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INDEPENDENT STATE AUDITOR'S REPORT

ON CERTAIN ACTIVITIES OF THE

STURGIS CHARTER SCHOOL

JULY 1, 1998 THROUGH JUNE 30, 2001

**OFFICIAL AUDIT
REPORT**

MAY 29, 2002

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INTRODUCTION

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The Sturgis Charter School (SCS) was organized in May of 1998 as a nonprofit organization to operate a public charter school under the provisions of Chapter 71, Section 89, of the Massachusetts General Laws.

The scope of our audit was to examine various financial and operational activities of the SCS for the period July 1, 1998 to June 30, 2001. Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States and, accordingly, included such audit procedures and tests as we considered necessary under the circumstances. Our specific audit objectives consisted of the following:

1. To obtain an understanding of the operations of SCS during the audit period
2. To assess management's control systems to determine whether management's recording, reporting, and monitoring of financial activity was adequate to ensure that resources are safeguarded and are being used economically and efficiently
3. To assess SCS's business practices and its compliance with applicable laws, rules, and regulations, as well as the various fiscal and programmatic objectives as stated in its charter.

Our audit identified a number of deficiencies including SCS's (1) improperly administering \$1,062,368 in facility renovation costs; (2) not meeting all of the objectives set forth in the SCS charter; (3) not establishing adequate controls over student enrollment figures, resulting in the school's effectively obtaining a short-term interest-free loan from the state totaling \$526,498; (4) not establishing adequate controls over all aspects of its operations; and (5) not transferring withholdings to the Massachusetts Teachers' Retirement Board System within the timelines prescribed by state law.

During our audit, SCS took measures to address some of the problems we identified. Additionally, the school has been able to achieve some significant academic goals. For example, on the 2000 and 2001 Massachusetts Comprehensive Assessment System (MCAS) tests, SCS ranked in the top 12 percentile of all school districts on the basis of its 10th grade students' combined average scaled scores and, compared with the 11 other charter schools statewide whose students took the 10th grade test, ranked number one in each academic area tested.

AUDIT RESULTS

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1. FACILITY RENOVATION COSTS TOTALING \$1,062,368 WERE IMPROPERLY ADMINISTERED

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During the period July 1998 through August 2001, SCS conducted four renovation projects totaling \$1,062,368, to its school building facility. We found a number of

problems relative to these projects, including SCS's noncompetitively awarding the construction and related services contracts for these projects to its landlord, contrary to DOE guidelines and its own internal policies and procedures; not entering into formal written contracts for two of these renovation projects totaling \$688,445; not obtaining formal board approval for \$280,000 of these renovations; not properly disclosing \$280,000 in liabilities relative to these renovations in the monthly financial statements that it provided to its Board of Trustees and its creditors; and not including language required by DOE in a \$280,000 loan agreement for these renovation projects that would have limited the Commonwealth's liability for the repayment of these funds. As a result of these issues, neither the SCS nor the Commonwealth can be assured that SCS obtained all of these renovation and related services at the lowest possible cost, that the financial interests of the school and the Commonwealth have been adequately safeguarded, or that DOE has been properly informed of SCS's financial condition and activities in a timely manner.

2. OBJECTIVES OUTLINED IN SCS'S ORIGINAL CHARTER APPLICATION HAVE NOT BEEN REALIZED

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Our audit revealed that at least eight of the program and operational objectives outlined in SCS's original charter application to DOE had not been realized as of the completion of the school's third full year of operation. For example, SCS's commitment to offer all of its students an opportunity to participate in the International Baccalaureate (IB) diploma program served as the fundamental premise of the school's charter as well as one of the main reasons for DOE's awarding of the charter back in 1998. However, as of June 30, 2001, SCS had not met the eligibility requirements necessary for acceptance into this academic program. As a result of SCS's not implementing all of the terms of its charter, SCS may be jeopardizing the renewal of its charter upon its expiration on June 30, 2003.

3. INADEQUATE CONTROLS OVER STUDENT ENROLLMENT AND ATTENDANCE RECORDKEEPING AND POTENTIALLY INFLATED PRE-ENROLLMENT FIGURES SUBMITTED TO DOE RESULTED IN SCS'S OBTAINING SHORT-TERM INTEREST-FREE LOANS TOTALING \$526,498

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We found that, during our audit period, there were inadequate controls over SCS's recordkeeping of student enrollment and attendance. Specifically, SCS did not have uniform written policies and procedures for calculating and reporting its pre-enrollment figures to DOE. These reports are used to determine each charter school's first and second quarterly tuition payments for the next school year. As a result, SCS submitted inaccurate pre-enrollment figures to DOE, which resulted in the school obtaining short-term interest-free loans totaling \$526,498. Moreover, SCS did not provide DOE with the information it needed in a timely manner that would allow DOE to assess the financial viability of the school.

4. SCS HAS NOT DEVELOPED ADEQUATE INTERNAL CONTROLS OVER ALL ASPECTS OF ITS OPERATIONS **50**

We found that, as of the end of our audit period, SCS had not implemented adequate internal controls over all aspects of its operations. Specifically, SCS had not fully developed written policies and procedures for many of its accounting and other operational activities; had not bonded certain key employees, which could expose the agency to financial losses; and had not developed a chart of accounts to identify expenditures incurred against each federal and state grant. As a result of these issues, both SCS and the Commonwealth cannot be assured that all SCS transactions are being properly authorized, recorded and reported.

5. SCS DID NOT TRANSFER WITHHOLDINGS TO THE MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM ON A TIMELY BASIS, RESULTING IN A LOSS OF POTENTIAL INTEREST INCOME TO THE RETIREMENT SYSTEM AND THE POTENTIAL UNAUTHORIZED USE OF THESE FUNDS **55**

During our audit, we found that SCS did not transfer to the Massachusetts Teachers' Retirement System (MTRS), on a monthly basis as required by law, funds that it withheld from its teachers and other eligible staff. In fact, rather than remitting these funds on a timely basis, SCS used these payroll withholdings to pay for various operational expenses of the school. As a result, the MTRS lost the opportunity to invest these funds in such a way as to maximize the returns on the state retirees' pensions. In addition, by using these funds in this manner, SCS risked not having funds available to pay for these individuals' retirement.

INTRODUCTION

Background

The Sturgis Charter School (SCS) was organized in May 1998 as a nonprofit organization to operate a public charter school under the provisions of Chapter 71, Section 89, of the Massachusetts General Laws.

Charter schools are public schools that, to a large extent, operate administratively and financially independent of the conventional school district structure. Chapter 71, Section 89, defines a Commonwealth charter school as being "...a public school, operated under a charter granted by the board of education, which operates independently of any school committee and is managed by a board of trustees." The law further states that "the board of trustees of a commonwealth charter school, upon receiving a charter from the board of education, shall be deemed to be public agents authorized by the commonwealth to supervise and control the charter school".

According to the Massachusetts Department of Education (DOE), the main difference between charter schools and district public schools deals with freedom and accountability. In contrast to other public schools, all charter schools, including Commonwealth charter schools, can be established by parents, teachers, businesses, not-for-profit organizations, or community leaders. These schools are given the freedom to organize around their own core curriculum, theme, or teaching method and are allowed to control their own finances, staffing, school design, schedule, and other resources. In return for this freedom, a charter school must attract students and produce quality educational results within five years or have its charter revoked.

According to DOE, because charter schools have a greater measure of autonomy than other public schools, they are held to a more rigorous level of accountability. Specifically, according to DOE, the determination of whether a charter school should continue to receive public funds is guided by the following three central questions:

- Is the academic program a success?
- Is the school a viable organization?

- Is the school faithful to the terms of its charter?

A charter school must demonstrate its ability to achieve fiscal and operational viability as well as fulfill the objectives of its charter within the five-year period of its initial charter issuance in order to gain DOE approval for an extension of its charter.

Commonwealth charter schools receive funding (tuition reimbursements) directly from the State Treasurer's Office. Payments to the Commonwealth charter schools are funded through deductions from the local aid accounts (Chapter 70 of the General Laws) of the districts in which charter school students reside or the sending district and are generally based on the per-pupil tuition rate of the sending district.

In addition to state tuition payments, charter schools, like other public schools, may receive federal and state grant funds. Charter schools, however, are not eligible for the Commonwealth's School Building Assistance Bureau grant funding for costs associated with capital projects, including school construction, reconstruction, or improvement work. Under the charter school law, charter schools may incur temporary debt in anticipation of receiving funds, provided that the terms of repayment not exceed the duration of the school's charter without the permission of the Board of Education (BOE). Charter schools may also receive funds and other donations from private contributors.

In February 1998, the BOE granted SCS a five-year charter, and the school officially began operating in September 1998. During the period of our audit, SCS received tuition reimbursements from the state along with other revenue, as detailed in the following table:

Sturgis Charter School
Summary of Revenues
Fiscal Years 1999 through 2001

Revenue Source	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001
Commonwealth of Massachusetts/DOE Tuition Reimbursement	\$ 857,318	\$ 1,304,027	\$ 1,498,393
Grants (Federal and State)	369,148	197,215	89,164
Annual Fund Drive	614	8,010	2,900
Interest Income	580	928	6,492
Contributions/Gifts	<u>20,425</u>	<u>108,061</u>	<u>136,056</u>
Total	<u>\$ 1,248,085</u>	<u>\$ 1,618,241</u>	<u>\$ 1,733,005</u>

According to documentation we reviewed and our conversations with SCS officials, since the time the school initially began to operate there has been a conflict between members of the school's Board of Trustees and its administration, primarily involving (1) a lack of clarity in defining the proper roles and responsibilities of those who govern and manage the school and (2) the pace at which the school should pursue implementation of its International Baccalaureate (IB) diploma program. (See Audit Result No. 2 for a description of the IB program). As a result of these problems, in January 1999 the school's principal announced her resignation effective June 30, 1999. This announcement was preceded by the resignations of three other faculty members through the end of May 1999, as well as the resignations of six of the 13 members of SCS's Board of Trustees, including the Board President, in the three-month period February 10, 1999 through May 5, 1999.

These events prompted DOE to initiate a review of SCS commencing on February 17, 1999, to assess the school's governance and management functions. In a written "Summary of Findings" dated February 19, 1999, DOE reported that "the general relationship between the school's board of trustees and staff is marked by acrimony and distrust" and that because "members of the board of trustees served in lead administrative positions responsible for the daily management of the school and its programs...the distinction between the school's board and the school's administrative leaders is not at all clear." The report further stated that "while there appears to be a consistent commitment by the staff, board of trustees, and parents to the high

academic standards envisioned by the charter, there seems to be a comparatively inconsistent understanding among all parties regarding the specific academic objectives of the charter, especially in regard to the implementation of the International Baccalaureate program.”

As a result of the concerns raised in the DOE review, DOE’s Associate Commissioner of Education for Charter Schools wrote to SCS’s Board Chairman and expressed apprehension “whether the school is — or can remain — a viable organization.” The letter, dated February 19, 1999, contained numerous recommendations, including the need for the board to remove itself from the daily operations of the school, the need for the roles of the staff and board to be clarified in writing, the need for the school to cooperate with an independent audit of the school’s financial management, the need to create a budget process that provides the school’s administrators sufficient control of funds necessary to support their academic program, and the need for a shared commitment between the board and teachers to the “academic progress of Sturgis students, attainment of the school’s mission, and successful implementation of the Sturgis charter.”

As a result of this review, SCS’s board began to take measures to address DOE’s concerns, including the hiring of a full-time business manager and a new school principal. Also, our review of the minutes of the school’s board meetings and information provided to us by SCS officials for the period subsequent to DOE’s review indicated that the relationship between the board and school administration developed into one that was more defined and, as a result, more conducive for accomplishing SCS’s goals.

In May 1999, DOE hired a private accounting firm, Daniel Dennis & Company, LLP (Daniel Dennis), to conduct a review involving certain agreed-upon procedures between DOE and Daniel Dennis concerning various aspects of SCS’s operations, including its organizational structure, financial recordkeeping, and internal control environment. The resulting report, dated May 1999, disclosed various fiscal and operational weaknesses (e.g., a lack of internal controls and a need for financial and budgetary reports to be prepared on a regular basis for board member review) and included recommendations to correct these deficiencies. During our audit we determined that SCS had taken corrective measures to address eight of these 11 deficiencies

noted in the Daniel Dennis report. The three issues that have not been resolved, which are discussed in detail in Audit Result No. 4, are as follows:

- SCS has not developed a formal comprehensive set of written policies and procedures governing its various financial and operational activities.
- SCS has not developed its chart of accounts to identify expenditures incurred against each grant or funding source.
- SCS has not bonded two individuals who handle cash.

