
**Thomas P. DiNapoli
COMPTROLLER**



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**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**KIPP ACADEMY CHARTER
SCHOOL**

**FINANCIAL MANAGEMENT
PRACTICES**

Report 2006-N-15

AUDIT OBJECTIVE

Our objective was to determine whether KIPP Academy Charter School (KIPP Academy) established and maintains an adequate system of internal control over the following areas of financial operation: financial oversight; disbursements and procurement; and payroll.

AUDIT RESULTS - SUMMARY

We identified a number of weaknesses in KIPP Academy's internal controls over financial operations. For example, contrary to the law authorizing the creation of charter schools, some of the individuals hired by the school did not undergo a criminal history record check. In fact, the required criminal history clearance was not documented for 7 of the 37 employees we reviewed.

We also found KIPP Academy paid \$67,951 to send 49 staff on a five-day trip to the Bahamas and 21 staff on a five-day trip to the Dominican Republic. School officials told us the trips were educationally related because staff development retreats were held at the two locations, but we were provided with very little documentation of staff development activities at the two locations. School officials also told us donated funds were used to pay for the trips and such funds were theirs to spend without restrictions. However, we could not determine whether the trips were, in fact, paid for with donated funds, because such funds are not accounted for separately from the school's other funds (mainly State aid). We also note that, by law, funds donated to charter schools are to be spent in accordance with the conditions prescribed by the donors. We recommend school officials establish certain controls over donated funds and fully document the educational nature of all staff development retreats.

We also identified significant weaknesses in the controls over KIPP Academy's payroll

operations. For example, special bonuses, special stipends, pay increases, overtime payments and other types of payroll transactions were not adequately documented. As a result, there was less assurance such transactions were always authorized and appropriate.

We conclude that the Board of Trustees needs to oversee the school's fiscal operations more closely. In particular, the Board needs to establish formal policies for some areas of fiscal operations, implement certain oversight mechanisms, and provide certain approvals.

Our report contains a total of 13 recommendations to improve internal controls over KIPP Academy's financial management practices.

This report, dated December 6, 2007 is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

In December 1998, the New York State Legislature passed a law authorizing the creation of charter schools in the State. This legislation is known as the New York Charter Schools Act of 1998 (Act). It authorized the establishment of charter schools as independent public schools governed by not-for-profit boards of trustees and managed according to the terms of a five-year performance contract or "charter." Such charters provide opportunities for teachers, parents, community members, and not-for-profit organizations to establish and maintain

schools that operate autonomously of existing schools and school districts.

KIPP Academy Charter School (KIPP Academy) converted from a New York City Department of Education (DoE) school to a charter school in September 2000. It is one of 31 schools currently chartered by DoE. KIPP Academy is located in the Bronx and serves approximately 248 students enrolled in kindergarten through the fifth grade. KIPP Academy holds classes in the building occupied by DoE's Intermediate School 151 - Lou Gehrig Junior High School.

According to KIPP Academy's financial statements for the fiscal year ended June 30, 2006, the school's operating expenses totaled about \$4.45 million, of which \$3.09 million related to personal service costs (including fringe benefits) and \$1.36 million related to other than personal service costs. Revenues for the same fiscal year totaled about \$4.73 million, of which \$2.24 million was basic school aid provided by DoE. KIPP Academy also received \$2.04 million in donations (net of fundraising costs), \$254,309 in grants, and \$196,651 in other types of revenue, such as interest and donated services.

In addition, DoE pays for the cost of student food services at KIPP Academy, and provides KIPP Academy with safety, custodial, maintenance, lease and utility services at no charge. According to KIPP Academy officials, this additional support has a value of almost \$320,000 annually.

As one of five charter schools created by the conversion of a pre-existing public school, KIPP Academy is required to pay its staff in accordance with the terms of the prevailing public school teacher contract. Under the contract, staff salaries, fringe benefits and pension contributions have escalated since KIPP Academy converted to a charter school

in September 2000. According to KIPP Academy's annual independent audits, the school operated at a deficit in only one of its first six years of operation. The audit report for the year ended June 30, 2006 indicated that, after six years of operation, KIPP Academy had accumulated an operating surplus of \$4.10 million - which represents about 92 percent of its annual operating expenses.

In 2004, KIPP Academy was one of 20 schools nationwide to earn a 21st Century Schools of Distinction Award from Scholastic, Inc., Intel Corporation and the Blue Ribbon Foundation. The KIPP Academy has received similar national attention from the Heritage Foundation and from the Children's Defense Fund. The New York State Senate has also honored KIPP Academy as an exemplary example of a high performing school. At the time of our audit, 220 applicants were on a waiting list to be admitted to the school.

