

State of Illinois
STATE CHARTER SCHOOL COMMISSION
COMPLIANCE EXAMINATION
For the Period November 1, 2011 through January 24, 2013

FINAL EXAMINATION

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
COMPLIANCE EXAMINATION
For the Period November 1, 2011 through January 24, 2013

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STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
COMPLIANCE EXAMINATION
For the Period November 1, 2011 through January 24, 2013

AGENCY OFFICIAL

Executive Director (Effective April 16, 2012)

Ms. Jeanne Nowaczewski

Acting Part-Time Interim Director (Nov. 1, 2011 - April 16, 2012)

Ms. Jeanne Nowaczewski

Commission office is located at:

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Suite S-601
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ILLINOIS STATE CHARTER SCHOOL COMMISSION
Michael A. Bilandic Building
160 North LaSalle Street, Suite S-601
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July 14, 2014

Honorable William G. Holland
Auditor General
740 East Ash Street
Springfield, IL 62703
Attn: Lisa Warden, Audit Manager

Auditor General Holland:

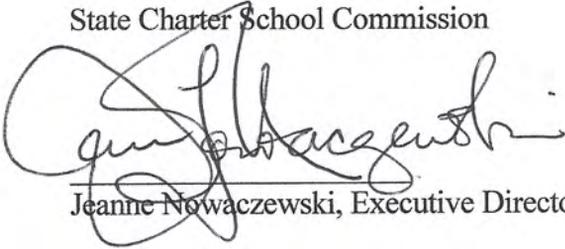
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State Charter School Commission (Commission). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. During the course of operating the agency and the audit process, we evaluated the Commission's compliance with the following assertions during the period of November 1, 2011 through January 24, 2013. We assert that during the period of November 1, 2011 through January 24, 2013, the Commission has materially complied with the assertions below, except as reported in Finding 2013-001.

- A. The Commission has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Commission has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Commission has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Commission on behalf of the State or held in trust by the Commission have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours truly,

State Charter School Commission

A handwritten signature in black ink, appearing to read "Jeanne Nowaczewski", written over a horizontal line.

Jeanne Nowaczewski, Executive Director

July 14, 2014

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
COMPLIANCE EXAMINATION
For the Period November 1, 2011 through January 24, 2013

COMPLIANCE REPORT

SUMMARY

The School Code (Code) (105 ILCS 5/27A-7.5) established the State Charter School Commission (Commission) as an independent State agency effective July 20, 2011. Commission members began serving terms of office on November 1, 2011. Effective January 25, 2013, Public Act 97-1156 designated the Commission as an independent Commission, rather than a State agency, and placed the Commission under the authority of the Illinois State Board of Education for administrative purposes only. We examined the Commission from commencement of operations on November 1, 2011 until its designation as an independent Commission on January 25, 2013.

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANT’S REPORTS

The Independent Accountant’s Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations or disclaimers, but does contain a qualified opinion on compliance and material weaknesses over internal control.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current</u>	<u>Prior</u>
<u>Findings</u>	<u>Report</u>	<u>Report</u>
Repeated findings	4	N/A
Prior recommendations implemented or not repeated	N/A	N/A

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
2013-001	9	Unwritten Agreement and Inadequate Controls over Fiscal Agent	Material Weakness and Material Noncompliance

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
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SCHEDULE OF FINDINGS (continued)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
2013-002	11	Inadequate Controls over Receipt and Expenditure Records	Material Weakness and Noncompliance
2013-003	14	Lack of Property Records	Significant Deficiency and Noncompliance
2013-004	17	Internal Controls over Compliance	Significant Deficiency and Noncompliance

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on July 1, 2014. Attending were:

State Charter School Commission
Jeanne Nowaczewski, Executive Director

Illinois State Board of Education
Melissa Oller, Chief Internal Auditor

Office of the Auditor General
Lisa Warden, Audit Manager
Stephanie Wildhaber, Audit Supervisor
Michael Stutz, Auditor

The responses to the recommendations were provided by Jeanne Nowaczewski, Executive Director, in correspondence dated July 14, 2014.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANT'S REPORT ON STATE COMPLIANCE,
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have examined the Illinois State Charter School Commission's (Commission) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the period of November 1, 2011 through January 24, 2013. The management of the Commission is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Commission's compliance based on our examination.

