Montessori, while others employ a specific type of curriculum.

The contract’s duration can be no longer than three years. The sponsor can terminate the contract if the charter school fails to meet the performance requirements or fails to meet generally accepted standards of fiscal management. Additionally, MDE can terminate a charter school contract if the school has a history of financial mismanagement or repeated violations of the law. Concerned about reports of financial mismanagement among charter schools, former Rep. Matt Entenza commissioned yearly reports looking at the financial status of charter schools. Those reports, issued in 2001, 2002 and 2003, showed an overall lack of financial oversight of charter schools in general and several schools in specific.

Similar results were found by the non-partisan Office of the Legislative Auditor, which released a report in June 2008 that was critical of the financial oversight of charter schools.

Based on the OLS results, the 2009 Minnesota Legislature tweaked the law to fill in some of the gaps in the

² Resources on Minnesota Issues Charter Schools <http://www.leg.state.mn.us/LRL/Issues/Charter.asp>, Accessed 4/10/2009

³ Office Of The Legislative Auditor, “State Of Minnesota Evaluation Report Charter Schools,” <http://www.auditor.leg.state.mn.us/ped/2008/charterschools.htm>, Accessed 4/13/09

professional conduct of charter schools and their sponsors. The new laws allowed:

- MDE to review a sponsor's performance at least once every five years;
- MDE to take corrective action against a sponsor if it violates a term of the charter or suffers unsatisfactory performance as a sponsor;
- Requires a charter school to post on its web site information identifying and providing contact information about its sponsor (some charter schools, such as Waynewood School of Hope, offer no information about their sponsor);
- Requires the board of directors to be composed of at least five nonrelated members and include at least one licensed teacher, the parent of a student and a community member who is not a school employee or parent. The CFO and chief administrator must be nonvoting board members;
- Requires a charter school to provide prospective school employees with a written description of the terms and conditions of employment and the school's personnel policies. Requires the board of directors to establish qualifications for persons that hold administrative, supervisory, or instructional leadership roles. Requires an individual who does not hold a valid administrative license and who serves in an administrative, supervisory, or instruction leadership position to develop a professional development plan;
- Requires a charter school to prepare and distribute an annual report approved by the charter school board of directors and to post the report on its official web site.
- Ensures charter schools fall under open meeting and data practices laws.

While recent changes in state law make charter schools slightly more accountable, they do not go far enough to ensure the financial accountability Minnesota taxpayers demand.

Audit Findings

Minnesota 2020 examined every charter school financial audit from the 2006-07 school year. For a methodology, see Appendix E.

Board Minutes

Minnesota law requires all public entities to make their board minutes available upon request. As part of this study, Minnesota 2020 sent letters to 145 schools asking for their most recent board minutes either via mail, e-mail, fax or through posts on their web pages. Of the 145 requests, these schools did not respond to our request for minutes:

New Heights School	Voyageurs Expeditionary
Skills For Tomorrow Charter School	Ubah Medical Academy Charter School
Minnesota Transitions Charter	Eagle Ridge Academy Charter School
Duluth Public Schools Academy	Worthington Area Language Academy
E.C.H.O. Charter School	Prairie Seeds Academy
Higher Ground Academy	Lighthouse Academy Of Nations
Jennings Community Learning Center	Adam Abdulle Academy
Harvest Prep School/Seed Academy	Loveworks Academy For Arts
Face To Face Academy	Yinghua Academy
Twin Cities Academy	New Millennium Academy Charter School
Great River Education Center	Northern Lights Community School
Lafayette Public Charter School	Dugsi Academy
Crosslake Community Charter School	Seven Hills Classical Academy
Excell Academy Charter	New Discoveries Montessori Academy
Hope Community Academy	Noble Academy
Yankton Country Charter School	Dunwoody Academy
Pillager Area Charter School	Pine Grove Leadership Academy
Ridgeway Community School	Minisinaakwaang Leadership Academy
Sage Academy Charter School	City Academy
New City School	Twin Cities International Elementary
Watershed High School	Prairie Creek Community School
Hmong Academy	

Charter school locations, sponsors and number of infractions can be found in Appendix B.

Limited Segregation of Duties

Schools are required to have a system of controls that creates a separation of duties so that no one person has responsibility to execute a financial transaction, has access to cash and valuable assets, and has authority to record the transaction. Of the 145 requests, these schools did not have segregation of duties:

Pine Grove Leadership Academy	Minnesota International Middle Charter
Recovery School Of Southern Mn	Pillager Area Charter School
New Heights School, Inc.	Ridgeway Community School
Duluth Public Schools Academy	Sage Academy Charter School
Eci' Nomp Woonspe	New City School
Jennings Community Learning Center	Watershed High School
Twin Cities Academy	Voyageurs Expeditionary
Great River Education Center	Worthington Area Language Academy
Yankton Country Charter School	Lighthouse Academy Of Nations

New Millennium Academy Charter School
 Northern Lights Community School
 Noble Academy
 Dunwoody Academy
 Bluffview Montessori
 Cedar Riverside Community School
 Minnesota New Country School
 Achieve Language Academy
 Sojourner Truth Academy
 Math & Science Academy
 Heart Of The Earth Charter
 Lakes Area Charter School
 Lake Superior High School
 Four Directions Charter Schools
 North Lakes Academy
 La Crescent Montessori Academy
 Rochester Off-Campus Charter High
 El Colegio Charter School
 Schoolcraft Learning Community Charter
 Studio Academy Charter School
 Riverway Learning Community Charter
 Riverbend Academy
 Aurora Charter School
 Avalon School
 Twin Cities International Elem School
 Discovery Public School
 Prairie Creek Community School
 Trio Wolf Creek Distance Learning Partnership
 Nova Classical Academy
 Great Expectations
 Minnesota North Star Academy
 Treknorth High School

Main Street School Performing Arts
 Fraser Academy
 Minneapolis Academy Charter School
 River Heights Charter School
 Dakota Area Community Charter School
 Team Academy

