




MINNESOTA 20
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CHECKING IN ON CHARTER SCHOOLS

A REVIEW OF 2008 FINANCIAL MANAGEMENT PRACTICES

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Executive Summary

Some of Minnesota's charter schools have a financial management and accountability problem. A Minnesota 2020 examination of the financial audits for all charter schools filed for the 2007-2008 school year found that some conduct their business affairs reasonably well while others face great difficulties. These results echo findings from our previous examination of charter school financial documents. While some schools meet demands for financial accountability, many do not.

This year, Minnesota 2020 digitized each charter school financial audit and is making them available online. Public confidence is strengthened by ready access to public data. We hope our example will encourage the Minnesota Department of Education and other organizations to follow our lead and provide documents in a more easily accessible format.

To access all of the charter school audits, visit www.mn2020.org

Key Findings

The nation's first charter schools opened in Minnesota in 1992. In the 2007-08 school year, nearly 30,000 Minnesota students were enrolled in 154 charter schools. They receive an average of \$10,500 in public funds per student. A review of charter school audits from the 2007-08 school year found:

- 115 charter schools, or 75 percent, had at least one irregularity noted in their financial audit.
- 47 charter schools, or 31 percent, were flagged for lacking proper segregation of duties, which shows a lack of attention to financial details that could lead to misappropriation of public funds.
- 39 charter schools, or 25 percent, had deposits not sufficiently insured by either a bond or collateral. This requirement ensures that the charter school's bills can be paid.
- These numbers are nearly identical to those uncovered by our study of 2006-2007 charter school financial documents in which slightly more than 80 percent of schools had at least one irregularity, 55 percent had limited segregation of duties, and 26 percent had insufficient collateral.

Recommendations

To ensure appropriate focus on the education mission, Minnesota's charter schools must manage their financial affairs in a more responsible, professional manner. While two-thirds of the state's charter schools have problematic audits, 15 charter schools had flawless audits for two years in a row. Their success should be a guide for the entire charter school community.

Recent changes in state law tighten oversight of charter schools, but we recommend additional oversight measures. The Minnesota Department of Education should be required to:

- Revoke charters with schools that have repeated financial problems;
- Hold sponsor organizations financially accountable for the fiscal health of their charter schools;
- Organize mandatory, basic financial training for all charter school board members and administrators before they are allowed to conduct any business as charter school officials;

- Direct charter schools to send constituent parents an easy-to-read financial report card each year that notifies them of all financial infractions found in their yearly audits and offer parents all available choices for their children to attend more professionally managed school districts.

Conclusion

Charter schools, by definition and design, have a special place in the constellation of Minnesota's educational system. To provide greater educational variety, they were designed to skirt much of the oversight demanded of traditional public schools.

Therefore, charter schools should face financial oversight that is not only equal to traditional schools, but because of their greater freedom in choosing administrators and board members, they should face oversight greater than that of public schools.

We applaud those charter schools that responsibly manage their financial affairs. We encourage the schools that can't produce a clean financial audit to look to those that can for guidance.

We call on state officials, the Minnesota Department of Education and charter school leaders to take concrete steps to ensure that all charter schools can manage their finances appropriately and produce clean financial audits year after year. In addition, we call on charter schools to provide greater accountability and transparency with their financial documents.

Professional financial management practices are critical for the health of any organization, and charter schools are no exception.

Introduction

Minnesota's charter school system is considered one of the best in the nation – a recognition that is well earned. Since its inception in 1993, more than 150 charter schools now thrive in Minnesota's education landscape. In the main, they provide small school environments for a variety of student populations.

This report focuses on the financial audits of Minnesota's charter schools. It does not examine charter school's academic achievements, teacher quality or curriculum.

Each year, all public schools are required to hire an independent auditor to review their books and submit this audit to the Minnesota Department of Education. In June and July 2009, Minnesota 2020 collected 154 charter school audits for the 2007-2008 school year—the most recent audits available—and compared them to the 2006-2007 charter school audits examined by the organization. This report is the result of that investigation. The audits for the 2008-2009 school year, which ended its fiscal year on June 30, 2009, are due by Jan. 1, 2010.

Like the report on the 2006-07 financial audits, this report finds the vast majority of charter schools do not follow basic financial guidelines.

Charter schools are purposefully nontraditional, publically funded schools. While traditional public schools receive roughly \$9,500 per-student from the state, charter schools receive \$10,500 for each student from the state.¹ Because charter schools don't exist in a geographic district, state officials say charter schools deserve more taxpayer money because they can't ask local citizens 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 enabling legislation allows public educational funding 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.