- A. The Commission has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Commission has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Commission has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Commission on behalf of the State or held in trust by the Commission have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Commission's compliance with those requirements listed in the first

paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Commission's compliance with specified requirements.

As described in item 2013-001 in the accompanying schedule of findings, the Commission did not comply with requirements regarding applicable laws and regulations in its financial and fiscal operations. Compliance with such requirements is necessary, in our opinion, for the Commission to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the period of November 1, 2011 through January 24, 2013. However, the results of our procedures disclosed other instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as items 2013-002, 2013-003, and 2013-004.

Internal Control

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Commission's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2013-001 and 2013-002 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2013-003 and 2013-004 to be significant deficiencies.

There were no immaterial findings that have been excluded from this report.

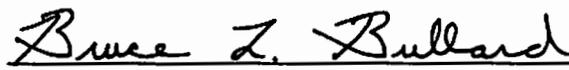
The Commission's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the Commission's responses and, accordingly, we express no opinion on the responses.

Supplementary Information for State Compliance Purposes

Our examination was conducted for the purpose of forming an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information for the period of November 1, 2011 through January 24, 2013 in Schedules 1 through 9 and the Analysis of Operations Section is presented for purposes of additional analysis. We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the January 24, 2013 and June 30, 2012 accompanying supplementary information in Schedules 1 through 9. However, we do not express an opinion on the accompanying supplementary information.

We have not applied procedures in the Analysis of Operations Section, and accordingly, we do not express an opinion or provide any assurance on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Commission management and the Commission's governing board and is not intended to be and should not be used by anyone other than these specified parties.



BRUCE L. BULLARD, CPA
Director of Financial and Compliance Audits

Springfield, Illinois

July 14, 2014

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
SCHEDULE OF FINDINGS
For the Period November 1, 2011 through January 24, 2013

2013-001 **FINDING** (Unwritten Agreement and Inadequate Controls over Fiscal Agent)

The State Charter School Commission (Commission) did not reduce to writing or ensure sufficient internal controls were in place regarding an agreement between the Commission and the Illinois Network of Charter Schools (INCS) to serve as the Commission’s fiscal agent.

During testing, we found INCS acted as a fiscal agent for the Commission. A verbal agreement was made that allowed INCS to collect and expend money on behalf of the Commission in an account outside of the State Treasury. The Commission directed INCS on how funds should be expended and made INCS aware of anticipated donations. However, the terms of the agreement were not reduced to writing and signed by both parties, and the Commission did not ensure sufficient written controls were in place over fund balances, receipts, and expenditures handled by INCS on behalf of the Commission.

INCS reported 26 expenditures totaling \$70,000 over a six month period. INCS recorded three donations totaling \$20,000 and a \$50,000 grant, all from different parties, for Commission operations.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all agencies establish and maintain a system, or systems, of internal fiscal and administrative controls to safeguard funds against loss and to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State’s resources.

Commission meeting documents stated that, in order to fulfill the Commission’s legislatively mandated duties, the Chair of the Commission worked with others to secure the grant for the Commission’s work. However, the grant proposal and grant agreement were executed between INCS and the grantor to “launch” the Commission. Commission minutes authorized the receipt and expenditure of the grant by INCS and directed the Commission to work with INCS to expend those funds. An INCS email stated the Commission would be responsible for ensuring grant compliance.

Commission management stated these documents collectively framed out and governed the agreement with INCS, despite the lack of a written agreement between the Commission and INCS for custody and processing of funds.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
SCHEDULE OF FINDINGS
For the Period November 1, 2011 through January 24, 2013

2013-002 **FINDING** (Inadequate Controls over Receipt and Expenditure Records)

The State Charter School Commission (Commission) did not maintain accurate, complete, and timely receipt and expenditure records. The Commission also did not reconcile Commission receipt and expenditure records with the Office of the Comptroller's (Comptroller) monthly reports. During testing, we noted the following:

- The Commission did not perform monthly reconciliations of Commission receipt records to the Comptroller's Monthly Revenue Status Report (SB04) during the examination period. The Commission deposited \$289,628 into their State treasury-held State Charter School Commission Fund (Fund 674) during the examination period.

