

Miami-Dade County Public Schools
Office of Management and Compliance Audits



**AUDIT OF CERTAIN RISK ELEMENTS OF THE
FEDERAL CHARTER SCHOOL PROGRAM START-UP AND
CONTINUATION GRANTS**

Controls over charter school program grants to co-located, related party charter schools with the same grade configuration (sometimes referred to as “nested” schools) are now in place, while some opportunities exist for increased efficiency and effectiveness in the District’s monitoring of charter school grant expenditures.

May 2017

THE SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

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Miami-Dade County Public Schools

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April 21, 2017

The Honorable Chair and Members of The School Board of Miami-Dade County, Florida
Members of the School Board Audit and Budget Advisory Committee
Mr. Alberto M. Carvalho, Superintendent of Schools

**Subject: Audit of Certain Risk Elements of the Federal Charter School Program
Start-Up and Continuation Grants**

We performed an audit of certain risk elements of the Federal Charter School Program (CSP) start-up and continuation grants in accordance with our FY 2016-17 Annual Audit Plan.

For the two year period ended June 30, 2016, the District made approximately \$3.2 million of CSP grant disbursements to 14 sponsored charter schools.

In recent years, potential weaknesses in controls over the awarding, disbursement and monitoring of the CSP grant have been identified nationally, including in the State of Florida. One such concern involved the award process in Florida to co-located, related party charter schools with the same grade configuration (sometimes referred to as “nested” schools).

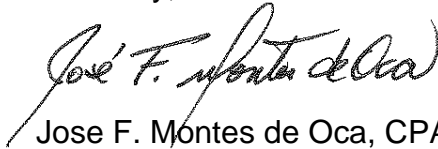
We examined the current processes for the award and disbursement of the CSP grants to charter schools, and found that controls have now been put in place at the state and local levels to guard against inappropriate duplicative or otherwise abusive disbursements of CSP grants to co-located, related party charter schools.

We also found that M-DCPS has written procedures in place to monitor its sponsored charter schools’ CSP grant expenditures, and we make two recommendations toward clarification, enhancement and formalization of associated procedures and internal controls.

The Report's Executive Summary begins on page 1, and the detailed findings and recommendations begin on page 6. Appendix A, beginning on page 11, contains the management response to our findings and recommendations in its entirety.

I would like to thank the Office of Charter School Compliance and Support, in conjunction with the offices of the Controller and Grants Administration, for the cooperation and consideration afforded to my staff during this audit.

Sincerely,

A handwritten signature in black ink, reading "Jose F. Montes de Oca". The signature is written in a cursive style with a large, sweeping initial "J".

Jose F. Montes de Oca, CPA, Chief Auditor
Office of Management and Compliance Audit

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EXECUTIVE SUMMARY

We performed an audit of certain risk elements of the Federal Charter School Program (CSP) start-up and continuation grants in accordance with our FY 2016-17 Annual Audit Plan. The audit objectives were:

- 1) to ensure controls are in place and functioning to prevent inappropriate duplicative disbursements of CSP grants to co-located, related party charter schools under the School Board's sponsorship, and
- 2) to determine the adequacy of the District's controls and procedures to monitor its charter schools' expenditures of the CSP grant in accordance with applicable federal and state rules and regulations.

For the two year period ended June 30, 2016, the District made approximately \$3.2 million of CSP grant disbursements to 14 sponsored charter schools.

The CSP was originally authorized in 1994 and its purpose is to increase national understanding of the charter school model and to expand the number of high-quality charter schools available to students across the nation by providing financial assistance or start-up funding to eligible entities for the planning, program design, and initial implementation of charter schools.

In recent years, potential weaknesses in controls over the awarding, disbursement and monitoring of the CSP grant have been identified nationally, including in the State of Florida. One such concern was that the award process in Florida allowed co-located, related party charter schools with the same grade configuration (sometimes referred to as "nested" schools) and often with the same school principal or administrator, to receive a full CSP grant award for each of the two schools.

We examined the current processes for the award and disbursement of the CSP grants to charter schools, and found that additional controls have now been put in place at the state and local levels to guard against inappropriate duplicative or otherwise abusive disbursements of CSP start-up grants to co-located, related party charter schools.

For CSP grants beginning in the 2013-14 fiscal year, the Florida Department of Education (FDOE) added criteria and requirements to its CSP grant request for proposal to address minimum enrollment and to ensure schools are separate and distinct. These include:

- Termination or disallowance of the grant for schools that report enrollment of fewer than 50 students,
- Restrictions for schools co-located with a charter school that is a current or past recipient of the CSP grant, in which the schools have the same grade configuration or the same administrator.