Although SCS began to address the organizational/operational problems between its board and school staff, during the school's second academic year (1999-2000) SCS began to experience financial problems. Specifically, SCS was unable to obtain funding necessary to pay for facility improvements, amounting to \$280,000, that were undertaken at the school during August 1999 through October 1999 (See Audit Result No. 1). Subsequently, in April 2000, SCS was notified that the school was in default of the \$300,000 loan agreement (line of credit) that it had established at Charter Bank. Charter Bank subsequently froze SCS's assets (approximately \$265,000 from SCS's checking account), applied those funds to the outstanding amount due, and demanded immediate payment for the remaining balance of approximately \$35,000.

Due to these financial problems, SCS's board met publicly in April 2000 to discuss the school's pending insolvency. At that meeting, the board stated that it was considering returning the school's charter to the state and permanently closing the school. However, SCS was subsequently able to obtain sufficient financing (through donations totaling \$251,000, loans/lines of credit from banks totaling \$300,000, and loans from its landlord totaling \$380,000) to pay off all of the school's outstanding debts, including the \$35,000 it owed to Charter Bank, and to finance future facility renovations that would be needed. However, one of the primary reasons for SCS's financial problems has been that it has been unable to meet its projected student enrollment figures (see Audit Result No. 2), which has limited the amount of revenue it has available to fund its operations. As of the end of our audit period, SCS was still having difficulty in meeting its enrollment projections.

Despite SCS's financial problems, it has been able to achieve some significant academic goals. For example, on the 2000 and 2001 Massachusetts Comprehensive Assessment System (MCAS) tests, SCS was ranked in the top 12 percentile of all school districts on the basis of its 10th grade students' combined average scaled scores, and compared with 11 other charter schools statewide whose 10th grade students took the MCAS test, ranked number one in each academic area tested.

Audit Scope, Objectives, and Methodology

The scope of our audit was to examine various financial and operational activities of SCS for the period July 1, 1998 to June 30, 2001. Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States and, accordingly, included such audit procedures and tests as we considered necessary under the circumstances. Our specific audit objectives consisted of the following:

- Obtaining an understanding of SCS operations during the audit period
- Assessing management's control systems to determine whether management's recording, reporting, and monitoring of financial activity was adequate to ensure that resources are safeguarded and are being used economically and efficiently
- Assessing SCS's business practices and its compliance with applicable laws, rules, and regulations, as well as the various fiscal and programmatic objectives as stated in its charter

To achieve our audit objectives, we assessed SCS's system of management controls over its operations to obtain an understanding of management's attitude, the control environment, and the flow of transactions through SCS's accounting system. The assessment was used in planning and performing our audit tests. We conducted interviews with various SCS officials and reviewed organizational charts, minutes of board meetings, internal policies and procedures, enrollment reports, student MCAS results, and other records, including SCS's original charter application, accountability plan, and subsequent annual reports submitted to DOE. We conducted telephone interviews with officials from DOE's Charter School Office and reviewed all applicable laws, rules, and regulations. We examined SCS's financial statements, budgets, cost

reports, invoices, and other pertinent records to determine whether expenses incurred by the agency were reasonable, allowable, allocable, properly authorized and recorded, and in compliance with applicable laws and regulations.

Prior to commencing our audit fieldwork, several individuals associated with SCS, including a former board member, sent correspondence to the Office of the State Auditor expressing concerns over certain activities that SCS had conducted relative to its financial stability, the propriety of certain SCS expenditures, and SCS's compliance with the terms and conditions of its charter and applicable laws and regulations. Consequently, in addition to our regularly planned audit tests, we designed and conducted additional testing as necessary to address the concerns raised by those individuals and reported on any deficiencies identified relative to these matters in this report.

Our audit was not conducted for the purpose of forming an opinion on SCS's financial statements. Further, although we comment on SCS's MCAS scores, our audit did not assess the overall quality of education being provided to SCS's students or the adequacy of the curriculum being followed. Our audit report contains the results of our review as well as specific recommendations aimed at improving the economy, efficiency, and effectiveness of SCS's operations.

AUDIT RESULTS**1. FACILITY RENOVATION COSTS TOTALING \$1,062,368 WERE IMPROPERLY ADMINISTERED**

During the period July 1998 through August 2001, the Sturgis Charter School (SCS) conducted four renovation projects totaling \$1,062,368 at its school building facility. We found a number of deficiencies relative to these projects, including SCS's non-competitively awarding the construction and related services contracts for these projects to its landlord, contrary to the Commonwealth's Department of Education (DOE) guidelines and its own internal policies and procedures; not entering into formal written contracts for two of these four renovation projects that totaled \$688,445; not obtaining formal board approval for \$280,000 of these renovations; not properly disclosing \$280,000 in liabilities relative to these renovations in the monthly financial statements that it provided to its Board of Trustees and creditors; and not including language required by DOE in a \$280,000 loan agreement for these renovation projects that would have limited the Commonwealth's liability for the repayment of these funds. As a result of these issues, neither SCS nor the Commonwealth can be assured that SCS obtained all of these renovation and related services at the lowest possible cost, that the financial interests of the school and the Commonwealth have been adequately safeguarded, or that DOE has been properly and fully informed of SCS's financial condition and activities in a timely manner.

During the period June 1998 through August 2001, SCS conducted four renovation projects on the facility it used to operate its school. A description of these projects and related cost information appears in the following table:

SCS
Summary of Facility Renovation Projects
June 1998 through September 2001

Phase/Dates	Project Scope	Estimated Costs	Actual Costs	Cost Overrun (Savings)
Phase 1 6/98-9/98	Converting the facility's first floor into a school by constructing 11 classrooms and installing various occupancy features, including HVAC (air control) and alarm systems	\$227,000	\$408,445	\$181,445
Phase 2 7/99-11/99	Further renovations to the facility's first floor, including installing windows in classrooms and constructing several administrative offices, such as the business office, the academic dean's office, a nurse's station, and a receptionist's office	344,500	280,000	(64,500)
Phase 3 7/00-5/01	Renovating the facility's second floor for future occupancy, including constructing two handicapped-accessible bathrooms and installing an elevator and emergency fire exit	206,195	232,533	26,338
Phase 4 7/01-9/01	Constructing several classrooms on the facility's second floor	<u>100,000</u>	<u>141,390</u>	<u>41,390</u>
	Total	<u>\$877,695</u>	<u>\$1,062,368</u>	<u>\$184,673</u>

Our review of all the documentation being maintained by SCS for these renovation projects revealed several deficiencies in SCS's project administration, which are discussed in detail in the following sections:

a. SCS Did Not Competitively Procure \$1,062,368 in Construction and Related Services, Contrary to DOE's Procurement Guidelines and SCS's Internal Policies and Procedures

In August 1995, the Executive Office of Education issued Charter School Legal Memorandum 95-13, which informed Massachusetts charter schools that they, like other public schools, were required to comply with the provisions of certain state laws, including Chapter 30B of the General Laws, commonly referred to as the Uniform Procurement Act. This law requires public entities to follow specific competitive-procurement procedures when procuring certain goods and services. However, in 1998 DOE reexamined the issue of the applicability of Chapter 30B to charter schools. At that time, DOE sought guidance from the Office of the Inspector General, the state's Office of the Attorney General, and the Commonwealth's Operational Services Division (OSD). Based on the guidance it received

from these organizations, in July 1998 DOE developed and issued Charter School Technical Advisory 98-1 to clarify the process and procedures that Commonwealth Charter Schools must employ in the procurement of goods and services. This advisory states that, although Chapter 30B, does not apply to charter schools, they are required to “follow sound business practices and generally accepted government auditing standards” as a condition of their charter, whereby they must implement “responsible procurement policies.” The advisory provided the following explanation of the types of systems and procedures that would, in DOE’s opinion, constitute “sound business practices and responsible procurement policies”:

Within the context of procurements by a Commonwealth charter school, sound business practice means those activities that a prudent purchaser would consider to be reasonable under the circumstances. In this sense, sound business practices and reasonable procurement policies would, at a minimum, include documentation of the following:

- 1. A system of internal controls, including generally accepted accounting principles, that ensure that funds are appropriately received, expended, and accounted for.*
- 2. A procurement process that provides for the greatest amount of competition, gives potential bidders sufficient information upon which to base their bid or quote, and employs a process of evaluating bidders’ responses, which enables the Charter School to determine the best value proposal.*
- 3. Policies and procedures that ensure the procurement process is consistent with and based upon the internal control system of the organization, and which provide sufficient documentation for audit purposes.*

Depending on the nature and monetary value of the procurement, sound business practice and reasonable procurement policies may be comprised of simply obtaining three or more written quotes and selecting the lowest quote that offers the required goods or services. This practice may be applicable when the procurement is intended to be relatively small in value (under \$5,000). For larger or more complex procurements, sound business practice and reasonable procurement policies may require a formal request for response, a formal response, and an evaluation process, which both defines and produces the best value result of the procurement.

This advisory recommended that charter schools consult the procurement manuals issued by the OSD and the Office of the Inspector General for guidance on establishing or evaluating their procurement procedures.

In accordance with DOE’s guidelines, SCS developed its own internal written procurement policies and procedures, which included the following language:

All purchases of materials and equipment and all contracts for construction or maintenance in the amounts exceeding \$1,000 will be based on competitive bidding. An effort will be made to procure multiple bids for all purchases in excess of \$1,000...Bids will be advertised...The Board of Trustees declares its intention to purchase competitively without prejudice and to seek maximum educational value for every dollar expended.

However, despite DOE's guidelines and SCS's internal policies and procedures, SCS did not competitively procure the construction and related services for all four of the facility renovation projects that it conducted during the period of our audit, which totaled \$1,062,368. Rather, SCS noncompetitively awarded contracts for these construction and related services to its landlord. As a result, neither the school nor the Commonwealth can be assured that SCS obtained all of the services it desired at the lowest possible cost. Further, this type of arrangement could render the school excessively dependent on the landlord, reducing the school's contracting leverage in the future.

During June 2000, DOE officials conducted a site visit at SCS. As a result of that visit, DOE issued a report on June 6, 2000 that criticized SCS for noncompetitively awarding contracts for the first two facility renovation projects to its landlord by stating, in part:

The school would be prudent to consider a more rigorous investigation of potential construction vendors to remodel parts of the building for the upcoming school year and over the long term. Although it is likely the Landlord will be able to provide these services at a competitive price, the school should conduct a more formal comparison process as part of its financial stewardship.

Despite this recommendation, SCS subsequently noncompetitively awarded its landlord a contract to perform Phase 3 of the renovations (totaling \$232,533) that began in July 2000. This project phase, which was estimated to cost \$206,195 and be completed by the end of September 2000, ran 13% over budget (\$26,338) and was not fully completed until April 2001, nearly seven months after the estimated completion date.

Regarding this matter, the President of SCS's Board of Trustees provided the audit team with a written explanation as to why competitive procurement procedures were not followed in obtaining these construction and related services, as follows:

The landlord of the building...contracted all renovations on the building occupied by the school. [The landlord] has been kind enough to allow the Board of Trustees of Sturgis to collaborate with him on plans and scope of work. The school was obliged to repay the landlord for much of the renovation on the building. Since it was the landlord who renovated the building, Massachusetts' laws mandating competitive bidding for state agencies were not followed. However, the Board has made every effort to be fiscally prudent.

The Board President added that SCS was in a difficult fiscal position and that this was one of the few options it had to complete the projects. Nevertheless, since state funds were used by SCS to pay for these renovation costs, SCS clearly should have utilized a competitive bidding process as required by DOE guidelines and the agency's own internal policies and procedures.

Auditee's Response

In response to this section of the audit result, SCS officials provided the following comments:

From the school's inception, the DOE was made aware of the financial arrangement between SCS and its landlord whereby construction projects would be conducted through the landlord. A copy of the addendum to the lease describing the landlord's role in the construction projects has been on file with the DOE since SCS received its charter. At no time was the Board of Trustees instructed not to proceed with this financial arrangement.