 Milroy Area Charter School
 Academy Of Biosciences
 Cygnus Academy
 Edvisions Off Campus School
 Twin Cities German Immersion Charter
 Spectrum High School
 Learning For Leadership Charter
 Elom International School
 East Range Academy Of Tech & Science
 International Spanish Language Academy
 Glacial Hills Elementary
 Stonebridge Community School
 Hiawatha Leadership Academy
 Clarkfield Charter School
 Long Tieng Academy
 Community School Of Excellence
 Waynewood School Of Hope
 High School for the Performing Arts
 Face to Face Academy
 New Spirit Schools
 Laura Jeffrey Academy
 Partnership Academy
 E.C.H.O. Charter School
 Odyssey Charter School

Preparation of Financial Statements

Many charter schools do not have the resources necessary to prepare their own financial audit, thus requiring auditors to pull together the data necessary for the audit, which could create a conflict of interest. This is considered bad financial practice. Of the 145 charter schools, these schools did not adequately prepare for their financial audit:

Pine Grove Leadership Academy
 Recovery School Of Southern Minnesota
 New Heights School, Inc.
 Eci' Nompa Woonspe
 Twin Cities Academy
 New City School
 Lighthouse Academy of Nations
 Cedar Riverside Community School
 Achieve Language Academy
 Heart of The Earth Charter

Schoolcraft Learning Community Charter
 Aurora Charter School
 Great Expectations
 Minnesota North Star Academy
 Lake Superior High School
 Main Street School Performing Arts
 Minneapolis Academy Charter School
 High School for the Recording Arts
 Milroy Area Charter School
 Academy Of Biosciences

Cygnus Academy
Naytahwaush Community School
Spectrum High School
Learning For Leadership Charter
East Range Academy of Tech & Science
International Spanish Language Academy
Glacial Hills Elementary
Clarkfield Charter School
Waynewood School of Hope
Laura Jeffrey Academy
Face To Face Academy
Lafayette Public Charter School

City Academy
Metro Deaf School
Bluesky Charter School
St Paul Conservatory Performing Art
Birch Grove Community School
Odyssey Charter School
Cyber Village Academy
E.C.H.O. Charter School
Great River Education Center
Pillager Area Charter
Voyageurs Expeditionary

Annual Financial Reporting Under GAAP

Schools need an internal control policy over annual financial reporting. Without one, the potential exists that a material misstatement of the annual financial statements could occur and not be detected. Of the 145 requests, these schools had no internal control policy:

Treknorth High School
Jennings Community Learning Center
Yankton Country Charter School
Ridgeway Community School
Sage Academy Charter School
Bluffview Montessori
Minnesota New Country School
Math & Science Academy
North Lakes Academy
La Crescent Montessori Academy
Rochester Off-Campus Charter High

Riverway Learning Community Charter
Riverbend Academy
Prairie Creek Community School
Partnership Academy, Inc.
Dakota Area Community Charter School
Team Academy
Edvisions Off Campus School
PACT Charter School
Northwest Passage High School
Urban Academy Charter
Minnesota Internship Center

Bank Reconciliation

These charter schools don't balance their general ledger to bank statements. Charter schools should have more than one person preparing the bank reconciliation with oversight, and the school should reconcile its bank reconciliation on a monthly basis to match the general ledger. These are the schools that don't balance their books with the bank:

La Crescent Montessori Academy
Bluffview Montessori

Riverway Learning Community Charter

Collateral

Minnesota law requires that if a school has more in the bank than what the Federal Deposit Insurance Corp. will insure (\$100,000 in 2007), they must have that money protected by a bond or collateral in case the bank goes under or the money is no longer available. Of the 145 requests, these schools did not have a bond or collateral to ensure their bills could be paid:

Ridgeway Community School
Prairie Creek Community School
Main Street School Performing Arts
Naytahwaush Community School
Learning For Leadership Charter
Metro Deaf School
St Paul Conservatory Performing Art

Northern Lights Community School
Avalon School
Discovery Public School
Fraser Academy
River Heights Charter School
Twin Cities German Immersion Charter
New Visions Charter School

Minnesota Transitions Charter School
Crosslake Community Charter School
High School For Recording Arts
Friendship Academy Of Fine Arts Charter
General John Vessey Jr. Leadership
Sobriety High
Minnesota Online High School
Minnesota New Country School
HOPE Community Academy
Bluffview Montessori
Achieve Language Academy
Aurora Charter School

Worthington Area Language Academy
Dunwoody Academy
New Discoveries Montessori Academy
Seven Hills Classical Academy
Yinghua Academy
La Crescent Montessori Academy
Urban Academy Charter School
Voyageurs Expeditionary
Twin Cities International Elementary School
Four Directions
Loveworks Academy for the Arts
Lakes International Language Academy

Employee Advances

Minnesota law does not allow schools to make cash advances to employees from school funds. These schools advanced money to employees:

Cygnus Academy

Learning For Leadership Charter

Lack of Documentation of Employee Pay Rates

Employee contracts should clearly document approved salaries. By not documenting salaries, the charter school could be subject to a higher risk that fraud or error could occur and not be detected in a timely manner. Audits found these schools with insufficient documentation:

Southside Family Charter School

Spectrum High School

Payroll Transaction

Audits found multiple payroll transactions were incorrectly calculated. These charter schools were asked to improve their internal controls:

Agricultural Food Science Academy

Aurora Charter School

Adequate Accounting System

Some charter schools use accounting systems that aren't compatible with the MDE accounting systems. The charter schools then have to pay a management company at the end of the year to transfer data from the current accounting system to an MDE-compliant system. These schools did not have adequate accounting systems:

Duluth Public Schools Academy

Cedar Riverside Community School

Biggest Offenders

These charter schools have the most offenses among the 2007 financial audits:

