



Nicole Galloway, CPA

Missouri State Auditor

St. Louis College Prep
Charter School

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Nicole Galloway, CPA
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CITIZENS SUMMARY

Findings in the audit of the St. Louis College Prep Charter School

Attendance Data and Procedures	The St. Louis College Prep Charter School (SCP) attendance data reported to the Department of Elementary and Secondary Education (DESE) significantly overstated actual attendance resulting in excess state funding totaling at least \$1.4 million. The SCP core calendar reported to the DESE did not reflect the actual days and hours students attended class. Summer school instruction hours provided to SCP students did not meet the requirements established by state law and should have been considered as part of the school's core calendar. Remedial instruction hours provided to SCP students did not meet the requirements established by state law. In addition to the concerns with the increased school hours, the SCP improperly reported increased individual student attendance.
Closure and Outstanding Liabilities	The school's sponsor and Board mutually agreed the school could no longer operate past the 2018-2019 school year due to the significance of overpayments of state funding and, as a result, has begun closure procedures, which require the school to resolve financial obligations. The SCP had outstanding liabilities/obligations totaling approximately \$3.5 million, including the \$1.4 million in excess state funding received.
Student Enrollment and Personnel Files	Student enrollment was not always properly documented and personnel files were not always complete making it more difficult to ensure required closure procedures could be followed. Out of 40 student files reviewed from the 2016-2017, 2017-2018, and 2018-2019 school years, 3 (7.5 percent) of the enrollment packets could not be located and another 26 (65 percent) were incomplete. Personnel records for all 5 employees reviewed were not complete and/or maintained in accordance with school board policy.
Credit Card Procedures	Credit card procedures needed improvement. SCP personnel made unsupported and other questionable credit card purchases.
Sunshine Law	The Board did not always prepare closed session meeting minutes and did not record a roll call vote to enter into closed session. In addition, meeting minutes did not document all Board actions and decisions.

In the areas audited, the overall performance of this entity was **Poor**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

St. Louis College Prep Charter School

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NICOLE GALLOWAY, CPA

Missouri State Auditor

To the Board of Directors
St. Louis College Prep Charter School

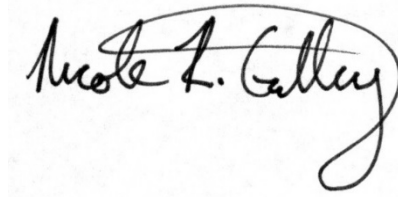
The State Auditor conducted an audit of the St. Louis College Prep Charter School under authority granted in Section 29.205, RSMo. A request for an audit was received from the Department of Elementary and Secondary Education (DESE) after concerns were reported to the DESE regarding attendance reporting. We have audited certain operations of the charter school in fulfillment of our duties. The charter school engaged Daniel Jones and Associates, Certified Public Accountants (CPAs), to audit the charter school's financial statements for the year ended June 30, 2018. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2018, and the period of July 1, 2018, to March 29, 2019. The objectives of our audit were to:

1. Evaluate the charter school's internal controls over significant management and financial functions.
2. Evaluate the charter school's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.
4. Evaluate the internal controls and accuracy of the charter school's enrollment and attendance recording and reporting and the impact on state funding.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the charter school, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

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

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, (3) the need for improvement in management practices and procedures, and (4) inaccurate enrollment and attendance reporting resulting in overpayment of state funding by \$1.4 million. The accompanying Management Advisory Report presents our findings arising from our audit of the St. Louis College Prep Charter School.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is fluid and cursive, with a large loop at the end of the last name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Kelly Davis, M.Acct., CPA, CFE
Audit Manager:	Lori Melton, M.Acct., CPA
In-Charge Auditor:	Robert McArthur II
Audit Staff:	Zach Andrews
	Jacob Thompson

St. Louis College Prep Charter School

Introduction

Background

The St. Louis College Prep Charter School (SCP) was a charter school located in St. Louis, Missouri. The SCP was organized and governed under Sections 160.400 through 160.425, RSMo. Charter schools are independent public schools, organized as nonprofit corporations by statute, that are free from rules and regulations that apply to traditional public school districts unless specifically identified in charter school law. In exchange for flexibility, charter school sponsors are to hold the charter schools accountable for results.

In accordance with Section 160.415.4, RSMo, a charter school that has declared itself as a local education authority receives funding from the Department of Elementary and Secondary Education (DESE) based on attendance in the same manner as other school districts. The DESE reduces the local school district's funding allocation based on the charter school attendance and disburses this funding to the charter school. Charter schools also receive federal funding through the DESE.

School

The SCP began operating in the City of St. Louis in August 2011. In accordance with Section 160.400, RSMo, the SCP formed as a nonprofit corporation on March 15, 2010. The school began as a 5th-6th grade school for the 2011-2012 school year, and added an additional grade in subsequent years until the 2016-2017 school year when the SCP removed the 5th grade and added 10th grade. The SCP then added 11th and 12th grades in the 2017-2018 and 2018-2019 school years, respectively. The SCP served students ages 11 to 20 in grades 6 through 12 for the 2018-2019 school year. The SCP adopted a year-long school calendar that consisted of five instructional cycles that were 7 to 8 weeks each, beginning in August and ending in July. The SCP also adopted an extended school day.

The SCP operated at a leased location at 2900 S. Grand Ave from April 2011 to June 2015, when the school moved to a new location at 1224 Grattan Street purchased in June 2015. Total enrollment was 306 for the 2017-2018 charter school year.