Auditor's Reply

In its response, SCS contends that DOE was aware of the financial arrangements between itself and its landlord regarding the renovations of its school building facility. Although DOE may have been aware that SCS's landlord was to some extent going to be involved in the renovation of the school facility, SCS did not provide us with any documentation to substantiate that it had informed DOE that these renovation services were being procured noncompetitively. Moreover, we question the extent to which DOE was aware of the SCS landlord's participation in these renovations given that, as stated in our report, DOE officials in June 2000 criticized SCS for noncompetitively awarding contracts for the first two facility renovation projects to its landlord. Clearly, SCS's desire to have its landlord be involved in the renovations does not mitigate its responsibility to comply with DOE guidelines and its own internal policies and procedures. It is not the responsibility of DOE to direct the day-

to-day financial decisions of SCS. Rather, it is up to the organization's Board of Trustees to take the measures necessary to ensure that all business activities conducted by SCS are done so in the most efficient and effective manner and that all applicable laws, regulations, guidelines and agency policies and procedures are adhered to.

b. SCS Did Not Enter into Formal Written Contracts for Two of the Four Facility Renovation Projects Totaling \$688,445

According to SCS's written procurement policies, "the bidder to whom an award is made may be required to enter into a written contract with the school." A contract is a legally enforceable agreement between two parties that details the scope of goods or services to be provided; the rates of compensation; and the duties, responsibilities, and liabilities of all parties. A written contract is also necessary for accounting purposes to document that a legal obligation or liability has been incurred for financial reporting purposes and for contract administration purposes to ensure that all goods, services, and compensation are provided in a manner consistent with what all parties have agreed to in a legally binding document.

Regarding written contracts, DOE's "Commonwealth of Massachusetts Charter School Recommended Fiscal Policies and Procedures Guide," dated March 2001, states, in part:

The utilization of all consultants and contract personnel are sufficiently evidenced by:

A. Details of all agreements (e.g., work requirements, rate of compensation, and nature and amount of other expenses, if any) with the individuals or the organizations providing the services and details of actual services performed.

We found that despite these guidelines SCS did not enter into formal written contracts for Phase 1 and Phase 2 of its facility renovation projects, which totaled \$688,445. Without such formal written contracts, SCS unnecessarily subjected itself to potential liabilities. Moreover, it did not have a legally binding document that would allow it to properly administer these projects, account for all project-related expenditures, or ensure that the projects were completed in a timely manner and within the agreed-upon budget. In fact, as can be seen in the previously presented table, Phase 1 of the renovation projects experienced a significant cost overrun (80%). If SCS had entered into a formal written contract for these

renovations, it may have been able to minimize those cost overruns by passing on some of these additional costs to the contractor.

Auditee's Response

In the response to this issue, SCS officials provided the following comments:

It should be noted that the two projects in question were the first two of the four completed so far. The third and fourth projects were both done under contract.

Auditor's Reply

SCS's response does not address why it did not enter into formal written agreements for the first two phases of its facility renovation projects, which totaled \$688,445. Regardless of whether SCS entered into formal written agreements for subsequent phases of the project, by not entering into such agreements for all phases of the project, SCS unnecessarily subjected itself to potential liabilities, as previously noted, and relinquished the ability to minimize these cost overruns by passing on some of the additional costs to the contractor.

c. SCS Did Not Obtain Formal Board Approval for \$280,000 in Renovations

As noted earlier, in March 2001 DOE developed its "Recommended Fiscal Policies and Procedures Guide" for charter schools. According to DOE, this guide should "serve as a road map for schools to reference when developing the internal controls of their organization." Regarding the development of sound internal controls over a charter school's purchasing function, this guide suggests that formal board approval be documented for "purchases equal to or exceeding \$25,000 prior to contract/purchase order finalization." Further, according to SCS's written procurement policies, its board must approve all procurements, such as those involved in the renovation of SCS's school building, that by law or board policy need to be put out to bid. Nevertheless, SCS's board failed to formally approve the \$280,000 Phase 2 of SCS's facility renovation projects.

Regarding this matter, the President of SCS's Board of Trustees provided the following written comments:

[The landlord] contracted JK Scanlon and Co. to further renovate the school. At the time, Sturgis did not have the money to pay for these renovations. The Board therefore did not attempt to mislead [the landlord or contractor] by contracting with either party to renovate the building. In fact, no [Board] vote took place concerning renovations to the school at the time. The Board did recognize its financial responsibility and did try a number of alternatives.

According to SCS's Board President, the alternatives considered by the board were all intended to obtain the funding necessary to pay for this second phase of renovations as well as for planned future renovations and related debt service. These alternatives included (1) seeking construction loans from several banks and (2) seeking the issuance of a major bond through the Massachusetts Development Finance Agency and CIBC World Markets. However, the Board President stated that SCS, for various reasons, was unsuccessful in each attempt it made to obtain funding.

Our review of the minutes of SCS's October 14, 1999 board meeting indicated that the board voted on a resolution that the school "reasonably expects to incur debt to reimburse expenditures for renovation of its present facility." However, this action was taken two-and-a-half months after the work was initiated and approximately one month before the work was completed.

Auditee's Response

In response to this section of the audit result, SCS officials provided the following comments:

The school's landlord undertook the renovations in question understanding his own liability. The Board of Trustees did not commit the school to financial responsibility for the costs involved in doing them.

Auditor's Reply

As stated in our report, SCS's board failed to formally approve Phase 2 (which totaled \$280,000) of SCS's facility renovation projects. In its response, SCS contends that its landlord undertook this project and assumed the liabilities associated with its completion. However, SCS did not provide any documentation (e.g., a letter from its landlord) to substantiate this fact. Moreover, that SCS has subsequently begun to pay for these

renovations appears to contradict SCS's assertion that it made no financial commitment toward these renovations. Clearly, it is the responsibility of the school's Board of Trustees to be aware of and approve all major activities such as these renovations. Any decisions made by the Board relative to this matter, such as the Board's knowledge of and consent for those renovations and SCS's not assuming financial obligations for those renovations, should have been clearly and explicitly delineated in the minutes of its meetings.

d. SCS Did Not Properly Disclose \$280,000 in Renovation Costs in its Financial Statements

In addition to SCS's board not formally approving the facility renovations of Phase 2, as noted earlier, we also found that this liability and its related expenses were not reported in a timely manner on SCS's monthly financial reports. Generally Accepted Accounting Principles (GAAP) requires all liabilities that are known and can be reasonably estimated to be recognized in an entity's financial statements.

Our review of the second phase of the facility renovations undertaken by SCS revealed that although the \$280,000 construction project was initiated in July 1999 and completed in November 1999, SCS did not recognize this liability on the monthly financial statements that it provided to its Board of Trustees until December 31, 1999. In fact, it was not until a former member of SCS's board raised a question about the renovation projects that SCS began to disclose the costs of its projects in its monthly financial reports to the board.

Prior to its opening in September 1998, SCS established a line of credit with Charter Bank for \$250,000, which was subsequently increased to \$300,000 during academic year 1999-2000. As a result of SCS's nondisclosure of this liability on statements it provided to Charter Bank, and because of other financial issues, on April 13, 2000 the law firm representing Charter Bank officially notified the President of SCS's Board of Trustees that SCS was in default, called the line of credit due, and demanded repayment of the outstanding principal balance and all outstanding interest.

Auditee's Response

In response to this section of our audit result, SCS officials provided the following comments:

When the renovation project was completed in December 1999, these costs were recorded as an asset and as a liability. The bonding company was fully aware of the costs being charged. The balance sheet was never distributed, and therefore SCS did not improperly disclose the cost....

Charter Bank called its loan because SCS had announced its intention to turn in its charter to the state. This topic was discussed in a meeting at the State Capitol with several banks including Charter, which immediately following the meeting called its loan.

Auditor's Reply

Our report does not state that SCS improperly disclosed the renovation costs in question. Rather, it states that SCS did not report the \$280,000 liability associated with Phase 2 of its facility renovations in a timely manner on its monthly financial reports. Additionally, SCS states that the Charter Bank called its loan because SCS announced its intention to turn in its charter to the state. However, during our audit we reviewed a letter dated April 13, 2000, sent to the President of SCS's Board of Trustees from the law firm representing Charter Bank in this matter. This letter, contrary to SCS's assertion, identifies serious fiscal problems, questionable financial disclosures, and SCS's intention to redeem its charter as the reasons for the bank's seizure of SCS's bank account, as follows:

I am writing to inform you that Sturgis Charter School is in default of the terms and conditions of the above referenced promissory note, as amended, as well as the terms and conditions of the general security agreement between Charter Bank and the Sturgis Charter School. It has come to the attention of the officers of Charter Bank that there has been an adverse change in the financial condition, affairs and prospects for the Sturgis Charter School. In particular, Charter Bank is aware of the following changes in condition: (1) The Sturgis Charter School has failed to obtain financial bonding which is necessary for the school to pay its outstanding bills and make capital improvements which are needed to continue operation; (2) The Sturgis Charter School has failed to pay the amounts past due to the landlord/contractor for prior capital improvements; and (3) Your statements to Charter Bank officers that the Board of Trustees for Sturgis Charter School intended to turn in its charter and close the doors to the school. In light of these changes of finance condition, Charter Bank has deemed itself insecure. Therefore, Charter Bank is holding Sturgis Charter School in default of its loan and demanding the immediate repayment of the principal balance and all outstanding interest.

In addition to the above referenced changes and conditions, it is the belief of the officers of Charter Bank that intentional misstatements of material fact regarding Sturgis Charter School's financial condition have been made by Sturgis officials. This is another event of default under the terms of the Sturgis Charter School loan.

To prevent further actions of this type, clearly it is in the best interest of SCS to disclose all relevant information in question in a timely and accurate manner.

e. SCS Did Not Properly Limit the Liability of the Commonwealth in a \$280,000 Loan Agreement with Its Landlord as Required by DOE

Under the charter school law, charter schools may incur temporary debt in anticipation of receiving funds, provided that the terms of repayment of the debt not exceed the duration of the school's charter, unless the school obtains approval from the Board of Education. There are no restrictions on the purposes for which charter schools may borrow funds or on the amount of funds charter schools may borrow, nor are the terms of charter school loans subject to any specific approval or disclosure requirements.

As previously noted, during the second year of its operation SCS began to experience significant fiscal problems. According to documentation we reviewed, DOE's Associate Commissioner of Education for Charter Schools met with SCS and other officials on April 12, 2000 to discuss SCS's pending insolvency. As a result of this meeting, the Associate Commissioner wrote a memorandum on April 13, 2000 to the Commissioner of DOE stating that without some assurance of funding, SCS would inform the members of the community it serves that it would be closing the school. SCS subsequently notified DOE that it had the opportunity to obtain financing (a six-year note) from SCS's landlord to help finance its operations. However, since the terms of the agreement allowed for repayment of the loan up through 2006 (three years beyond the life of SCS's charter), SCS had to petition DOE for approval, which it did on May 30, 2000. On July 18, 2000, the Commissioner of Education sent a formal memorandum to the Board of Education recommending that the board approve SCS's request to enter into a loan agreement that extends beyond the life of the charter. The recommendation was "based on several factors," including the following:

- The school’s financial projections “allow a very slim margin to satisfy the terms of the loan for which it seeks approval. Nevertheless, without the board’s approval of this loan, the school’s future is uncertain.”
- The parties of the loan “acknowledge and agree that the Commonwealth...has no liability for any portion of the loan, and...the Board’s approval has no impact on any action the Board might choose with respect to...renewal of the school’s charter.”

Subsequently, on July 25, 2000, the Board of Education voted to approve this loan between SCS and its landlord. This \$280,000 loan (dated May 4, 2000) was used by SCS to reimburse its landlord for already-completed renovations to SCS’s school building. The terms of the loan allow for no interest for the first year (ended June 30, 2001). Thereafter, interest will accrue on the loan at commercial bank interest rates with a total repayment over six years not to exceed \$350,000. SCS also has the ability to obtain an additional \$100,000 loan from the landlord for future renovations.

According to the Board of Education, its approval for this loan was contingent on (1) “the acknowledgement and agreement of the parties to the loan that the Commonwealth has no liability for any portion of the loan,” and (2) that the approval had “no impact on any action the Board may choose to take in the future with respect to probation, revocation or renewal” of SCS’s charter. However, the signed agreement for this loan (dated July 7, 2000) that SCS officials provided to us did not include this required language. DOE officials stated that although they had an unsigned agreement dated May 4, 2000 that contained this language, they did not have a copy of the signed agreement. As a result, there is inadequate documentation to substantiate that SCS protected the Commonwealth from any future liabilities associated with the \$280,000 loan. Furthermore, this loan agreement eliminates any arms-length relationship SCS had with its landlord, potentially making SCS dependent on its landlord and limiting its ability to negotiate changes to the facility lease or to terminate or amend contracts for facility improvements that it was providing to its landlord.

Auditee’s Response

SCS officials did not provide specific comments on this issue.