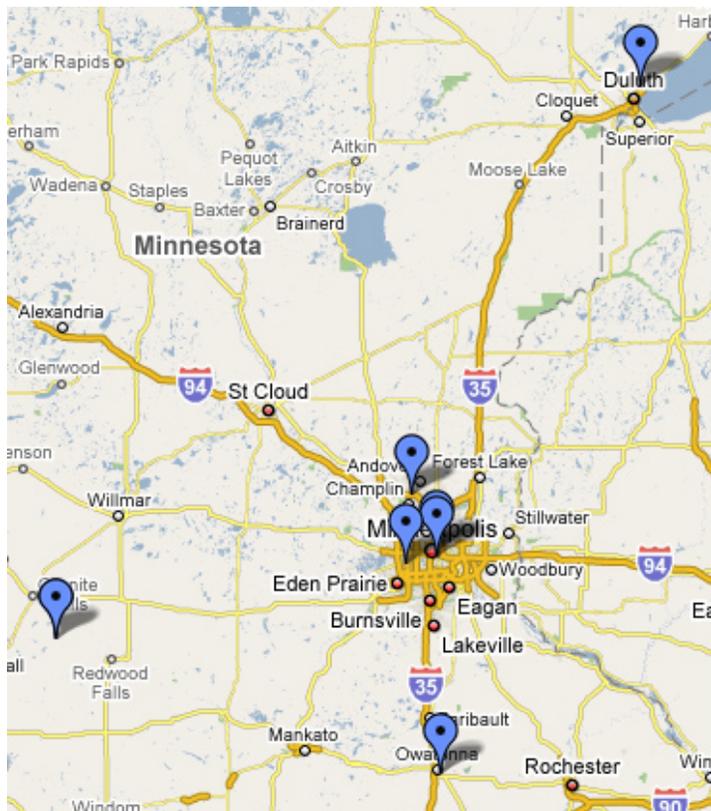
Aurora Charter School, Minneapolis

Aurora Charter School opened in the 2000-01 school year and now has about 340 students in pre-kindergarten through grade eight. It is located in Minneapolis and has a student body that is 98 percent Hispanic. It is sponsored by the Audubon Center of the Northwoods, which also sponsors charter schools in Cold Spring, Grand Marais, Hutchinson, Minnewaska, Minnesota City, Monticello and Bemidji.

In the 2002 charter school report, Aurora was found to have a \$34,424 general fund deficit, an \$8,163 special revenue deficit, limited segregation of duties, payment of \$952 in interest on a \$50,000 loan without proper documentation, and late audits in 2002 and 2001.

Here is a list of the faults found in Aurora Charter School's 2007 audit:

- Limited Segregation of Duties, in which only one employee has access to the Board's check stock, authority to sign checks, and is responsible for recording the board's transactions. Good business practices require that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction;
- Preparation of Financial Statements, in which Aurora had the audit firm prepare their annual financial statement as well as their audit, creating the possibility of a conflict of interest;
- Budget Detail, in which the board-approved a budget for fiscal 2007 contained detail only on a broad, object basis;
- Payroll Transaction, in which multiple payroll transactions were incorrectly calculated showing that Aurora has insufficient internal controls to deter these errors;
- Documentation of Compliance with Lease Laws and Regulation, in which Aurora's board did not have proper documentation of formal actions made by the charter school board. The missing documentation included approval of employment contracts, vendor contracts, consulting contracts, debt agreements, operating budgets, school expenditures, and the opening or closing of bank accounts. Due to limited documentation of the board's formal actions, auditors were unable to determine that Aurora complied with certain provisions of laws, regulations, contracts, and grant agreements;
- Journal Entry Documentation, in which no formal review policy is in place regarding financial journal entries;



- Electronic Funds Transfer Policy, in which Aurora has not established an electronic funds transfer policy as required by state law;
- Documents/Control for Expenditures, in which auditors noted disbursements tested from the board's bank account lacked adequate supporting documentation;
- Payment/Approval of Invoices, in which state law requires charter schools to pay each vendor obligation according to the terms of each contract within 45 days after the receipt of the goods or services or the invoice for the goods or services. Aurora did not pay all obligations within the 45-day time period;
- Collateral, in which state law requires that public deposits in excess of deposit insurance (\$100,000 in 2007) be protected by a bond or collateral which, when computed at its market value, shall be at least ten percent more than the amount of the excess deposits.

Heart of the Earth Charter, Minneapolis

Heart of the Earth was formed in the 1970s to serve the needs of Native American students. In 1999, it became a charter school under sponsorship of Minneapolis Public Schools. In 2007, it served 213 students in kindergarten through 12th grade.

Its former executive director, Joel Pourier, stepped down in August 2007 after allegations that he embezzled \$160,000. It is suspected he circumvented limited segregation of duties and wrote checks to himself.

The school closed in 2008.

Here is a list of the faults found in Heart of the Earth Charter School's 2007 audit:

- Lack of Governance, in which auditors noted a lack of sufficient control consciousness within the governing board. The board authorized the Executive Director to speak for them in all matters concerning staff issues and to make executive decisions on all school-related matters, with all issues bypassing the board. It was also noted that the board cancelled six meetings during the 2007 fiscal year resulting in only six meetings being held;
- Lack of Oversight of Federal Aid Requirements, in which schools submit reports that lead to financial aid issued through the state and federal governments. Lack of accurate reports can lead to misuse of school resources and a failure to effectively manage public funding;
- Missing Audit Report, in which all school districts and charter schools must submit their audited financial data to MDE by Nov. 30. Also, the schools must provide a copy of the completed financial audit report to MDE by Dec. 31;
- Improve Budgeting and Financial Procedures, in which the school takes financial and accounting measures to remove itself from Statutory Operating Debt.
- Limited Segregation of Duties, in which only one employee has access to the board's check stock, authority to sign checks, and is responsible for recording the board's transactions. Good business practices require that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction;