The seven member Board of Directors (Board) acts as the policy-making body for the charter school's operations. Board members serve without compensation. Members of the Board at March 29, 2019, were

Steve Singer, President
Patrick Banks, Vice-President
Tricia Gooden, Secretary
Suzanne DeZego, Member
Auriel Kirkland, Member
Justin Moses, Member
Jack Horgan, Member



St. Louis College Prep Charter School Background

The charter school's interim Executive Director at March 29, 2019, was Lauren Chaney. Ms. Chaney was hired as interim Executive Director on November 8, 2018, following the resignation of the former Executive Director, Michael Malone. Her annual compensation remained the same as that of her former position as high school principal, \$89,922.

Prior to his resignation, the former Executive Director's annual compensation was \$100,999. He had been the SCP's Executive Director since the school's inception in 2011.

Sponsor

The University of Missouri-St. Louis (UMSL) is the SCP's sponsor. In order for a charter school to be established, the school must have a sponsor. This sponsor is responsible for accepting and reviewing the application submitted by the proposed school. From this application, a charter can be granted. This charter includes a legally binding performance contract as well as several other areas that are outlined in Sections 160.405 and 167.349, RSMo. The sponsor is also responsible for approving amendments to the charter and overseeing the school to make sure the school is fulfilling the obligations of the charter.

Attendance issues

On December 21, 2018, the State Auditor's Office (SAO) received notice from the DESE of allegations of financial impropriety concerning the SCP. DESE officials informed the SAO that Michael Malone, former Executive Director, admitted to intentionally misreporting the attendance for the 2017-2018 school year and resigned November 1, 2018. On January 7, 2019, the SAO met with the DESE officials to discuss the concerns and on January 11, 2019, agreed to perform an audit of the SCP. On February 19, 2019, the SAO began an audit of the SCP, including conducting interviews of school representatives and gathering and securing school records, including attendance records.

In September 2018, UMSL staff reported concerns about 2017-2018 and the 2018-2019 school years to the DESE. UMSL staff discussed the concerns with the SCP Executive Director. Additionally, on October 19, 2018, a former employee of the SCP met with UMSL staff and made several allegations regarding the Executive Director's actions when reporting attendance. On October 23, 2018, UMSL personnel contacted the Board President to discuss concerns related to the Executive Director's attendance reporting. After this conversation, the SCP's independent auditor found discrepancies in the 2017-2018 school year attendance data and communicated these findings to the Executive Director. On November 1, 2018, the Executive Director notified the Board President of these discrepancies. During this conversation the Board President informed the Executive Director of the October conversation that took place with UMSL personnel, and that the Board was going to conduct an independent investigation of attendance reporting. The Executive



St. Louis College Prep Charter School Background

Director subsequently admitted to intentionally misreporting the SCP attendance for the 2017-2018 school year and resigned.

Attendance reported to the DESE

Information about the enrollment¹ of a school, the courses the school will offer, and the hours in a regular school day is reported to the DESE through the Missouri Student Information System several times a year. The school's attendance information is submitted in June of every year. The former Executive Director was responsible for completing and certifying the final submissions of the SCP's attendance information to the DESE.

Attendance audit

In November 2018, the Board engaged LDR AdmServices, LLC for an independent audit of attendance. Findings from this report, completed on December 16, 2018, included:

- The SCP claimed remedial hours for state funding, even though the school does not have any programs that qualify as remedial. See MAR finding number 1.
- The SCP understated its regular school year hours to increase its total Average Daily Attendance (ADA), which includes regular full-time attendance, remedial, and summer school hours. See MAR finding number 1.
- An estimate of the SCP's overpayment of state financial aid by the DESE. The firm compared the attendance data reported in the application used by the SCP to record attendance, TeacherEase, to attendance data submitted to the DESE. That estimate is included in the following table:

School Year	Potential Overpayment
2011-2012	\$ 28,517.06
2012-2013	170,064.52
2013-2014	408,215.72
2014-2015	142,976.81
2015-2016	293,889.50
2016-2017	672,774.88
2017-2018	646,322.83
Total	\$ 2,362,761.33

Source: LDR AdmServices, LLC, Review of Attendance Reporting submitted December 16, 2018

¹ Head count taken the last Wednesday in September of all resident and non-resident students in the attendance center and reported to the DESE for the October reporting cycle.



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Financial audit

The Board also engaged Daniel Jones and Associates, Certified Public Accountants, to audit the charter school's financial statements for the year ended June 30, 2018. The audit report, issued March 7, 2019, included several findings related to the operations of the charter school. In addition, the auditors also disclaimed their opinion as to the accuracy of the SCP's reported attendance and propriety of credit card purchases and emphasized the SCP's inability to continue to operate as a going concern.

Closure and Dissolution

On March 20, 2019, the UMSL notified the Board that by mutual agreement, and in the best interest of the students of SCP, UMSL would terminate its sponsorship of the SCP and the SCP would surrender its charter and close at the end of the 2018-2019 school year.

Before the SCP officially closes, according to Section 160.405, RSMo, the SCP is required to complete the following procedures:

- An orderly transition of student records to new schools and of archival student records.
- The archival of business operation and transfer or repository of personnel records.
- The submission of final financial reports.
- The resolution of any remaining financial obligations.
- The disposition of the charter school's assets upon closure.
- A notification plan to inform parents or guardians of students, the local school district, the employees' retirement systems, and the state board of education within 30 days of the decision to close.

Final dissolution of the nonprofit corporation is pending the completion of final closure activities including final storage of school records and student record requests.

