



Nicole Galloway, CPA

Missouri State Auditor

Pathway Academy Charter School

Report No. 2020-047

August 2020

auditor.mo.gov



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Pathway Academy Charter School

Bonuses and Other Additional Compensation	The Pathway Academy Charter School (PACS) paid bonuses, totaling \$25,000 during the 2 years ended June 30, 2019, to employees contrary to state law. In addition, the PACS paid other additional unsupported compensation to employees totaling \$3,164.
Disbursements	The PACS controls and procedures over disbursements and credit card purchases were insufficient. Questionable and unsupported transactions for the 2 years ended June 30, 2019, totaled \$19,779. PACS credit card oversight and payment procedures were not adequate.
Accounting Controls and Procedures	Significant weaknesses existed in the PACS accounting controls and procedures. The Chief Operations Officer made unauthorized transfers between various school bank accounts. The school's procedures for receipting and depositing monies were poor. The PACS failed to follow multiple record retention schedules, including requirements related to purchasing, receipt slips, and employee personnel records.
Hiring Policy	The Board did not adequately monitor staff hiring procedures.
Sunshine Law	Closed meeting minutes were not maintained for the 7 closed sessions referenced in the open meeting minutes during the 2 years ended June 30, 2019.

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.

Pathway Academy Charter School

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NICOLE GALLOWAY, CPA

Missouri State Auditor

Board of Directors
Pathway Academy Charter School
and
Executive Director, Missouri Charter Public School Commission (sponsor)

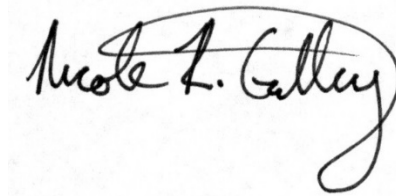
The State Auditor conducted an audit of the Pathway Academy Charter School under authority granted in Section 29.205, RSMo. A request for an audit was received from the charter school Board of Directors after concerns regarding financial practices were reported to the Board by the charter school's sponsor and the Closure Coordinator. We have audited certain operations of the charter school in fulfillment of our duties. The charter school engaged KPM, Certified Public Accountants (CPAs) and Advisors, to audit the charter school's financial statements for the year ended June 30, 2019. The scope of our audit included, but was not necessarily limited to, the 2 years ended June 30, 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. Determine the amount of monies misappropriated from the charter school, if any.

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 control that is significant to the audit objectives and assessed the design and implementation of such internal control to the extent necessary to address our audit objectives. 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) no evidence of misappropriation of monies. The accompanying Management Advisory Report presents our findings arising from our audit of the Pathway Academy 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:	James C. Kayser, MAcc, CFE, CGAP
Audit Staff:	Zach Andrews
	Kyle D. Goodin, MAcc

Pathway Academy Charter School

Introduction

Background

Representatives from the Missouri Charter Public School Commission (MCPSC) contacted the State Auditor's Office (SAO) in June 2019 and expressed concerns over financial practices of the Pathway Academy Charter School (PACS). On June 27, 2019, the school's Board of Directors voted to request the SAO to conduct an audit.

In August 2019, the contracted Closure Coordinator for the MCPSC sent a letter outlining multiple issues with the school's former Chief Operations Officer alleging the following: (1) unauthorized payroll disbursements, (2) bonus payouts, (3) issues with credit card purchases, (4) cash payments not receipted or deposited, (5) an employee overpayment, (6) issues with former employees still on the school's health insurance, (7) unauthorized hires, and (8) the former Chief Operations Officer's refusal to cooperate with school officials. The SAO reviewed these concerns under Section 29.221, RSMo, and on September 4, 2019, determined further investigation was warranted.

The Closure Coordinator indicated some records might not be available. To obtain some of the records, the SAO issued a subpoena to UMB Financial Corporation (see Appendix A) to produce records related to disbursements and deposits made to/from the school's bank accounts. Appendix A includes redactions of information privileged or sensitive in nature.

School

The PACS began operating in Kansas City in August 2009. There were 206 students enrolled for the 2017-2018 school year and 181 students for 2018-2019. Students attended pre-kindergarten through fourth grade.