- Preparation of Financial Statements, in which Heart of the Earth had the audit firm prepare its annual financial statement as well as its audit, creating the possibility of a conflict of interest;
- Material Audit Adjustments, in which lack of internal control means the possibility for some misstatements in areas such as intergovernmental revenue, tuition revenue, capital assets, cash, equity, accounts payable;
- Prior Period Adjustments, in which internal control over financial reporting that supports Heart of the Earth's ability to initiate, record, process and report financial data consistent with assertions of management. Auditors found a prior period adjustment of \$99,596 for a prior year payable for misspent federal aid owed to MDE;
- Electronic Funds Transfer Policy, in which the school has not established an electronic funds transfer policy as required by state law;
- Prompt Payment, in which disbursements from the main bank account were not paid within 35 days and no interest was added, in violation of state law;
- Establish a Formal Capital Asset Policy and Track Capital Assets, in which the school must have a capital asset policy that tracks all assets. Auditors were unable to locate several computers and a table saw that the school had recorded in its capital asset inventory; Improve Budgeting and Financial Procedures, in which the school can remove itself from Statutory Operating Debt;
- Insufficient Funds Available for Payment, in which at several dates the school did not have enough money to cover disbursements;
- Preservation of Government Records, in which the school must provide backup copies of federal payroll forms and insurance policies;
- Establish a Formal Travel Policy, in which employees know which out-of-state travel expenses are appropriate.

Recovery School of Southern Minnesota, Owatonna

Recovery School of Southern Minnesota serves 18 students from seventh to 12th grade from its building in Owatonna. Its sponsor is Pillsbury United Communities which also sponsors schools in Rochester, St. Paul, Minneapolis, Blaine, Golden Valley and Owatonna.

Here is a list of the faults found in Recovery School of Southern Minnesota's 2007 audit:

- Missing Audit Report, in which all school districts and charter schools must submit their audited financial data to MDE by Nov. 30. Also, the schools must provide a copy of the completed financial audit report to MDE by Dec. 31;
- Limited Segregation of Duties, in which only one employee has access to the board's check stock, authority to sign checks, and is responsible for recording the board's transactions. Good business practices require that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction;

- Preparation of Financial Statements, in which the school had the audit firm prepare their annual financial statement as well as their audit, creating the possibility of a conflict of interest;
- Audit Adjustments, in which lack of internal control means the possibility for some misstatements in areas such as intergovernmental revenue, tuition revenue, capital assets, cash, equity, accounts payable;
- Electronic Funds Transfer Policy, in which Recovery School of Southern Minnesota has not established an electronic funds transfer policy as required by state law.
- Control for Disbursements, in which Recovery School of Southern Minnesota lacked adequate supporting documentation for money taken from the board's bank account;
- Change in Employee Contracts, in which by not clearly documenting employee salaries, Recovery School of Southern Minnesota could be subject to a higher risk that fraud or error could occur and not be detected in a timely manner;
- Unauthorized Grant Expenditures, in which the school submitted items for reimbursement under the federal implementation grant that were determined to be unallowable by MDE, thus forcing the school to return grant funds to MDE. The school had to cover these disallowed costs with general education funds;
- Prompt Payments, in which the school incurred penalties for late payment of pension remittances and credit card bills. This is in violation of state law;
- Board Minutes, in which not all official minutes of the district were recorded;
- Budget Detail, in which the district did not have an accurate budget and did not amend the budget;
- Lack of Control over Expenditures, in which the school's financial accounts are such that the school might lose the ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements;
- Board Minutes, in which the board minutes are inaccurate;
- Disbursement Not For Public Purpose, in which the school used public funds not for school purposes.

Duluth Public Schools Academy, Duluth

Duluth Public Schools Academy serves 759 students in grades kindergarten through eight. Its sponsor is Northwoods Children's Services which also sponsors charter schools in Clarkfield, Faribault, Warba and Pillager.

In the 2002 report, Duluth Public Schools Academy was found to have limited segregation of duties, growing long-term debt because of management fees, and not following state accounting procedures.

In 2003, the school was chastened because it didn't keep up student files, losing parental permission slips and student assessments. In addition, payroll documents were missing, a number of checks for food service and latchkey checking accounts that were dated one year earlier were found, tuition from school districts were not deposited in a timely matter, the school had not received tuition in the amount of \$2,523, and the auditor noticed a difference in the amount claimed and the amount paid in February 2002 for federal lunch and breakfast reimbursements.

Here is a list of the faults found in Duluth Public Schools Academy's 2007 audit:

- Board Minutes, in which state law requires all schools to make their board minutes available upon request. Duluth Public Schools Academy did not do so;
- Limited Segregation of Duties, in which only one employee has access to the board's check stock, authority to sign checks, and is responsible for recording the board's transactions. Good business practices require that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction;
- Adequate Accounting System, in which auditors found Duluth Public Schools Academy does not maintain a comprehensive and accurate general ledger. Also, the accounting software used is not approved by MDE;
- Material Audit Adjustments, in which the school lacks internal controls that could lead to the possibility for some misstatements in areas such as intergovernmental revenue, tuition revenue, capital assets, cash, equity, accounts payable;
- Electronic Funds Transfer Policy, in which Duluth Public Schools Academy has not established an electronic funds transfer policy as required by state law;
- Supporting Documents/Control for Expenditures, in which the school lacked adequate supporting documentation for money taken from the board's bank account;
- Declaration for Payment, in which the required declaration for payment was not included on all of the school's checks;
- Prompt Payment, in which disbursements from the main bank account were not paid within 35 days and no interest was added, in violation of state law;
- Preparation of Financial Statements, in which the school had the audit firm prepare its annual financial statement as well as its audit, creating the possibility of a conflict of interest;
- Inadequate Documents of the Components of Internal Control, in which the school needs these components in written form;
- Lack of Capital Asset Policy, in which the school doesn't have a capital asset policy detailing a capitalization threshold;
- Lack of Timely Data Submission, in which data was not supplied in accordance to rules.

E.C.H.O. Charter School, Echo

Every Child Has Opportunities Charter School, or E.C.H.O., was founded in 1997 in Echo in southwest Minnesota. It serves 161 students in grades kindergarten through 11. Its sponsor is Yellow Medicine East School District.

