

What Not to Do:

Avoiding the Big Financial and Legal Mistakes
That Other Charters Have Made

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LOUISIANA CHARTER SCHOOLS CONFERENCE

Presenters

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Scary topic

FRAUD AND INCOMPETENCE

We are going to talk about the importance of fiscal and administrative competence and accountability

2 parts to our show

Part 1: Cautionary Tales

Part 2: Best Practices for Not Becoming a Cautionary Tale

Part 1: Cautionary Tales

Charter schools are not only about academic accountability

1 in every 7 charter schools closes, 80% of the time due to financial mismanagement, while only 20% close due to academics.

Splitting up the spoils

- ❖ OH: indictments were handed down a few years ago against charter school administrators on charges of wire fraud, mail fraud, and conspiracy to launder money.
- ❖ According to prosecutors, the chairman of the now defunct Greater Heights Charter School directed a vendor to provide false invoices that were knowingly paid by the chairman's assistant and the funds split between the conspirators. All of the defendants pleaded guilty to their involvement in the \$400,000 theft of school funds

Never seen anything like this

- ❖ LA: a direct quote from the Superintendent of Orleans Parish Public Schools regarding now closed Edgar Harney Charter School.
- ❖ In addition to student and special education issues, the financial and ethics issues at Edgar Harney Charter School were numerous and outrageous. The board of the school contracted with the CFO to pay him extra to do accounting work for which he was already being paid. The board president racked up over \$1500 dollars in fine dining charges (including alcohol) on the school's credit card. The same board was receiving the MFP dollars in a separate account that was maintained by the board. This account was flush with money while tens of thousands of retirement contributions were months in arrears.

Founder's Faults

- ❖ NY: In 2012, the founder and chief executive of Williamsburg Charter High School in Brooklyn, was charged with 11 felony counts, including tax fraud, grand larceny, and falsifying business records.
- ❖ Investigators reviewing school records found that the chief executive had used a school credit card to pay for parts of a European vacation. He failed to pay taxes on monies paid to him by the school and then falsified records to cover this up. The school leader later pleaded guilty to the charges.

Lucrative Side Deals

- ❖ CA: The American Indian Model Charter School II, one of the highest performing public schools in California was the victim of fraud by the school's founder and his wife, who served as business manager.
- ❖ Authorities say the couple improperly channeled more than \$3.8 million in public funds to themselves through various real estate deals, lease agreements, consulting contracts, and other questionable payments, with little to no oversight by the board of trustees of the school. Because of this financial turmoil, the Oakland School District, which authorized the school, moved to revoke the charter.

CMO Lying and Fraud

When bad things come to light, media/charter opponents/public officials scream “Why didn’t we know?”

- ❖ CT: FUSE, a CMO for high-performing charter schools, found to be run by a former felon with undisclosed convictions for financial crimes; he falsified his credentials
- ❖ The FBI investigated where millions in federal money went; scandal resulted; the CMO lost all of its school contracts
- ❖ CT passed a revised law requiring more transparency from charters, more governance controls, and even transparency from CMOs related to school work

The Gambling Finance Manager

- ❖ LA: In 2010, the Business Manager at Langston Hughes Academy was sentenced to 5 years for stealing \$660,000 from the school.
- ❖ During a regular annual financial audit it was uncovered that the business manager at the school was systematically stealing funds from the school beginning one month after she was hired and continuing for a year. Originally, the amount was determined to be ~\$50,000. During the course of the investigation the amount was determined to be MUCH higher. The theft was accomplished by the business manager writing checks to herself at several local casinos. Although not accused or suspected of wrongdoing, the founding CEO ended up resigning.

Third Party Bribery

- ❖ LA: In 2010, the Vice President of a company with ties to Abramson Charter School offered a state official, who was investigating complaints against the school, \$20,000 to make the problem “go away.”
- ❖ State auditors had turned up startling deficiencies at Abramson. The records they kept of unannounced visits to the campus, as well as interviews with former teachers, paint a chaotic scene: classrooms without instructors for weeks and even months at a time, students who claimed their science fair projects had been done by teachers, a single special-needs instructor for a school of nearly 600. The school was closed in 2011.

Romance & Fraud

- ❖ NY: The Business Manager of a charter school in the Bronx was discovered to be using the school's credit card to pay for hotel rooms in NJ. When confronted he admitted he was having an affair and that was the source of the charges. He was immediately terminated.
- ❖ He charged about \$1,500 to the card.
- ❖ A disgruntled board member anonymously reached out the State Attorney General's Office and said a large amount of money was involved. The AG conducted a full investigation costing the school many thousands of dollars in legal defense fees.

School Line of Credit

- ❖ NY: A charter school Operations Assistant who was in charge of ordering supplies for the school fraudulently had thousands of dollars worth of items to her apartment – things like groceries, clothing, furniture etc.
- ❖ Many big stores – such as Staples, Office Depot, even Amazon - have websites that offer a wide range of items
- ❖ Nobody was checking on what she ordered. They eventually did and she was fired.