Because MAR finding numbers 4 and 5 relate to the operations of the school prior to closure, and the Board is in the process of dissolution, no recommendations are provided. Also, because the Board is in the process of dissolution, other recommendations focus on the continuing issues resulting from attendance inaccuracies and school closure.

St. Louis College Prep Charter School

Management Advisory Report

State Auditor's Findings

1. Attendance Data and Procedures

The St. Louis College Prep Charter School (SCP) attendance data reported to the DESE significantly overstated actual attendance resulting in excess state funding totaling at least \$1.4 million (\$508,000 for the 2016-2017 school year, \$621,000 for the 2017-2018 school year, and \$261,000 for the 2018-2019 school year). The SCP inflated attendance amounts reported by improperly reporting its core calendar and claiming remedial and summer school instruction hours that did not meet DESE and statutory requirements. Analysis of historical attendance data reported since the inception of the school in the 2011-2012 school year shows similar concerns. In addition, individual student attendance hours were inflated and the amounts reported to the DESE were overstated. A lack of proper attendance procedures allowed the inflated attendance reporting.

The DESE requires all schools, including charter schools, to track attendance accurately by attendance hour. The DESE uses attendance data reported by schools in the Missouri Student Information System (MOSIS) to determine average daily attendance (ADA) and the appropriate amount of state funds to give each school through the state funding formula. The ADA is calculated by dividing the actual attendance hours by the potential attendance hours to determine the attendance percentage. The attendance percentage is multiplied by the enrollment amount to determine the ADA. In addition, a fraction of the number of students eligible for (1) free and reduced lunches, (2) special education, and (3) limited English proficiency are added to the school's ADA to determine its weighted average daily attendance (WADA). The higher a school's WADA, the more funding it receives. Absences reduce the amount of funding a school receives.

Every morning, SCP students began the day in advisory class at which time teachers were required to input an official count of the student attendance into the school's attendance system, TeacherEase. Any student that arrived after that time or left early had to go through the front office and the School Secretary was responsible for adjusting the attendance in TeacherEase. Also, the School Secretary was responsible for investigating and correcting any discrepancies between class attendance taken and what had been entered into TeacherEase.

The following table shows a comparison of the SCP's enrollment and ADA for the 2011-2012 through 2017-2018 school years. For 4 of 7 years, the SCP reported an ADA exceeding the school's enrollment.



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School Year	Enrollment	Average Daily Attendance
2011-2012	81	79.0738
2012-2013	132	137.6849
2013-2014	191	220.3694
2014-2015	188	177.0769
2015-2016	268	265.2216
2016-2017	290	326.3794
2017-2018	306	328.5034

Source: dese.mo.gov

To evaluate the accuracy of the SCP's attendance data, we compared various attendance records from the SCP's TeacherEase system to the information reported in the MOSIS to determine if attendance and absences recorded on the SCP records were accurately recorded in the MOSIS.

Core calendar

The SCP core calendar reported to the DESE did not reflect the actual days and hours students attended class. As previously noted, the SCP operated with a year-long schedule and an extended school day. However, the SCP reported a core calendar of approximately the minimum school year days and hours required by statute and the DESE. This reporting method allowed the school to inflate attendance by claiming the additional days and hours as summer school or remedial hours, increasing the funding received.

The DESE annually requires each school to declare its core school calendar in August. Prior to August 2019, for schools with a 5 day week, the core school calendar was required to be a minimum 174 days and 1,044 pupil attendance hours (an average of 6 hours per day).² Also, for schools with a 5 day week, the maximum hours per day for which a school could receive state funding was 7 hours.³

For the 2016-2017 school year, the SCP declared the minimum core calendar of 174 days and 6 hours per day (totaling 1,044 hours). For the 2017-2018 school year the SCP declared a similar calendar of 176 days and 5.9319 hours per day (totaling 1,044 hours). The actual school calendar was 182 days and 8.75 hours per day (totaling 1,592 hours) for the 2016-2017 school year and 179 days and 8 hours per day (totaling 1,432 hours) for the 2017-2018 school year. Additional days and hours were reported as summer school and remedial hours.

² Section 171.031.1, RSMo (2018). Effective August 2019, a minimum of 174 days is no longer required.

³ Section 171.031.7, RSMo (2018). This requirement was eliminated effective for the 2019-2020 school year.



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Summer school hours

Summer school instruction hours provided to SCP students did not meet the requirements established by state law and should have been considered as part of the school's core calendar. For all grade levels, the SCP reported summer school hours to DESE totaling approximately 12,000 hours for the 2016-2017 school year and 13,000 hours for the 2017-2018 school year.

During the 2016 summer school period (July 1, 2016, through July 15, 2016), there was no distinctive end to the regular school year (June 30, 2016) and distinctive start to the summer school period as required by DESE. In addition, because of the school's year-round calendar, all students were expected to attend during the summer school period.⁴ During the 2017 summer school period (July 5, 2017, through July 14, 2017), all students were also expected to attend. The SCP's Interim Executive Director indicated the SCP did not have a summer school and explained those days were simply included as part of the extended school year.

Reporting these hours to DESE as summer school hours allowed the school to increase its ADA.⁵ Had the SCP properly reported July attendance days as part of its core calendar, no additional funding would have been provided for summer school. Also, the attendance percentage for the core calendar year would have been lower because the total potential attendance hours would have increased. This computation would have resulted in a lower ADA and decreased state funding. See the table on page 12.