The Statewide Accounting Management System (SAMS) (Procedure 25.40.20) requires each agency to reconcile receipt account balances maintained by the agency with the Statewide receipt account records maintained by the Comptroller. This reconciliation is required to be performed on a monthly basis to identify and correct irreconcilable differences in a timely manner.

- The Commission did not perform monthly reconciliations of Commission expenditure records to the Comptroller's Monthly Appropriation Status Report (SB01) during the examination period. The Commission expended \$132,117 from Fund 674 during the examination period.

SAMS (Procedure 11.40.20) requires each agency to reconcile appropriation expenditures monthly and notify the Comptroller of any irreconcilable differences so the necessary corrective action can be taken to locate the differences and correct the accounting records.

- The Commission did not maintain accurate receipt records. We noted the Commission omitted a \$1,000 receipt from their records. The monthly reconciliation process would have brought this inaccuracy to the Commission's attention. Further, the Commission's records did not calculate or report total receipts received.
- The Commission did not maintain accurate expenditure records. We noted differences, totaling \$800 in Fiscal Year 2012 and \$75 in Fiscal Year 2013, between the Commission's expenditure records and the Comptroller's records. Three vouchers had been recorded for the wrong amount, including one voucher

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
SCHEDULE OF FINDINGS
For the Period November 1, 2011 through January 24, 2013

2013-002 **FINDING** (Inadequate Controls over Receipt and Expenditure Records - continued)

which had been recorded for the wrong vendor and purpose. The monthly reconciliation process would have brought these inaccuracies to the Commission's attention.

The Fiscal Control and Internal Auditing Act (FCIAA) (30 ILCS 10/3001) requires each agency to establish and maintain a system, or systems, of internal fiscal and administrative controls, to provide assurance funds are safeguarded against loss and revenues and expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

- The Commission did not timely record expenditures and receipts in its transaction register. Staff indicated delays were due to a lack of staff. For the nine months the State agency used Fund 674, it processed 46 expenditures and 6 receipts.

FCIAA and good internal controls require receipts and expenditures be promptly recorded to ensure accountability over State resources, to provide accurate financial information on an on-going basis, and to prevent or detect any loss or theft of State funds.

- One of two (50%) receipts tested was deposited one day late. This receipt totaled \$100,000.
- The receipt date for one of two (50%) receipts tested was not documented in Commission files. Therefore, we were unable to determine if this \$44,441 receipt was deposited timely.
- Official agency records did not include the actual receipt date. The Commission's transaction ledger date was fourteen days after deposit for one of two (50%) receipts tested and therefore subsequent to initial receipt.

The State Officers and Employees Money Disposition Act (Act) (30 ILCS 230/2(a)) requires each agency to keep in proper books a detailed account of money received, showing the date receipts are received. The Act further requires deposit of individual receipts over \$10,000 on the receipt date, multiple receipts exceeding \$10,000 within 24 hours, and receipts totaling between \$500 and \$10,000 within 48 hours of actual physical receipt.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
SCHEDULE OF FINDINGS
For the Period November 1, 2011 through January 24, 2013

2013-002 **FINDING** (Inadequate Controls over Receipt and Expenditure Records - continued)

Commission management stated they were unaware of SAMS procedures and access to Comptroller records for monthly reconciliations. Management also stated discrepancies in final expenditure amounts and the deposit omitted from the transaction ledger were due to clerical errors. Management stated only one employee performed all functions for this new State agency, and the Commission did not own a date received stamp in 2012.

Failure to perform monthly reconciliations prevents the timely identification and correction of posting errors, loss, or theft and could result in an overstatement or understatement of funds expended or available. In addition, failure to timely maintain accurate and complete Commission records impairs the Commission's ability to identify possible errors or loss and reduces the usefulness and reliability of financial information. (Finding Code No. 2013-002)

RECOMMENDATION

We recommend the Commission ensure financial transactions are accurately recorded, deposited, and reconciled in a timely manner.