The FDOE now requires a co-location questionnaire to be completed by the charter school applying for a grant, and has enhanced the grant application process to include additional questions applicable to co-location. Also, the FDOE and District conduct site

visits of recipient schools which include a metric to ensure the recipient school operates independently from other co-located charter schools.

Regarding the second audit objective, FDOE rules and guidance require the local school board, as the sub-grantee and fiscal agent for the CSP grant, to ensure appropriate use of and accounting for CSP grant funds expended by its sponsored charter schools. Our review determined that M-DCPS has written procedures in place to monitor its CSP grant sub-recipients. However, we found opportunities for increased efficiency and effectiveness in the monitoring process, and we make two recommendations toward clarification, enhancement and formalization of associated procedures and internal controls.

AUTHORITY, OBJECTIVES, SCOPE AND METHODOLOGY

We performed an audit of certain risk elements of the Federal Charter School Program (CSP) start-up and continuation grants in accordance with our FY 2016-17 Annual Audit Plan. The audit objectives were:

- 1) to ensure controls are in place and functioning to prevent inappropriate duplicative disbursements of CSP grants to co-located, related party charter schools under the School Board's sponsorship, and
- 2) to determine the adequacy of the District's controls and procedures to monitor its charter schools' expenditures of the CSP grant in accordance with applicable federal and state rules and regulations.

The audit period primarily focused on the two year period from July 1, 2014 through June 30, 2016.

Audit procedures included:

- Reviewing applicable statutes, laws, policies, procedures and best practices for CSP grants at the Federal and State level,
- Compiling financial and non-financial data about CSP grant procedures and the District's monitoring requirements, and ensuring the District's monitoring is aligned with said requirements,
- Reviewing internal policies and procedures for the CSP,
- Requesting and reviewing information from various internal departments including Grants Administration, Charter School Compliance and Support Office, Accounts Payable and Accounting,
- Interviewing numerous internal M-DCPS representatives from various departments who are involved in the various phases and aspects of the CSP grant process,
- Requesting and reviewing various documents submitted to the District by the charter schools, including invoices demonstrating use of funds,
- Requesting and reviewing documents received from the Florida Department of Education (FDOE) regarding the specific CSP grant process, including the CSP awards and the approved budgets,
- Tracing the CSP disbursements made to the charter schools through the General Ledger, and also the subsequent reimbursement of funds to the District by the State through the draw process,
- Reviewing all District charter schools' names, addresses, and other relevant data to identify co-located schools within the same facility/location that also share the same grade configuration and same administrator.

We conducted this performance audit in accordance with generally accepted Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained

provides a reasonable basis for our findings and conclusions based on our audit objectives.

BACKGROUND

The Federal Charter Schools Program (CSP) was originally authorized in 1994 and its purpose is to increase national understanding of the charter school model and to expand the number of high-quality charter schools available to students across the nation by providing financial assistance or start-up funding to eligible entities for the planning, program design, and initial implementation of charter schools.

The funding of the grant is derived from the U.S. Department of Education and passed through the State to the local School Board and then to the sponsored charter school. The School Board is considered the sub-grantee and fiscal agent, and is charged with monitoring grant expenditures to ensure compliance with applicable Federal regulations and State statutes.

CSP start-up grant funds may only be used for specific purposes/costs, while other costs such as construction, are specifically disallowed.

For the two year period ended June 30, 2016, the District made approximately \$3.2 million of CSP grant disbursements to 14 sponsored charter schools.

In recent years, potential weaknesses in controls over the awarding, disbursement and monitoring of the CSP grants have been identified nationally, including in the State of Florida. One such concern was that the award process in Florida allowed co-located, related party charter schools with the same grade configuration (sometimes referred to as “nested” schools) and often with the same school principal or administrator, to receive a full CSP grant award for each of the two schools.

Also, noteworthy regarding the District’s grant reporting process to the State, the FDOE conducted discussions with M-DCPS personnel in early 2016 to clarify its reporting requirements. The District must prospectively report to the State CSP grant expenditures by specific function and object code rather than in summary format. We noted that the District had started complying with this expanded required reporting to the FDOE as of July 2016.