While traditional schools are run by a publicly elected school board, charter school boards do not, by design, have that element of direct public oversight. Charter school board members are not directly accountable to the funding public.

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 By 2008, there were 154 charter schools serving more than 28,000 students—or about three percent of the state's K-12 student population.

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

Once the Minnesota Department of Education 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

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

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

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.

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.

In June 2008, the non-partisan Office of the Legislative Auditor released a report that was critical of charter school financial management. In 2009, the Minnesota Legislature required MDE to review a sponsor's performance at least once every five years and take corrective action against a sponsor if it violates a term of the charter. The law also requires charter schools to post on their web sites identifying information about their sponsors, have a board of directors of at least five nonrelated members, provide prospective employees with a written description of the terms of employment, establish qualifications for persons that hold administrative, supervisory, or instructional leadership roles, distribute an annual report, and comply with open meeting and data practices laws.

Audit Findings

Minnesota 2020 examined every charter school financial audit from the 2007-08 school year. We have highlighted the most egregious infractions below, as well as those with the most offenders. For a complete list of all audit infractions and the schools that were flagged for those infractions, visit www.mn2020.org

Limited Segregation of Duties

Schools are required to have a system of controls so that no one person has responsibility to execute a complete financial transaction, has access to cash and valuable assets, and has authority to record the transaction. Last year, 55 percent of schools did not have proper segregation of duties. This year, 31 percent were noted for this infraction. An * denotes the charter schools that were marked for this problem in both 2006-07 and 2007-08.

Sojourner Truth Academy*	Quest Academy
Prairie Creek Community School	Pillager Area Charter School*
Partnership Academy, Inc	Odyssey Academy*
Nova Classical Academy*	North Shore Community School
New Spirit School*	New Heights School, Inc.*
New City School*	Lionsgate Academy
Duluth Public Schools Academy*	Lake Superior High School*
Lafayette Public Charter School	KIPP Minnesota Charter School
International Spanish Language Academy	Jennings Community Learning Center*
High School For Recording Arts	Great River Education Center*
Glacial Hills Elementary*	Learning For Leadership Charter*
Laura Jeffrey Academy Charter*	Lakes Area Charter School*
La Crescent Montessori Academy*	Emily Charter School
Face To Face Academy*	East Range Academy of Tech & Science*
Discovery Public School Faribault	Cyber Village Academy
Cologne Academy	City Academy
Bluesky Charter School	Aurora Charter School*
Aspen Academy	Achieve Language Academy*
Michael Frome Academy	Metro Deaf School
Math & Science Academy*	Main Street School Performing Arts*
Waynewood School of Hope	River Heights Charter School*
Recovery School Of Southern MN	Milroy Area Charter School*
Crosslake Community Charter School	Concordia Creative Learning Academy
Minneapolis Academy 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. Last year, 30 percent of charter schools faced this problem. This year, 15 percent face the issue. An * denotes the charter schools that were marked for this problem in both 2006-07 and 2007-08.

Twin Cities Academy High School	Twin Cities Academy*
Sage Academy Charter School	Odyssey Academy*
New Heights School, Inc*	New City School*

International Spanish Language Academy*
Minneapolis Academy Charter School*
Cygnum Academy*
City Academy*
Milroy Area Charter School*
Main Street School Performing Arts*
Trio Wolf Creek Distance Learning
Spectrum High School*
Birch Grove Community School*

Learning For Leadership Charter*
E.C.H.O. Charter School*
Clarkfield Charter School*
Aurora Charter School*
Metro Deaf School*
Watershed High School
St. Paul Conservatory Performing Art*
Recovery School of Southern Minn.*

Annual Financial Reporting Under Generally Accepted Accounting Principles

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. Last year, 15 percent of charter schools were noted for this flaw. This year, that number is 16 percent. An * denotes the charter schools that were marked for this problem in both 2006-07 and 2007-08.