In 2005, KIPP Academy's charter was renewed by the New York State Board of Regents. KIPP Academy is one of four KIPP charter schools located in New York City. All four schools are operated by the same financial management team.

AUDIT FINDINGS AND RECOMMENDATIONS

Financial Oversight

We identified the need for greater Board of Trustees' oversight in certain areas of the school's operations.

Board Oversight

Charter schools are to be governed by a Board of Trustees (Board). KIPP Academy's Board

is composed of seven members, who are elected to two-year terms. According to the Act, the Board shall have final authority for policy, operational decisions, and fiscal management of the school.

Between September 2004 and February 2006, the Board met a total of seven times. We reviewed the minutes for these meetings and found the Board was actively involved in many aspects of the school's operations. However, as is described in detail later in this report, greater Board oversight is needed in certain areas of the school's fiscal operations. In particular, the Board needs to establish formal policies for some areas, implement certain oversight mechanisms, and provide certain approvals.

New Employees

According to KIPP Academy's charter renewal application, prospective teachers and administrators are to be formally interviewed by the KIPP Academy Hiring Committee. The Hiring Committee, which is to consist of at least three current staff members, is to ensure that the applicant's professional values are aligned with KIPP Academy's philosophy. The Hiring Committee is to make hiring recommendations to the Board, and the Board is to make the final hiring decisions.

To determine whether this hiring process was followed, we reviewed the minutes of the seven Board meetings held between September 2004 and February 2006. A number of new staff was hired during this period, but we found no mention of the Hiring Committee and no indication the new hires were approved by the Board.

KIPP Academy officials told us there was never an intent for a formal hiring committee; instead, any staff member may be a part of the

hiring process. The officials also told us all new hires were approved by the Board, but the approvals were not noted in the meeting minutes. Going forward, KIPP Academy officials plan to improve the hiring process by providing Board members with the resumes of new hires before Board meetings. During the meetings, the Board will explicitly approve each new hire and the approvals will be recorded in the meeting minutes.

We recommend these planned improvements be made. We also recommend that the role of the Hiring Committee be documented, and KIPP Academy officials ensure the Hiring Committee functions in a manner that is consistent with the school's charter.

According to Article 56, Section 2854 of the Act, a criminal history record check must be performed for all prospective charter school employees who do not hold a valid clearance from the Commissioner of Education. In accordance with this requirement, KIPP Academy's charter renewal application states that the KIPP Academy School Director will conduct an appropriate criminal history check for new employees. In addition, KIPP Academy's Fiscal Accounting and Internal Control Procedures (Manual) requires that documentation of the criminal history check (or valid clearance) be maintained in each employee's personnel file.

We reviewed the personal files of all 37 KIPP Academy employees including central office personnel, to determine whether the files contained this documentation. We found that documentation of a criminal history check (or valid clearance) was not present in the files of seven individuals, including the School Principal and Superintendent.

KIPP Academy officials agreed that two of the seven employees (the Technology Coordinator and the Principal) were not

appropriately cleared. They told us the other five employees were cleared, but could provide no documentation substantiating their clearance. The Superintendent told us he was cleared when he was a teacher for DoE prior to working for KIPP Academy. However, his clearance was not documented.

In March 2007, KIPP Academy officials requested clearance on the Superintendent from the State Education Department. Officials had previously obtained this clearance for two of the other four employees for whom we found no clearance documentation. Clearance was no longer needed for the remaining two employees, because they no longer worked at KIPP Academy. We recommend KIPP Academy officials ensure all future new employees are, in fact, cleared for charter school employment. Otherwise, high-risk individuals might be able to work with or near KIPP Academy students.

Annual Independent Audit

According to Section 2854(1) (c) of the Act and Section V (7) of KIPP Academy's charter, a certified public accountant shall conduct an annual fiscal audit of the school. The charter also requires that the audits be conducted in accordance with the government auditing standards issued by the United States Government Accountability Office.

We reviewed the work performed by KIPP Academy's auditing firm. We found the school has been audited annually and the audit reports state the audits were conducted in accordance with government auditing standards. We also found that the audit results were discussed with the Board.

Recommendations

1. Ensure that new staff is hired in accordance with the procedures described in the school's charter. Document the role of the Hiring Committee.
2. Ensure all new employees have the criminal history clearance required for charter school employment and that it is documented in their personnel files

(KIPP Academy officials agree with recommendations 1 and 2.)

Disbursements and Procurement

We identified weaknesses in the controls over disbursement and procurement activities. As a result of these weaknesses, there is less assurance school funds are used in a prudent and economical manner.