COMMISSION RESPONSE

The Commission agrees. The Commission will adhere to procedures in FY15 to timely and accurately record, deposit and reconcile its financial transactions. The Commission will review and follow the Statewide Accounting Management System (SAMS); the Fiscal Control and Internal Auditing Act; and the State Officers and Employees Money Disposition Act.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
SCHEDULE OF FINDINGS
For the Period November 1, 2011 through January 24, 2013

2013-003 **FINDING** (Lack of Property Records)

The State Charter School Commission (Commission) did not record or report its State property as required.

As of January 24, 2013, the Commission owned 17 equipment items, consisting of office furniture, a smart phone, and computer equipment. During testing, we noted the following:

- The Commission did not maintain a property listing during Fiscal Years 2012 and 2013.

The Illinois Administrative Code (44 Ill. Adm. Code 5010.230) requires the following to be entered on property control records: identification number, location code number, description, date of purchase, purchase price, object code, and voucher number.

- Equipment was not tagged as State of Illinois property or assigned property identification numbers.

The Illinois Administrative Code (44 Ill. Adm. Code 5010.210) states agencies are responsible for marking each piece of State-owned equipment in their possession with a unique six digit identification number to be assigned by the agency holding the property. The Code also states, "All equipment regardless of value shall be clearly marked to indicate that it is the property of the State of Illinois."

- The Commission did not perform an annual physical inventory check of all items under the Commission's control and certify the inventory with the Department of Central Management Services (DCMS).

The State Property Control Act (30 ILCS 605/6.04) requires State agencies to annually make an actual physical inventory check of all items of property under the agency's jurisdiction and control.

- The Commission did not submit Quarterly Reports of State Property (C-15's) with the Illinois Office of the Comptroller (Comptroller).

Statewide Accounting Management System (SAMS) (Procedure 29.20.10) requires State agencies to report all additions, deletions, and transfers of State property using the Agency Report of State Property (Form C-15).

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
SCHEDULE OF FINDINGS
For the Period November 1, 2011 through January 24, 2013

2013-003 **FINDING** (Lack of Property Records - continued)

The Form C-15's are to be filed on a quarterly basis no later than the last day of the month following the last day of the quarter.

- The Commission lacked support for the date equipment items were received and for the value of items received.

The State Records Act (5 ILCS 160/9) requires agencies maintain a records management program which provides effective controls over the maintenance of records in the conduct of business.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires each agency to establish and maintain a system of internal fiscal and administrative controls to provide assurance that property is safeguarded against waste, loss, unauthorized use, and misappropriation; and that transfers of assets and resources are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports and to maintain accountability over the State's resources. The State Property Control Act (30 ILCS 605/4) requires every responsible officer of State government to be accountable for the supervision, control and inventory of property under his/her control.

Commission management stated the new agency lacked familiarity with equipment recordkeeping and reporting requirements.

A lack of property records, equipment tags, and periodic inventories increase the potential for loss or theft of State property. Failure to maintain support for equipment acquisitions and to report property to DCMS precludes accountability for State equipment. In addition, failure to submit property reports to the Comptroller reduces the reliability of Statewide property information. (Finding Code No. 2013-003)

RECOMMENDATION

We recommend the Commission strengthen internal controls over equipment by ensuring all equipment is accurately and timely recorded on the Commission's property records and periodically inventoried to ensure accountability.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
SCHEDULE OF FINDINGS
For the Period November 1, 2011 through January 24, 2013

2013-003 **FINDING** (Lack of Property Records - continued)

COMMISSION RESPONSE

The Commission agrees. The Commission will in FY15 maintain a property listing, tag its State of Illinois property and perform an annual physical inventory check.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
SCHEDULE OF FINDINGS
For the Period November 1, 2011 through January 24, 2013

2013-004 **FINDING** (Internal Controls over Compliance)