Urban Academy Charter School*
Rochester Off-Campus Charter High*
Riverbend Academy*
Prairie Creek Community School*
Odyssey Academy
North Lakes Academy*
Jennings Community Learning Center*
La Crescent Montessori Academy*
Cygnum Academy
Minnesota New Country School*
Math & Science Academy*
Lake Superior High School
Lakes Area Charter School

Team Academy*
Riverway Learning Community Charter*
Ridgeway Community School*
Partnership Academy, Inc*
Northwest Passage High School*
KIPP Minnesota Charter School
Glacial Hills Elementary
Dakota Area Community School*
Bluffview Montessori*
Minnesota Internship Center*
Pillager Area Charter School
Great River Education Center

Bank Reconciliation

These charter schools didn'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:

Glacial Hills Elementary

East Range Academy of Tech & Science

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. Last year, 26 percent of schools didn't meet this requirement. This year, the number was 25 percent. An * denotes the charter schools that were marked for this problem in both 2006-07 and 2007-08.

Yinghua Academy*
Urban Academy Charter School
Twin Cities German Immersion Charter*

World Learner Charter School
Twin Cities International Elem School*
Twin Cities Academy High School

Stonebridge Community School
Sojourner Truth Academy
River Heights Charter School*
E.C.H.O. Charter School
New City School
Lincoln International School
Hope Community Academy*
KIPP Minnesota Charter School
International Spanish Language Academy
Harbor City International Charter
Four Directions Charter Schools*
Dunwoody Academy*
Discovery Public School Faribault*
Community School Of Excellence
Aurora Charter School*
Achieve Language Academy*
Metro Deaf School*

St. Paul Conservatory Performing Art*
Sobriety High*
Pine Grove Leadership Academy
New Visions Charter School*
Main Street School Performing Arts*
Lighthouse Academy of Nations
Excell Academy Charter
Kaleidoscope Charter School
Higher Ground Academy
Global Academy
East Range Academy Of Tech & Science
Duluth Public Schools Academy
Cygnus Academy
Community Of Peace Academy
Augsburg Fairview Academy
Minnesota Online High School*

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. An * denotes the charter schools that were marked for this problem in both 2006-07 and 2007-08.

Noble Academy
Southside Family Charter School*
Duluth Public School Academy

Bluesky Charter School
Recovery School of Southern Mn

Payroll Transaction

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

Watershed High School
Lighthouse Academy of Nations

Sobriety High
Cyber Village Academy

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:

Avalon School
Pine Grove Leadership Academy

Minisinaakwaang Leadership Academy

Schools with Perfect 2008 & 2007 Audits

Schools with Perfect 2007 and 2008 Audits

The following 15 schools had zero infractions on their financial audits for the past two years.

Beacon Academy	Beacon Preparatory School
Nerstrand Charter School	New Century Charter School
Stride Academy Charter School	Swan River Charter School
Emily O. Goodridge-Grey Accelerated	Paideia Academy Charter School
Great River School	Green Isle Community School
Academia Cesar Chavez Charter School	Artech
Hmong Academy	Dugsi Academy
Ubah Medical Academy Charter School	

Schools with Perfect 2008 Audits

These are the charter schools that produced a clean financial audit. Last year, 17 percent of the 145 schools had clean audits. This year, 20 percent of the 154 schools had clean audits. An * denotes the charter schools that had clean audits in both 2006-07 and 2007-08.

Hmong Academy	Dugsi Academy*
Beacon Academy*	Beacon Preparatory School*
Best Academy	Minnesota Transitions Charter School
Minnesota International Middle Charter	Woodson Institute for Excellence
Schoolcraft Learning Community Charter	Seven Hills Classical Academy
Nerstrand Charter School*	New Century Charter School*
St. Croix Preparatory Academy	New Discoveries Montessori Academy
Stride Academy Charter School*	New Millennium Charter School
Swan River Montessori Charter School*	Treknorth High School
Emily O. Goodridge-Grey Accelerated*	Loveworks Academy For Arts
Fraser Academy	Friendship Academy Fine Arts Charter
Ubah Medical Academy Charter School*	General John Vessey Jr Leadership
Paideia Academy Charter School*	Great River School*
Green Isle Community School*	Academia Cesar Chavez Charter School*
Harvest Prep School/Seed Academy	Hiawatha Leadership Academy
Artech*	Eagle Ridge Academy Charter School
DaVinci Academy	Great Expectations
Paladin Academy/Liberty High	Naytahwaush Community School
Voyageurs Expeditionary	Rochester Math & Science (Adam Abdulle Academy)*

Biggest Offenders

The 2008 biggest offenders were those schools flagged for at least eight infractions or more. These charter schools have the most offenses among the 2008 financial audits:

Bluffview Montessori, Winona

Bluffview Montessori was founded in 1993 and has 200 students K-8. It was one of the first charter schools in the U.S. It is sponsored by the Winona School District, which also sponsors Ridgeway Community School. In 2007, Bluffview had six infractions.