Remedial hours

Remedial instruction hours provided to SCP students did not meet the requirements established by state law. Instead the hours were part of the core school day and should not have been considered for additional attendance. The DESE allows remedial instruction hours meeting state requirements to be added to regular day attendance, increasing ADA. For all grade levels, the SCP reported remedial hours to the DESE totaling approximately 26,000 hours for the 2016-2017 school year and 47,000 hours for the 2017-2018 school year.

Remedial classes provided to SCP students and identified by the SCP's Interim Executive Director were provided to all students and/or were part of the core school day. These classes were not required by a school policy as a condition of promotion to the next grade level and were not provided outside the core school day, as required by Section 167.640.3, RSMo. We confirmed this information by reviewing 40 student class schedules from the 2016-2017

⁴ DESE's Summer School Handbook indicates, 1) "Summer school programs are not mandatory and student attendance cannot be required . . ." and 2) "In order to distinguish between the regular school year and the summer school session, there must be a break of at least one school day between the close of one program and the start of the other."

⁵ Summer school ADA is separately calculated by dividing total summer school hours by 1,044 and adding the calculated summer school ADA to the core ADA.



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and 2017-2018 school years, noting almost all of these students were offered similar classes during the core school day.

Reporting these hours to DESE as outside the core school day allowed the school to claim the difference between the 6 hour core day declared and the actual extended school day (8.75 hours in 2016-2017 and 8 hours in 2017-2018) as remedial instruction hours, increasing the school's ADA and state funding. Had the SCP correctly reported the core day as the 7 hours maximum allowed, including what the school classified as "remedial" instruction hours, the ADA would have been less, decreasing state funding.

ADA and WADA

We recalculated the SCP's ADA and WADA for the 2016-2017 and 2017-2018 school years and the 2018-2019 school year through March 29, 2019, based on the extended school calendar and the maximum allowed 7 hour school day using TeacherEase data to determine the total number of days each student was marked present. To be conservative, we considered a student present for a full 7 hour day if he/she was recorded in attendance in the TeacherEase system at any point during the day. Some students may not have earned credit for a full day and the calculated attendance percentage could be less (discussed further on the next page). The following table shows our recalculations and the estimated state funding overpayment⁶ for each of the last 3 school years:

⁶ Our recalculations differ from that reported in the LDR AdmServices, LLC, attendance audit noted in the Background section because we allowed for 7 hour school day permitted by law. This resulted in some hours considered by the LDR AdmServices, LLC as overstated to be considered appropriate in our calculation.



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Management Advisory Report - State Auditor's Findings

		School Year		
		2018-2019	2017-2018	2016-2017
Estimated number of students	(a)	315	319	333
Days in session	(b)	118	179	182
Maximum hours allowed per day	(c)	7	7	7
Possible attendance hours	(a)*(b)*(c) = (d)	260,190	399,707	424,242
Actual hours in attendance	(e)	214,599	320,691	320,243
Estimated attendance percentage	(e)/(d) = (f)	82%	80%	75%
Estimated ADA	(a)*(f) = (g)	259.8051	255.9385	251.3681
Plus FRL weighted calculation	(h)	39.0773	53.8837	50.4590
Plus IEP weighted calculation	(i)	21.5006	26.9084	33.3252
Plus LEP weighted calculation	(j)	0.0000	0.0000	0.0000
Estimated WADA	(g)+(h)+(i)+(j) = (k)	320.3830	336.7306	335.1523
Regular term WADA reported to DESE	(l)	321.9603	400.5260	388.7387
Difference	(k)-(l) = (m)	(1.5773)	(63.7954)	(53.5864)
State funding per WADA per DESE	(n)	\$ 9,100	\$ 8,349	\$ 8,271
Estimated state funding overpayment	(m)*(n) = (o)	\$ (14,354)	\$ (532,600)	\$ (443,231)
Plus 2018-2019 state overpayment thru March 2019 not yet recouped (1)	(p)	\$ (246,689)		
Total state funding overpayment	(o)+(p)	\$ (261,043)	\$ (532,600)	\$ (443,231)

(1) The estimated WADA was again incorrectly reported to the DESE, however, this was adjusted by the DESE beginning January 2019, causing the state funding per WADA to fluctuate throughout the year. Through March 2019, the DESE had paid the SCP \$2,314,110 for the 2018-2019 school year, but should have only paid \$2,053,067, an overpayment of state funding by \$261,043.

Actual hours recorded less than hours reported

In addition to the concerns with the increased school hours, the SCP improperly reported increased individual student attendance. We compared actual student attendance hours recorded in TeacherEase to hours the SCP reported to DESE for each individual student for the 2016-2017 and 2017-2018 school years. For the 2016-2017 school year, we determined 81 out of 333 students (24 percent) had more hours reported to DESE than the student was recorded in attendance. For the 2017-2018 school year, we determined 188 out of 319 students (59 percent) had more hours reported to DESE than the student was recorded in attendance. Overstated hours totaled approximately 10,044 hours for the 2016-2017 school year and approximately 13,255 for the 2017-2018 school year. This comparison indicates attendance was intentionally inflated and DESE overpayments are likely greater than estimated above by at least an additional \$153,000 (\$88,000 for the 2017-2018 school year and \$65,000 for the 2016-2017 school year).

Other school years

The SCP had reported summer school hours to the DESE since the 2012-2013 school years. The SCP reported remedial hours to the DESE since the school's inception in the 2011-2012 school year. As previously noted, SCP staff indicated they do not believe the school ever had a remedial program as defined by state law. We did not attempt to estimate an overpayment for prior



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years. However, as noted in the Background section, LDR AdmServices, LLC, estimated the potential overpayment by DESE to the SCP for these prior years at an additional \$1 million.