The State Charter School Commission (Commission) did not formally evaluate internal controls or ensure compliance with applicable laws and administrative rules regarding administrative matters. We noted:

- The Commission did not conduct a formal evaluation of its internal controls or file a Fiscal Control and Internal Auditing Act certification with the Office of the Auditor General during the examination period.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3002, 3003) requires the chief executive officer of each State agency to conduct an evaluation of their systems of internal fiscal and administrative controls and file a certification regarding the evaluation with the Auditor General by May 1 of each year. An evaluation of internal controls is necessary to determine whether existing measures are adequate to safeguard assets, ensure the accuracy and reliability of accounting data, encourage adherence to legal requirements and prescribed management policies, and develop a corrective action plan for material weaknesses identified.

- The Commission did not file 3 of 3 (100%) Travel Headquarter Reports (TA-2) with the Legislative Audit Commission during the examination period.

The State Finance Act (30 ILCS 105/12-3) requires each agency to file a semi-annual report of all its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time. The Act requires agencies with no officers or employees in this status to file negative reports. Failure to file TA-2 Reports reduces the effectiveness of government oversight and accountability.

- The Commission did not have a telecommunications device for the deaf (TDD) installed and operational to provide public access to agency information for those persons who are hearing or speech impaired.

The Civil Administrative Code of Illinois (20 ILCS 405/405-270(2)) requires all State agencies to have at least one TDD installed and operational to provide public access to agency information for those persons who are hearing or speech impaired. Failure to have a TDD properly installed and operational limits telecommunication access for those persons who are hearing and/or speech impaired.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
SCHEDULE OF FINDINGS
For the Period November 1, 2011 through January 24, 2013

2013-004 **FINDING** (Internal Controls over Compliance - continued)

Commission management stated the Commission was a new entity with a single staff member and was unaware of these statutory and administrative requirements. (Finding Code No. 2013-004)

RECOMMENDATION

We recommend the Commission assess and strengthen internal controls to identify and ensure compliance with all applicable laws, rules, and regulations.

COMMISSION RESPONSE

The Commission agrees. The Commission will in FY15 perform an assessment of its internal controls in order to strengthen these controls for purposes of complying with applicable laws, rules and regulations.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
COMPLIANCE EXAMINATION
For the Period November 1, 2011 through January 24, 2013

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedule of Appropriations, Expenditures and Lapsed Balances Fiscal Year 2013
 - Schedule of Appropriations, Expenditures and Lapsed Balances Fiscal Year 2012
 - Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
 - Schedule of Changes in State Property
 - Comparative Schedule of Cash Receipts
 - Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
 - Analysis of Significant Variations in Expenditures
 - Analysis of Significant Variations in Receipts
 - Analysis of Significant Lapse Period Spending

- Analysis of Operations (Not Examined):
 - Commission Functions and Planning Program (Not Examined)
 - Number of Employees (Not Examined)
 - Service Efforts and Accomplishments (Not Examined)

The accountant's report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the accountants have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the January 24, 2013 and June 30, 2012 information in Schedules 1 through 9. However, the accountants do not express an opinion on the supplementary information. The accountant's report also states that they have not applied procedures to the Analysis of Operations Section, and accordingly, they do not express an opinion or provide any assurance on it.

STATE OF ILLINOIS
 STATE CHARTER SCHOOL COMMISSION
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
 Appropriations for Fiscal Year 2013

For the period July 1, 2012 through January 24, 2013

Public Act 97-0728	Appropriations	Expenditures Through 1/24/13	Total Expenditures	Unexpended Balances 1/24/13
State Charter School Commission Fund - 674				
For ordinary and contingent expenses	\$ 300,000	\$ 89,621	\$ 89,621	\$ 210,379
Grand Total	<u>\$ 300,000</u>	<u>\$ 89,621</u>	<u>\$ 89,621</u>	<u>\$ 210,379</u>

Note: Expenditures were obtained from records of the State Comptroller and reconciled to Commission records. Expenditure amounts are vouchers approved for payment by the Commission and submitted to the State Comptroller for payment to the vendor as of January 24, 2013. Effective January 25, 2013, the Commission was placed under the authority of the Illinois State Board of Education for administrative purposes only, including expenditure of remaining balances. Errors were noted in Commission expenditure records when reconciled to State comptroller records. See Finding 2013-002 for details.