Recommendation

To address our concerns relative to this matter, SCS should establish adequate controls over its administration of contracts. At a minimum, such controls should ensure compliance with all applicable laws, regulations, and guidelines. Moreover, all contract awards over a specified amount should be formally approved by its board and documented in the form of formal written contracts among all parties involved. In addition, SCS should take measures to ensure that it promptly discloses in its financial statements all liabilities, including those relating to facility renovation projects. Furthermore, SCS should obtain and submit to DOE a signed version of its loan with the landlord that includes the DOE-required language limiting the Commonwealth's liability.

2. OBJECTIVES OUTLINED IN SCS'S ORIGINAL CHARTER APPLICATION HAVE NOT BEEN REALIZED

Our audit revealed that at least eight of SCS's program and operational objectives, as set forth in its original charter application to DOE, have not been realized as of the completion of the school's third full year of operation. For example, one objective, SCS's commitment to offer all its students an opportunity to participate in the International Baccalaureate (IB) diploma program, served as the fundamental premise of the school's charter and was one of the main reasons for DOE's awarding of the charter in 1998. However, as of June 30, 2001, SCS had not met the eligibility requirements necessary for acceptance into this academic program. As a result, SCS may be jeopardizing the renewal of its charter, which expires on June 30, 2003.

According to information published by DOE, charter schools are public schools created to increase student achievement, offer parents more choices, develop innovative school models, and be held accountable for results. Charter schools gain autonomy from a number of state and district restrictions "in exchange for a rigorous level of accountability." Accountability, according to DOE, is a defining characteristic of a charter school. In this regard, information published by DOE states the following:

A charter is a contract, between the state and a Charter School's board of trustees, which holds the school accountable to parents, the state, and the public at large. To

receive a charter, an application must be completed which details the educational goals of the school and how it will be run. If the school is selected for a charter, it must abide by the terms of its charter, as well as any applicable state and federal laws. Charters are granted for a period of five years and are subject to renewal, contingent upon the school's ability to deliver quality educational results and successfully meet the goals of its charter.

Furthermore, Chapter 71; Section 89, of the General Laws states, in part:

The board may revoke a school's charter if the school has not fulfilled any conditions imposed by the board in connection with the grant of the charter or the school has violated any provision of its charter. The board may place the charter school on a probationary status to allow the implementation of a remedial plan after which, if said plan is unsuccessful, the charter may be summarily revoked.

According to 603 Code of Massachusetts Regulations (CMR) 1.09 (7):

The Charter School shall notify the Department Education in writing immediately of any change in circumstances that may have a significant impact on a charter school's ability to fulfill its goals or mission as stated in its charter.

According to 603 CMR 1.11 (2), an amendment would have to be prepared for material changes to a school's charter, including but not limited to any change in the membership of a charter school's Board of Trustees and substantive modifications to a charter school's educational philosophy or mission, school schedule, admissions process, governance structure, bylaws, school management contract, code of conduct, enrollment capacity, or school location.

During our audit, we interviewed school officials and reviewed various SCS documents to determine the extent to which SCS had met the obligations and goals detailed in its charter application to DOE that was approved in February 1998 and was, in effect, SCS's contract with the state. Although our review disclosed that some of the objectives and goals stated in SCS's original charter application have been satisfactorily achieved as of June 30, 2001, at least eight others, including the school's fundamental mission of offering an IB program, have not been fulfilled. Further, we believe that SCS may not be able to accomplish all of these objectives prior to the expiration of its charter, thereby jeopardizing its ability to have its charter renewed. The objectives that have not been realized by SCS as of the end of our audit fieldwork are discussed in the following sections.

a. SCS Has Not Obtained Membership in the International Baccalaureate Organization

In their written charter application to DOE, SCS's founders presented the school's mission and purpose as:

To foster international awareness and understanding and ensure world-class standards of academic achievement, Sturgis will apply for membership in the International Baccalaureate Organization.

This stated mission and purpose served as the foundation for SCS's charter application. For example, the charter indicated that SCS exists to "prepare students to meet world-class standards of academic achievement" and that the school's goal was to be "one of the very few public high schools in North America committed to helping all its students through the rigors of the IB Diploma Program."

The International Baccalaureate Organization (IBO) is a worldwide consortium of schools that offers students the chance to earn an IB diploma by meeting the organization's standards of academic excellence, creativity, and service to school and community. The two-year IB diploma program includes rigorous comprehensive exams. Students who pass these tests receive a diploma that is recognized around the world as a sign of high academic achievement at the secondary school level. Students receive IB certificates for each course in which an exam is taken, and these certificates are recognized by colleges and universities in the same way that Advanced Placement results are recognized (i.e., college credit). Based on documentation we reviewed, including various minutes of meetings of the state's Board of Education (BOE), SCS's IB program was one of the primary reasons BOE awarded SCS its charter.

According to information provided by SCS officials, to gain acceptance into the IBO a school must have adequate facilities and resources to support all aspects of the delivery of the full diploma program, including science laboratories, a media/computer center, and a library. Further, a school must successfully complete a comprehensive "authorization process," which includes three distinct phases: application, affiliation, and participation. During this process a school must submit a detailed written application, have its teachers

specially trained, and undergo multiple site visits. The entire process could take between one and three years, depending on a school's commitment and overall readiness. SCS's 1998-1999 "Guide to Sturgis Charter School" provided a timeline for the school to follow in obtaining authorization to participate in the IB Diploma Program. In this guide, SCS indicated that the school would submit the IB application during its first year of operation (academic years 1998-1999) and be authorized to participate in the program when SCS's first class was in grade 11, or the 2000-2001 academic year. As discussed in the Introduction section of this report, however, there was a disagreement between certain members of SCS's board and the school's administration during the school's first year regarding how SCS should pursue implementation of the IB diploma program. Specifically, according to the records we reviewed, the principal and some of the teachers sought to delay the application process indefinitely, whereas members of the school's board wanted the process to continue.

In a formal written resignation letter, one board member stated his concern regarding SCS's willingness to stray from its primary academic mission, as follows:

The IB curriculum is the cornerstone of the Charter and a central commitment by the Sturgis School to the students and their parents. That we could postpone or abandon it so blithely reflects our lack of resolve and focus on quality.

As a result of this concern, DOE officials, along with many students and parents, convinced SCS officials to finally prepare and submit an application to the IBO in July 1999. However, the application was denied. In a letter to SCS dated August 3, 1999, the IB North America's Associate Director in New York stated, in part:

Sturgis's application will not advance to the next stage of the authorization process. Before the IBNA can consider a school's application, Sturgis must first ensure that the school's facilities are adequately in place to support all aspects of the delivery of the full diploma programme. Second, all grade levels should be in place during the authorization process. Thus, since grade 12 will not be introduced at Sturgis until the 2001-2002 academic year, Sturgis's next opportunity to apply will be June 1, 2001.

Although SCS officials stated that they are still fully committed to the charter's mission, including the IB program, SCS has decided to delay submitting its formal application to IBO until spring 2003. According to these officials, this delay is due to the school's financial

inability to construct the necessary facilities (e.g., library, science laboratory, computer laboratory with Internet access, media center) to be eligible for acceptance into the program. Since full implementation of the IB program, according to SCS's principal, will take between 14 and 48 months after SCS submits its application, the school would not be able to offer its students the opportunity to fully participate in the IB diploma program until the 2004-2005 academic year at the earliest. Thus, since SCS's initial charter expires on June 30, 2003, SCS will not have met the core of its mission within the initial term of its charter.

SCS officials indicated that they have received a grant (\$149,700) from the Walton Foundation for the 2001-2002 school year that will be used to fund some of the aforementioned IB prerequisites. However, additional funding will still be necessary for SCS to become eligible to fully participate in the IBO program.

According to the Director of School Services for the IB of North America, SCS would have been eligible to apply for admissions to the IBO as of June 2001. She also indicated that she was unsure why SCS did not apply at that time and added that SCS had not been in contact with the IB office in over two years.

Auditee's Response

In response to this issue, SCS officials provided the following comments:

SCS was assured by the DOE (in a memorandum dated 12/1/99 and provided to the auditors) that the renewal of its charter would not be denied based on its failure to achieve membership in the IBO during the term of its first charter.

Auditor's Reply

In its response, SCS contends that it was assured by DOE that its charter would not be denied based on its failure to achieve memberships in the IBO. However, our review of the document referenced by SCS in its response revealed that DOE provided no such assurance and in fact did not even mention SCS's charter renewal. To the contrary, during the conduct of our audit we reviewed numerous documents from DOE to SCS in which DOE expresses concern over SCS's failure to achieve membership in the IBO.

Moreover, that SCS's charter, as the agency asserts in its response, would not be denied as a result of its failure to achieve membership in the IBO is not our primary concern. Rather, our concern is that although SCS's application to the IBO served as the foundation for its charter application and was described as the school's primary academic mission, after almost four years of operation SCS has not been able to achieve the primary goal for which it was established.

b. SCS Has Not Fully Implemented Objectives Relative to Its Educational Program

In its charter application, SCS identified the following regarding its educational program:

With the aim of building students' intellect, character, and spirit, Sturgis Charter School will offer a curriculum focused on core academic disciplines; a co-curriculum of athletics and the studio and performing arts; and a variety of extra-curricular opportunities.

Regarding the school's main curriculum, the charter application indicated the following:

All students will pursue each of five core disciplines (English, a modern foreign language, history, science and mathematics) for all four years. Opportunities will be available for students to study subjects such as art and music history as part of the humanities courses.

The curriculum for freshman and sophomore year — the Pre-IB phase — will follow the Massachusetts Curriculum Frameworks, while drawing upon the New York Regents Curriculum and the IB Middle Years Program (which extends through the 10th grade). The last two years will follow the curriculum of the IB Diploma Program.

Regarding SCS's curriculum, we found that, as stated in the school's charter application, all SCS students are required to pass four years of English, history, mathematics, science, and French; two years each of Latin, art appreciation, and music appreciation; and other electives in the junior and senior years. Further, we determined that SCS's academic curriculum has been primarily based on the Massachusetts Curriculum Frameworks. However, as previously mentioned, SCS did not implement its IB program and therefore has not met the objectives of its curriculum.

In terms of the co-curriculum, SCS's written charter application indicated that the school "will strive for full student participation in athletic and arts programs" (e.g., instrumental ensembles, chorus, theater, dance, painting) during each year and that program offerings

“will depend on student interest, cost, and the potential for high quality,” with funding provided through individual “user fees.” However, in the school’s annual report to DOE for academic year 2000-2001, SCS officials stated that “just over one third” of SCS’s students participated in at least one sport or other activity, well short of SCS’s stated objective of full participation in co-curriculum activities.

According to SCS’s principal, it has been difficult for the school to offer the full number of programs and achieve the anticipated participation levels that it initially sought. The principal explained that since athletic and arts programs were initially considered only for nonacademic hours, the stated goals have been difficult to accomplish, primarily because of problems with student transportation, since many students attending SCS are from towns outside of Hyannis, where the school is located.

SCS’s charter application stated, in terms of extracurricular activities, the following:

Sturgis Charter School will encourage faculty, students and other members of the community to use its facilities in pursuit of extra-curricular activities that provide participants with recreation, enrichment, or opportunities for community service. The school’s prominent and easily accessible location on Main Street in Hyannis makes it a natural center for these activities.

Regarding SCS’s objective of having the community utilize the school’s facilities in pursuit of extracurricular activities, SCS’s Board President, who was one of the school’s founders, suggested that the charter’s language was used to “bolster the charter application” in the eyes of its reviewers. In fact, the community has not been invited to or taken part in any of SCS’s extracurricular activities.

Although SCS has not fully met all of the aforementioned educational objectives, during our audit fieldwork we did note that SCS had taken measures to more fully meet these objectives. For example, SCS expanded its school day by approximately 30 minutes beginning March 2001 and, as a result, SCS was able to incorporate music and the arts into its freshman and sophomore curriculum. Through September 2001, SCS established a series of clubs constituting SCS’s extracurricular program, including chorus, writing, drama, running, weightlifting, Student Action Committee, yearbook, and others. Further, in terms

of athletics, in 2000-2001 the school offered boys' soccer, girls' field hockey, boys' golf, boys'/girls' cross-country, boys'/girls' basketball, and boys' baseball. According to SCS officials, the school intends to add additional sports teams each year in hopes of increasing overall student participation levels.