In its 2001 report, E.C.H.O. was found to have limited segregation of duties, lack of detailed bank reconciliations, not enough collateral for deposits, numerous adjusting accounting errors, and not maintaining

detailed fixed assets.

In 2002, the school was chastened because it was found to have limited segregation of duties and not maintaining detailed fixed assets.

In 2003, the school was found to have limited segregation of duties, not maintaining a detailed record of fixed assets, improper deposit procedures, inappropriate use of district funds, and lack of proper documentation on checks.

In 2004, E.C.H.O. was found to have limited segregation of duties, not enough collateral for deposits, and for buying clothes for staff with school funds.

Here is a list of the faults found in E.C.H.O.'s 2007 audit:

- Board Minutes, in which state law requires all schools to make their board minutes available upon request. E.C.H.O. did not do so;
- Limited Segregation of Duties, in which only one employee has access to the Board's check stock, authority to sign checks, and is responsible for recording the board's transactions. Good business practices require that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction;
- Control for Disbursements, in which E.C.H.O. lacked adequate supporting documentation for money taken from the board's bank account;
- Audit Adjustments, in which lack of internal control means the possibility for some misstatements in areas such as intergovernmental revenue, tuition revenue, capital assets, cash, equity, accounts payable;
- Preparation of Financial Statements, in which E.C.H.O. had the audit firm prepare their annual financial statement as well as their audit, creating the possibility of a conflict of interest;
- No formal policy on accrued leave balances, in which the school does not have a formal policy that addresses the payout of accrued vacation and sick leave upon an employee's termination of employment. This exposes the school to misunderstanding between administration and employees.
- Budget Detail, in which the district did not have an accurate budget and did not amend the budget;
- Disbursements not for public purpose, in which the school bought soda and bottled water for the staff with district funds. This is not in compliance with the public purpose doctrine of the State of Minnesota.
- Declaration for Payment, in which the required declaration for payment was not included on all of the school's checks;
- Electronic Funds Transfer Policy, in which E.C.H.O. has not established an electronic funds transfer policy as required by state law.

Conclusion

This information from financial audits brings two simple facts about charter schools to light: There are several schools that are truly incompetent when it comes to working with public funds; and almost every school has some difficulty meeting state laws and financial standards.

We understand that, among 145 institutions, some minor infractions must be expected. The same can be said when examining the books of every traditional school district in the state, or every township, city or county. However, it is beyond the pale to find infractions in all but 24 of 145 schools.

Some charter school supporters claim the small size of charter staffs make it impossible to properly account for their funds. Some say proper training isn't available.

We raise a simple question: If a public entity can't handle the money it gets from taxpayers, then why do taxpayers give it money? Clearly, the state should reconsider renewing its agreements with the 121 charter schools that cannot successfully pass a financial audit.

Further, should taxpayers continue to finance the 50 percent of charter schools that do not resolve identified financial problems?

And what of the several schools that are stunningly mismanaged? Several popped up in our investigation that have a financial rap sheet that goes back as far as anyone's been keeping records. Ought they to continue to receive taxpayer funds? If ever there was a situation for MDE to exercise its ability to cancel contracts with schools over financial mismanagement, that situation exists for each of these schools.

It is imperative that government dealings are transparent; that's why the state has open meeting laws. It is therefore gravely disappointing when 43 charter school boards of directors don't take the simple step of providing minutes of public meetings upon request. Not only is it illegal, but it creates an atmosphere of suspicion.

Among the many financial missteps outlined in this report, "limited segregation of duties" may seem like the least of them. It simply requires more than one person to be in charge of the books, thus lessening the chance of embezzlement. However, given that charter schools work with taxpayer funds, and given that allegations of embezzling have dogged charter schools since their inception, "limited segregation of duties" is of supreme importance to keep the school's finances in shape. That's why it is very troubling that 80, or 55 percent, of charter schools did not meet the "limited segregation of duties" test. How are taxpayers to feel confident about their money when there is no guarantee the money will be lawfully spent?

Overall financial health can be determined by whether the charter school has enough collateral to maintain deposit insurance. That 38, or 26 percent, didn't have proper collateral for deposit insurance is troubling in itself. What is more troubling is that this problem also existed in about the same numbers in the 2001, 2002 and 2003 reports.

The OLA report made good suggestions to improve charter professionalism and openness. The Minnesota Legislature acted on these recommendations and made several good changes to the law, including allowing MDE to take corrective action against a sponsor if it violates a term of the contract, requires a charter school to provide employees with written descriptions of the terms and conditions of employment and the school's personnel policies, outlines qualifications for persons that hold administrative, supervisory, or instructional

leadership roles, subjects charter schools to state data practices and open meeting laws, and requires charters to post information on its web site identifying its sponsors and annual report.

These are good steps, but are embarrassingly belated. Charter schools have been in existence since 1992 and only now are we requiring them to create job descriptions?

We would take the new state law further. We recommend that the state reconsider renewing its agreements with charter schools that cannot successfully pass a financial audit; that charter schools with long-standing financial problems should be closed; that board chairs who do not comply with open meeting laws should be removed from their posts; that charter school sponsoring organizations should be required to pay for any discrepancies found in a charter school's audit; that financial training should be mandatory for all charter school board members and administrators; and that all parents with children enrolled in a charter school be notified by the MDE of all infractions found in the yearly charter school financial audit.

It is clear that, 17 years after implementation, the charter school movement is rife with mismanagement. Charter school directors cannot handle simple financial accounting practices, nor do many charter schools have an interest in allowing the public to be aware of their machinations. We have offered several recommendations to fix the charter school system. We would add one more: If charter schools can't run their schools in financial and legally compliant manners, Minnesota should reconsider whether charter schools are worthy of public funding at all.