Conclusion

The SCP's remedial instruction and summer school programs and student attendance data do not support the ADA and WADA reported to the DESE and certified by the former SCP Executive Director. These discrepancies indicate the reported information was falsified. The falsification of SCP ADA and WADA resulted in the SCP receiving more funding than the school was entitled. In addition, the SCP may have been falsifying, and at a minimum was inaccurately reporting, attendance data as early as the 2011-2012 school year when it first reported remedial instruction hours. The SCP also began reporting ADA greater than enrollment beginning in the 2012-2013 school year. The Board did not examine these issues until they were brought to their attention in the fall of 2018.

The SAO issued a subpoena to Michael Malone, former SCP Executive Director, and accepted by his attorney on July 22, 2019, to compel Mr. Malone's testimony and require him to produce records and documents (see Appendix A). On August 20, 2019, audit staff and an attorney of the SAO took the testimony⁷ of the former SCP Executive Director. Mr. Malone, on the advice of his attorney, pleaded the 5th amendment⁸ regarding questioning related to attendance data and procedures.

As further discussed in MAR finding number 2, the overpayments that resulted from inflated ADA and WADA for the 2016-2017, 2017-2018, and 2018-2019 school years represent a liability/obligation of the charter school and should be repaid as part of the dissolution process.

Recommendation

The Board of Directors work with the DESE to determine the proper resolution for the overpayment of the 2016-2017, 2017-2018, and 2018-2019 school years, and the potential overpayments from past school years as deemed necessary.

Auditee's Response

Funds are not available to pay all the school's liabilities. The Board prioritized payment for teacher salaries and benefits. Once a final audit of the school has been performed, the Board will disburse any remaining funds to vendors, prorating payments based on amounts payable, and then will close. There will not be any funds remaining to return to the DESE. We have been in contact with the DESE and they are aware of the situation.

⁷ This testimony was given under oath and was recorded by a court reporter.

⁸ Pleading the 5th amendment means that the person chooses not to answer a question(s) during testimony on the basis that he might incriminate himself.



St. Louis College Prep Charter School
Management Advisory Report - State Auditor's Findings

2. Closure and Outstanding Liabilities

The UMSL and Board mutually agreed the school could no longer operate past the 2018-2019 school year due to the significance of overpayments of state funding and, as a result, has begun closure procedures.

As discussed in MAR finding number 1, the SCP received at least \$1.4 million over the last 3 school years based on inflated WADA. The additional funding represents approximately 15 percent of the school's state funding for the period. The SCP also had unpaid bills over 30 days past due to various vendors totaling over \$336,000 as of April 10, 2019, and has outstanding debt on school facilities totaling approximately \$1.8 million. As of March 29, 2019, the SCP reported a cash balance of \$166,808; however, additional state and federal revenues were expected from the DESE.

The following table reflects the SCP's revenues and expenditures for the year ended June 30, 2018, and the period of July 1, 2018, through March 29, 2019.

	Year Ended June 30, 2018	July 1, 2019, through March 29, 2019
Beginning cash balance	\$ 268,462	225,046
Revenues	4,677,481	3,193,230
Disbursements	4,720,897	3,251,468
Ending cash balance	\$ 225,046	166,808

Sections 160.400 through 160.425, RSMo, provide requirements for the organization and administration of charter schools. Statutory provisions require sponsors to develop procedures to be implemented if a charter school should close. These procedures include, but are not limited to, resolution of financial obligations and disposition of school assets.

School assets include the SCP's cash on hand and the facilities occupied by the SCP, which the Board plans to sell. Any funds remaining after repayment of liabilities for overpayment of attendance, outstanding building debt, and unpaid bills, if any, should be returned to the state in accordance with Section 160.405.1(17), RSMo.

Recommendation

The Board of Directors return any remaining funds to the DESE.

Auditee's Response

Funds are not available to pay all the school's liabilities. The Board prioritized payment for teacher salaries and benefits. Once a final audit of the school has been performed, the Board will disburse any remaining funds to vendors, prorating payments based on amounts payable, and then will close. There will not be any funds remaining to return to the DESE. We have been in contact with the DESE and they are aware of the situation.



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Management Advisory Report - State Auditor's Findings

3. Student Enrollment and Personnel Files

Student enrollment was not always properly documented and personnel files were not always complete making it more difficult to ensure required closure procedures could be followed.

Student enrollment

Out of 40 student files reviewed from the 2016-2017, 2017-2018, and 2018-2019 school years, 3 (7.5 percent) of the enrollment packets could not be located and another 26 (65 percent) were incomplete. Eight of these 26 enrollment packets lacked proof of residency. All new or re-enrolling students were required to complete an enrollment packet including proof of residency, transportation information, home language survey, medical information, etc. During the 2018-2019 school year, SCP staff began reviewing all enrollment files for completeness.

Personnel files

Personnel records for all 5 employees reviewed were not complete and/or maintained in accordance with School Board Policy 4860. During our review of the personnel files, we noted required documentation was missing from each of the 5 files including employment applications, educational transcripts, employment contracts, and performance evaluations. In addition, health insurance and immigration records were not maintained separately from the personnel files as required by School Board Policy 4860.

Conclusion

Complete and accurate enrollment information was needed while the school was operating to ensure students were eligible to attend the SCP and is needed post-closure to ensure complete information is provided to the students' new schools. Complete personnel records should be maintained for all employees to provide documentation of personnel actions and ensure accurate records are transferred after closure. School staff indicated that the SCP experienced significant staff turnover, which may have contributed to the incomplete enrollment and personnel files. Section 160.405, RSMo, requires the orderly transition of student records to new schools, archival of student records, and transfer or repository of personnel records.