Auditee's Response

SCS officials did not provide specific comments on this issue.

c. SCS Had Not Achieved Its Stated Student Enrollment Levels

In its charter application, SCS stated "Sturgis will serve a co-ed population of 500-600 students beginning with 150 freshmen in September 1998 and adding a grade a year" and detailed how many students would be enrolled each year over the five-year life of its charter. However, we found that SCS has never met its projected student enrollment figures. The table below lists SCS's original projections and actual student enrollment for the last four academic years as well as SCS's projected enrollment figures for the remaining year of its charter:

**SCS
Student Enrollment Analysis
1998 through 2003**

School Year	Grade Levels	Projected Student Enrollment	Actual Enrollment	Difference
1998-1999	9	150	163	13
1999-2000	9-10	285	202	(83)
2000-2001	9-11	415	206	(209)
2001-2002	9-12	540	287	(253)
2002-2003	9-12	540	340*	(200)

* SCS-projected student enrollment as of August 2001.

SCS's Board President stated that the school is not going to be able to achieve its projected number of students indicated in its charter application for the 2002-2003 school year. The Board President added that one reason for the school's not meeting its projected enrollment

figures is that the school's founders anticipated obtaining additional space in Hyannis to go along with the primary facility to accommodate the projected 500-600 students. In fact, the charter document states that, "the immediate area offers plenty of opportunities for expansion," and that although the primary site "should accommodate the next three years of growth, additional property to buy or lease exists nearby." SCS officials indicated that although efforts were made by school staff after the school's first year to locate additional space, it was determined to be "impractical" to expand beyond the existing building, which can house approximately 350 students. SCS officials stated that, in addition to having difficulties acquiring additional space to accommodate the projected student enrollment numbers, the organizational and financial problems that plagued the school in its first and second year, respectively, caused many of its enrolled students to withdraw from the school, creating a low applicant pool of incoming students.

Auditee's Response

In response to this issue, SCS officials provided the following comments:

SCS has revised its commitment to an enrollment level more consonant with the school's mission. It has used the charter renewal process to establish its new desired enrollment level. The re-chartering process, in fact, is designed to implement changes in the original charter that will help the school more effectively fulfill its mission. The application for charter renewal, for example, calls upon the school to answer the following question: "Please describe how your founding charter has served the school during its first five years. What has the school learned during the first five years about the strengths and weaknesses of its charter and what changes does this experience suggest?"

Auditor's Reply

As noted in our report, SCS for a variety of reasons has not achieved its stated student enrollment levels. In its response, SCS states that its charter renewal application indicates an enrollment level more consistent with the school's mission. Since SCS's charter renewal process began after the completion of our audit, we were not able to review SCS's charter-renewal application and cannot comment on this assertion. However, if after the first year of the school's operation SCS officials believed, as stated in our report, that it was not practical to expand beyond the current building, which could house only approximately 350 students, we question SCS's not having formally notified DOE of this fact in a timely

manner. Instead, SCS allowed DOE to believe that enrollment figures and corresponding income were going to be as SCS had projected — significantly higher. By not providing this information in a timely manner, the school hampered DOE’s ability to properly assess SCS’s performance.

d. SCS Did Not Accurately Disclose Capital Funding Needs for Renovating the School’s Facility

SCS’s founders provided the following information to DOE in the school’s charter application regarding its choice for leasing the building that houses its school:

- *This facility, a former furniture gallery, encompasses 40,000 square feet on three levels. The space has sprinklers, gas heat, air-conditioning, and elevator already in place, as well as adequate parking and a connection to town sewer.*
- *The existing open floor plan of each level makes remodeling straightforward and inexpensive, allowing for the development of a customized, yet flexible layout. As a result, renovations to meet the school’s space planning requirements will be phased in over four years and will include the use of interior, non-bearing partitions.*
- *The immediate area offers plenty of opportunities for expansion. Although the site should accommodate the next three years’ [sic] of growth, additional property to buy or lease exists nearby.*

Additionally, in its charter application, SCS provided the following anticipated renovation and construction costs for housing its projected student population:

**SCS Summary of Budgeted
Renovation and Construction Costs
Fiscal Years 1999 through 2002**

Fiscal Year	Anticipated Renovation Costs
1999	\$ 25,000
2000	30,000
2001	75,000
2002	<u>120,000</u>
Total	<u>\$ 250,000</u>

Although SCS's founders recognized the need for facility improvements and the need for eventual expansion, SCS did not project that any debt service or interest expense would be incurred during the school's first four years of operation. Rather, SCS's founders' initial plan was to utilize existing revenues to fund all facility improvements instead of incurring debt through obtaining construction loans.

However, as detailed in Audit Result No. 1, the renovation cost, related debt service, and other expenses SCS has incurred have significantly exceeded the projected \$250,000 that SCS submitted to DOE in its charter application, as detailed in the following table:

**Sturgis Charter School Summary of Renovation Construction and Related Costs
Fiscal Years 1999 through 2002**

Fiscal Year	Renovation Cost	Interest Expense	Total Expense
1999	\$ 408,445	\$ 24,995	\$ 433,440
2000	280,000	4,019	284,019
2001	232,533	17,146*	249,679
2002	<u>141,390</u>	<u>25,000**</u>	<u>166,390</u>
Total	<u>\$1,062,368</u>	<u>\$ 71,160</u>	<u>\$1,133,528</u>

* Unaudited as of July 1, 2001

** Per fiscal-year 2002 budget as of July 1, 2001

Although these expenses have exceeded those detailed in its charter application by \$883,528 (\$1,133,528 minus \$250,000), SCS did not formally notify DOE of this fact. According to SCS's Board President, the references regarding the extent of necessary facility improvements were unrealistic in the original charter application. SCS officials stated that they still anticipate that additional renovations will be necessary to fully implement the school's programs. However, they indicated that no additional loans would be used to fund these future projects, and that grants and/or fundraising would provide the funding.

Auditee's Response

In response to this issue, SCS officials provided the following comments:

It is true that the cost of renovating the school's existing facility exceeded the charter's projections and that the charter did not project the borrowing or debt service required for the actual renovation costs. The auditor's contention that the school was obligated to notify the DOE formally of the additional costs is not supported by any regulations cited in this report.

Auditor's Reply

That our report does not cite a specific regulation requiring charter schools to notify DOE of significant fiscal changes does not in any way imply that charter schools do not have such a responsibility. To the contrary, our report makes clear that DOE officials view the entire charter school system as one in which greater accountability is taken on in exchange for freedoms that traditional public schools do not enjoy. To this end, SCS, along with all charter schools, is required to submit various documents, including annual financial reports, to DOE and to inform DOE of any changes in the school's fiscal or programmatic conditions. Such information is essential for ensuring that DOE can properly administer the state's charter school system and that any potential problems can be identified and efficiently and effectively resolved.

e. SCS Did Not Fully Utilize Projected Funding for Professional Development

In its charter application, SCS indicated that the school will exist in part to enable teachers to contribute to the best practices of their profession. In addition, the school's charter included the following details regarding teachers' training:

- *Within the curriculum guidelines of the IBO, and taking advantage of the teacher-training offered to member schools, experienced teachers will be free to teach to the needs of the individual student.*
- *SCS exists to enable teachers to contribute to the best practices of their profession by defending the integrity of the academic day and the priority of the school's academic mission; respecting the ability of experienced teachers to manage the academic resources of the school; maintaining a collegial work environment; and providing opportunities for professional development.*
- *SCS teachers will take full advantage of the frequent curriculum and instruction workshops scheduled by IBO. In this regard, the IB diploma program provides extensive teacher training in core subject areas.*
- *Teachers will take advantage of opportunities for hands-on learning and field research.*

- *The full year schedule allows teachers to take advantage of greater and more in-depth professional development opportunities.*
- *Faculty and staff determine professional development time, but it is assumed that this will typically occur during the summer, cover a period of days or weeks, and take place either locally or "off-Cape." (The exception is ongoing training required to address specific learning styles or disabilities.) The school's faculty will work together to ensure that planned professional development time produces maximum benefit not only to the individual teacher but also to his or her subject department and to the whole school.*

SCS also submitted with its charter application a detailed four-year budget for revenues and expenditures that included staff development/training costs. Our audit disclosed, however, that the actual expenditures for staff training were far less than budgeted by SCS in its charter application. The following table compares the projected expenditures for staff development/training as presented in SCS's charter application with the actual expenses incurred by the school:

**SCS Analysis of Staff Development/Training Costs
Fiscal Years 1999 through 2002**

Fiscal Year	Projected Expenditures	Actual Expenditures	Difference
1999	\$ 7,000	\$ 8,137	\$ 1,137
2000	18,000	8,969	(9,031)
2001	27,000	4,310	(22,690)
2002	<u>33,000</u>	<u>9,000*</u>	<u>(24,000)</u>
Total	<u>\$ 85,000</u>	<u>\$ 30,416</u>	<u>(\$ 54,584)</u>

*Per fiscal year 2002 budget as of July 2001

Since fiscal year 1999, SCS has expended substantially less (\$54,584) for staff development/training than it presented to DOE in its charter application. In fact, according to SCS officials, during the fiscal years 2000 through 2001 the majority of the school's teaching staff only took part in seminars titled "Teaching Students Responsible Behavior," with the school not paying for any other professional-development opportunities.

Worth noting is that under Chapter 159 of the Acts of 2000, Massachusetts public school systems other than charter schools are required to spend \$125 per student on professional

development. If the state's charter schools had been obligated to follow this requirement, SCS would have had to spend \$24,750 in fiscal year 2000 (\$125 x 198 students) and \$25,750 in fiscal year 2001 (\$125 x 206 students).

SCS reported to DOE in its 2000-2001 annual report that, "unfortunately, budgetary limitations prevented the school from fulfilling its commitment to underwrite individual staff members' participation in courses, workshops and conferences." However, SCS's principal indicated that training has been provided to the school's teachers at no cost. In this regard, the principal stated that every third faculty meeting (approximately every six weeks) was used for "demonstration lessons" provided by individual teachers. Professional development points were earned for these in-house training sessions. A review of documentation provided to us regarding these "demonstration lessons" supports the principal's contention. The principal also pointed out that because SCS was recently awarded with a significant grant (Walton Foundation) for the 2001-2002 school year, the school's original budget (as of July 2001) for the year was amended to reflect an additional \$24,000 being available for professional development.

Auditee's Response

SCS officials did not provide specific comments on this issue.

f. SCS Has Not Fully Met Various Performance Measures, including Those Relating to Student Participation in Extracurricular Activities and Student Diversity

SCS's charter identified three primary areas in which the school's performance should be judged, including the success of its (1) instructional program, (2) development of character and responsibility, and (3) organization. This section of the report includes our analysis of SCS's compliance with these performance measures.

SCS's charter presented the school's first area of accountability (the instructional program) as follows:

- *The effectiveness and success of the instructional program will be measured by the results of internal (proficiency in the school's core curriculum), State ("all students passing the MCAS"), national ("all students taking the SAT-II exam"),*

and international ("all students taking all six International Baccalaureate exams and fulfilling the additional criteria to be considered for an IB Diploma") testing.

- *External, cumulative assessments: In addition to the MCAS test in the spring of sophomore year, and the SAT-II after the completion of individual courses, students will sit for IB Exams in the spring of their junior and senior year. According to the IBO, a variety of assessment methods (including external and internal) are used to value both the content and the process of academic achievement and to take into account different learning styles and cultural patterns.*
- *Internal, periodic assessments: Trimester and final exams will be matched to IBO performance standards. Teachers in certain subjects will also require and assess student portfolios.*
- *Internal, continuous assessment: The Board of Trustees will require each department to create means of assessing student performance internally on a monthly or similar basis and then communicate results.*

We found that SCS has only partially achieved the objectives regarding measuring the success of its instructional program. Specifically, as indicated earlier, SCS is delaying its application to the IB program until June 2002; therefore, official IB exams have not been offered to students and, according to SCS officials, will not be offered until academic year 2003-2004 at the earliest.

The Massachusetts Comprehensive Assessment System (MCAS) tests were administered to all SCS sophomores during the spring of 2000 and 2001. Our review of these MCAS results, made public in November of each year, revealed that although, despite projections, not "all" SCS students passed the MCAS tests, SCS was ranked in the top 12th percentile each year among all state school districts on the basis of its 10th grade students' combined (English, mathematics, and science) average scaled scores. Furthermore, an analysis of DOE's reported figures for the 2001 MCAS taken by all of the state's 10th grade students indicates that SCS finished among the top 10 schools in having the lowest student failure rates for tests taken. The following table summarizes the school's 2000 and 2001 MCAS results for each subject:

SCS 2000 and 2001 MCAS Results

Year	Subject	Students' Combined Average Scaled Score	Percent Scoring at the Advanced Level	Percent Scoring at the Proficient Level	Percent Scoring at the Needs Improvement Level	Percent Performing at the Failing Level
2000	English and Language Arts	245	19	55	15	11
2001	English and Language Arts	252	34	50	16	0
2000	Mathematics	245	30	31	25	14
2001	Mathematics	246	25	41	29	6
2000*	Science and Technology	238	11	46	28	15

* DOE did not require 10th grade students to take the science and technology test in 2001.