Bluffview Montessori
4001 1321 Gilmore Avenue
Winona
Leslie Hittner, Director
www.bluffviewmontessori.org

Here is the list of faults flagged by auditors on Bluffview Montessori's 2008 financial audit:

- Annual Financial Reporting Under GAAP, in which the school does not have an internal control policy in place over annual financial reporting and the potential exists that a material; misstatement of the annual financial statements could occur and not be detected by the schools internal controls;
- Material Audit Adjustment, 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;
- Control of Accounts Payable Disbursements, in which the school has no control to prevent unauthorized payments to be prepared without the board's knowledge;
- Review of Cash Conciliations, in which the school does not have a policy in place for the review and approval of cash reconciliations by the business manager;
- Investments not Reconciled to General Ledger, in which the school is not recording escrow accordingly, activity on a monthly basis and is not reconciling investment balances to the general ledger;
- Adopted Budget, in which the school is required to approve and adopt its revenue and expenditure budgets prior to of the first day that school year;
- Designation of Depositories, in which the school's depositories of public funds be designated by the governing body, or by its treasurer or chief financial officer;
- Electronic Funds Transfer Policy, in which the school has not established an electronic funds transfer policy as required by state law.

Riverway Learning Community Charter School, Minnesota City

Riverway Learning Community Charter was founded in 2000 and has 63 students in grades K-12. It is sponsored by Audubon Center of the North Woods, which also sponsors Voyagers Expeditionary School, Great

Expectations School, Swan River Montessori School, Aurora Charter School, Minnewaska Community School and the Laura Jeffrey Academy. It had six infractions in 2007.

Riverway Learning Community Charter
Box 43 115 Iowa Street
Minnesota City
Laura Krause, Director
www.rwlc.org

Here is a list of the infractions auditors flagged in the school's 2008 financial audit:

- Approval of Journal Entries, in which the school should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner;
- Annual Financial Reporting Under GAAP, in which the school does not have an internal control policy in place over annual financial reporting and the potential exists that a material misstatement of the annual financial statements could occur and not be detected by the schools internal controls;
- Cash Receipt Documentation, in which the school must maintain internal controls to require proper documentation of cash receipt transactions;
- Lack of 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;
- Material Audit Adjustment, 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;
- Control of Accounts Payable Disbursements, in which the school has no control to prevent unauthorized payments to be prepared without the board's knowledge;
- Review of Cash Reconciliations, in which the school does not have a policy in place for the review and approval of cash reconciliations by the business manager;
- Adopted Budget, in which the school is required to approve and adopt its revenue and expenditure budgets prior to of the first day that school year.

Recovery School of Southern Minnesota, Owatonna

Recovery School of Southern Minnesota serves 18 students from seventh to 12th grade in Owatonna. Its sponsor is Pillsbury United Communities which also sponsors Dugsi Academy, Jennings Experiential High School, Learning For Leadership, LoveWorks Academy for Visual & Performing Arts, Minnesota Internship Center Charter School, Minnesota Online High School, Minnesota Transitions Charter School, Paladin Academy, Richard Allen Math & Science Academy, Rochester Math and Science-Academy, Sojourner Truth Academy, and Stonebridge Community School. It had 12 infractions in 2007.

Recovery School of Southern Minnesota
1225 Lincoln Avenue
Owatonna

Here is a list of the faults flagged in Recovery School of Southern Minnesota's 2008 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;
- Material Audit Adjustment, 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;
- Lack of Supporting Documents/Control for Expenditures;
- Lack of 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;
- Documentation of Credit Card Charges, , in which the school incurred penalties for late payment of pension remittances and credit card bills. This is 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 Capital Asset Records, in which the school must maintain an inventory asset list for complete;
- Lack of Documentation of Employee Pay Rates, in which the school made payments to the Public Employee Retirement Association after the legal 14-day payment deadline.

