



New York City Comptroller
Scott M. Stringer

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COMPTROLLER STRINGER AUDITS FIND POOR OVERSIGHT, WEAK FINANCIAL MANAGEMENT AT TWO CITY CHARTER SCHOOLS

Construction and management contracts for millions were never put in writing, limiting ability to track how taxpayer dollars were spent

(New York, NY) – Audits released today by New York City Comptroller Scott M. Stringer found poor financial oversight and weak management by the boards of trustees at two New York City charter schools, [Bedford Stuyvesant New Beginnings Charter School](#) and [Merrick Academy Queens Public Charter School](#). Each school’s board of trustees oversees the institutions’ finances and management to ensure the resources are available for children to receive a quality education.

The two audits uncovered that both schools spent millions of taxpayer dollars on renovations and the purchase of services and supplies but didn’t keep proper or consistent financial records, including written contracts. The New Beginnings board spent nearly \$1.7 million on renovations without written contracts, detailed project plans, or adequate evidence that the board of trustees even signed off on the spending. Merrick Academy substantially altered a \$1.3 million contract for educational and administrative services without putting the changes in writing and incurred an additional \$4.5 million in expenses to relocate and renovate a new school building without formal approval from the board.

“Ensuring that every dollar we spend on schools goes toward the education of the next generation must be our highest priority,” Comptroller Stringer said. “Verbal agreements and informal arrangements to spend hundreds of thousands of taxpayer dollars are neither good business practice nor the appropriate way to fund our

children's education. There must be accountability to protect these resources from waste, fraud and abuse."

The separate audits reviewed oversight of financial operations by the board of trustees at the Bedford Stuyvesant New Beginnings Charter School and Merrick Academy Queens Public Charter School from July 1, 2012 through June 30, 2014. New Beginnings is located in Bedford Stuyvesant, Brooklyn, and is authorized by the New York City Board of Education; in Fiscal Year 2013, it served K-5 and K-6 in Fiscal Year 2014. Merrick Academy is a SUNY-authorized charter school in Springfield Gardens, Queens, which served students in grades K-6 but now serves students in grades K-5.

Major findings at New Beginnings include:

The New Beginnings Board of Trustees did not responsibly manage the school's finances

- New Beginnings officials told auditors that they did not solicit competitive proposals for nearly \$1.7 million of construction costs, which means the school might have overpaid for the work. Though the board expressly told auditors that there had not been competitive bidding for the construction, after school officials saw the audit's preliminary findings, they claimed to have received documents from the former executive director that they said showed a competitive bidding process had taken place.
- Auditors also uncovered that there were no written contracts or project plans for \$1.5 million of the nearly \$1.7 million spent on construction work during the audit period. Because there were no contracts or plans, there is no way to determine if taxpayer dollars were spent, appropriately.
- Auditors found a lack of financial controls over New Beginnings' handling of tens of thousands of dollars in cash received from families for school lunches, afterschool programs, and general fundraising. The audit found that \$8,200 in cash collected during FY 2014 was not deposited into the school's bank accounts and there was no evidence this money was then spent appropriately.
- New Beginnings was required to have \$70,000 in an escrow account to pay for legal and audit expenses in case the school was forced to dissolve. At the end of FY 2013, however, the school only had \$2,529 in the account and for nearly three quarters of that year, the account balance fell below the required \$70,000 minimum.

School administration made payment requests in multiple small increments in an apparent attempt to skirt oversight requirements

To ensure that spending on large purchases is appropriate, New Beginning's policies require checks for \$5,000 or more to be signed by two school officials. Because of this requirement, auditors examined checks for amounts just below and above \$5,000 to see if school officials complied with this financial control.

Auditors identified nearly \$60,000 worth of checks – for amounts ranging from \$4999.00 to \$4,999.99 – which were made out to Antares, LLC, a firm used to pay the school's former executive director. These twelve checks were signed only by the Vice Chair of the Board, who still holds that position. When questioned by auditors, the Vice Chair admitted the payments should not have been handled this way, but claimed it never occurred to her that the checks were intentionally designed to bypass greater oversight.

Auditors also reviewed a sample of 77 payments of more than \$5,000 – which must be approved by two school officials. Of these payments, auditors identified \$215,771 in spending – 13% of the sample total – which only had one signature, in direct violation of the school's rules. When auditors looked at a larger sample of 192 payments worth \$2.2 million – including the 77 for more than \$5,000 and 115 for less than that amount – they identified eight transactions, which constituted 12% of the total sample spending, that lacked supporting documentation.