FINDINGS AND RECOMMENDATIONS

1. CONTROLS OVER CSP GRANTS TO CO-LOCATED, RELATED PARTY (NESTED) CHARTER SCHOOLS ARE NOW IN PLACE

In past years, the CSP grant award process in Florida allowed co-located, related party charter schools with the same grade configuration and often with the same school principal or administrator (sometimes referred to as “nested” schools) to receive a full CSP grant award for each of the two schools. Organizationally and on paper, the co-location arrangement portrays two separate schools with distinct names and location numbers. However, in many respects the arrangement comprises only one school; with the nested school having no distinct facility or administrator, and often very few students. Although not illegal, the practice of nested charter schools receiving CSP grants often appeared abusive, since a school with few students and no distinct facility or administrator, could receive the full CSP grant amount (e.g. up to \$300,000 per year ¹).

We examined the current processes for the award and disbursement of the CSP grants to charter schools, and found that additional controls have been put in place in recent years at the state and local levels to guard against inappropriate duplicative or otherwise abusive disbursements of Charter School Program (CSP) start-up grants to co-located, related party charter schools.

For CSP grants beginning in the 2013-14 fiscal year, the Florida Department of Education added criteria and requirements to its CSP grant request for proposal to address minimum enrollment and to ensure schools are separate and distinct. These include:

- Termination or disallowance of the grant for schools that report enrollment of fewer than 50 students,
- Restrictions for schools co-located with a charter school that is a current or past recipient of the CSP grant, in which the schools have the same grade configuration or the same administrator.

The FDOE now requires a co-location questionnaire to be completed by the charter school, and has enhanced the grant application process to include additional questions applicable to co-location. Also, the FDOE and District conduct site visits of recipient schools which include a metric to ensure the recipient school operates independently from other co-located charter schools.

At the local level, M-DCPS now requires substantial discussion and clarification of charter school applicant’s location during Application Review Committee (ARC) and Contract Review Committee (CRC) meetings.

¹ The maximum amount of CSP grant funds issued by the Florida Department of Education to a charter school has changed over the years. Currently, for fiscal year 2015-2016, the maximum CSP grant amount for the traditional Planning & Implementation phases of opening a new charter school is \$350,000. Further supplemental funding, based on the State’s availability of funds, may also be issued for large schools with higher student headcounts, for school performance based on student achievement, or for charter schools opening in high-need areas and meeting certain requirements.

Our review disclosed that no co-located, related party charter schools with the same grade configuration (i.e. nested schools) have received CSP grant approval or grant funds for the two year period reviewed (i.e. July 1, 2014 – June 30, 2016).

RECOMMENDATION

None.

2. SOME OPPORTUNITIES EXIST FOR INCREASED EFFICIENCY AND EFFECTIVENESS IN MONITORING CSP GRANT EXPENDITURES

FDOE rules and guidance require the local school board, as the sub-grantee and fiscal agent for the Charter School Program (CSP) grant, to ensure appropriate use of and accounting for CSP grant funds expended by its sponsored charter schools. Said rules and guidance do not detail specific requirements for the monitoring and fiscal oversight of the CSP grant expenditures; instead, the process is largely left up to each local school district.

Our review determined that M-DCPS has written procedures in place to monitor its CSP grant sub-recipients. However, we found opportunities for increased efficiency and effectiveness in the monitoring process, which would require that the procedures and controls be clarified and enhanced.

At M-DCPS, the monitoring of the CSP grant expenditures is primarily the responsibility of the Office of Charter School Compliance and Support. The Office of the Controller and the Office of Grants Administration also have significant roles in the CSP grant disbursements and administration processes. Federal Regulation 2 CFR Part 200 and corresponding guidance from the FDOE also require the recipient charter schools to maintain complete records supporting their CSP grant expenditures.

For the two year period ended June 30, 2016, approximately \$3.2 million of CSP grant disbursements, comprising 36 payments, were made to 14 charter schools. We judgmentally sampled and examined seven disbursements to five charter schools, totaling \$452,000.

Although not explicitly required by FDOE rules and guidance, we found that the District had received and retained a full set of invoices and other documents supporting the schools' grant expenditures for five of the seven District disbursements that we tested. The District files for the remaining two disbursements that we reviewed contained some, but not a complete set, of documentation supporting the schools' expenditures.

During our review of the seven District grant disbursements and the written procedures that had been developed by the Office of Charter School Compliance and Support, we noted cases where the procedures and controls were not fully adequate as follows:

- The percentage of the CSP grant award initially advanced and subsequently reimbursed to the school varies, and also differs between the written procedures and the actual District disbursements reviewed.
- The current procedures require that the charter school submit documentation to the District on how the advance was spent. They do not specify which documents must be submitted.
- The current procedures require District staff to review and approve the school's grant expenditure documentation prior to the school receiving the next grant installment. They do not delineate what the review and approval process requires.