The four member Board of Directors (Board) acted as the policy-making body for the charter school's operations. Board members served without compensation. Members of the Board serving at June 30, 2019, were

Corbyn Jones, President
Steve Mauer, Treasurer
Patty Schumacher, Member
Kenton Schiele, Member

The Executive Director and Chief Operations Officer were appointed positions. The school's principal officials, for the 2 years ended June 30, 2019, were

Deanna Rogers, Executive Director
Danté Bolden, Chief Operations Officer

Sponsor

When the PACS was established, the University of Missouri - Kansas City (UMKC) was the 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



Pathway Academy Charter School Background

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 responsible for overseeing the school to make sure the school is fulfilling the obligations of the charter.

In November 2017, UMKC placed the school on probation. In October 2018 UMKC announced it was ending its role as a charter school sponsor for all of its charter schools, which included the PACS. On December 4, 2018, the MCPSC became the school's sponsor.

Financial audit

The Board engaged KPM, Certified Public Accountants & Advisors, to audit the charter school's financial statements for the year ended June 30, 2019. The audit report, issued January 17, 2020, disclaimed the opinion for the financial statements because auditors were not able to obtain sufficient audit evidence. Included in the audit report was a statement of activities prepared on the modified cash basis of accounting for year ended June 30, 2019. The report stated revenues totaled \$2,505,362 and expenses totaled \$3,288,880, resulting in a decrease to net assets totaling \$783,518.

Closure and dissolution

In February 2019, the MCPSC determined the school did not meet the minimum academic outcomes outlined in the terms of its probation and lacked sufficient financial controls because the school's fund balance had dropped significantly over the last three years. Based on these concerns, the MCPSC recommended the school close at the end of the 2018-2019 school year. The Board voted to relinquish the charter and close the school at the end of 2018-2019 school year at the March 12, 2019, Board meeting.

Final dissolution of the charter school is pending the completion of final closure activities including transmitting any remaining monies back to the state.

Because Management Advisory Report (MAR) finding numbers 2 through 5 relate to the operations of the school prior to closure and the Board is no longer active and is in the process of dissolution, no recommendations are provided for those findings. Also, because the Board is in the process of dissolution and no longer active, the recommendation for MAR finding number 1 is made to the charter school sponsor.

Pathway Academy Charter School

Management Advisory Report

State Auditor's Findings

1. Bonuses and Other Additional Compensation

The Pathway Academy Charter School (PACS) paid bonuses, totaling \$25,000, to employees contrary to state law. In addition, the PACS paid other additional unsupported compensation to employees totaling \$3,164. Payroll-related disbursements were processed through an outside vendor. The Chief Operations Officer (COO) was responsible for recording, approving, and transmitting all school payroll information, including his own, to the vendor. The additional compensation, including the bonuses, was not detailed in the annual school budgets approved by the Board or included with disbursement documentation provided to the Board for approval at meetings.

We reviewed the payroll reports for the 2 years ended June 30, 2019, and noted 75 disbursements totaling \$113,502 were recorded as "other earns." These earnings were in addition to the employees' regular salaries. We reviewed all available payroll files including employment contracts, stipend agreements, and any other documentation of employee salaries and noted the following:

Bonuses

The PACS paid employees at least \$25,000 in bonuses during the 2 years ended June 30, 2019.

On November 17, 2017, \$10,000 was paid to the COO. Previous COO contracts included a \$10,000 bonus to be paid in November. However, there was no documentation to support the 2017 payment, nor was anything documented in the Board meeting minutes. The COO's personnel file was not complete, as discussed in Management Advisory Report (MAR) finding number 3.3, and did not include a 2017 contract authorizing this bonus. However, the amount and timing of the November 2017 payment indicate this payment was a bonus. Also, because the COO was the only person responsible for authorizing and sending payroll information to the vendor for processing, the COO could have authorized this payment to himself without the knowledge of any charter school personnel.