Use of Donated Funds

Charter schools are authorized by the Act to accept gifts, donations or grants of any kind and to expend or use such gifts, donations or grants in accordance with the conditions prescribed by the donor. In their use of the State funds that are provided through DoE (i.e., basic school aid), charter schools are to follow State Education Department (SED) guidelines. According to these guidelines, all expenses from State funds should be reasonable, necessary and directly related to school operations.

We found that, during the two years ended June 30, 2006, KIPP Academy paid \$67,951 to send 21 staff on a trip to the Dominican Republic and 49 staff on a trip to the Bahamas. The trips were made in June 2005 (Dominican Republic) and June 2006

(Bahamas) and lasted for five days each. The payments reimbursed charges made by KIPP Academy's Superintendent on the school's corporate American Express card (the Superintendent went on the trip to the Bahamas).

We asked school officials for an itemized listing of the reimbursed expenses. However, the officials said they could not provide such a listing, because each individual trip was sold as a package in which the airfare, hotel, meals and other amenities (including alcoholic beverages) were covered by a single all-inclusive price. For example, in the trip to the Dominican Republic, the price for each participant was about \$1,119, while in the trip to the Bahamas, the price for each participant was about \$907.

Charges for five spouses of staff members, who were not school employees, were also included on the American Express bills. However, we were able to determine that the spouses reimbursed the school for these charges.

The Superintendent told us the trips were educationally related because staff development retreats were held at the two locations. However, there was no mention of staff development retreats when we first began making inquiries about the trips and we were provided with no documentation of any staff development activities until the end of our audit field work, when we were given a one-page calendar of events for the June 2006 retreat in the Bahamas.

Generally, the events, as described in the one-page agenda, appeared to consist of a series of informal conversations among the staff attending the retreat. For example, on Thursday morning (no date was given on the agenda), there was "Individual and Small Group Reflection Sessions: -1 and -1

staff/Superintendent/Principal/Dir [ector] of Solutions conversations." Similar sessions were held on the other days, except Friday, which was described as "open."

While such informal conversations can help to promote staff development, in the absence of any other documentation relating to staff development (such as the goals of the various informal conversations, a written summary of the benefits realized, or a list of future actions to be taken as a result of the conversations), is not clear how KIPP Academy was to benefit from the retreat. It is also unclear why staff would need to go out of the country to have informal conversations.

To further support the educational purpose of the 2006 retreat, the Superintendent gave us a compilation of readings the staff was expected to complete. However, there was no indication the readings were in any way connected with the retreat. It appeared that the staff could have completed the readings at the retreat or any time over the summer.

The Superintendent also told us that the trips were approved by the Board. However, we were provided with no documentation of this approval and note that such approval was not documented in the Board meeting minutes.

KIPP Academy officials stated that donated funds were used to pay for the trips (the school received more than \$2 million in such funds for the fiscal year ended June 30, 2006). The officials also stated that the monies collected from donations are theirs to spend without restrictions. They also stated that they are in compliance with all State and Federal spending guidelines as long as they spend those funds for educational purposes.

However, we could not determine whether the trips were, in fact, paid for with donated funds, because there is no separate bank

account for donated funds. All school funds (State funds as well as donated funds) are deposited into one account. We also question whether school officials can, in fact, spend donated funds “without restrictions.” According to the Act, such funds are to be spent in accordance with the conditions prescribed by the donor. We further question whether the trips were, in fact, made for educational purposes, since there was so little documentation supporting these purposes and no documentation of the Board’s approval for the trips.

We recommend KIPP Academy develop a mechanism for maintaining separate accountability for State and donated funds. We further recommend the school fully document the educational nature of its staff development retreats and obtain explicit written approval from the Board for all such retreats.

The Superintendent stated that a separate bank account for donated funds could be helpful. He said school officials would consult with the Board and their accountants on this matter. He added that they would continue the practice of going on such retreats and was planning on another trip to the Dominican Republic in the summer of 2007.

Procurement

A competitive procurement process provides assurance goods and services are obtained for the lowest price available. To determine whether KIPP Academy’s procurement process was adequately competitive, we reviewed four of the school’s leasing agreements. As is summarized in the following table, the four agreements had a total value of more than \$180,000:

Lease Type	Monthly Cost	Agreement Length (months)	Total Cost
Copier	\$569	48	\$27,312
Copier	\$1,299	48	\$62,352
Computer Services	\$1,330	24	\$31,920
Administrative Services	\$2,400	*25	\$60,000
	\$5,598		\$181,584

* Initially, the lease agreement was for seven months; however, payment continued through the end of our audit field work (December 2006).