STATE OF ILLINOIS
 STATE CHARTER SCHOOL COMMISSION
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
 Appropriations for Fiscal Year 2012

For the period November 1, 2011 through December 31, 2012

	Expenditures		Lapse Period		Balances
	Through 6/30/12	7/01 - 12/31/12	Expenditures	Total	
Public Act 97-0642	Appropriations	Expenditures	Expenditures	Expenditures	Lapsed
State Charter School Commission Fund - 674					
For ordinary and contingent operations	\$ 300,000	\$ 40,070	\$ 2,426	\$ 42,496	\$ 257,504
Grand Total	<u>\$ 300,000</u>	<u>\$ 40,070</u>	<u>\$ 2,426</u>	<u>\$ 42,496</u>	<u>\$ 257,504</u>

Note: Expenditures were final amounts obtained from records of the State Comptroller and reconciled to Commission records. Errors were noted in Commission expenditure records when reconciled to State Comptroller records. See Finding 2013-002 for details. As noted in Finding 2013-001, the Commission had additional expenditures totaling \$70,000 accounted for by a fiscal agent outside of the State Treasury.

STATE OF ILLINOIS
 STATE CHARTER SCHOOL COMMISSION
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS, EXPENDITURES
 AND LAPSED BALANCES**

For the Period November 1, 2011 through January 24, 2013

	Fiscal Year	
	2013	2012
	<u>P.A. 97-0728</u>	<u>P.A. 97-0642</u>
<u>State Charter School Commission Fund - 674</u>		
Appropriations	<u>\$ 300,000</u>	<u>\$ 300,000</u>
Expenditures		
For ordinary and contingent expenses/operations	<u>\$ 89,621</u>	<u>\$ 42,496</u>
Total Expenditures	<u>\$ 89,621</u>	<u>\$ 42,496</u>
Unexpended/Lapsed Balances	<u>\$ 210,379</u>	<u>\$ 257,504</u>

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Period November 1, 2011 through January 24, 2013

The Commission did not maintain records of property, acquisition dates, or values during the examination period. As of January 24, 2013, the Commission owned 17 equipment items with an undetermined value, consisting of office furniture, computer equipment, and a smartphone. See Finding 2013-003 regarding the Commission's failure to record, support, or report State property as required.

STATE OF ILLINOIS
 STATE CHARTER SCHOOL COMMISSION
COMPARATIVE SCHEDULE OF CASH RECEIPTS
 For the Period November 1, 2011 through January 24, 2013

	Fiscal Year	
	2013	2012
<u>State Charter School Commission Fund - 674</u>		
Donations and Grants ¹	\$ 121,000	\$ 100,000
Fees from Charter Schools	68,628	-
Total Receipts per Commission Records ²	\$ 189,628	\$ 100,000

Notes:

¹Amounts reported have been corrected to include a \$1,000 Fiscal Year 2013 receipt omitted from Commission records, as noted in Finding 2013-002.

²As noted in Finding 2013-001, the Commission had additional receipts totaling \$70,000 accounted for by a fiscal agent outside of the State Treasury.

STATE OF ILLINOIS
 STATE CHARTER SCHOOL COMMISSION
**RECONCILIATION SCHEDULE OF CASH RECEIPTS
 TO DEPOSITS REMITTED TO THE STATE COMPTROLLER**
 For the Period November 1, 2011 through January 24, 2013

	Fiscal Year	
	2013	2012
<u>State Charter School Commission Fund - 674</u>		
Receipts per Commission Records, As Corrected ^{1,2}	\$ 189,628	\$ 100,000
Add: Deposits in Transit, Beginning of Year	-	-
Less: Deposits in Transit, End of Year	-	-
Deposits Recorded by the Comptroller	\$ 189,628	\$ 100,000

Notes:

¹Amounts reported have been corrected to include a \$1,000 Fiscal Year 2013 receipt omitted from Commission records, as noted in Finding 2013-002.