On November 30, 2017, and December 31, 2018, the school paid additional earnings totaling \$15,000 (\$1,000 each to 15 employees). A former employee indicated teachers and other staff could receive a bonus of up to \$1,000 each for helping with recruitment. However, there was no discussion of these bonuses in the employee contracts or other documentation to support these bonuses, such as an explanation of how or when the bonuses would be awarded or what recruitment activities each teacher participated in. In addition, there was no discussion or approval of these bonuses in Board meeting minutes.

Other additional compensation

During the 2 years ended June 30, 2019, the PACS made 5 unsupported disbursements for other additional compensation to 3 teachers and the COO totaling \$3,164. The disbursement dates did not coincide with other similar payout date types (i.e., stipends, summer school, leave payout, or bonuses).



Pathway Academy Charter School Management Advisory Report - State Auditor's Findings

Without documentation, we could not determine if the additional compensation was appropriate. In addition, Board meeting minutes do not include a discussion or approval of these disbursements.

Conclusion

All compensation should have been approved by the Board and included on salary schedules or in the teachers' contracts, as necessary, to ensure all employees were treated fairly and equitably. In addition, adequate supporting documentation should have been maintained to support all compensation and payroll disbursements to ensure all payroll transactions were accounted for properly.

The bonus payments represent additional compensation for services previously rendered. Article III, Section 39(3), of the Missouri Constitution prohibits the granting of additional compensation for services previously rendered. As stated in, Attorney General's Opinion No. 72-1955 (June 14, 1955), "...a government agency which derives its power and authority from the Constitution and laws of this state would be prohibited from granting extra compensation in the form of bonuses to public officers or servants after the service has been rendered." Additionally, Article VI, Sections 23 and 25, of the Missouri Constitution prohibit local subdivisions of the state from granting money to any private individual, except as otherwise provided by law.

Recommendation

The Missouri Charter Public School Commission work with the Department of Elementary and Secondary Education to determine the proper resolution for the bonuses and additional unsupported compensation paid.

Auditee's Response

The Missouri Charter Public School Commission's written response is included at Appendix B.

2. Disbursements

The PACS controls and procedures over disbursements and credit card purchases were insufficient. The PACS disbursed \$7,469,238 during the 2 years ended June 30, 2019.

2.1 Questionable and unsupported transactions

Questionable and unsupported transactions for the 2 years ended June 30, 2019, totaled \$19,779¹ (see Appendix C). These transactions included purchases for food, sporting and art functions, and gift cards; a donation; and disbursements to employees.

- Transactions of at least \$9,500 were not reasonable and/or did not provide a benefit to the PACS, as there was no documentation to support the purpose or the stated purpose did not appear to be for the benefit of the

¹ Amounts presented in the report findings are rounded to the nearest dollar, whereas amounts presented in Appendix C are not rounded.



Pathway Academy Charter School Management Advisory Report - State Auditor's Findings

students. Many of these transactions were supported by a receipt slip or invoice that agreed to the amount charged, but there was no additional information to demonstrate the purpose of the purchase and how it related to school business. Of the 146 transactions tested, 49 (34 percent) did not have a documented purpose or the purpose was not related to school business. In addition, there were no established guidelines or policies for purchases. These questionable transactions are summarized by category below:

Category	Amount
Food	\$ 9,144
Sporting & Art Functions	342
Donation	50
Total	\$ 9,536

- We identified 7 unsupported disbursements to employees included in the bank records totaling \$7,958 during the 2 years ended June 30, 2019. The disbursements were not recorded in the school's electronic check register or in the school's accounting system. These disbursements were not processed through the payroll system, so may be employee reimbursements.
- We identified \$2,285 in unsupported gift card purchases. The reason for the purchase was not noted on the invoice for two of the gift card purchases and there was no support for how the gift cards were distributed for these two and another gift card purchase. As a result, there was no assurance all gift cards purchased by the PACS were used to benefit the school.

Public funds should be spent only on items necessary and beneficial to the school. Detailed supporting documentation, including a list of attendees and/or general information stating who was served or attended, would have improved the school's ability to ensure charges were reasonable. In addition, comprehensive policies regarding food and other purchases would have provided guidance to employees to help control and reduce these disbursements. Article VI, Sections 23 and 25 of the Missouri Constitution prohibit the use of public money or property to benefit any private individual, associations, or corporations except as provided in the constitution. Public funds should have been spent only on items necessary and beneficial to the school. Citizens have placed a fiduciary trust in their public officials to spend school monies in a prudent and necessary manner.