We found that none of the four lease agreements was awarded through a competitive bidding process. As a result, school officials have no assurance the services were obtained for the lowest price available.

The Manual generally requires that bids be solicited for purchases. However, the guidelines do not specify the dollar levels at which bidding should be required and what types of purchases are subject to the requirements. As a result, the employee responsible for making purchases did not know when bids should be solicited. The guidelines also do not specify what type of documentation should be retained to demonstrate that bidding was conducted.

We recommend the school’s procurement guidelines be expanded to include this information. KIPP Academy officials told us they have added this information to their procurement guidelines.

Authorization for Disbursements

According to the Manual, all checks of \$10,000 or more must be signed or expressly approved in writing by both the Superintendent and Principal, unless the

checks are for regular expenses such as insurance. To determine whether KIPP Academy officials were in compliance with this requirement, we examined all 23 checks of \$10,000 or more for non-regular expenses from the 2005-06 fiscal year. The 23 checks totaled \$487,967.

We found that 8 of the 23 checks were not signed by both the Superintendent and Principal. Instead, these checks were signed by either the Superintendent or the Principal alone. The eight checks totaled \$223,451, which represented about five percent of the school's total non-personal service operating expenses for that year.

KIPP Academy officials told us that the authorization procedures in the Manual were incorrect. They said it was their intention that the Superintendent be solely responsible for authorizing all checks above a certain dollar level (\$10,000). The officials thus plan to revise the authorization procedures in the Manual so that the Superintendent has this responsibility.

We recommend KIPP Academy officials not make this revision. The requirement that large disbursements be authorized by two individuals is a common internal control. The control is important, because it provides protection against inappropriate transactions. KIPP Academy officials could make someone other than the Principal (such as a Board member) the second signatory on large checks. But such checks should be signed by two individuals, not one.

Recommendations

3. Develop a mechanism for maintaining separate accountability for State and donated funds.

4. Fully document the educational nature of all off-site, staff development conferences/retreats.

(KIPP Academy officials agree with recommendations 3 and 4.)

5. Obtain written approval from the Board for all off-site, staff conferences/retreats.

(KIPP Academy officials agreed in part with our recommendation. KIPP Academy officials will not seek Board approval for all off site conferences/retreats citing such approvals as unnecessary. However, they will seek approval for all such functions that cost more than \$50,000.)

6. In the school's procurement guidelines, specify the dollar levels at which bidding should be required, what types of purchases are subject to the requirements, and what type of documentation should be retained to demonstrate that bidding was conducted.

7. Require checks above a certain amount (such as \$10,000) be signed by two authorized individuals, and ensure that such checks are signed by these individuals.

(KIPP Academy officials agree with recommendations 6 and 7.)

Payroll

We identified weaknesses in the controls over KIPP Academy's payroll operations. Certain necessary written procedures were lacking, and there was a lack of written documentation in support of payroll transactions. There was

also a need for greater compliance with existing procedures and policies.

Terminations and Resignations

According to the Manual, the Principal is required to notify the Director of Operations, in writing, when an employee has been terminated or is resigning. The written document must include the employee's name, the last date of actual employment, and the termination date for the purposes of benefits and compensation calculations.

To determine whether KIPP Academy officials were in compliance with this requirement, we reviewed the personnel files for all four employees who resigned or were terminated at the end of the 2005-06 school year. In all four instances, there was no documentation in the personnel file indicating that the Principal had provided the Director of Operations with written notification of the termination or resignation. In the absence of this documentation, there was no assurance the transactions were, in fact, authorized.

In our discussions with school officials, we learned that the Operations Manager processed the terminations and resignations on the basis of oral instructions from the Principal. In addition, we determined that the Operations Manager was not aware of the requirement for written notification and was not fully aware of other requirements in the Manual relating to terminations and resignations. As a result, KIPP Academy officials have no assurance such transactions are processed in accordance with requirements.

KIPP Academy officials agreed with us and have developed a series of procedures and documents to ensure necessary approval for all changes in payroll.

Pay Increases

KIPP Academy is one of five charter schools formed from previously existing schools operated by DoE. As one of these schools, it compensates its teachers in accordance with the terms of the prevailing public school teacher contract. All salary increases are documented in the school's budget, which is approved by the Board. For non-teaching staff, the Principal sets and approves pay rate changes, generally at the beginning of the school year.

We found that the base salaries of KIPP Academy's teachers were set in accordance with the DoE contract. However, we did not find any documentation in the personnel files authorizing pay increases that had been processed for non-teaching staff such as the Office Manager and Technology Coordinator.