Regarding the SAT-II “Subject Tests” (as opposed to the SAT I “Reasoning Test”), SCS’s teachers recommend that their students take the tests for subjects such as biology, mathematics, Latin/French, and writing; however, they cannot require the students to pay for (between \$5 and \$15 per test) and take the tests. According to SCS’s principal, there were no educators on the school’s original board, which therefore wrongly believed that the SAT-II test would be taken after the completion of individual courses. In fact, based on documentation we reviewed, less than 50% of SCS’s students actually took these tests during our audit period.

The school also administered norm-referenced tests, as it had indicated in its charter, to track student performance. Specifically, high school placement tests and educational development series tests in such subjects as reading, mathematics, and language were given to all SCS students, with satisfactory performance being achieved in “eight of nine” instances, as reported to DOE in the school’s 2000-2001 annual report.

The charter document presented the school’s second area of accountability (developing character and responsibility) as follows:

- *Success in developing character and responsibility will be measured by “high levels (90-100%) of student participation in athletics, the arts, extra-curricular*

activities and community service.” Further, the quality of campus life will be measured by the “interest and attractiveness of classrooms, common areas, courtyards, etc.”

As previously noted, our audit disclosed that SCS did not fully satisfy this charter objective. During the 2000-2001 school year, just over a third of SCS’s students actually participated in at least one sport or other activity. On the student survey administered in June 2001, students cited athletics and extracurricular activities as areas they found wanting. Furthermore, the goal that each student provide 25 hours of school and community-related service has not been met. According to SCS’s principal, the school “must do more to establish this kind of commitment” from its students.

The charter document presented the school’s third area of accountability (its organization) as follows:

The organizational success will be evidenced by (1) “sound fiscal policy and control, as well as responsible governance and oversight”, (2) “student, parent, and alumni satisfaction” results of annual surveys, (3) the extent of “community involvement” (other than students, parents, and teachers) with the school based on surveys, and (4) “student diversity” whereby the student population reflects an applicant pool that is representative of racial, ethnic, and socio-economic characteristics of Barnstable as a whole.

We found that SCS has made efforts to fulfill the first two measures for determining organizational success. Specifically, as detailed earlier in this report, SCS has taken measures to improve its fiscal condition and the oversight provided by its board. For example, on October 15, 2000, members of SCS’s board attended a full-day workshop training session titled “Proper Board Governance.” Furthermore, the 2000-2001 academic year student/parent satisfaction survey results, contained in SCS’s August 2001 annual report to DOE, indicated that students and parents were generally pleased with the school’s “overall performance.” Noted exceptions, however, were a lack of satisfaction with “sports/extracurricular activities” and “school facilities.”

However, SCS has not satisfied the other two measures for determining organizational success, as follows:

- Surveys have never been taken to determine the extent of community involvement with the school.
- As reported in SCS's annual report to DOE for the 2000-2001 academic year, the school's goal of a diverse student body that reflects the larger community (Barnstable) is "still unmet" and is "proving harder to achieve."

Our review included an analysis comparing the student body of SCS with that of Barnstable High School. The following tables reflect a comparison of the student characteristics for each school during the 2000-2001 school year. The first table compares race/ethnicity, and the second compares socioeconomic factors, including the need of financial assistance and special instruction.

**SCS and Barnstable High School
Student Body Composition by Race/Ethnicity
2000-2001 School Year**

Race/Ethnicity*	Barnstable Number of Students	Percentage of Barnstable Total	SCS Number of Students	Percentage of SCS Total
American Indian	12	.6	0	0
Black	118	6	3	1.4
Asian	29	1.4	1	.5
Hispanic	138	7	2	1
White	<u>1,678</u>	<u>85</u>	<u>203</u>	<u>97.1</u>
Total	<u>1,975</u>	<u>100</u>	<u>209</u>	<u>100</u>

*SCS had students in the 9th through 11th grades; Barnstable had students in the 10th through 12th grades.

**SCS and Barnstable High School Student Body Composition
by Various Socioeconomic Factors
2000-2001 School Year**

Socioeconomic Factor	Barnstable Number of Students	Percentage of Barnstable Total	SCS Number of Students	Percentage of SCS Total
Special Needs	256	13	19	9
Free/Reduced Lunch	305	16	0	0
English Limited Proficiency	65	3	3	1

Although SCS has not met its student-diversity goals, we found that it has made efforts to attain a student body the diversity of which reflects that of the larger community. For example, during the latter part of the 2000-2001 academic year, SCS's board formed a "diversity committee," which began to plan and implement initiatives to reach out to populations in the community that might not otherwise have access to the school.

Auditee's Response

SCS officials did not provide specific comments on this issue.

g. SCS Has Not Established Stated Levels of Community Involvement/Partnerships

In its charter application, SCS noted that one of the school's "Key Goals and Expectations" is to ensure "community and parental involvement that increases the resources of the school, extends the walls of the classroom, and compliments the expertise of the staff." The charter also included the following in reference to the importance and level of community involvement:

- *SCS charter school exists to engage the community in thoughtful discussion of the goals and methods of public education by serving as a laboratory of innovation, testing, and adaptation of strategies for successful teaching and learning.*
- *Intelligent use of community resources can mean the difference between an average school and an outstanding school.*
- *Choice, standards and accountability are the means of improving public education. Choice increases student, teacher, parent, and community involvement in our schools.*

- *A list of potential partnerships and accompanying letters of support include the following: Cape Cod Community College (Dance Program), Cape Cod Education Center, Inc., Cape Cod Symphony Orchestra, Hyannis Public Library, Massachusetts Maritime Academy, Mystic Seaport, Plymouth Plantation, Schooner Ernestina Commission, UMASS/Dartmouth, Woods Hole Oceanographic Institute, and the YMCA.*

We found that despite these stated objectives, as of the end of our audit SCS had not formally established any partnership agreements with any of the aforementioned organizations. The school's only affiliation with an outside organization has been with Ocean Quest, Inc., a nonprofit educational group that focuses on maritime issues.

SCS's Board President stated that SCS has not actively pursued a formal relationship with any of the organizations identified in its charter application because school officials have chosen to concentrate on the development of internal programs rather than external activities.

Auditee's Response

SCS officials did not provide specific comments on this issue.

h. SCS Has Not Ensured That All Students Acquire Current Technology for Their Homes

SCS stated the following in its charter application to DOE:

Believing that the greatest day-to-day benefit from technology is in the home, Sturgis will develop strategies that eventually enable all students to acquire or upgrade home PCs.

However, based on our audit, we determined that SCS has not developed any strategies to enable its students to acquire or upgrade their home personal computers (PCs). In fact, as of the conclusion of our audit, no students have obtained or upgraded their home PCs through the assistance of the school's administration.

According to the President of SCS's board, the school has focused its energies on obtaining computer-related equipment for the school and has not developed strategies to enable all students to acquire their own PCs.

Auditee's Response

SCS officials did not provide specific comments on this issue.

Recommendation

SCS should take the measures necessary to ensure that it fully complies with the stated goals and objectives of its charter. If SCS officials believe that the school will be unable to comply with any of these goals and objectives, they should formally notify the BOE and amend the school's charter as necessary, in accordance with 603 CMR 1.09 (7) and 1.11 (2).

3. INADEQUATE CONTROLS OVER STUDENT-ENROLLMENT AND ATTENDANCE RECORDKEEPING AND POTENTIALLY INFLATED PRE-ENROLLMENT FIGURES SUBMITTED TO DOE RESULTED IN SCS'S OBTAINING SHORT-TERM INTEREST-FREE LOANS TOTALING \$526,498

We found that during our audit period SCS had inadequate controls over student-enrollment and attendance recordkeeping. Specifically, SCS did not have uniform written policies and procedures regarding a specific method for calculating its pre-enrollment figures, which are reported to DOE and are used to determine each charter school's first and second quarterly tuition payments for the next school year. Consequently, SCS submitted inaccurate pre-enrollment figures to DOE that resulted in the school's obtaining short-term interest-free loans totaling \$526,498, and it did not provide in a timely fashion the information DOE needed to assess the financial viability of the school.

As noted in the Background section of this report, Commonwealth charter schools receive funding directly from the State Treasurer's Office based on enrollment data submitted to DOE. State payments to these schools are generally based on the per-pupil tuition rate of the sending district. For example, if the average per-pupil tuition cost in a school district were \$6,500 annually, the charter school would receive this amount from the school district that the student left. Payments to Commonwealth charter schools are funded through deductions from the local aid accounts, in accordance with Chapter 70 of the General Laws of the districts where charter school students reside (the sending district).

The key difference between funding for charter schools and funding for other public schools is the way in which public tuition is appropriated. Whereas other public schools receive a set amount of funding from their school districts, charter schools receive funding calculated to directly reflect the number of students enrolled. Thus, to receive funding, charter schools must submit various enrollment reports to DOE, which in turn provides each charter school with quarterly reimbursements. The basis for the first two quarterly payments, due September 30 and December 31, is the estimated student enrollment reported to DOE in April. This pre-enrollment report provides the estimated total number of students from each district. The third-quarter payment, due March 31, is based on the charter school's actual student enrollment through October 1. The final payment, due June 30, is based on the charter school's actual enrollment through February 15; that information is reported by each school on a claim form due at DOE by March 1. The final two payments are adjusted for any discrepancies between the actual and estimated enrollment figures submitted by a charter school in its pre-enrollment report.

DOE has promulgated regulations that govern the operations of public schools, including charter schools, within the Commonwealth. The 603 CMR establishes specific recordkeeping and reporting requirements for schools. Regarding the maintenance of student enrollment and attendance information, 603 CMR 10.5 (2) states, in part:

Each school district shall maintain, for every school year, a roster identifying the students enrolled and amount of time spent in each program...

Moreover, 603 CMR 10.3 (1) states, in part:

Each school district shall adapt and maintain a reliable data collection and retention system in which the student data required by 603 CMR 10.0 shall be recorded. This system shall be the basis for the district's periodic reporting of student data to the Department.

We found that despite these requirements, SCS did not have uniform written policies and procedures for calculating and reporting its pre-enrollment figures to DOE. Although SCS officials indicated that the pre-enrollment figure is simply based on the number of students enrolled in the school as of the reporting date plus the number of accepted applications received for the next year, in several instances SCS could not provide us with either a

detailed listing of students who attended the school on a specific date (e.g., April 1) or a formal listing of students whose applications had been received and accepted as being eligible as of that specific date.

As a result, in each of the school's first three years of operation, the pre-enrollment figure submitted to DOE by SCS on April 1 was significantly higher (between 9% and 21%) than the actual student enrollment as of October 1, as indicated in the following table:

**SCS Charter School
Analysis of Enrollment Reporting
Fiscal Years 1999 through 2002**

Fiscal Year	Reported Pre-Enrollment (April 1)	Actual Enrollment (October 1)	Difference	% Difference	Average Cost Per Student Ultimately Paid by DOE	Amount of Overpayment (Prior to Adjustments) (1)
1999	187	163	24	13	\$5,260	\$ 63,120
2000	250	202	48	19	\$6,456	\$154,944
2001	260 (2)	206	54	21	\$7,418	\$200,286
2002	314	287 (3)	27	9	\$8,011 (4)	<u>\$108,148</u>
Total						<u>\$526,498</u>

Notes:

1. Amount overpaid equals the difference in the number of students, times the average cost per student, divided by two (since the amount overpaid was only for the first two quarterly payments made to the school prior to the adjustments that were made based on the school's actual enrollment).
2. The pre-enrollment figure of 260 actually represents SCS's revised pre-enrollment figures as of June 30, 2000, as submitted to DOE.
3. This figure is per SCS's principal on September 28, 2001.
4. Estimated average cost per student is based on SCS's estimate of an 8% increase from 2001 amount.

In addition, our review of the enrollment information maintained by SCS identified other deficiencies, as follows:

- SCS did not have any documentation to substantiate the pre-enrollment figures it submitted to DOE for the 1998-1999 and 1999-2000 school years.

- For the 2000-2001 school year, when SCS submitted revised pre-enrollment figures to DOE, SCS officials were able to provide us with a list of accepted applications as of June 30, 2000, but not a student directory for June 2000 listing the names of students who were actually attending the school at that time.