2.2 Credit Cards

PACS credit card oversight and payment procedures were not adequate. 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



Pathway Academy Charter School
Management Advisory Report - State Auditor's Findings

controls and proper procedures are lacking. The PACS made payments to its credit card company totaling \$47,785 during the 2 years ended June 30, 2019.

Credit card policy

The PACS had no credit card policy outlining the guidelines for the use of credit cards. Many of the disbursements without support or documentation of the purpose noted in section 2.1 were made by credit card. Without guidelines, employees were not aware of what purchases were allowable, the limits of what could be purchased without prior Board approval, or the documentation required to support purchases. In addition, without Board approval, there was no monitoring to ensure timely payments were made or credit card payments were legitimate.

Late payments

The PACS did not ensure some credit card payments were timely, resulting in late fees and finance charges totaling \$319. From January 2019 through May 2019, late fees were assessed on 4 occasions and finance charges were assessed on 5 occasions. To prevent unnecessary fees and other charges, procedures should have been in place to ensure bills were paid timely.

3. Accounting Controls and Procedures

Significant weaknesses existed in the PACS accounting controls and procedures.

3.1 Unauthorized transfers

The COO made unauthorized transfers between various school bank accounts. During the period January 23, 2018, through May 16, 2019, the PACS transferred \$760,000 from the business account to the operating account; however, only \$450,000 was approved by the Board. Approvals for a December 12, 2018, transfer of \$150,000; an April 11, 2019, transfer of \$60,000; and a May 16, 2019, transfer of \$100,000 were not documented in the meeting minutes.

Adequately documented reasons and support for transfer amounts and Board review and approval would have provided more assurance monies were used for the intended purposes.

3.2 Receipts and deposits

The school's procedures for receipting and depositing monies were poor. As a result, there was no assurance all monies collected were properly receipted and deposited.

The COO did not issue receipt slips or log the monies collected from teachers for meals purchased. No report was retained tracking the number of meals purchased by the teachers or the amount of money collected. Without receipt slips, logs, or tracking reports the PACS could not reconcile meals purchased to collections or ensure all monies were deposited. During the 2 years ended June 30, 2019, only \$339 was deposited into the PACS food bank account.



Pathway Academy Charter School Management Advisory Report - State Auditor's Findings

3.3 Supporting documentation

These deposits had hand written notes on the deposit slips indicating they were for adult lunches. According to invoices, the price per lunch was \$3.25 for the 2017-2018 school year and \$3.35 for the 2018-2019 school year, and the school employed at least 20 employees who were eligible to purchase meals.

In addition, receipts were not always deposited timely. Our review of deposits made to the food bank account for the 2 years ended June 30, 2019, noted of the 8 checks deposited, 5 were not deposited within a month. One check, dated October 5, 2017, and another check dated October 10, 2017, were not deposited until September 2, 2018.

Failure to implement adequate receipting and depositing procedures, along with proper accountability over teacher meal collections, increased the risk of potential loss, theft, or misuse of funds.

The PACS failed to follow multiple record retention schedules, including requirements related to purchasing, receipt slips, and employee personnel records.

As noted in MAR finding number 2.1, many invoices and receipt slips were not available or did not include explanations of the need for the purchases or disbursements to employees, making it difficult to ensure these disbursements were prudent and necessary. In some cases no documentation beyond the credit card statement was available. In addition, PACS personnel could not locate 21 employee personnel files, including the employee contracts and stipend agreements.

The MCPSC charter contract section 3.6, School Records and Reporting, stated, "The Charter School shall comply with applicable federal and state (as specified by the state board of education) laws and regulations for maintenance and transmittal of school records including as provided for under section 167.020.7, RSMo, the Missouri Public School Record Retention Schedule, and the Federal Family Education Rights and Privacy Act (FERPA)."