For example, at the end of the 2005-06 fiscal year, the Office Manager was being paid a salary of \$40,723. However, the salary allocated for this position in the budget approved by the Board was only \$38,500. KIPP Academy officials explained that they authorized a mid-year salary increase for the Office Manager to keep the salary in line with the union-negotiated contracts. However, there was no written explanation in the employee's personnel file.

KIPP Academy has no written policies and procedures for salary increases. We recommend such policies and procedures be established and all such increases be fully documented in the affected employees' personnel files. In the absence of these controls, there is an increased risk some employees could be compensated inappropriately.

KIPP Academy officials acknowledged that, in the past, they did not have a process for

authorizing pay increases for non-instructional staff. However, they told us they now have such a process.

Overtime

The school operates an extended day, week and year program. As a result, all KIPP Academy teachers are paid nine hours of overtime pay each week. Teachers are not required to submit time records to support these payments. However, if a teacher works additional hours above the nine overtime hours per week, they are required by the Manual to submit a time record for those additional hours. These time records must be signed by the employee and approved in writing by the Principal. During the 2005-06 fiscal year, a total of \$32,078 in additional overtime was paid by KIPP Academy.

To determine whether these overtime payments were supported by appropriately authorized time records, we attempted to examine the time records for these payments. The payments were received by eight different teachers, who should have submitted a total of 72 time records in support of the claimed overtime.

However, 18 of the 72 time records (25 percent) were not on file. The 18 missing time records related to \$9,905 in overtime payments. In the absence of these records, there is no assurance the claimed overtime was, in fact, worked.

When we reviewed the 54 time records that were on file, we found that 47 of the time records (87 percent) were missing either the employee's signature, the Principal's written approval or the year the overtime was worked. These 47 time records related to \$20,198 in overtime payments. In the absence of the employees' signatures or the full dates, there was less assurance the

overtime was worked as claimed. In the absence of the Principal's written approval, there was less assurance the overtime was approved as required.

We further determined that 6 of the 72 overtime payments were incorrect due to clerical errors. In two payments, the overtime rate was higher than it should have been, resulting in about \$161 in overpayments. In three payments, an incorrect number of hours were paid, resulting in about \$329 in overpayments and \$183 in underpayments. In one payment, the same overtime was submitted for payment twice, resulting in an overpayment of about \$152.

We found there was a lack of supervision over the overtime payment process. KIPP Academy officials acknowledged the deficiencies we identified and have revised the overtime process.

Time and Attendance

During the 2005-06 fiscal year, KIPP Academy had 23 full-time employees. These employees are not required to maintain records documenting either their presence at, or absence from, work. Instead, they are required to notify the Principal, either in person or through a phone call, when they are going to be absent from work. The Principal keeps track of the absences on his computer, and at the end of the year, he prepares a spreadsheet summarizing the absences. According to the school's sick/personal leave policy, full-time employees may charge as many as ten days a year in accrued leave.

We examined the controls over employee time and attendance at KIPP Academy and identified weaknesses. First, the Principal does not share his record of employee absences with the Operations Manager, who is responsible for processing the school's

payroll. Second, no one at the school keeps track of the employees' individual leave accrual balances. In fact, the Operations Manager told us she did not know anything about time and attendance policies or used and unused leave accruals.

As a result of these weaknesses, employees could inappropriately be paid for time that was neither worked nor covered by accrued leave. For example, we compared the Principal's 2005-06 spread sheet of employee absences to the employee overtime time records for that year and found that one of the employees who were paid overtime had claimed overtime on a day when he was absent. We recommend records be kept of employee leave accrual balances and employee absences be reported to the Operations Manager.

KIPP Academy officials told us the Principal now provides his spreadsheet of absences to the Director of Operations (who supervises the Operations Manager) so that he can keep track of absences and accrual usage on a monthly basis.

Other Types of Pay

Bonuses are paid to every employee twice a year and stipends may be paid to employees for leadership positions or certain activities, such as teaching students on Saturday. For example, one teacher was paid \$200 a day for teaching on Saturdays, while another teacher was paid \$600 a day for teaching on Saturdays. In addition, the Principal received a \$6,000 bonus for the 2005-06 school year.

We asked to see the policies and procedures governing such stipends and bonuses. However, KIPP Academy officials stated that there were no written policies and procedures for these types of pay. We reviewed the Board minutes to see if these payments were

discussed at all by the Board, but found no indication they were either discussed or approved by the Board. For example, we found no indication the Principal's \$6,000 bonus was approved by the Board. We also found no documentation explaining why some teachers were paid more than others for teaching on Saturdays.