Appendices

Appendix A: Schools with no infractions

World Learner Charter School	Kaleidoscope Charter School
Concordia Creative Learning Academy	Beacon Preparatory School
Nerstrand Charter School	Swan River Montessori Charter School
Academia Cesar Chavez Charter School	Paideia Academy Charter School
North Shore Community School	Stride Academy Charter School
Harbor City International Charter	Green Isle Community School
New Century Charter School	Lincoln International School
Tarek Ibn Ziyad Academy	Emily O. Goodridge-Grey Accelerated
Liberty High School	Emily Charter School
Beacon Academy	Twin Cities Academy High School
Augsburg Academy For Health Careers	Great River School
Ascension Academy Charter School	Artech

Appendix B: Schools that have closed since 2007

ELOM International Academy	Heart of the Earth Charter
Yankton Country School	

Appendix C: Schools listed by community.

Forty three percent of charter schools are located in Minneapolis and St. Paul alone

City	Charter School	Infractions
Anoka	Cygnus Academy	8
Balaton	Yankton Country Charter School	4
Bemidji	Voyageurs Expeditionary	5
	Schoolcraft Learning Community Chtr	2
	Treknorth High School	2
Bigelow	Worthington Area Language Academy	4
Blaine	Liberty High School	0
Bloomington	Seven Hills Classical Academy	2
Brooklyn Center	Odyssey Charter School	4
Brooklyn Park	Noble Academy	4
	Prairie Seeds Academy	5
	Excell Academy Charter	1
	Sage Academy Charter School	4
Chaska	World Learner Charter School	0
Clarkfield	Clarkfield Charter School	5
Coon Rapids	Northwest Passage High School	2
Crosslake	Crosslake Community Charter School	2
Dakota	Dakota Area Community Charter Sch	3
Duluth	Duluth Public Schools Academy	12
	Lake Superior High School	3
	Harbor City International Charter	0
	North Shore Community School	0
Echo	E.C.H.O. Charter School	10
Eden Prairie	Eagle Ridge Academy Charter School	4
Emily	Emily Charter School	0
Eveleth	East Range Academy Of Tech &Science	4

Faribault	Discovery Public School Faribault	2
Forest Lake	North Lakes Academy	2
	Lakes International Language Admy	1
Golden Valley	Loveworks Academy For Arts	3
Grand Marais	Great Expectations	5
Green Isle	Green Isle Community School	0
Henderson	Minnesota New Country School	4
	Edvisions Off Campus School	3
Hopkins	Main Street School Performing Arts	9
Houston	Ridgeway Community School	5
Hutchinson	New Discoveries Montessori Academy	3
	New Century Charter School	0
Inver Grove Heights	Tarek Ibn Ziyad Academy	0
La Crescent	La Crescent Montessori Academy	6
Lafayette	Lafayette Public Charter School	3
Lindstrom	Trio Wolf Creek Distance Learning	1
Mankato	Riverbend Academy	3
Maple Grove	Elom International School	2
McGregor	Minisinaakwaang Leadership Academy	1
Milroy	Milroy Area Charter School	7
Minneapolis	Watershed High School	4
	Aurora Charter School	10
	Emily O. Goodridge-Grey Accelerated	0
	El Colegio Charter School	2
	Augsburg Academy For Health Careers	0
	Hiawatha Leadership Academy	2
	Lincoln International School	0
	Twin Cities International Elem Sch.	5
	Mn International Middle Charter	2
	Ubah Medical Academy Charter School	1
	Dunwoody Academy	3
	Fraser Academy	2
	Ascension Academy Charter School	0
	Minneapolis Academy Charter School	3
	New Millennium Academy Charter Sch	2
	Long Tieng Academy	1
	New City School	4
	Southside Family Charter School	1
	Lighthouse Academy Of Nations	4
	Cedar Riverside Community School	8
	Harvest Prep School/Seed Academy	4
	Heart Of The Earth Charter	14
	Friendship Acdmy Of Fine Arts Chtr.	1
	Minnesota Transitions Charter Sch	2
	Sojourner Truth Academy	2
	Minnesota Internship Center	2
	Minnesota Online High School	1
	Learning For Leadership Charter	5
	Stonebridge Community School	2
	Four Directions Charter Schools	2
	New Visions Charter School	1
	Woodson Institute For Excellence Ch	2

Minnesota City	Riverway Learning Community Chtr	6
Minnetonka	International Spanish Language Acad	2
Monticello	Swan River Montessori Charter Sch	0
Morton	Eci' Nompa Woonspe	3
Naytahwaush	Naytahwaush Community School	3
Nerstrand	Nerstrand Charter School	0
New Brighton	Academy Of Biosciences	4
Northfield	Prairie Creek Community School	5
	Artech	0
Osakis	Lakes Area Charter School	3
Owatonna	Recovery School Of Southern Mn	14
Pillager	Pillager Area Charter School	4
Plymouth	Beacon Preparatory School	0
	Beacon Academy	0
Ramsey	Pact Charter School	3
Richfield	Paideia Academy Charter School	0
	Partnership Academy, Inc.	3
Rochester	Adam Abdulle Academy	2
	Rochester Off-Campus Charter High	3
	Studio Academy Charter School	1
Rogers	Kaleidoscope Charter School	0
	Spectrum High School	4
Sandstone	Pine Grove Leadership Academy	7
St. Cloud	Stride Academy Charter School	0
St. Paul	Laura Jeffrey Academy	4
	Bluesky Charter School	1
	City Academy	3
	Higher Ground Academy	4
	Concordia Creative Learning Academy	0
	Hmong Academy	1
	General John Vessey Jr Leadership	1
	Community School Of Excellence	1
	Metro Deaf School	3
	Nova Classical Academy	1
	Yinghua Academy	3
	Twin Cities German Immersion Chtr	4
	Avalon School	4
	Urban Academy Charter School	3
	Great River School	0
	Sobriety High	5
	Cyber Village Academy	4
	St Paul Conservatory Performing Art	3
	Jennings Community Learning Center	3
	Dugsi Academy	1
	Skills For Tomorrow Charter School	3
	Community Of Peace Academy	1
	Achieve Language Academy	4
	New Spirit Schools	1
	Face To Face Academy	4
	High School For Recording Arts	7
	Twin Cities Academy	3
	Hope Community Academy	2
	Academia Cesar Chavez Charter Sch.	0

	Minnesota North Star Academy	3
	Waynewood School Of Hope	4
	Twin Cities Academy High School	0
Starbuck	Glacial Hills Elementary	3
Stillwater	St. Croix Preparatory Academy	1
	New Heights School, Inc.	3
Tofte	Birch Grove Community School	1
Vadnais Heights	Agricultural Food Science Academy	2
Waite Park	Great River Education Center	3
Warba	Northern Lights Community School	3
Waseca	Team Academy	3
West St. Paul	River Heights Charter School	5
Winona	Bluffview Montessori	6
Woodbury	Math & Science Academy	3

Appendix D: Schools listed by sponsor.