Retention of records was necessary to ensure the validity of transactions and provide an audit trail. Section 109.270, RSMo, provides that all records made or received by an official in the course of his/her public duties are public property and are not to be disposed of except as provided by law. Section 109.255, RSMo, provides that the Local Records Board issue directives for the destruction of records. Record retention schedules can be found on the Secretary of State's website.²

² <https://www.sos.mo.gov/archives/localrecs/schedules>



Pathway Academy Charter School
Management Advisory Report - State Auditor's Findings

4. Hiring Policy

The Board did not adequately monitor staff hiring procedures. On August 12, 2016, the COO signed a contract hiring an accountant to work at PACS. The accountant performed various duties for the school until her resignation on April 12, 2019. The Board meeting minutes did not document Board approval for the hiring of the accountant. One Board member indicated she knew of the accountant, but did not know she worked for the school until after the accountant's resignation.

The UMKC charter school contract with the PACS stated employment hiring was contingent on Board approval. The Board should have reviewed and approved hiring decisions to ensure the school was properly administered.

5. Sunshine Law

Closed meeting minutes were not maintained for the 7 closed sessions referenced in the open meeting minutes during the 2 years ended June 30, 2019. In addition, open meeting minutes did not document the specific reasons or section of law allowing the meetings to be closed. Instead, the open meeting minutes only indicated the Board went into closed session.

Section 610.020, RSMo, requires meeting minutes be maintained as a record of business conducted and to provide an official record of Board actions and decisions. Section 610.022, RSMo, requires public bodies announce the specific reasons allowed by law for going into a closed session and to enter the vote and reason into the minutes.



Appendix A
Pathway Academy Charter School
State Auditor Subpoena - UMB Financial Corporation

Bank account and credit card numbers have
been redacted



NICOLE GALLOWAY, CPA
Missouri State Auditor

February 13, 2020

UMB Financial Corporation
ATTN: Judicial Compliance
1010 Grand Boulevard
Kansas City, MO 64106

RE: Subpoena from Missouri State Auditor

To whom it may concern:

Enclosed is a subpoena from the Missouri State Auditor's office. It is directed to records related to the Pathway Academy Charter School. We know some of the account numbers associated with the school, but not all. Based on instructions a representative of UMB provided to our staff, we have listed known account numbers of the bank accounts and credit cards, and items we are requesting. If those details are insufficient, we would appreciate it if you would let us know so that we may determine if we have any other details that might be helpful.

Production of the records themselves will satisfy the subpoena. If the date set forth in the subpoena is problematic, please let me know as soon as possible.

If you have any questions, I may be contacted by mail and phone as shown at the bottom of this letter, as well as by email at Joel.Anderson@auditor.mo.gov.

Sincerely,


Joel E. Anderson
Chief Litigation Counsel

P.O. Box 869 • Jefferson City, MO 65102 • (573) 751-4213 • FAX (573) 751-7984



Appendix A
Pathway Academy Charter School
State Auditor Subpoena - UMB Financial Corporation




OFFICE OF MISSOURI STATE AUDITOR
SUBPOENA

To: UMB Financial Corporation
ATTN: Judicial Compliance
1010 Grand Boulevard
Kansas City, MO 64106

YOU ARE COMMANDED AND REQUIRED to appear personally before the State Auditor or her representative, Joel Anderson, Chief Litigation Counsel, at the Truman State Office Building, 301 West High Street Room 880, Jefferson City, Missouri 65101, at 8:00 a.m., March 12, 2020, for purposes of providing testimony and producing for examination, copying, and interrogation the records and documents described in Exhibit A attached to this Subpoena.

In lieu of appearance, you may ship the records listed in Exhibit A to the Missouri State Auditor to the attention of James Kayser at 149 Park Central Square, Suite 814, Springfield, Missouri 65806 or you may send them electronically to james.kayser@auditor.mo.gov.

ISSUED this 13th day of February, 2020, pursuant to Section 29.235.4(1) of the Revised Statutes of Missouri.


Nicole Galloway
Missouri State Auditor

I served the foregoing subpoena by HAND DELIVERY on this 13th day of FEBRUARY, 2020.