Recommendation

The Board of Directors ensure procedures are established and followed to ensure the appropriate transfer of complete and accurate student and personnel records.

Auditee's Response

We assembled and have transferred all records as required. Student records were transferred to the St. Louis Public School District and personnel records have been transferred to the charter sponsor UMSL.

4. Credit Card Procedures

Credit card procedures needed improvement. SCP personnel made unsupported and other questionable credit card purchases. Credit card purchases totaled approximately \$175,000 during the 2017-2018 school year and \$106,000 during the 2018-2019 school year through February 22, 2019.



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SCP policy required preapproval for credit card purchases, completion of a credit card sign out sheet, and receipts supporting purchases be turned in with the credit card after use and examined for compliance with policies. These policies included, but were not limited to, ensuring purchases were "for the school or to pay for reasonable travel expenses incurred when performing job duties" and ". . . under no circumstances may employees use school funds to make unauthorized or personal purchases." However, these policies were not consistently followed prior to the resignation of the former Executive Director in the fall of 2018.

SCP personnel could not provide supporting documentation for 28 of 50 credit card purchases (56 percent) reviewed, totaling \$13,916, from the 2017-2018 and 2018-2019 school years. In most cases, no documentation beyond the credit card statement was available. In addition, in many other instances, only a credit card charge slip was submitted rather than a detailed invoice. Unsupported transactions included purchases of food, hotel stays, a vacation package, and several purchases from Amazon. Without actual invoices, the SCP cannot determine if the purchases were for legitimate school-related items or were personal items purchased by employees.

After our initial test work identified concerns with credit card purchases, we requested and reviewed all credit card purchases for which the Interim Executive Director could locate supporting documentation. During this review we identified numerous questionable purchases. These transactions were supported by a receipt or invoice that agreed to the amount charged, but there was no additional information to indicate the purpose of the purchase and how it related to school business or complied with school policy. We identified 37 such purchases totaling \$3,178. These transactions included purchases of food, drinks, etc. (\$538), gift cards and fees (\$1,210), alcohol (\$683),⁹ and other miscellaneous items (\$752). In addition, the Interim Executive Director indicated that she believed at least \$85 of other credit card purchases were likely for personal use and improper. See Appendix B for detailed information about the unsupported, questionable, and improper purchases. These transactions include purchases of approximately \$200 from Amazon shipped directly to the former Executive Director's personal residence. We could not determine what items were purchased or if the school received them.

As discussed in MAR finding number 1, we issued a subpoena to the former SCP Executive Director. When questioned under oath regarding credit card

⁹ The SCP Policy for Reimbursement of Meals and Entertainment indicates "expenses are limited to student recruitment, board meetings, and staff meetings. Alcoholic beverages are not reimbursed unless approved by the Executive Director." While the purchase of alcohol for the staff Christmas party was approved by the Interim Executive Director, the amount of alcohol purchased is questionable.



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procedures and records, Mr. Malone pleaded the 5th amendment and did not answer the questions.

Credit card purchases are inherently more risky than other purchases because credit card purchases are or can be made prior to proper approval. That risk and the potential for fraud and misuse increases even more when internal controls and proper procedures are lacking. Credit cards provide a good alternative purchase method, but there should be a strong, clear policy that is enforced and prohibits use for inappropriate or non-school purchases. Detailed supporting documentation improves the charter school's ability to review charges and provides better documentation of the items purchased to ensure charges are reasonable and in accordance with established policies. In addition, public funds should be spent in a prudent manner only on items necessary and beneficial to the charter school and enhance the educational process.

5. Sunshine Law

The Board did not always prepare closed session meeting minutes and did not record a roll call vote to enter into closed session. In addition, meeting minutes did not document all Board actions and decisions.

The Board held 4 closed session meetings between January 19, 2019, and March 20, 2019, but minutes were not prepared and subsequently approved by the Board. In addition, roll call votes to enter into closed session were not recorded in the open session minutes for closed sessions held between November 7, 2018, and March 20, 2019. Also, the November 7, 2018, meeting minutes did not document the acceptance of the resignation of the former Executive Director and the appointment of the new Interim Director.

Without minutes of closed sessions, there is no record of the discussions held or support for the decisions made, and less assurance to the public that various statutory provisions are followed. Section 610.020.7, RSMo, requires meeting minutes be maintained as a record of business conducted and to provide an official record of Board actions and decisions. The minutes should provide sufficient details of discussions to demonstrate compliance with statutory provisions and support important decisions made. In addition, under Section 610.022.1, RSMo, before going into a closed meeting a public governmental body must vote to close the meeting, including a specific reference to the section permitting the disclosure.



Appendix A
St. Louis College Prep Charter School
State Auditor Subpoena - Michael Malone



NICOLE GALLOWAY, CPA
Missouri State Auditor

July 29, 2019

Mr. Matt Hearne
230 S. Bemiston Avenue, #770
Clayton, MO 63105

RE: Subpoena for Michael Malone

Dear Mr. Hearne:

Thank you for accepting service of the attached subpoena as counsel for Mr. Malone. This is to confirm that this subpoena remains in effect, but that we have agreed to change the date for performance under the subpoena from August 7, 2019 at 10:00 a.m. to August 20, 2019 at 10:00 a.m. The location will remain the same, at the Wainwright State Office Building, 111 N. 7th Street, St. Louis, MO 63101.

Please let me know if you have any questions.