Of particular concern is that some of the documentation we reviewed indicated that SCS officials were aware that some of the pre-enrollment information SCS submitted to DOE was inflated. For example, on April 2000 the pre-enrollment figures it submitted to DOE indicated that the school had enrolled 260 students. However, SCS's board formally approved a budget on May 2000 (one month later) that was "based on 220 students." Further, in SCS's annual report to DOE (dated June 30, 2000), the Board President noted that SCS "projects a student population of approximately 220-230" for the 2000-2001 school year. To support this statement, the Board President referenced figures pertaining to the number of completed applications (70), and to the projected number of students returning from the prior year (150). However, SCS submitted a pre-enrollment figure of 260 to DOE for the 2000-2001 year.

Regarding SCS's reported April 1 pre-enrollment figure of 314 for the 2001-2002 academic year, SCS officials provided us with a student directory (as of March 6, 2001), identifying 209 students, and a list of 112 students, as of the same date, who had submitted applications to the school. However, at a board meeting on March 8, 2001, three weeks before submitting this pre-enrollment figure to DOE in its pre-enrollment report, a statement made by the school's associate principal (who is responsible for student applications/enrollment) indicated that "eighty-eight students had completed applications" and "eighty-one had been accepted," signifying, at most, a student enrollment of 297 (209 current students plus 88 applications) rather than the 314 on the SCS report submitted to DOE.

When asked about the discrepancy between the 81 new students who had been accepted and the 112 new students included in the pre-enrollment report that SCS submitted to DOE, the associate principal stated that SCS counted the number of completed registrations in its pre-enrollment calculation instead of the number of "eligible" applicants.

As a result of SCS's submitting inflated enrollment figures to DOE, it obtained short-term interest-free loans amounting to \$526,498, at the expense of the local school districts for the six months preceding the adjustments made by DOE based on actual student enrollment.

When questioned about the consistently higher pre-enrollment figures compared with the actual ones, SCS's associate principal explained that DOE had indicated that charter schools are better off overestimating the pre-enrollment figure for two reasons. First, according to Chapter 71, Section 89, charter schools are prohibited from receiving any more state funds than for the number of students initially reported in April. Second, schools such as SCS that have not received the maximum number of applications by April 1 may continue to receive and accept applications throughout the spring as long as openings are still available, and thus it is better to get the funding in anticipation of enrolling these additional students.

However, this practice of extending the enrollment period beyond April 1 is not in compliance with DOE's regulation 603 CMR 1.09 (4), which states in part:

Each charter school shall conclude its principal enrollment process no later than March 1 of each year and shall file annually with Department of Education and with each district a pre-enrollment report no later than April 1. Said report will notify a district of:

- a. *The school's total enrollment for the subsequent academic year;*
- b. *The projected number of students to be enrolled in the charter school from that district for the subsequent academic year;*
- c. *The number of students from that district on the waiting list, who, as a result, may be enrolled in the charter school, in the subsequent year.*

The purpose of requiring the strict cut-off date of March 1 for the principal enrollment process is to help ensure that the reported April 1 pre-enrollment figure is as accurate as possible, since funding charter schools has a direct impact on the sending districts' school budgets. Our review disclosed, however, that SCS has generally not adhered to this cut-off date requirement, as its principal enrollment process extended beyond the stated time frame. For example SCS's "Guide to the Enrollment Process for the 2001-2002 Academic Year" identified the enrollment period as ending on Friday, April 13, 2001, a full month after the required date.

Instead of using the number of accepted applicants in calculating the pre-enrollment figures, SCS used the registered number, which was much higher. SCS indicated that (1) the school was going to continue to accept applications beyond the April 1 date and thus did not want to create a situation in which it was not reimbursed for some students if the number of students attending in the fall were to be higher than the reported pre-enrollment figure; and (2) DOE has never specifically told the school exactly how it should be going about calculating the number of new students the school anticipates having the next school year.

In addition to excessive funding, another negative effect of submitting erroneous student enrollment figures to DOE is the misrepresentation of the actual fiscal condition of the school. For example, in a July 30, 2000, an interoffice memorandum from DOE's Associate Commissioner for Charter Schools to the Commissioner of Education, the Associate Commissioner reported her concerns over the financial and enrollment projections that SCS had submitted earlier in the month. Subsequently, DOE's Charter School Office performed an analysis of the data submitted by SCS and determined a break-even point (in which revenues equal expenses) for the school, expressed in terms of the minimum number of students enrolled necessary to satisfy SCS's anticipated expenses and debt service. The schedule, according to DOE, for the 2001-2002 school year was as follows:

**Department of Education
SCS Student Enrollment Breakeven Analysis for
2001 through 2002 School Year**

Total Expenses and Estimated Annual Debt Service	\$2,286,789
Per-Pupil Tuition Rate	\$6,988
Minimum Number of Students for Revenue Needed	327

SCS itself submitted an analysis to DOE indicating that the school's revenue would exceed its expenses during the 2001-2002 school year, based on its projected enrollment figures, as indicated in the following table:

**SCS Projected Revenue and Expense Analysis for
2001 through 2002 School Year**

Projection	Amount
Total Expenses and Estimated Annual Debt Service	\$2,084,696
Total Revenue	\$2,227,400
Excess Revenue	\$142,704

Based on DOE's analysis, any enrollment figure less than 327 students would cause SCS to be in a deficit fiscal position. As previously noted, SCS reported to DOE that its anticipated student enrollment figure for this fiscal year was 314 students, which, according to SCS, would be sufficient for the school to remain solvent.

Based on the projected enrollment figures SCS provided to DOE, DOE would have reasonably expected SCS to be able to substantially meet all of its expenses during this school year. However, as previously discussed, SCS officials were concerned that the projected enrollment figures they provided were unreasonable and that SCS would, therefore, experience additional fiscal problems; that concern was not disclosed to DOE.

DOE's Charter School Office also prepared an enrollment history of SCS, revealing the following pattern: Each year the school's actual enrollment figure ends up being considerably lower than anticipated at the beginning of the year, thereby further reducing the revenue the school received, as indicated in the table below:

**SCS
Student Enrollment Analysis
Fiscal Years 1999 through 2002**

Fiscal Year	Pre-Enrollment Projection	Actual Enrollment (October 1)	Actual Enrollment (February 15)	Percent Decline From Pre-Enrollment Estimate
1999	187	163	150	19.8
2000	250	202	198	20.1
2001	260	206	206	20.1
2002	314	287*	-	-

*SCS's actual enrollment as of September 28, 2001.

State funding for SCS is initially based on the pre-enrollment figure and later adjusted by the actual student enrollment. Given that SCS's enrollment data is approximately 20% lower than the school's pre-enrollment projection, one could reasonably expect SCS's fiscal year 2002 actual enrollment figures to be approximately 251 students (314 x 80%); at the tuition rate of \$6,988, as estimated by DOE's Charter School Office, the total tuition payments to SCS for the fiscal year would be \$1,754,000. According to SCS's data, an additional \$85,000 in grant funds is available. Therefore, total annual revenues would be \$1,839,000, which would result in a deficit of \$245,696 for this academic year, as indicated the following table:

**SCS
Proforma Cash Flow Statement
Academic Year 2001 through 2002**

Projection

Total Revenue at 80% enrollment*	\$1,839,000
Total Expenses and Estimated Debt Service	\$2,084,696
Estimated Shortfall	\$(245,696)

*Estimated tuition of \$6,988 per student, per DOE

This cash flow statement does not include any increases in debt service and interest expenses that the school will incur as a result of the approximately \$100,000 in additional debt to cover the costs associated with its planned 2001-2002 academic year renovations to the second floor of SCS's school building. This analysis also does not include the expenses associated with preparing for and participating in the IB diploma program, including approximately \$75,000-\$100,000 in annual program fees.

Recommendation

To address our concerns in this matter, SCS should immediately implement formal written policies and procedures for maintaining accurate and complete student-attendance and enrollment figures. SCS should also maintain sufficient documentation on how it calculates its pre-enrollment figures so that they can be independently verified.

Auditee's Response

In response to this issue, SCS officials provided the following comments.

Our policies and procedures have been consistent with DOE regulations for calculating the pre-enrollment figure. This formula is the same for every charter school in the state and, as the report itself explains, is an estimated figure; thus the term PRE-enrollment. Again, as the report acknowledges, the pre-enrollment figure is based on the number of students enrolled at the time of the reporting plus the number of applications received for the following year and thus is subject to change by the fall. We have further been advised by the DOE not to under-report and the payments can be adjusted only down and not up once the actual enrollment figures are reported the following year....

The auditor gave us a list of documentation that he required... The only information we were unable to provide in order to satisfy this request was a list of accepted student applications for the INITIAL 2001 pre-enrollment report of 320 students. As we explain in our letter to the auditor..., we lost many students in the wake of the spring 2001 financial crisis and ultimately adjusted the pre-enrollment number to 260. We did not keep the registration forms of students who withdrew from the initial pre-enrollment period. We have now changed that practice; all registration forms, regardless of whether the student withdraws, are kept on file. The only request for actual pre-enrollment was for June 2001. That roster was provided.

We were not able to provide records for the school's first year (including its pre-enrollment). All that was requested for the 1999 and 2000 academic years was a "statement indicating that record are not available, and a brief explanation as to why."

Further, the report claims that we did not have a student directory for June 2000. In fact, the auditors were provided with a complete list of students enrolled in June 2000...It is true a student directory cannot be retroactively generated from our database, but auditors were nonetheless provided with an accurate list of enrolled students for June 2000....

The audit cites the number, eighty-eight [applications] as lower than the number ultimately submitted. This is not surprising as our enrollment period had not yet closed and we typically receive forty or more percent of our completed applications in the last week of the pre-enrollment period....

As for the reference to "eligible applicants," in responding to the auditors' inquiries we explained that there is a difference between the number of students who compete the registration form, the first step in the enrollment process, and those who complete the entire application process. We have found that the number of completed registration forms is, in fact, a good indicator of the final number of completed applications. This year, for example, during the first enrollment period, only two students out of 101 did not complete the application process after having completed enrollment registration forms. We did, in fact, enroll 112 new students in the fall of 2001. So, ultimately, there was absolutely no discrepancy in the pre-

enrollment number reported for new students. This number for new student enrollment, then, was in no way "inflated."...

It is true that we did not close enrollment until the freshman class was filled. Because enrollment is now strong, we are now in compliance with this regulation....

This information [DOE breakeven analysis] does not indicate the current financial position of this school. In the present fiscal year we will have an excess of approximately \$175,000.

Auditor's Reply

Contrary to SCS's response, its policies and procedures regarding student pre-enrollment figures were not consistent with DOE's requirements. Specifically, as stated in our report, DOE regulations require charter schools to maintain reliable data collection and retention systems that record this information. However, during our audit, SCS was in some cases unable to provide any documentation to substantiate the pre-enrollment figures it submitted to DOE. In its response, SCS admits to that shortcoming. Our report correctly states that SCS was unable to provide a student directory for June 2000; although the school provided documentation to reconstruct a June 2000 directory, no actual directory was available.

As stated in our report, of particular concern was that some of the documentation we reviewed indicated that SCS officials were aware that some of the pre-enrollment information it submitted to DOE was inflated. For example, in April 2000 the pre-enrollment figures submitted by SCS to DOE indicated that the school had enrolled 260 students. However, SCS's board formally approved a budget on May 2000 (one month later) "based on 220 students." Further, in SCS's annual report to DOE (dated June 30, 2000), the Board President noted that SCS "projects a student population of approximately 220-230" for the 2000-2001 school year. To support this statement, the Board President referenced figures pertaining to the number of completed applications (70), and to the projected number of students returning from the prior year (150). However, SCS submitted a pre-enrollment figure of 260 to DOE for the 2000-2001 year.

We acknowledge that during our audit SCS officials provided us with a description of the school's enrollment process. However, this process was inadequately documented and appeared to lack the integrity mandated by state regulations. In this regard, Chapter 71,

Section 89 states, in part: “tuition for charter school students shall be paid only for students actually enrolled in said school.” Finally, in its response, SCS contends that the current financial position of the school is such that it projects a surplus of \$175,000 during its current fiscal year. Since this assertion concerns information that falls outside of our audit period, it is not possible for us to comment on its accuracy.

4. SCS HAS NOT DEVELOPED ADEQUATE INTERNAL CONTROLS OVER ALL ASPECTS OF ITS OPERATIONS

We found that as of the end of our audit period SCS had not implemented adequate internal controls over all aspects of its operations. Specifically, SCS had not fully developed written policies and procedures for many of its accounting and other operational activities; had not bonded certain key employees, potentially exposing SCS to financial losses; and had not developed a chart of accounts to identify expenditures incurred against each federal and state grant. As a result, SCS and the Commonwealth cannot be assured that all agency transactions are being properly authorized, recorded, and reported.