The Superintendent told us that the bonuses are paid at the discretion of the Principal. He also told us that there are written job responsibilities for some leadership positions (e.g., Director of Solutions); however, he acknowledged that there were no written job responsibilities for other leadership positions.

In the absence of written policies and procedures governing the payment of stipends and bonuses, there is less assurance the payments will be made in a fair and reasonable manner. In the absence of Board approval for these payments, there is no assurance the payments are authorized. In the absence of documentation explaining why particular payments were made to certain individuals for certain amounts, there is no assurance the payments were appropriate. We recommend written policies and procedures be developed, Board authorization be obtained, and the reason for each particular payment be documented.

The Superintendent agreed to develop written guidelines including documentation and authorization requirements and to establish written job responsibilities for the other leadership positions.

Recommendations

8. Ensure the required written notification is provided for terminations and resignations.

9. Provide training regarding the procedures to be followed for employee terminations and resignations.
10. Develop written policies and procedures for the authorization and processing of salary increases, and ensure all such increases are fully documented in the affected employees' personnel files.
11. Monitor overtime payments to ensure the payments are processed correctly and fully supported by complete and authorized time records. Ensure that the time records are maintained on file.
12. Maintain up-to-date records of all employees' leave accrual balances and ensure that an employee's paycheck is adjusted for any absence that is not covered by accrued leave.

(KIPP Academy officials agree with recommendations 8 through 12.)

13. Develop written policies and procedures governing the payment of bonuses and stipends, obtain Board authorization for such payments, and maintain documentation explaining why particular payments were made to certain individuals for certain amounts.

(KIPP Academy officials do not agree with all aspects of our recommendation number 13. They state that written procedures have been developed and documentation regarding salaries and bonuses will be maintained. However, in accordance with their philosophy, the Board believes that the Principal should be allowed to authorize salaries and bonuses within preset limits.)

AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. We audited KIPP Academy's controls over selected financial management practices for the period September 1, 2004 through December 20, 2006. To accomplish our objective, we interviewed officials of KIPP Academy and reviewed laws, policies and procedures related to the financial operations of the school. We also examined the financial operating records of KIPP Academy and the work performed by the firm of certified public accountants engaged to audit KIPP Academy's financial statements. Our review also included KIPP Academy's Fiscal Accounting and Internal Control Procedures, which sets out criteria for the school's financial practices.

To determine whether KIPP Academy was obtaining the required criminal history clearance for new employees, we reviewed the personal files of all 37 KIPP Academy employees. To determine whether disbursements and procurements were adequately controlled, we reviewed the charges on the school's corporate American Express credit card; the actions taken by the school in soliciting competition for four lease agreements; and the signatures on 23 school checks of \$10,000 or more. To determine whether payroll operations were adequately controlled, we reviewed various personnel files, overtime time records, and other documentation. We also reviewed the minutes of the seven Board meetings that were held between September 2004 and February 2006.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's

accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution, and Section 33 of the General Municipal Law.

REPORTING REQUIREMENTS

We provided a copy of this report in draft to KIPP Academy officials for their review and comments. Their comments were considered in preparing this final report. A copy of their comments is included as Appendix A in this report, along with State Comptroller's Comments in Appendix B.

Within 90 days after the final release of this report, we request the Chairman of the KIPP Academy Board of Trustees to report to the State Comptroller, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

CONTRIBUTORS TO THE REPORT

Major contributors to this report were Kenrick Sifontes, Stephen Lynch, Marc S. Geller, Orin Ninvalle, Irina Kovaneva and Dana Newhouse.

APPENDIX A - AUDITEE RESPONSE



KNOWLEDGE IS POWER PROGRAM

The KIPP Academy • 250 East 156th Street Rm. 418 • Bronx, NY 10451
Tel (718) 665-3555 • Fax (718) 585-7982

September 28, 2007

Mr. Steven E. Sossei
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

Re: KIPP Academy Charter School
Audit Report 2006-N-15

Dear Mr. Sossei:

Thank you very much for your Draft Audit Report relating to our internal controls, financial operations, financial oversight, disbursements and procurements, and payroll. We take very seriously this opportunity to improve these and other aspects of our organization.

Below are our responses to your recommendations. In most cases we agree with your the recommendations. We believe that it is important to note that we began to address many of your points before the audit began and others before the end of the 2006-07 school year as a result of staffing and policy changes. Many of the recommended changes went into effect in July, 2007.