Appendix A
Pathway Academy Charter School
State Auditor Subpoena - UMB Financial Corporation



OFFICE OF MISSOURI STATE AUDITOR

EXHIBIT A

Please produce all records of accounts related to Pathway Academy Charter School and/or Pathway Academy, Inc., 2015 E 72nd St, Kansas City, MO 64132, for the time period July 1, 2017, through June 30, 2019. Records should include, but not be limited to, signature cards, copies of checks (front and back), deposit bank backup, and bank statements. Accounts related to Pathway Academy Charter School should include, but not be limited to the accounts listed below:

Account [REDACTED]
Account [REDACTED]
Account [REDACTED]
Account [REDACTED]

Please produce all records (including credit card statements, card holder agreements, and transaction records) for all credit card accounts related to aforementioned Pathway Academy Charter School and/or Pathway Academy, Inc., 2015 E 72nd St, Kansas City, MO 64132, including but not limited to the following credit card accounts listed below, for the time period July 1, 2017, through June 30, 2019:

Account [REDACTED]
Account [REDACTED]
Account [REDACTED]

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, thumbnail 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
Pathway Academy Charter School
Missouri Charter Public School Commission Response Letter



Missouri
Charter Public School Commission

July 16, 2020

Honorable Nicole R. Galloway, CPA
State Auditor
Office of Missouri State Auditor
PO Box 869
Jefferson City, MO 65102
TRANSMITTED VIA EMAIL

RE: RESPONSE TO AUDIT OF PATHWAY ACADEMY CHARTER SCHOOL

Dear Auditor Galloway,

It is with deep appreciation that the Missouri Charter Public School Commission (Commission) response to the audit of Pathway Academy Charter School (PACS) conducted by your office. This audit was formally requested by the former Board of Directors of PACS at the insistence of the Commission. Your findings align with the concerns expressed by Robbyn Wahby, Executive Director of the Commission and attorney Dana Cutler, contracted by the Commission to serve as the Closure Coordinator of Pathway Academy.

The Commission is the recipient of this audit report because the PACS Board has been dissolved and the Commission agreed to serve as the charter school's sponsor after the University of Missouri – Kansas City (UMKC) closed its sponsorship office, and both the University of Missouri – Columbia and the Kansas City Public Schools declined PACS' request to become its sponsor. The Commission agreed to sponsor PACS because as the state's only independent charter school sponsor, we believe that is our responsibility— no matter the health of a school.

We officially became the sponsor on December 4, 2018. The Commission staff immediately conducted its due diligence on the school's academic, fiscal and operational compliance. The staff found the school was out of compliance with state statutes and its contract. Our initial findings were detailed in a Letter of Concern issued to the PACS board in February, 2019. Besides financial irregularities, PACS also failed to meet the minimum academic outcomes outlined in the terms of its probation.

In March 2019, our staff presented its findings to the PACS board in a public meeting, and informed the board the school's charter would not be renewed. The Commission also expressed serious concerns about the financial viability of the school in its final year of its contract. As a result, the PACS board voted to relinquish its charter. PACS was closed on June 30, 2019. The Commission then pressed the former PACS board to seek a state audit of the anomalies discovered by the Commission staff. The former PACS board agreed.

We have reviewed the audit report. The findings are consistent with the concerns submitted to your office in letter from our Closure Coordinator.

• Toll Free (855) 267-7323 • <https://mcpssc.mo.gov/> • info@mcpssc.mo.gov •



Appendix B Pathway Academy Charter School Missouri Charter Public School Commission Response Letter

RESPONSE TO PATHWAY ACADEMY AUDIT – Page 2

Our specific responses are as follows:

1. Bonuses and Other Additional Compensation

- a. MCPSC agrees that PACS did not have the documentation or evidence to support the bonuses. We have had preliminary discussions with the Department of Elementary and Secondary Education (DESE). Both agencies agree efforts should be made to recover unsupported paid compensation.
- b. We will work with DESE to supply any supporting documentation if they choose to recover through the civil courts.
- c. The Commission will forward your audit to the Missouri Attorney General and to the Kansas City Prosecutor's Office.