According to standards published by the American Institute of Certified Public Accountants (AICPA), it is the responsibility of management to establish and maintain an effective internal-control structure. Sound internal controls are essential to maintaining full accountability for resources and achieving management objectives in the most effective and efficient manner. In SCS’s case, the school’s bylaws state that its Board of Trustees is responsible for the “establishment of administrative and fiscal controls to ensure successful implementation of approved policies and programs.”

As noted in the Background section of this report, in July 1998 DOE issued Charter Schools Technical Advisory 98-1, which advised charter schools that they were required to follow sound business practices as a condition of being provided a charter. The technical advisory outlined three essential elements of sound business practices, including the need for “a documented system of internal controls.” Sound internal controls include putting into effect a formal written policies and procedures manual that details the specific procedures to be followed regarding an entity’s various accounting, administrative, and operational activities.

Such documentation ensures the continuity of the accounting system in case of staff turnover and also establishes accountability for various operational activities. During our review we noted several internal control deficiencies, which are detailed in the following sections.

a. Inadequate Written Policies and Procedures

We determined that although SCS has developed some written policies addressing the school's annual budget, procurement, travel expense reimbursement, and evacuation plan, there were no written policies regarding the following:

- General accounting procedures (i.e., financial management, account reconciliation, record retention)
- The processing of agency payroll
- Human resources (i.e., personnel file content, teacher training)
- Property management (i.e., inventory of furnishings and equipment)
- Program operations, including enrollment reporting and student attendance recordkeeping
- Properly accounting for grants

In an August 25, 1999 letter to SCS's Board President, DOE's Associate Commissioner for Charter Schools expressed concern over SCS's lack of written policies and procedures. In this regard, the Associate Commissioner listed his "specific expectations" for the school, including the need to develop "explicit policies and procedures governing the school's operation" and "clear policies and procedures for fiscal management and review." Moreover, the Associate Commissioner requested that SCS respond by indicating what steps are being taken to satisfy this expectation.

In an undated letter, SCS's Board President responded to DOE's Associate Commissioner by stating that "a policy development committee is already working towards the development of the SCS Policy Manual...and our expectation is to finish the policy manual by mid spring (2000)." Further, SCS reported to DOE in its September 1999 accountability

plan that although “some policies are in place there is no systematic policy manual.” Further, it was noted in the accountability plan that “a policy manual covering all aspects of board and school functions should be completed within the academic year 1999-2000.” However, we found that as of June 30, 2001, SCS had not completed this policy manual, which was, according to school officials, being prepared by the board.

SCS’s business manager indicated on June 12, 2001 that the school recognizes the importance of developing a comprehensive written internal policies and procedures manual, but that there were no opportunities for school officials to fully complete such a project. He also indicated that SCS would now more vigorously pursue developing the manual, whereby it “probably will incorporate 80-85%” of DOE’s recommended policies and procedures into its own policy manual.

b. SCS Did Not Ensure That Certain Key Staff Members Were Bonded

Sound business practices advocate adequate fidelity bond coverage for key personnel who handle cash. As noted in the Background section of this report, DOE hired a public accounting firm, Daniel Dennis & Co., which issued a report that included a finding regarding the school’s cash controls. The report stated the following regarding the need for bond coverage:

The school should review their cash controls and adopt procedures to ensure that all assets are properly safeguarded against loss or theft. These controls should include bonding all individuals who handle cash.

We found that SCS had not, however, obtained fidelity bond coverage for certain key agency personnel (i.e., the business manager and school principal) responsible for handling cash and other accounting functions, potentially exposing the school to financial losses. Our review of the minutes of SCS’s board meetings revealed that on February 10, 2000, the following was noted:

The financial policy dealing with bonding employees and officers is held in abeyance until a determination can be made as to the cost of such bonding.

Although no other references to bond coverage appeared in the minutes we reviewed, SCS's Board President stated that it was too expensive to fund this measure, and thus the school would not be providing fidelity bond coverage for its employees.

c. Inadequate Controls over Grant Accounting

In March 2001, DOE developed its "Recommended Fiscal Policies and Procedures Guide" for charter schools. According to DOE, although this guide is not meant to be regulatory in nature, it should "serve as a road map for schools to reference when developing the internal controls of their organization." Regarding developing sound internal controls over revenue recognition and invoicing functions, the guide suggests written grant-receivable procedures, including the need for "controlling revenue with the use of General Ledger control accounts" and maintaining "separate accounts for explicitly unallowable costs." The guide provides the following control objective of these grant-receivable procedures: "To ensure that grant and contract billings are adequately supported, recorded on a timely basis, and reflect the terms and conditions of the grant or contract."

At the end of each academic year, charter schools are required to submit to DOE an annual Final Financial Report (Form FR1) indicating what federal and state program grants were received by the school and what specific expenditures were incurred under each. To test the reliability of these grant reports, we reviewed various documents, including grant applications, grant payment notifications, invoices, canceled checks, and general ledgers. We also interviewed an official from DOE's Grants Management department.

Based on our review of the two largest grants received by SCS in fiscal year 2000, including a Federal Charter School Start-up Assistance Program Grant for \$123,668 and a State Charter School Facilities Program Grant for \$61,438, we determined that SCS had not developed a chart of accounts to identify expenditures incurred against each grant it receives.

The ability of SCS to record the specific expenditures made against each grant is necessary to ensure that funds are expended for the purposes stipulated in the written grant agreement. In fact, the Associate Commissioner of Education for Charter Schools, in an April 12, 2000

memorandum to DOE's commissioner, expressed concern over the possibility of SCS mispending federal grant funds since federal money is "not supposed to be used for facilities after the initial start up phase," which would end on June 30, 2000. The Associate Commissioner continued: "So that you know, we risk jeopardizing our relationship with the feds if the grant money is used for facilities. It would not be prudent, given the importance of our relationship with the feds as well as the financial and organizational history of SCS Charter School, to risk our relationship and credibility with the federal Charter School office."

Recommendation

To address our concerns on this matter, SCS should immediately develop adequate controls over all aspects of its operation and ensure that these policies and procedures are adhered to. SCS should also develop a chart of accounts to identify expenditures incurred against each program grant or funding source. In doing so, the school must ensure that funds are expended for the specific purposes noted in the written grant agreements. SCS should also consider bonding all agency personnel who handle cash. Lastly, SCS's board of trustees should annually review these procedures to ensure that they continue to meet the needs of the school.

Auditee's Response

In response to this issue, SCS officials provided the following comments.

Because of financial constraints, SCS did not bond key staff members, as indicated. We have, however, put into place check writing privileges to the principal and to the Board president, with each person having the authority to write a check up to \$300. Both must sign for an amount over \$300. The Business Manager does not have check writing privileges. He is the preparer of checks and reconciles the bank statements....

The school has adequate controls over the grant process. Each grant is accounted for properly with the backup records and documents, which were provided to the auditors. The school had one state charter school grant in each of the last two years. This grant can be spent on any item, and we chose to spend it on rent.

Auditor's Reply

As stated in our report, during our audit we found that SCS had not implemented adequate controls over all aspects of its operation. In its response, SCS does not comment on the fact

that we found numerous instances of inadequate written policies and procedures, which result in a lack of assurance that all agency transactions are being properly authorized, recorded, and reported. SCS acknowledges that it has not bonded key staff members. Although, according to its response, the agency has taken some measures to improve controls in certain areas, such controls may be inadequate. Finally, contrary to what SCS contends in its response, we found that SCS has not developed a chart of accounts to identify expenditures incurred against each grant the agency receives; accordingly, it does not have adequate controls over its administration of grant funding.

5. SCS DID NOT TRANSFER WITHHOLDINGS TO THE MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM ON A TIMELY BASIS, RESULTING IN A LOSS OF POTENTIAL INTEREST INCOME TO THE RETIREMENT SYSTEM AND THE POTENTIAL UNAUTHORIZED USE OF THESE FUNDS

During our audit, we found that SCS did not transfer to the Massachusetts Teachers' Retirement System (MTRS), on a monthly basis as required by law, funds that it withheld from its teachers and other eligible staff. In fact, rather than remitting these funds on a timely basis, SCS used these payroll withholdings to pay for various operational expenses of the school. As a result, the MTRS lost the opportunity to invest these funds in a way that maximizes the returns on the state retirees' pensions. In addition, SCS risked not having the funds available to pay for these individuals' retirement.

According to Chapter 71, Section 89, of the General Laws and subsequent guidance issued by DOE, certain employees of charter schools are required to participate in the MTRS. Specifically, Chapter 71, Section 89, of the General Laws states, in part:

Teachers employed by a charter school shall be subject to the state teachers' retirement system under chapter 32 and service in a charter school shall be "creditable service" within the meaning thereof.

As an employer of staff who are participants in the MTRS, SCS has the fiduciary responsibility of withholding the appropriate amount of pension contribution from each employee's paycheck and remitting those funds in a timely manner to the MTRS on behalf of the employee. In this regard, Chapter 32, Section 22, of the General Laws establishes the

following requirements for remittance of these funds to the MTRS by employers such as SCS:

In the case of teachers who are members of the teachers' retirement system, the various amounts withheld for any month for deposit in the annuity savings fund of such system shall, together with proper vouchers therefor, be transmitted by the disbursing authorities to the secretary of the teachers' retirement board on or before the tenth day of the next succeeding month.

The MTRS has also issued guidelines on monthly deduction transmittal and reporting that restate the statutory requirements.

We found that SCS was not routinely remitting, in a timely manner in accordance with Chapter 32, the retirement funds that it was withholding from its teachers and other eligible staff. Specifically, based on our review of SCS's monthly payroll records for the 18-month period July 1999 through December 2000, we determined that in 15 of the 18 months reviewed, SCS failed to transfer its Massachusetts teachers' retirement withholdings to the MTRS on a timely basis. Total withholdings for the 18-month period was \$105,752, or an average of \$5,875 withheld each month, and the payments were late an average of 33 days. In one case, withholdings for a three-month period (March 1, 2000 through May 30, 2000) totaling \$19,625 were held and not submitted until June 30, 2000.

Of particular concern is that these pension funds are not the property of SCS but, rather, the property of the individual employees making the contributions. SCS has the responsibility to act as a transferring agent of these funds but does not have the legal authority to use these funds for its own purposes. Despite this fact, SCS utilized these pension withholdings to pay for operational expenses during the additional time it held them. In this regard, since SCS maintains only one bank account for all of its funds, the contributions held beyond the statutory time were likely used to pay for the school's operational expenses.

SCS does not have the authority to use the pension funds that it withholds from its staff in any manner it deems necessary. Clearly, SCS has a fiduciary responsibility to safeguard these funds and ensure that they are withheld and deposited in a manner consistent with state statutes. By not doing so, SCS has deprived the MTRS of the ability to fully invest these

funds and maximize the returns that could be used to pay for retirement benefits of SCS employees.

According to SCS officials, the majority of the 15 late payments took place during fiscal year 2000, when the school experienced the serious financial difficulties that almost forced the school to officially close in June 2000. SCS officials indicated, however, that over the last several months SCS has taken the necessary measures to ensure timely submission of its teachers' retirement withholdings.

Recommendation

SCS should take appropriate measures to ensure that all employee pension withholdings are remitted to the MTRS in accordance with Chapter 32 of the General Laws. Additionally, SCS should not use any pension funds that it withholds from its staff to fund any school-related expenses. Such actions constitute an unauthorized loan and are a violation of the law and SCS's fiduciary responsibility.

Auditee's Response

In response to this audit result, SCS officials provided the following comments:

Withholding for a three-month period from March 1, 2000 through May 30, 2000 were not submitted until June 30, 2000. This failure to transfer funds occurred because SCS's assets had been frozen by Charter Bank. Since that time the withholdings have been transferred on a timely basis without exception...

Auditor's Reply

As noted in our report, during the period covered by our audit we found that SCS did not transfer to the MTRS, on a monthly basis as required by law, the funds that it withheld from its teachers and other eligible staff. Specifically, contrary to what SCS contends in its response, we found that for 15 of the 18 months between the period July 1999 and December 2000, SCS failed to remit retirement funds in a timely manner to the MTRS in accordance with state law. Consequently, we again strongly recommend that SCS take measures necessary to ensure that all employee pension withholding are remitted to the MTRS in accordance with the legal requirements of Chapter 32.