- The means of evidencing District staff review of grant expenditures is not contained in the current written procedures.
- It is not clear, based on the current procedures, whether the District is required to receive and maintain 100% of the invoices and other documentation supporting CSP grant expenditures, or rather monitor the expenditures and evidence staff review on a sample basis.
- The written CSP grant procedures do not indicate the date last modified.
- The current CSP grant procedures do not include a mechanism to emphasize to the charter school grant recipients, the requirement that complete documentation supporting the grant expenditures, be maintained by the charter school.

RECOMMENDATIONS

2.1 The Office of Charter School Compliance and Support should clarify and enhance its written procedures for the CSP grant. The revised procedures should include and describe:

- The various stages of a CSP grant, when advances to schools and subsequent installments of the award are permitted, and the allowable percentages for grant award advances and subsequent disbursements.
- The documents from the charter schools to be reviewed by the District as part of the District's CSP grant expenditure monitoring process (e.g. invoices, proof of prior payment by the charter school, itemized expenditure reports, project disbursement reports, etc.), and the retention requirements for such documents, if any.
- The District's monitoring and review process, including comparing submitted invoices to the function and object codes in the FDOE approved budget, and how District staff is to evidence their review and approval.
- The date last modified.
- Mechanisms to emphasize to the charter school grant recipients, the requirement that complete documentation supporting the grant expenditures, be maintained by the charter school.
- A process for addressing an incomplete/incorrect CSP package from a charter school that is requesting reimbursement.

Management Response

In reference to Recommendation 2.1:

1. CSCS will revise the 'Internal Process & Practice for Grants Management' to distinguish between start up and dissemination grants as the disbursement process is different for each of the two stages. The implementation of the revised procedures will be in effect for the fiscal year beginning July 1, 2017.

2. CSCS will provide a greater level of detail for the types of documents needed from charter schools in order to secure reimbursements, the evidentiary review that will be conducted by our office, and documentation that staff has engaged in the review and approval process.
3. The District is allowed to establish a reimbursement process at its own discretion. Hence, the District has the latitude to continue to advance 25% of the awarded grant amount and upon submission of the proper documentation for the advance, make subsequent payments based on cost. CSCS will ensure that the procedures being implemented are consistent with the practice as stated.

2.2 The Office of Charter School Compliance and Support, in conjunction with the offices of the Controller and Grants Administration, should collaborate and determine the level of monitoring and review needed to ensure the propriety of the District's charter schools' CSP grant expenditures. Consideration should be given to balancing the cost to the District of reviewing and retaining up to 100% of the charter schools' supporting documentation against the risk that sponsored charter schools will incur disallowed Federal CSP grant expenditures. Deliberations on the District's process of monitoring CSP grant expenditures should also take into account that the grant recipient charter schools are themselves statutorily required to maintain complete documentation supporting their CSP grant expenditures, and are often subject to an annual Single Audit of Federal funds received.

Management Response

CSCS would like to note the following issues related to Recommendation 2.2:


While there is agreement that the grant recipient, the charter school, is ultimately responsible for maintaining complete documentation to support its CSP grant expenditures and is subject to Single Audits, both the CSCS and the Accounting Department have performed an analysis of the District's current process related to review and document retention. Given that the District, as the Sponsor, (1) is the Local Education Agency (LEA), (2) the past experiences relative to charter school practices, and (3) the annual changes in legislation relative to financial scrutiny, it is our intent at this time to continue our current practices as of July 2016, of full review and record retention, relative to this matter.

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MEMORANDUM

April 20, 2017

TO: Mr. Jose F. Montes De Oca, Chief Auditor
Office of Management and Compliance Audits

FROM: Tiffanie A. Pauline, Assistant Superintendent
Compliance and Support 

**SUBJECT: REVISED - RESPONSE TO THE AUDIT REPORT OF THE FEDERAL
CHARTER SCHOOL PROGRAM DATED MARCH 30, 2017**

Charter School Compliance and Support (CSCS) is in receipt of the audit report of the Federal Charter School Program (CSP) dated March 30, 2017, in which the auditors examined our current processes for the award and disbursement of grant funds to charter schools.