2. Disbursements

- a. The Commission agrees that PACS lacked the controls and procedures over disbursements and credit card purchases. We found evidence of this problem during our investigation of PACS.
- b. PACS was not being sponsored by the MCPSC during the time period covered in the audit. Had we been the sponsor, we believe our systems of accountability and review of our sponsored schools would have provided appropriate oversight. Our performance framework, which includes the submission of monthly financial statements, board packets and board policies, allows the Commission to understand the school's controls and procedures. These are then tested and confirmed during the Commission's annual site visit. Our findings are reported to the school's board and executive director immediately following the visit, and in writing in the school's annual report.

3. Accounting Controls and Procedures

- a. MCPSC agrees that PACS lacked the accounting controls and procedures. MCPSC found evidence of this problem during its initial due diligence of PACS. Had the Commission been the sponsor of PACS during the time covered by the audit, our compliance and monitoring program would have required the submission of board and committee meeting minutes. Meeting minutes are reviewed and monitored by MCPSC staff to insure boards are following statutes and standards. Board chairs and school leaders are contacted immediately when we find irregularities.

4. Hiring Policy

- a. MCPSC agrees that PACS did not adequately monitor staff hiring procedures. MCPSC staff found evidence of this problem during its due diligence of PACS.

5. Sunshine Law

- a. MCPSC agrees that PACS did not comply with the Missouri Sunshine Law provisions concerning closed meetings. MCPSC cautioned the PACS board in a public meeting and spoke with the board chair about the legal requirement that the PACS board comply with the Sunshine Law. We subsequently included our concerns in the Letter of Concern. The board's lack of compliance was considered in the decision to not renew the school's charter.



Appendix B
Pathway Academy Charter School
Missouri Charter Public School Commission Response Letter

RESPONSE TO PATHWAY ACADEMY AUDIT – Page 3

- b. Charter schools are public schools. MCPSC is a public agency that is fully committed to being transparent. We believe quality board governance is essential. In October, 2019 MCPSC underwrote the cost of board training at the annual Missouri Charter School Conference, including a session on the Sunshine Law. This made it possible for all charter boards, not just those sponsored by the Commission, to participate and learn.
- c. This year, MCPSC will reinforce the importance of complying with the closed meeting provisions of the Missouri Sunshine Law. The Commission has engaged a consultant to support the development of additional training and support of the school's sponsored by the Commission. We have already entered into discussions on how we can support the Missouri Charter Public School Association to promote additional training.

Please extend our thanks and appreciation to your audit team, especially Mr. James Kayser, In-Charge Auditor. His professionalism and commitment to accuracy is a testament to the quality of your office.

Sincerely,

Delbert Scott
President
Missouri Charter Public School Commission

Appendix C

Pathway Academy Charter School
Supporting Documentation - Questionable and Unsupported Transactions