²As noted in Finding 2013-001, the Commission had additional receipts totaling \$70,000 accounted for by a fiscal agent outside of the State Treasury.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the Period November 1, 2011 through January 24, 2013

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES BETWEEN FISCAL YEARS 2012 AND 2013

State Charter School Commission Fund – 674

The increase in expenditures from Fund 674 during Fiscal Year 2013 was due to an increase in payments for consulting services in the second year of Commission operations due to an increase in program activities.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the Period November 1, 2011 through January 24, 2013

The State Charter School Commission's (Commission) explanations for significant fluctuations in receipts as presented in the Comparative Schedule of Cash Receipts are detailed below. For the purpose of this analysis, a significant fluctuation is defined as a variation that equaled or exceeded \$20,000 and 20% as compared to the prior year.

ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS BETWEEN FISCAL YEARS 2012 AND 2013

State Charter School Commission Fund – 674

Donations and Grants

The increase in donations and grants receipts was due to only one donation deposited into the State treasury during Fiscal Year 2012 while one donation and one grant were deposited during Fiscal Year 2013.

Fees from Charter Schools

The Commission began billing and collecting fees from charter schools during Fiscal Year 2013.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
For the Period November 1, 2011 through January 24, 2013

There were no significant expenditures made during the Fiscal Year 2012 lapse period.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
COMMISSION FUNCTIONS AND PLANNING PROGRAM
For the Two Years Ended January 24, 2013
(Not Examined)

Commission Functions & Planning Program

The School Code (Code) (105 ILCS 5/27A-7.5) established the State Charter School Commission (Commission) as an independent State agency in July 2011. The Commission consists of nine members. On November 1, 2011, the members of the Commission began serving staggered terms of office with initial 2, 3, and 4 year terms, after which all terms will be 4 years. A schedule of Commissioners serving as of January 24, 2013 follows:

<u>Commissioner</u>	<u>Term Expiration</u>
Glen Barton	11/01/14
Sean Denney	11/01/14
Jaime Guzman	11/01/13
Mike Jacoby	11/01/15
Greg Richmond	11/01/15
Angela Rudolph	11/01/14
Paul Swantstrom	11/01/13
Patricia Van Pelt-Watkins	11/01/13
Rudy Valdez	11/01/15

Under the Code, the Commission is responsible for authorizing high-quality charter schools throughout the State, particularly schools designed to expand opportunities for at-risk students. In particular, the Commission is responsible for: managing any and all appeals timely filed from charter proposal denials in a variety of circumstances; authorizing and managing any charter schools either created by granting an appeal and/or charter schools transferred to the Commission by the Illinois State Board of Education (ISBE); filing a biennial report regarding charter authorizing best practices; and modeling best practices for the State of Illinois.

The Commission's short-term priorities during the examination period consisted of:

- Establishing administrative rules and guidelines governing the appeals process;
- Building Commission capacity;
- Transferring oversight of Prairie Crossing and Southland Schools from ISBE to the Commission;
- Communicating with local school districts;
- Recommending changes to state charter school legislation; and
- Providing commissioners with opportunities to learn about charter schools and charter school authorization.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
COMMISSION FUNCTIONS AND PLANNING PROGRAM
For the Two Years Ended January 24, 2013
(Not Examined)

Commission Functions & Planning Program (continued)

The Commission's long-term goals consisted of:

- Establishing administrative rules and guidelines addressing school renewals and other key issues;
- Developing and supporting the use of the Commission's model application process and form, performance framework, financial analysis tools and other tools useful to district authorizers and charter school applicants;
- Continuing organizational development;
- Preparing regular reports on charter school authorization in Illinois; and
- Continuing to clarify the Commission's relationship with ISBE.