As discussed in more detail below, particularly with respect to your comments on our off-site retreats, we disagree with certain points in the draft Audit Report and respectfully submit that certain language be removed. Our year-end, off-site staff retreats are designed to, and do, add significant value to the educational program offered to the students of KIPP Academy and, in combination with our other professional development activities that occur on a regular basis throughout the year, are correlated with the high academic performance of our students. The work of KIPP Academy is the primary topic of discussion at these retreats and has generated concrete ideas about teaching methods that have been implemented and proven successful. For example, at the 2006 off-site retreat the discussion of sharing instructional practices and materials across grade levels, content areas, and KIPP schools in New York City emerged as a priority for staff and has since become one of the hallmarks of KIPP Academy and one of the major drivers of its success. In addition, the personal and professional development and relationship-building that occurs among staff at these retreats yields dividends throughout the

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school year both in terms of quality of staff performance, motivation, and staff retention. Indeed, the collegiality and productivity of our existing on-site staff meetings throughout the school year is due, in part, to the personal and professional relationships that develop at our off-site retreats. For these reasons and others, we believe the draft Audit Report undervalues the importance of these retreats.

Responses to Recommendations:

- 1. Ensure that new staff are hired in accordance with the procedures described in the school's charter. Document the role of the Hiring Committee.**

KIPP Academy Charter School agrees that new staff should be hired in accordance with the most recent Board-approved procedures, which differs from the procedures outlined in the school's charter. The role of the Hiring Committee has been documented, but will be updated and approved by the Board to ensure compliance with the procedures. The hiring recommendations of the Hiring Committee will be approved by the Board or its appointed designee.

- 2. Ensure all new employees have the criminal history clearance required for charter school employment and that it is documented in their personnel files.**

KIPP Academy Charter School agrees with this recommendation. We are confident that such clearance was obtained for all employees; however, we acknowledge that our record-keeping was inadequate in limited instances.

KIPP Academy Charter School is now supported by a full-time Human Resources Manager who is currently substantiating and documenting clearance for all of our existing employees. In addition, comprehensive new hiring procedures have been developed and implemented to ensure that no new employees can be hired without adequate clearance. The Human Resources Manager maintains these records in a centralized employee records file.

- 3. Develop a mechanism for maintaining separate accountability for State and donated funds.**

KIPP Academy Charter School agrees with the need for maintaining separate accountability for State and donated funds, and we are confident that adequate procedures were already in place and such funds were separated and tracked on the books and records of the school. We disagree with the need for separate bank accounts as the only effective means of segregation, as we believe our accounting system currently tracks these funds for these purposes.

<p style="text-align: center;">* Comment 2</p>
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4. Fully document the educational nature of all off-site, staff development conferences/retreats.

KIPP Academy Charter School believes that providing our staff with staff development conferences and retreats, whether on-site or off-site, is essential in furthering our mission, specifically: creating and supporting the culture of our school, ensuring the cohesive and collaborative nature of our staff, and evaluating and revising our curricular programming. We believe that these activities are always educational, although not necessarily formal in nature and structure. Therefore, we agree with the recommendation to appropriately document these activities to accurately reflect their educational content and objective, and believe that the documentation provided for the off-site retreat mentioned in the report accurately and adequately reflected its deliberate design and highly valuable nature and objectives.

5. Obtain written approval from the Board for all off-site, staff conferences/retreats.


KIPP Academy Charter School believes that Board approval was provided for all off-site, staff conferences/retreats. These activities are an integral part of the school's mission and vary significantly in scope and cost. Therefore, we do not believe that distinct written approval is required for every such activity, although we do agree that specific approval by the Board, to be documented in the minutes, should be obtained for any off-site retreat that costs more than \$50,000.

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Comment
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6. In the school's procurement guidelines, specify the dollar levels at which bidding should be required, what types of purchases are subject to the requirements, and what type of documentation should be retained to demonstrate that bidding was conducted.

KIPP Academy Charter School agrees with the recommendation to document our procurement guidelines and acknowledges that limited instances of inadequate documentation and record-keeping occurred prior to 2006. We note that we drafted new procurement guidelines before the audit began; these guidelines were approved by the Board in June 2007.

Our current guidelines specify that three bids must be obtained for procurements that exceed \$10,000, applicable to capital purchases and contracted services. The documentation to substantiate the bidding will vary depending on the nature of the procurement: contracted service providers will submit a written proposal including their price quote; capital purchases will be documented with any evidence of the price of the merchandise. The documentation will be maintained by the Operations Team.

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- 7. Require checks above a certain amount (such as \$10,000) be signed by two authorized individuals, and ensure that such checks are signed by these individuals.**

KIPP Academy Charter School currently has a policy in place requiring two signatures for all checks for \$10,000 or more; however, we acknowledge that adequate controls were not in place to ensure adherence to this policy. Those controls were developed prior to the commencement of the audit and are now in place for all checks exceeding the minimum amount.