Four non-governmental, non-higher education affiliated sponsors – Audubon Center Of The Northwoods, Friends Of Education (formerly Friends of the Ascension), Pillsbury United Communities and Volunteers Of America – sponsor 35 percent of Minnesota’s charter schools.

Alexandria Technical College	Lakes Area Charter School
Alfred Adler Graduate School	Watershed High School
Audubon Center Of The Northwoods	Glacial Hills Elementary Laura Jeffrey Academy Riverway Learning Community Chtr Aurora Charter School Great Expectations Voyageurs Expeditionary River Heights Charter School Swan River Montessori Charter Sch New Discoveries Montessori Academy Noble Academy Emily O. Goodridge-Grey Accelerated
Augsburg College	El Colegio Charter School Augsburg Academy For Health Careers Hiawatha Leadership Academy Lincoln International School
Balaton Public Schools District	Yankton Country Charter School
Bethel University	Pact Charter School Northwest Passage High School
Brooklyn Center School District	Bluesky Charter School

Capella University	East Range Academy Of Tech &Science
Century College	Twin Cities International Elem Sch. Mn International Middle Charter Ubah Medical Academy Charter School
Chaska Intermediate School District	World Learner Charter School
Chisago Lakes School District	Trio Wolf Creek Distance Learning
College Of St. Catherine	City Academy
Concordia University	Higher Ground Academy Concordia Creative Learning Academy Hmong Academy General John Vessey Jr Leadership Community School Of Excellence
Duluth Public Schools	Duluth Public Schools Academy Lake Superior High School
Dunwoody College Of Technology	Dunwoody Academy
Faribault School District	Nerstrand Charter School
Forest Lake School District	Metro Deaf School
Fraser	Fraser Academy
Friends Of Education	Beacon Preparatory School Nova Classical Academy Ascension Academy Charter School Minneapolis Academy Charter School St. Croix Preparatory Academy Eagle Ridge Academy Charter School Beacon Academy Yinghua Academy Paideia Academy Charter School Stride Academy Charter School New Millennium Academy Charter Sch Academy Of Biosciences Cygnus Academy Seven Hills Classical Academy Long Tieng Academy
Germanic-American Institute	Twin Cities German Immersion Chrtr
Gibbon Fairfax Winthrop School District	Lafayette Public Charter School

Hamline University

Avalon School
Urban Academy Charter School
New City School
New Century Charter School
Great River School
Southside Family Charter School

Hopkins School District

Main Street School Performing Arts
International Spanish Language Acad

Intermediate School District 917

Sobriety High

Islamic Relief Worldwide

Tarek Ibn Ziyad Academy

James Ford Bell Foundation

Lighthouse Academy Of Nations

Lao Family Community

Prairie Seeds Academy

Lesueur/Henderson School District

Minnesota New Country School

Milroy School District

Milroy Area Charter School

Minneapolis Public School District

Cedar Riverside Community School
Cyber Village Academy
Harvest Prep School/Seed Academy
Heart Of The Earth Charter
Friendship Acdmy Of Fine Arts Chtr.

Minnesota Department Of Education

Emily Charter School
Math & Science Academy
Great River Education Center
North Lakes Academy
Lacrescent Montessori Academy
Schoolcraft Learning Community Chtr
Crosslake Community Charter School
Riverbend Academy
Lakes International Language Admy
Dakota Area Community Charter Sch

Ne Metro Intermediate School District

Agricultural Food Science Academy

North Central University

Excell Academy Charter

Northfield Public Schools

Prairie Creek Community School
Artech

Northwoods Children's Services

Pillager Area Charter School

Discovery Public School Faribault
Northern Lights Community School
Clarkfield Charter School

Ordway Center For The Performing Arts

St Paul Conservatory Performing Art

Osseo School District

Odyssey Charter School
Sage Academy Charter School

Pillsbury United Communities

Minnesota Transitions Charter Sch
Jennings Community Learning Center
Sojourner Truth Academy
Minnesota Internship Center
Liberty High School
Adam Abdulle Academy
Loveworks Academy For Arts
Minnesota Online High School
Dugsi Academy
Recovery School Of Southern Mn
Learning For Leadership Charter
Stonebridge Community School
Project For Pride In Living Partnership Adm, Inc.

Redwood Falls School District

Eci' Nompa Woonspe

Rochester Community & Technical College

Rochester Off-Campus Charter High

Rockford Independent School District

Skills For Tomorrow Charter School

St. Paul School District

Community Of Peace Academy
Achieve Language Academy
New Spirit Schools
Face To Face Academy
High School For Recording Arts
Twin Cities Academy

St. Scholastica College

Pine Grove Leadership Academy
Minisinaakwaang Leadership Academy

Stillwater School District

New Heights School, Inc.

University Of St. Thomas

Hope Community Academy
Academia Cesar Chavez Charter Sch.

Upper Midwest American Indian Center

Four Directions Charter Schools

Volunteers Of America

New Visions Charter School
Studio Academy Charter School

Harbor City International Charter
Minnesota North Star Academy
Treknorth High School
Kaleidoscope Charter School
Worthington Area Language Academy
Green Isle Community School
Birch Grove Community School
Edvisions Off Campus School
Naytahwaush Community School
Spectrum High School

Waseca School District

Team Academy

Winona Area Public Schools

Bluffview Montessori
Ridgeway Community School

Wolf Ridge Environmental Learning Center

North Shore Community School

Yellow Medicine East School District

E.C.H.O. Charter School

YMCA Metropolitan Minneapolis

Woodson Institute For Excellence Ch

Lost Sponsor

Elom International School

No Sponsor Listed

Waynewood School Of Hope

Appendix E

Auditors used a variety of terms for the infractions they discovered. Here are some definitions of some of those accounting terms:

Board Minutes

According to Minnesota Statute 124D.10, charter schools must make their board minutes available upon request.