Worst from 2007

Aurora Charter School, Minneapolis

2007

Limited Segregation of Duties
Preparation of Financial Statements
Collateral
Payment/Approval of Invoices
Budget Detail
Payroll Transaction
Journal Entry Documentation
Electronic Funds Transfer Policy
Documents/Control for Expenditures
Documentation of Compliance with
Lease Laws and Regulation

2008

Limited Segregation of Duties
Preparation of Financial Statements
Collateral
Payment/Approval of Invoices

Duluth Public Schools Academy, Duluth

2007

Limited Segregation of Duties
Adequate Accounting System
Material Audit Adjustments
Electronic Funds Transfer Policy
Supporting Documents/Control for Expenditures

Declaration for Payment
Prompt Payment
Preparation of Financial Statements
Lack of Capital Asset Policy
Lack of Timely Data Submission
Inadequate Documents of the Components of Internal Control

2008

Limited Segregation of Duties
Adjusting Journal Entries
UFARS Compliance
Collateral
Lack of Documentation of Employee Pay Rates

Recovery School of Southern Minnesota, Owatonna

2007

Missing Audit Report
Limited Segregation of Duties
Preparation of Financial Statements
Audit Adjustments
Electronic Funds Transfer Policy
Prompt Payments
Unauthorized Grant Expenditures

Control for Disbursements
Change in Employee Contracts

2008

Documentation of Credit Card Charges
Inadequate Capital Asset Records
Lack of Prompt Payment
Limited Segregation of Duties
Material Audit Adjustment
Preparation of Financial Statements
Lack of Documentation of Employee Pay Rates
Lack of Supporting Documents
Control for Expenditures

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

2007

Preparation of Financial Statements
Limited Segregation of Duties
Control for Disbursements
Audit Adjustments
No formal policy on accrued leave balances
Budget Detail
Disbursements not for public purpose
Declaration for Payment
Electronic Funds Transfer Policy

2008

Preparation of Financial Statements
Collateral
Audit Journal Entry
Lack of Adequate Board Approval on Disbursements

Appendix A

Schools listed by community

City	School	Infractions
Anoka	Cygnus Academy	3
Apple Valley	Paideia Academy Charter School	0
Balaton	Yankton Country School	1
Bemidji	Voyageurs Expeditionary Schoolcraft Learning Charter Treknorth High School	0 0 0
Bigelow	Worthington Area Language Academy	1
Blaine	Davinci Academy Paladin Academt/Liberty High	0 0
Bloomington	Beacon Preparatory School Seven Hills Classical Academy	0 0
Brooklyn Center	Odyssey Academy	3
Brooklyn Park	Sage Academy Charter School Excell Academy Charter Prairie Seeds Academy	3 1 2
Chaska	World Learner Charter School	1
Clarkfield	Clarkfield Charter School	6
Cologne	Cologne Academy	1
Columbia Heights	Global Academy	1
Coon Rapids	Northwest Passage High School	2
Crosslake	Crosslake Community Charter School	1
Crystal	Lionsgate Academy	2
Dakota	Dakota Area Community Charter School	3
Duluth	Duluth Public Schools Academy Lake Superior High School North Shore Community School	5 3 1

Echo	Harbor City International Charter	1
	Every Child Has Opportunities	4
Eden Prairie	Eagle Ridge Academy Charter School	0
Elk River	Spectrum High School	3
Emily	Emily Charter School	1
Eveleth	East Range Academy of Tech & Science	5
Faribault	Discovery Public School Faribault	2
Forest Lake	Lakes International Language Admy	1
	North Lakes Academy	1
Golden Valley	Best Academy	0
Grand Marais	Great Expectations	0
Green Isle	Green Isle Community School	0
Henderson	Minnesota New Country School	3
	Edvisions Off Campus School	1
Hopkins	Main Street School Performing Arts	6
	Ubah Medical Academy Charter School	0
Houston	Ridgeway Community School	3
Hutchinson	New Century Charter School	0
	New Discoveries Montessori Academy	0
Inver Grove Heights	Tarek Ibn Ziyad Academy	1
La Crescent	La Crescent Montessori Academy	7
Lafayette	Lafayette Public Charter School	1
Lindstrom	Trio Wolf Creek Distance Learning	1
Mankato	Riverbend Academy	3
Maple Grove	Beacon Academy	0
McGregor	Minisinaakwaang Leadership Academy	3
Milroy	Milroy Area Charter School	6