- 8. Ensure the required written notification is provided for terminations and resignations.**

KIPP Academy Charter School agrees that written notification should be provided for all terminations and resignations, wherever possible, as required by our current policies. We are confident that such documentation was obtained for all employees who were either terminated or resigned, although it was not maintained in accordance with our policies. We have subsequently hired a full-time Human Resources Manager to ensure that we are in compliance with all of our Employment Policies and Procedures.

- 9. Provide training regarding the procedures to be followed for employee terminations and resignations.**

KIPP Academy Charter School agrees that the Human Resources Manager will develop and implement procedures, and provide training to support these procedures, for all employee terminations and resignations.

- 10. Develop written policies and procedures for the authorization and processing of salary increases, and ensure all such increases are fully documented in the affected employees' personnel files.**

KIPP Academy Charter School agrees with the need for written policies and procedures regarding salary increases, and believes that such documentation was obtained for all such increases, as required by our current policies; however, we recognize that this documentation was not adequately maintained for some employee files.

The Human Resources Manager will maintain all employee files going forward, and will ensure that these files are complete with all required salary information in accordance with our existing policies. In addition, financial policies and procedures have since been implemented that ensure that no salary increases can be affected without the required documentation.

11. Monitor overtime payments to ensure the payments are processed correctly and fully supported by complete and authorized time records. Ensure that the time records are maintained on file.

KIPP Academy Charter School agrees that overtime payments must be monitored to ensure correct processing and documentation, as required in our current policies. Insofar as almost all of our staff are salaried professionals, time records will be maintained for overtime compensation only, and such records will be maintained by the Human Resources Manager in the employees' compensation files.

Policies and procedures were developed and implemented to ensure that overtime payments are not made without the required documentation, and that all such documentation is submitted to the Human Resources Manager for record keeping and accurate processing.

12. Maintain up-to-date records of all employees' leave accrual balances and ensure that an employee's paycheck is adjusted for any absence that is not covered by accrued leave.

KIPP Academy Charter School agrees that employees leave record must be maintained, whenever applicable and appropriate, based on our employment contracts. The Human Resources Manager will now be responsible for maintaining these records and ensuring that they are up-to-date, and that the appropriate adjustments are made to any employee's paycheck for absences. Insofar as our staff attendance rate is approximately 98%, the number of employee absences is insignificant.

13. Develop written policies and procedures governing the payment of bonuses and stipends, obtain Board authorization for such payments, and maintain documentation explaining why particular payments were made to certain individuals for certain amounts.

KIPP Academy Charter School agrees with the need for written policies and procedures for all issues of compensation and has developed and implemented such policies, although they have not been formally documented.

We agree that Board authorization of some form is appropriate and should be required. However, consistent with our philosophy of empowering our Principal, KIPP Academy Charter School believes that a Board resolution should be adopted in which the Board explicitly authorizes the Principal to determine the employees' bonuses and stipends, within pre-established limits. Any bonuses and stipends that exceed that limit will require the written authorization of the Board or its designee.

Under all circumstances, the Human Resources Manager will keep documentation supporting the payment of all bonuses and stipends in the employee files, in accordance with our existing policies.

Thank you again for providing us with this feedback. Please let us know if there is any additional information we can provide.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. B. Massey", followed by a horizontal flourish.

David B. Massey
Board Chair, KIPP Academy Charter School
Charter School

A handwritten signature in dark ink, appearing to read "David Levin", followed by a horizontal flourish.

David Levin
Superintendent, KIPP Academy

APPENDIX B - STATE COMPTROLLER COMMENTS

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| <p>1. We are not questioning the objectives and value of off-site staff retreats. However, detailed documentation needs to be developed and maintained to accurately reflect the educational content and objectives of these retreats. The documentation provided to us did not illustrate sufficient detail to allow us to conclude that the trip was solely for educational purposes.</p> <p>2. We agree that separate bank accounts are not the only effective means of segregating expenditures. KIPP officials maintain that State and donated funds were separated and tracked on the books of the school. However, we did</p> | <p>not see nor were we provided with documentation to show that such separation did occur. At a minimum, good internal controls require that State funds be separated from donated funds in the school's accounting records, and such separation be easily identifiable.</p> <p>3. We agree that distinct written approval is not needed for all off-site staff conferences and retreats. However, all significant travel, involving large dollar amounts, should be approved by the Board and such approvals should be documented in the minutes of the Board meetings.</p> |
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