Late Audit

According to Minnesota Statutes 123B.77, all school districts and charter schools must submit their audited financial data for the preceding fiscal year to MDE by Nov. 30 of each calendar year. Also, the schools must provide a copy of the completed financial audit report to the dept by Dec. 31.

Limited Segregation of Duties

A system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Preparation of Financial Statements

Small schools sometimes have audit firms prepare their annual financial report. The lack of internal resources available to prepare the annual financial statements is considered a deficiency.

Annual Financial Reporting Under GAAP

If the school does not have an internal control policy in place over annual financial reporting, the potential exists that a material misstatement of the annual financial statements could occur and not be detected by the schools internal controls.

Bank Reconciliation

Schools must prepare bank reconciliations that reconcile to the general ledger.

Collateral

Minnesota Statute 118A.03 requires that public deposits in excess of deposit insurance must be protected by a bond or collateral which, when computed at its market value, shall be at least ten percent more than the amount of the excess deposits.

Lack of Governance

Schools must not turn over complete control to the executive director, which can lead to misuse of school resources and a failure to effectively manage public funding.

Oversight over Federal Aid Requirements

Federal aid is paid out as the school submits the relevant expenses incurred through the state or federal oversight agency. Therefore, for expenditures reimbursed by the U.S. Department of Education, the school is responsible for submitting reports of incurred eligible expenditures.

Budget Detail

The school must approve a detailed budget for each fiscal year.

Employee Advances

All school expenditures must have a public purpose and the school must have specific, implied, or expressed authority for costs to be a legal expenditure. As such, donations or loans to individuals are not allowed under Minnesota law.

Lack of Documentation of Employee Pay Rates

Employee contracts should clearly document approved salaries. The lack of this subjects the school to a higher risk that fraud or error could occur and not be detected in a timely manner.

Payroll Transaction

Payroll transactions must be correctly calculated.

Conflict of Interest Transactions

State statutes, the IRS, and good business practice requires that the governing body and management be aware of conflict of interest transactions that could compromise the board's financial integrity.

Adequate Accounting System

Schools must maintain a comprehensive and accurate general ledger as well as use accounting software approved by MDE.

Documentation of Compliance with Lease Laws & Regulation

Schools must maintain proper documentation of the formal actions of the charter school board meetings.

Material Audit Adjustment

Lack of internal controls means the possibility for some misstatements in areas such as intergovernmental revenue, tuition revenue, capital assets, cash, equity, accounts payable.

Improve Manual Journal Entries

Schools must have formal review policies for journal entries.

Legal Compliance

Minnesota Statute 471.38 requires a declaration relating to each payment the governmental unit prepares. The declaration provided for is sufficient if in the following form: "I declare under the penalties of laws that this account, claim or demand is just and correct and that no part of it has been paid."

Designation of Depositories

Minnesota Statute 118A.02 requires that each of the school's depositories of public funds be designated by the governing body, or by its treasurer or chief financial officer.

Adjusting Journal Entries

Schools should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner.

Significant Journal Entries

Schools should maintain a good system of internal control for recording and processing entries material to the financial statements.

Electronic Funds Transfer Policy

Minnesota Statute 471.38 requires that schools have policies in place or controls to address all the electronic funds transfer requirements.

Designation of Authority

Minnesota Statute 471.38 requires charter schools to annually delegate authority to make electronic transfers to a designated business administrator.

UFARS Compliance

Minnesota Statute 123B.77 requires the audits of all school districts to include a determination of compliance with the Uniform Financial Accounting And Reporting Standards (UFARS).

General Disbursement Transactions

Schools must be able to prevent or detect a misstatement in general disbursements.

Lack of Supporting Documents/Control for Expenditures

Schools must have adequate supporting documentation for all disbursements.

Inadequate Documentation of the Components of Internal Control

Schools must have adequate documentation of the components of internal control.

Lack of Prompt Payment

Minnesota Statute 471.425 states schools must pay government bills on time and pay extra interest when payments are late.

Oversight Over Federal Aid Requirements

Federal aid is awarded to schools based on needs. Schools must submit the relevant expenses incurred.

Documentation of Credit Card Charges

Schools must maintain adequate supporting documentation for credit card purchases.

Child Nutrition Cluster

Schools must provide properly approved free and reduced meal applications.

Documentation of Compliance with Lease Laws and Regulations

Schools must maintain proper documentation of the formal actions of the charter school board meetings. Without this documentation, there is no proof the school complied with provisions of laws, regulations, contracts, and grant agreements.

Payment of Invoices

Minnesota Statute 471.425 requires charter schools to pay each vendor obligation according to the terms of each contract within 45 days after the receipt of the goods or services or the invoice for the goods or services.

Insufficient Records

Minnesota Statute 15.17, requires the school to “preserve all records necessary to a full and accurate knowledge of their official activities.”

Budget Approval Process

Minnesota Statute 123B.77, states prior to July 1 of each year, the governing board of each district shall approve and adopt its revenue and expenditure budgets for the next school year. Expenditures of funds in violation of this subdivision shall be considered unlawful expenditures.

Coding of Revenues/Expenditures

Minnesota Statute 6.65 requires the audits of all school districts to include a determination of compliance with the Uniform Financial Accounting and Reporting Standards.

Cash Receipt Documentation

Schools must maintain internal controls to require proper documentation of cash receipt transactions.

Inadequate Capital Asset Records

Schools must maintain an inventory asset list for complete.

Receipts Deposited Timely

Schools must have internal controls that would require timely deposit of receipts.