Sincerely,


Joe E. Anderson



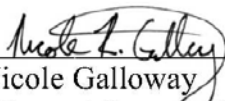
OFFICE OF MISSOURI STATE AUDITOR

SUBPOENA

To: Michael Malone
5951 Marwinette Ave.
St. Louis, MO 63116

YOU ARE COMMANDED AND REQUIRED to appear personally before the State Auditor or her representatives, Joel Anderson, Chief Litigation Counsel, in Room 116 of The Wainwright State Office Building, 111 N. 7th St., St. Louis, MO 63101, at **10:00 a.m. on August 7, 2019**, for purposes of providing testimony, and for producing for examination, copying, and interrogation the records and documents listed on Exhibit A attached to this Subpoena.

ISSUED this 15th day of July, 2019, pursuant to Section 29.235.4(1), RSMo.



Nicole Galloway
Missouri State Auditor

I served the foregoing subpoena by _____ on this _____
day of _____, 2019.



OFFICE OF MISSOURI STATE AUDITOR

EXHIBIT A

You are to preserve for production and inspection, and then appear as instructed on the attached subpoena and produce for inspection and examination, the following items in your possession or under your control:

1. All records related to the St. Louis College Prep Charter School credit cards (including, but not limited to, invoices or receipts to support credit card transactions from June 2017 through November 2018);
2. Any and all St. Louis College Prep Charter School attendance records for the time period between July 2016 through November 2018.

This request for records includes all materials that exist in paper ("hard copy") or electronic form (including but not limited to records and data maintained on computers, tablets, smart phones, external electronic storage drives, thumbdrive drives, remote servers or back up tapes). All information requested in the items above are subject to inspection, review and copying by the state auditor. Section 29.235.4(1), RSMo.

Appendix B

St. Louis College Prep Charter School
Supporting Documentation - Unsupported, Questionable, and Improper Credit Card Purchases
For the Period June 23, 2017, through January 20, 2019

Transaction Date (1)	Employee Title	Vendor	Purpose (2)	Type (3)	Amount		
					Unsupported (4)	Questionable (5)	Improper (6)
6/23/2017	Registrar/Tech Coordinator	Imo's Pizza, St. Louis, MO		Travel	\$	15	
6/29/2017	Registrar/Tech Coordinator	Sam's Club, Maplewood, MO	Snacks	Supplies		42	
7/1/2017	Registrar/Tech Coordinator	Papa John's		Professional Development		105	
7/8/2017	Registrar/Tech Coordinator	Papa John's, St. Louis, MO		Travel		116	
7/10/2017	Registrar/Tech Coordinator	Lowe's, Kirkwood, MO	Moving boxes	Supplies		10	
7/11/2017	Registrar/Tech Coordinator	Fields Foods, St. Louis, MO	Groceries	Supplies		34	
8/13/2017	Registrar/Tech Coordinator	Amazon Marketplace		Supplies	450		
8/14/2017	Registrar/Tech Coordinator	Fields Foods, St. Louis, MO	Floral	Supplies		23	
8/15/2017	Registrar/Tech Coordinator	Walmart Supercenter, Kirkwood, MO	Groceries	Supplies		39	
8/24/2017	Director of Development	American Carnival Mart, St. Louis, MO	Party Supplies	Supplies		19	
9/8/2017	Former Executive Director	Costco Wholesale, St. Louis, MO		Supplies		312	
9/13/2017	Former Executive Director	Hotwire		Travel	133		
9/13/2017	Former Executive Director	Panera Bread, Festus, MO	3 sandwiches	Travel		33	
9/15/2017	Former Executive Director	Subway, Sikeston, MO	3 sandwiches	Travel		24	
9/18/2017	Business Operations Manager	Country Corner, Tan-Tar-A Resort	Snacks	Travel			5
9/18/2017	Business Operations Manager	Dierbergs Lakeview, Osage Beach, MO	Groceries	Supplies		11	
9/19/2017	Business Operations Manager	Casey's General Store, Cuba, MO	Snacks and drink	Travel		6	
9/20/2017	Business Operations Manager	QuikTrip #649, Green Park, MO	Fuel	Professional Development		28	
9/28/2017	Business Operations Manager	ExxonMobil, Kingdom City, MO	Snacks and drink	Travel		6	
9/28/2017	Business Operations Manager	Rick's Café, Jefferson City, MO		Travel		3	
10/3/2017	Former Executive Director	Walgreens, St. Louis, MO	Groceries and drink	Supplies		11	
10/4/2017	Business Operations Manager	Priceline Vacation Package		Travel	885		
10/4/2017	Business Operations Manager	Independent Youth Inc.		Other Professional/Technical Services	528		
10/4/2017	Business Operations Manager	Walgreens, St. Louis, MO	Gift cards, fees & snacks	Instructional services		473	
10/5/2017	Former Executive Director	Reserve Restaurant & Lounge, Kansas City, MO		Travel	56		
10/7/2017	Former Executive Director	Marriott Hotel, Kansas City, MO		Travel	460		
10/9/2017	Business Operations Manager	Therapy Shoppe		Supplies	792		
10/9/2017	Business Operations Manager	Schnucks Loughborough, St. Louis, MO	Innovation mix	Supplies		14	
10/12/2017	Business Operations Manager	Boxwood Technology		Other Professional/Technical Services	345		
10/19/2017	Business Operations Manager	Johnny Mac's Store		Supplies - Uniforms	3,000		
10/20/2017	Former Executive Director	The Wood Shack, St. Louis, MO	Sandwich	Travel			17
10/23/2017	Business Operations Manager	Amazon Marketplace		Supplies - PE	576		
10/24/2017	Former Executive Director	Hotels.com		Travel	678		
11/1/2017	Business Operations Manager	Shop'n Save, Ellisville, MO	Cupcakes	Supplies		23	
11/3/2017	Business Operations Manager	Quik Trip #621, Ballwin, MO	Snacks	Travel		4	
11/3/2017	Former Executive Director	Walgreens, St. Louis, MO	Light sets and napkins	Supplies		53	
11/7/2017	Former Executive Director	Tim Horton's	Sandwich and donuts	Travel		25	
11/9/2017	Former Executive Director	Living Room Art House Coffee, Maplewood, MO	Food	Travel			12
11/14/2017	Former Executive Director	Bogart's Smokehouse, St. Louis, MO		Travel	30		