Part 2: Best Practices for Not Becoming a Cautionary Tale

This is serious business

- Charter schools are not-so-small businesses that are entrusted with millions of dollars of public funds
- Charters are entrusted with children - who require a safe, orderly, equitable and nurturing environment
- Charter boards are held to high ethical and fiduciary obligations

Fraud

- ❖ Fraud is defined as deceiving or misrepresenting, or as the crime of using dishonest methods to take something valuable. It can take many forms. It might manifest itself at the staff level, the board level, or both. Authorizers need to be attuned to the incentives for and indicators of fraud.
- ❖ Instances of financial fraud in charter schools have consistent themes based on:
 - Inadequate internal controls
 - Lax practices
 - Insufficient oversight at the school, board, and authorizer levels

Abide By Your Charter

- ❖ You will be asked the following questions as part of your charter application.
 1. Do you plan to use a financial manager or a back-office service provider? If the entity that will provide your financial services has been chosen, please provide its name. If that entity is an individual financial manager, please provide his / her one-page resume.
 2. To whom will your financial manager or back-office service provider report: the school leader or the board?
 3. Describe your approach to budgeting, including an explanation of your approach to cutting costs if faced (as schools so often are) with a budget shortfall.
 4. Describe the accounting and control systems you will install, including essential checks, balances, and segregation of duties. Please indicate how a culture of proper financial controls and reporting will become an essential component of your organizational culture.

Don't let this happen to you

Key areas of financial and administrative accountability

- Fiscal prudence and effective stewardship of funds
- Transparency in operations, finances and contractual arrangements
- Strong board practices; avoiding conflicts of interest and self-dealing
- Responsibly managing the non-academic elements of a school
- Attentive and effective oversight by authorizers

Fiscal prudence and effective stewardship

- **Establish a culture of fiscal accountability.** Careful business and financial practices and controls should be part of the DNA of a strong school
- **Faithfully carry out the school's financial policies,** including all checks and controls, even with regard to school leaders, board members, and other senior individuals
- All **state accounting practices applicable to charter schools** should be understood and followed
- **Annually contract with an external auditing firm** for an independent audit of the school's financial records
- **Where discrepancies or fiscal problems are identified,** a more intensive analysis should be made either internally or by external financial experts, depending on the circumstances
- Ensure that any **school-issued credit cards are used only for viable school purposes** and not for personal expenses

Fiscal prudence and effective stewardship

- **Authority to expend funds on behalf of the school** should be limited to a few individuals
- **BUT financial practices should not concentrate too much authority in a single person**, rather than layers of responsibility

Transparency

- Schools should ensure transparency and **minimize the risk that any fraudulent or unlawful behavior will go undiscovered**. Schools should arrange for layers of accountability.
- Charter school operations must be **transparent to the authorizer** – through accurate reporting, record-keeping and communications
- Charter school operations must be **transparent to the public** – through appropriate disclosures, audits and compliance with open records and open meetings laws

Board practices

- **Boards** should feature an active finance committee, be attentive to and take ultimate ownership of fiscal matters
- **Board bylaws** should lay out prudent fiscal, ethical, and conflict of interest policies.
- Boards must **actually follow** these prudent policies
- **Reimbursement of board member expenses** should be judicious, transparent, and subject to the school's standard financial practices

Managing the non-academic elements of a school

- **Contracts and vendor arrangements** must be prudently handled and thorough records kept
- **Admissions and enrollment** practices must be organized, coherent and equitable
- **Test administration** must be meticulously carried out and free from any improprieties or accidents
- **Disciplinary** practices must be explicit, fair, equitable and reflect due process
- **Human resources** functions must be effectively carried out
- **Social media** policies and practices should be appropriate, reflect current realities and uniformly applied
- **Required licenses, certifications and approvals** relating to the operation of the school must be obtained and maintained

ALL of these must be carried out in compliance with applicable rules and actual practices must follow approved policies

Authorizers have an important role

- They are the gatekeepers – Should only approve applications that demonstrate the capacity to create a fully competent school
- They must ask the right questions and be savvy enough to recognize bad answers
- Authorizers must keep their finger on the pulse of schools they oversee - but not press too hard
- Sometimes authorizers must investigate concerns
- Sometimes authorizers must revoke or not renew charters based on financial and administrative failings

Attentive and effective oversight

- **Authorizers should know a strong, fully competent applicant group when they see one**, and only approve applications that demonstrate such competency
- **Only strong financial and administrative practices should be acceptable** (to prevent problems)
- **Authorizers should determine how frequently** schools should report financial, enrollment, disciplinary and other key data (e.g., quarterly) and how the frequency and depth of such reporting may intensify if problems are encountered
- **The scale and resources of the authorizing office** may impact whether the authorizer carries out essentially a proactive compliance program or is more reactive to problems when they occur
- **When serious concerns arise, authorizers should investigate** (to address existing problems), or alert relevant authorities

Resources

- ❖ For a visit to crazy town: Charterschoolscandals.blogspot
- ❖ For more useful information: Look at a recent comprehensive toolkit (National Charter School Resource Center) for schools seeking to operate prudently and stay off the front page:

A User's Guide to Fiscal Oversight: A Toolkit for Charter School Governing Boards

[https://charterschoolcenter.ed.gov/sites/default/files/Fiscal%20Oversight%20Toolkit%20-%20Boards%20\(1\).pdf](https://charterschoolcenter.ed.gov/sites/default/files/Fiscal%20Oversight%20Toolkit%20-%20Boards%20(1).pdf)

Thank you

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