The Board of Trustees did not submit financial disclosure forms or remove board members who violated policies

Despite clear language in the school's charter stating that failure to submit financial disclosure forms is grounds for removal, 6 of 8 board members did not submit the required Financial Disclosure Reports by the deadline for FY 2013 and 3 of 8 were missing for FY 2014. Although the school's charter states that a Board member should be removed if they fail to submit a disclosure report, no actions were taken – putting the school at risk of having its Charter revoked or terminated.

Auditors recommended that New Beginnings' Board:

- Ensure all contracts are approved, signed and dated by the Head of School. Further, all such contracts should be approved by the Board and evidence of such approval should be maintained;
- Make certain that it has proper estimates, plans and costs for any alterations done on premises;
- Implement adequate cash controls and financial management for school-related activities; and
- Maintain the minimum required balance of no less than \$70,000 in its escrow account in accordance with its charter agreement.

Major findings at Merrick Academy include:

Merrick Academy substantially altered the terms of a million-dollar contract for management and educational services without putting those changes in writing or documenting what services the payments they did make were for. As a result, it is impossible to determine if funds paid went toward work that was actually performed.

In 2010, Merrick Academy entered into a five-year contract with Victory Schools, Inc. to provide management and educational services, create student assessments, and manage administrative and financial operations. Originally, Victory was supposed to be paid \$1.3 million per year, but was paid only \$600,000 in FY2013 and \$624,000 in FY 2014, based on a “verbal agreement,” which both the school and contractor claimed reduced the scope of Victory’s involvement. The changes to the original contract were neither documented by Victory nor approved by the SUNY Institute, as required by the school’s charter agreement. As a result, there is no way for auditors or the public to know what services Victory was paid millions of taxpayer dollars to perform, or if they were received.

Merrick’s Board of Trustees failed to oversee financial decisions or approve \$4.5 million in costs associated with the school’s move to a new location, neglecting its duty to manage the school’s finances

- There was no evidence that the Merrick board formally considered and approved relocation and renovation plans that moved the school from its previous location in Queens Village to a new site in Springfield Gardens, Queens. This means that there is no public document explaining why the school chose to spend millions of taxpayer dollars on the move.
- Despite spending over \$431,000 in renovation expenses at the new location, \$534,000 in costs to break the old location’s lease, \$81,000 in moving expenses and incurring \$3.5 million in additional rental expenses at the new site, board minutes show almost no discussion of the financial implications of moving and no evidence a vote was ever taken to approve the move.

School officials consistently failed to follow operating procedures, increasing the possibility the school overpaid for goods and services

- Auditors found no evidence of contracts, purchase orders, or work orders for 16 of the 54 vendors that received \$10,000 or more in payments from the school.
 - These 16 vendors received \$907,198, or 38% of the total \$2.4 million paid to the vendors.

- One contractor, Everlast Solutions Corp., was paid \$302,000 to work on renovations at the school's new location, but auditors were unable obtain a copy of the contract from the school.
- Of 119 payments totaling \$1,437,541 which auditors reviewed, 13 payments worth \$311,338 – 22% of the sample total – weren't authorized by the appropriate staff member, increasing the risk that inappropriate payments were made.

Merrick Academy could not show that it consistently performed required criminal background checks for all employees, increasing the risk that inappropriate individuals could have had contact with school children

- Auditors examined a sample of 29 employees and determined that Merrick did not have evidence that background checks took place prior to their start date for 23 (79%) of them.
- Five of those employees worked for the school without proper clearance for between six months and four and a half years.

Auditors recommended that Merrick's board:

- Ensure that any changes to its agreement to provide management and educational services are formalized in writing and approved by the SUNY Institute;
- Take steps to ensure that all contracts, purchase orders, or work orders are approved and documented;
- Review, consider, and vote on all significant financial matters and keep proper minutes; and
- Ensure that criminal background checks are obtained for employees before allowing them to work at the school.

“If you're going to spend taxpayer dollars, you better be able to show what you paid for. When public money is spent without accountability, it raises serious questions about whether our children are getting the services they need to succeed. We can't compromise on the education of our kids. These boards need to make immediate changes and ensure not another penny is spent without oversight and accountability,” Stringer said.

To read the full audit of the Bedford Stuyvesant New Beginnings Charter School, please click [here](#).

To read the full audit of Merrick Academy Queens Public Charter School, please click [here](#).