Subsequent Events

Effective January 25, 2013, Public Act 97-1156 (Act) amended the School Code to strike language designating the Commission as a State agency. The Act designated the Commission as an independent Commission and placed the Commission under the authority of ISBE for administrative purposes only.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
NUMBER OF EMPLOYEES
For the Period November 1, 2011 through January 24, 2013
(Not Examined)

The following table, prepared from Commission records, presents the number of employees, by Fiscal Year:

	<u>2013</u>	<u>2012</u>
Executive Director	<u>1</u>	<u>1</u>
Total full-time employees	<u><u>1</u></u>	<u><u>1</u></u>

Note: The Commission hired a full-time executive director effective April 16, 2012. From November 1, 2011 until April 16, 2012, this individual served as interim part-time director and performed day to day operations, including administration and fiscal activities, as a contractual employee.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
SERVICE EFFORTS AND ACCOMPLISHMENTS
For the Period November 1, 2011 through January 24, 2013
(Not Examined)

Appeals

The Commission held its first meeting in November 2011. Fourteen appeals had been filed with the Commission through January 24, 2013. In November 2012, the Commission received six appeals from charter applicants to Chicago Public Schools based on inaction, and then, in December and January several more appeals based on denials. Ten appeals had been withdrawn by applicants and four appeals were pending as of January 24, 2013. Appeals may be filed from any district in Illinois. Over the examination period, appeals had been generated from the Fox River Valley area, the South Holland community, Rockford, Thornton, Maywood, and Chicago.

Authorizations

The Commission is a small entity, with no power or authority over the 100+ charter schools in Illinois. Those 100+ schools are supervised by their local districts, as a part of Illinois' local control model.

As of January 24, 2013, the Commission served as authorizer to only two schools: Prairie Crossing Charter School and Southland College Prep Charter High School.

The Commission's Accountability Plan

In the charter sector, an authorizer's job is to closely monitor its charter schools annually, and especially at the five year point of charter contract renewal. If a charter school is not working effectively, it can be closed if an authorizer has a solid accountability plan. The essence of the accountability plan is this: if the school meets the high standards it promised upon authorization, it has the autonomy to pursue its academic goals as it sees fit, within the parameters of certain overarching laws; however, if the school does not meet these goals, it must be held accountable, and if necessary, closed by the authorizer. During the examination period, the Commission began drafting an Accountability Plan with three domains, Academic, Financial and Organizational, exemplifying best national practices.

Best Practices

To meet its mandate to model and promulgate best practices, during the examination period, the Commission worked to establish an administrative framework of policies and practices that exemplify best practices in appeals, decision-making, and authorizing.

STATE OF ILLINOIS
STATE CHARTER SCHOOL COMMISSION
SERVICE EFFORTS AND ACCOMPLISHMENTS
For the Period November 1, 2011 through January 24, 2013
(Not Examined)

Staffing, Funding and Commission Practices

The Commission received no general revenue funds, and was authorized, instead, by law, to raise funds to support Commission work in two ways: (1) by charging an authorizer fee to the schools it supervises (the Commission charged 2.5%, though 3% is allowed by law), and (2) by seeking charitable contributions (as of January 24, 2013, the Commission received \$221,000 in donations and grants). Based on these two methods of funding, the Commission’s annual budget during its first two years was less than \$500,000 annually, and was used to support an Executive Director (hired on June 1, 2012) based in Chicago at the Bilandic Building, and for the administrative and programmatic expenses to support the activities outlined above. The State Board of Education has assisted the Commission since its inception.

Despite its small staff, the Commission held ten public monthly meetings a year, as well as a number of public hearings and forums for appeals, rule-making and renewals. The Commission rotated its meetings throughout the State. The Commission also held open public committee meetings at its offices on a regular basis to work on developing the policies and practices noted above.

Statistics

	As of January 24, 2013	As of June 30, 2012
Charter Schools Authorized	2	0
Student Enrollment		
Prairie Crossing Charter School	389	*
Southland College Prep Charter High School	375	*
Charter School Appeals		
Appeals Filed	11	3
Appeals Granted	0	0
Appeals Denied	0	0
Appeals Withdrawn	7	3
Appeals Pending	4	0

*The Commission did not become the authorizer of the Prairie Crossing Charter School and Southland College Prep Charter High School until July 1, 2012.