In reference to Recommendation 2.1:

1. CSCS will revise the 'Internal Process & Practice for Grants Management' to distinguish between start up and dissemination grants as the disbursement process is different for each of the two stages. The implementation of the revised procedures will be in effect for the fiscal year beginning July 1, 2017.
2. CSCS will provide a greater level of detail for the types of documents needed from charter schools in order to secure reimbursements, the evidentiary review that will be conducted by our office, and documentation that staff has engaged in the review and approval process.
3. The District is allowed to establish a reimbursement process at its own discretion. Hence, the District has the latitude to continue to advance 25% of the awarded grant amount and upon submission of the proper documentation for the advance, make subsequent payments based on cost. CSCS will ensure that the procedures being implemented are consistent with the practice as stated.

CSCS would like to note the following issues related to Recommendation 2.2:

While there is agreement that the grant recipient, the charter school, is ultimately responsible for maintaining complete documentation to support its CSP grant expenditures and is subject to Single Audits, both the CSCS and the Accounting Department have performed an analysis of the District's current process related to review and document retention. Given that the District, as the Sponsor, (1) is the Local Education Agency (LEA), (2) the past experiences relative to charter school practices, and (3) the annual changes in legislation relative to financial scrutiny, it is our intent at

APPENDIX A (Page 2 of 2)

this time to continue our current practices as of July 2016, of full review and record retention, relative to this matter.

Should you have questions or need additional information, please do not hesitate to contact me at 305 995-1443 or via email at tpauline@dadeschools.net.

TAP:dab
M029

cc: Mrs. Valtena G. Brown
Ms. Iraida R. Mendez-Cartaya
Ms. Judith M. Marte
Mr. Jon Goodman
Dr. Dwight A. Bernard
Ms. Melissa A. Latus
Ms. Michelle Denis
Ms. Elvira Sanchez

Anti-Discrimination Policy

Federal and State Laws

The School Board of Miami-Dade County, Florida adheres to a policy of nondiscrimination in employment and educational programs/activities and strives affirmatively to provide equal opportunity for all as required by:

Title VI of the Civil Rights Act of 1964 - prohibits discrimination on the basis of race, color, religion, or national origin.

Title VII of the Civil Rights Act of 1964 as amended - prohibits discrimination in employment on the basis of race, color, religion, gender, or national origin.

Title IX of the Education Amendments of 1972 - prohibits discrimination on the basis of gender.

Age Discrimination in Employment Act of 1967 (ADEA) as amended - prohibits discrimination on the basis of age with respect to individuals who are at least 40.

The Equal Pay Act of 1963 as amended - prohibits gender discrimination in payment of wages to women and men performing substantially equal work in the same establishment.

Section 504 of the Rehabilitation Act of 1973 - prohibits discrimination against the disabled.

Americans with Disabilities Act of 1990 (ADA) - prohibits discrimination against individuals with disabilities in employment, public service, public accommodations and telecommunications.

The Family and Medical Leave Act of 1993 (FMLA) - requires covered employers to provide up to 12 weeks of unpaid, job-protected leave to "eligible" employees for certain family and medical reasons.

The Pregnancy Discrimination Act of 1978 - prohibits discrimination in employment on the basis of pregnancy, childbirth, or related medical conditions.

Florida Educational Equity Act (FEEA) - prohibits discrimination on the basis of race, gender, national origin, marital status, or handicap against a student or employee.

Florida Civil Rights Act of 1992 - secures for all individuals within the state freedom from discrimination because of race, color, religion, sex, national origin, age, handicap, or marital status.

Title II of the Genetic Information Nondiscrimination Act of 2008 (GINA) - prohibits discrimination against employees or applicants because of genetic information.

Boy Scouts of America Equal Access Act of 2002 – no public school shall deny equal access to, or a fair opportunity for groups to meet on school premises or in school facilities before or after school hours, or discriminate against any group officially affiliated with Boy Scouts of America or any other youth or community group listed in Title 36 (as a patriotic society).

Veterans are provided re-employment rights in accordance with P.L. 93-508 (Federal Law) and Section 295.07 (Florida Statutes), which stipulate categorical preferences for employment.

In Addition:

School Board Policies 1362, 3362, 4362, and 5517 - Prohibit harassment and/or discrimination against students, employees, or applicants on the basis of sex, race, color, ethnic or national origin, religion, marital status, disability, genetic information, age, political beliefs, sexual orientation, gender, gender identification, social and family background, linguistic preference, pregnancy, and any other legally prohibited basis. Retaliation for engaging in a protected activity is also prohibited.



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