Appendix B

St. Louis College Prep Charter School
Supporting Documentation - Unsupported, Questionable, and Improper Credit Card Purchases
For the Period June 23, 2017, through January 20, 2019

Transaction Date (1)	Employee Title	Vendor	Purpose (2)	Type (3)	Amount		
					Unsupported (4)	Questionable (5)	Improper (6)
11/15/2017	Former Executive Director	Walgreens, St. Louis, MO	Snacks	Supplies		14	
11/15/2017	Former Executive Director	Park Avenue Coffee, St. Louis, MO	Coffee	Travel			6
11/20/2017	Former Executive Director	Mike Duffy's Pub & Grill, Richmond Heights, MO	Food	Travel			18
11/20/2017	Former Executive Director	Panera Bread, Richmond Heights, MO	Coffee	Travel			2
11/21/2017	Business Operations Manager	Walgreens, St. Louis, MO	Gift cards	Supplies		453	
12/1/2017	Business Operations Manager	Amazon Marketplace		Supplies	886		
12/19/2017	Former Executive Director	Fields Foods, St. Louis, MO	Gift cards	Supplies		200	
12/19/2017	Former Executive Director	Walgreens, St. Louis, MO	Gift & Christmas cards	Supplies		69	
12/20/2017	Former Executive Director	Flying Spider, Ballwin, MO		Student Activities	1,268		
1/17/2018	Former Executive Director	Park Avenue Coffee, St. Louis, MO		Travel	15		
1/23/2018	Former Executive Director	Schnucks Loughborough, St. Louis, MO		Travel	28		
1/25/2018	Former Executive Director	Target, St. Louis, MO		Supplies	26		
1/30/2018	Former Executive Director	Bogart's Smokehouse, St. Louis, MO		Travel	30		
2/6/2018	Former Executive Director	Amazon.com		Supplies	500		
3/18/2018	Former Executive Director	Amazon.com		Supplies	279		
4/27/2018	Former Executive Director	The Sweet Divine, St. Louis, MO		Supplies	239		
6/8/2018	Former Executive Director	QuikTrip #658, St. Louis, MO		Unknown	65		
6/11/2018	Former Executive Director	Bogart's Smokehouse, St. Louis, MO		Travel		41	
6/14/2018	Former Executive Director	Metroride Store, St. Louis, MO		Transportation	1,485		
6/20/2018	Former Executive Director	Line Hotel, Austin, TX		Travel	513		
6/20/2018	Former Executive Director	Line Hotel, Austin, TX		Travel	435		
7/2/2018	Former Executive Director	Costco Wholesale, St. Louis, MO	Roses	Supplies		37	
7/12/2018	Former Executive Director	Park Avenue Coffee, St. Louis, MO		Travel			14
8/17/2018	Former Executive Director	Park Avenue Coffee, St. Louis, MO		Travel			11
8/20/2018	Former Executive Director	Whitebox Eatery, Clayton, MO	Sandwich and drink	Travel		19	
8/31/2018	Former Executive Director	Facebook		Other Professional/ Technical Services	167		
9/7/2018	Former Executive Director	St. Louis University Special Events, St. Louis, MO		Unknown		30	
9/12/2018	Former Executive Director	Park Avenue Coffee, St. Louis, MO	3 coffees	Travel		24	
9/21/2018	Former Executive Director	Fields Foods, St. Louis, MO		Supplies	20		
9/26/2018	Former Executive Director	Domino's	Pizza	Supplies		21	
11/6/2018	Interim Executive Director	QuikTrip #658, St. Louis, MO	Gift cards	Travel		125	
11/8/2018	Interim Executive Director	Domino's		Travel	27		
12/20/2018	Interim Executive Director	Moolah Lanes, St. Louis, MO	Holiday party including alcohol	Student Activities		683	
Unknown	Unknown	Dollar Tree, Bridgeton, MO	Storage boxes, dog leash & balloons	Unknown		33	
					\$ 13,916	3,178	85

(1) Each row is a separate transaction and only includes the amounts of the transaction classified as unsupported, questionable and improper.

(2) The purpose was left blank if the transaction was not supported by a credit card receipt or invoice, or the credit card receipt or invoice was not detailed enough to determine what was purchased.

(3) Type indicates how the transaction was coded in the charter school's financial system or records. Transactions marked "Unknown" indicate school staff could not determine the type because the transaction was summarized in the financial system.

(4) No supporting documentation (e.g. credit card receipt or invoice) was provided for transactions.

(5) Questionable transactions were supported by a credit card receipt or invoice that agreed to the amount charged, but there was no additional information to indicate the purpose of the purchase and how it related to school business or complied with school policy.

(6) The Interim Executive Director indicated that she believed these credit card purchases were likely for personal use and improper.