Minneapolis	Prestige Academy (Ascension Academy)	0
	Augsburg Fairview Academy	1
	Aurora Charter School	4
	Minneapolis Academy Charter School	5
	Minnesota Internship Center	5
	Dunwoody Academy	1
	KIPP Minnesota Charter School	6
	Minnesota Online High School	1
	Minnesota Transitions Charter School	0
	Mn International Middle Charter	0
	Bright Water Elementary	1
	El Colegio Charter School	1
	Learning for Leadership Charter	2
	Watershed High School	4
	Woodson Institute for Excellence	0
	Yinghua Academy	3
	Sojourner Truth Academy	2
	Southside Family Charter School	1
	New City School	7
	Stonebridge Community School	1
	New Millennium Academy Charter	0
	New Visions Charter School	1
	Noble Academy	2
	Lighthouse Academy Of Nations	6
	Lincoln International School	1
	Emily O. Goodridge-Grey Accelerated	0
	Long Tieng Academy	1
	Four Directions Charter Schools	1
	Loveworks Academy for Arts	0
	Fraser Academy	0
	Twin Cities International Elem School	3
	Friendship Academy Of Fine Arts Chtr	0
	Cedar Riverside Community School	3
Harvest Prep School/Seed Academy	0	
Hiawatha Leadership Academy	0	
Minnesota City	Riverway Learning Community Chtr	8
Minnetonka	International Spanish Lang. Academy	4
Monticello	Swan River Montessori Charter School	0
Morton	Eci' Nompa Woonspe	1
Naytahwaush	Naytahwaush Community School	0
Nerstrand	Nerstrand Charter School	0

Northfield	Prairie Creek Community School	3
	Artech	0
Osakis	Lakes Area Charter School	3
Otsego	Kaleidoscope Charter School	1
Owatonna	Recovery School of Southern Mn	8
Pillager	Pillager Area Charter School	2
Prior Lake	Aspen Academy	2
Ramsey	Pact Charter School	1
Richfield	Partnership Academy, Inc	3
Rochester	Rochester Off-Campus Charter High	2
	Studio Academy Charter School	2
Saint Cloud	Stride Academy Charter School	0
Sandstone	Pine Grove Leadership Academy	4
St. Louis Park	Quest Academy	2
Saint Paul	River's Edge Academy	1
	Skills For Tomorrow Charter School	3
	Sobriety High	5
	St. Paul Conservatory Performing Art	3
	Higher Ground Academy	1
	Hmong Academy	0
	Avalon School	1
	Dugsi Academy	0
	Jennings Community Learning Center	2
	Metro Deaf School	7
	Laura Jeffrey Academy Charter	4
	Hope Community Academy	1
	New Spirit School	1
	Twin Cities Academy	1
	Face To Face Academy	4
	Twin Cities Academy High School	3
	Nova Classical Academy	3
Twin Cities German Immersion Charter	1	
Urban Academy Charter School	4	
City Academy	3	
Community of Peace Academy	1	
Great River School	0	

	Community School of Excellence	1
	Academia Cesar Chavez Charter	0
	Concordia Creative Learning Academy	2
	Achieve Language Academy	4
	Cyber Village Academy	4
	High School for Recording Arts	2
	Waynewood School of Hope	2
Starbuck	Glacial Hills Elementary	6
Stillwater	St. Croix Preparatory Academy	0
	New Heights School, Inc.	2
Tofte	Birch Grove Community School	1
Vadnais Heights	AFSA High School	1
Waite Park	Great River Education Center	2
Warba	Northern Lights Community School	2
Waseca	Team Academy	2
West Saint Paul	Bluesky Charter School	2
	General John Vessey Jr Leadership	0
	River Heights Charter School	2
Winona	Bluffview Montessori	8
Woodbury	Math & Science Academy	3
	Michael Frome Academy	2

For a directory of Minnesota charter schools by sponsor, visit
<http://www.mncharterschools.org/page/1/directory.jsp>

Appendix B

Auditors used a variety of terms for the infractions they discovered and where applicable, we tried to combine similar infractions. Here are some definitions of some of those accounting terms:

Late Audit

According to Minnesota Statute 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.

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.

Lack of Governance

School boards should maintain control of matters concerning their school and not delegate complete control to the executive director.

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 so auditors know what assets belong to the school.

Receipts Deposited Timely

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

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.

In June and July 2009, Minnesota 2020 made electronic copies of all the 2007-08 financial audits and 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.

It's important to note that accessing this public data is not simple. While all school districts are required to submit a financial audit to the Minnesota Department of Education each year, these documents are not available online. Physically examining public MDE documents is a cumbersome, time-consuming process.

This year, Minnesota 2020 scanned each charter school financial audit and is making them available online. We encourage MDE and other organizations to follow our lead and provide documents in a more easily accessible format.



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