Transaction Date (1)	Vendor/Payee	Category	Purpose (2)	Amount
6/21/2017	Panera Bread	Food	Meet with Board President	\$ 23.16
7/17/2017	Panera Bread	Food	Lunch to Update Board President	26.72
7/20/2017	Panera Bread	Food	Unknown	117.75
8/1/2017	Grandma's Office Catering	Food	Unknown	432.30
8/2/2017	Vee's Sweets and Treats	Food	Unknown	143.00
8/3/2017	Panera Bread	Food	Unknown	368.06
8/9/2017	Chipotle	Food	Unknown	625.90
8/9/2017	Vee's Sweets and Treats	Food	Unknown	209.00
8/10/2017	Chick-Fil-A	Food	Unknown	529.15
8/11/2017	Royals Baseball Tickets	Sporting & Art Function	Unknown	180.00
9/5/2017	Chick-Fil-A	Food	Unknown	362.50
9/14/2017	Waldo Pizza	Food	Unknown	98.50
9/14/2017	Waldo Pizza	Food	Unknown	109.25
9/21/2017	Waldo Pizza	Food	Unknown	127.62 (3)
10/5/2017	Waldo Pizza	Food	Unknown	145.70
10/12/2017	Waldo Pizza	Food	Unknown	120.90
10/18/2017	Waldo Pizza	Food	Unknown	171.53
10/19/2017	Panera Bread	Food	Unknown	55.49
10/19/2017	Panera Bread	Food	Unknown	589.31
10/31/2017	Bon Appetit Management Company	Food	Unknown	1,431.73
11/9/2017	Panera Bread	Food	Regional Counselor's Breakfast Hosted at Pathway	103.36
11/27/2017	QuickTrip	Gift Cards	Family Enrollment Incentive 8/8 - 8/25 (4)	360.00
11/28/2017	Swift Gift LTD	Gift Cards	Unknown	1,481.00
12/11/2017	Waldo Pizza	Food	Unknown	52.05
12/14/2017	Waldo Pizza	Food	Unknown	38.35
12/27/2017	School Social Worker	Employee Disbursement (5)	Unknown	569.75 (3)
1/8/2018	School Social Worker	Employee Disbursement (5)	Unknown	632.53 (3)
2/5/2018	School Social Worker	Employee Disbursement (5)	Unknown	384.00 (3)
2/14/2018	Teacher #1	Employee Disbursement (5)	Unknown	3,000.00 (3)
3/2/2018	Waldo Pizza	Food	Unknown	40.23 (3)
3/2/2018	Waldo Pizza	Food	Unknown	73.12 (3)
3/9/2018	Waldo Pizza	Food	Unknown	40.15 (3)
3/13/2018	Papa Johns	Food	Unknown	129.02 (3)
3/16/2018	Jimmy Johns	Food	Unknown	62.22 (3)
4/4/2018	Papa Johns	Food	Unknown	56.77 (3)
4/10/2018	Waldo Pizza	Food	Unknown	100.70 (3)
4/13/2018	Waldo Pizza	Food	Unknown	29.25 (3)
4/30/2018	Waldo Pizza	Food	Unknown	26.25 (3)
5/4/2018	Waldo Pizza	Food	Unknown	154.65 (3)
5/7/2018	Waldo Pizza	Food	Unknown	178.20 (3)
5/10/2018	Pizza Hut	Food	Unknown	63.18 (3)
7/14/2018	Waldo Pizza	Food	Unknown	91.05 (3)
7/21/2018	Waldo Pizza	Food	Unknown	53.40 (3)
8/2/2018	Panera Bread	Food	Unknown	105.48 (3)
8/2/2018	Panera Bread	Food	Unknown	218.32 (3)
8/7/2018	Panera Bread	Food	Unknown	142.44 (3)
8/8/2018	Chick-Fil-A	Food	Unknown	352.00 (3)
8/10/2018	Grandma's Office Catering	Food	Unknown	402.64
8/31/2018	Vee's Sweets and Treats	Food	Unknown	83.80 (3)
9/21/2018	Vee's Sweets and Treats	Food	Unknown	29.40 (3)
9/24/2018	Kansas City Symphony	Sporting & Art Function	Unknown	162.00
10/5/2018	Waldo Pizza	Food	Unknown	59.80
10/19/2018	Teacher #2	Employee Disbursement (5)	Unknown	1,505.93 (3)
11/8/2018	Swift Prepaid Solutions	Gift Cards	Bought Gift Cards	443.93
12/7/2018	PayPal	Donation	Donation to Show Me KC Schools	50.00
1/4/2019	Teacher #3	Employee Disbursement (5)	Unknown	755.97 (3)
1/10/2019	Teacher #4	Employee Disbursement (5)	Unknown	1,109.94 (3)
3/21/2019	Waldo Pizza	Food	Unknown	128.85 (3)
5/30/2019	Olive Garden	Food	Staff Meal	641.38
	Total			<u>\$ 19,778.68</u>

- (1) The date used was either the date of the purchase when charged to a credit card, or the date recorded on the check when a check was used to make the purchase.
- (2) The purpose is indicated if a reason for the disbursement was recorded in the accounting system or on the related receipt slip/invoice. If no reason was recorded, "Unknown" is listed in this column.
- (3) No supporting documentation (receipt slip or invoice) was available and the disbursement was not recorded in the school's accounting system.
- (4) Supporting documentation for this disbursement did not indicate to whom the gift cards were distributed.
- (5) A disbursement was made to an employee through the accounting system, not the payroll system, so the disbursement may be an employee reimbursement.