INVESTIGATIVE REPORT
Center for Training and Careers

March 2, 2010

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EXECUTIVE SUMMARY

The Office of the State Auditor (“OSA”) received concerns about the financial operations of Center for Training and Careers (“CTC”), a Minnesota alternative education program that had contracts with the Minneapolis and Richfield Public Schools.² The OSA conducted a review of CTC, a nonprofit corporation, related to these public contracts. The review was for the time period of May 2001 through August 2008. The OSA found that:

- CTC’s Board of Directors did not provide sufficient oversight of CTC’s financial activity and did not adequately monitor CTC’s contracts with entities related to CTC’s President, including:
  - payments of almost $2.8 million to a for-profit entity;
  - payments of over $100,000 to a nonprofit entity.

- CTC’s Board of Directors was not consistently provided with clear, accurate and complete information about CTC’s transactions with entities related to CTC’s President.

- CTC’s internal controls were not adequate to safeguard the approximately $18 million in public funds it received from public school districts.

- CTC Board members had conflicts of interest that do not appear to have been fully disclosed to or approved by the CTC Board.

- CTC did not maintain complete and accurate meeting minutes.

¹ The Office of the State Auditor delayed the public release of the Investigative Report at the request of the Hennepin County Attorney’s Office. See Minn. Stat. § 6.51.
² There is also a Center for Training and Careers, Inc., located in San Jose, California. The Vice President of the California CTC informed the OSA that the Minnesota alternative program was not related to the California CTC.

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LEGISLATIVE RECOMMENDATIONS

- Require training for board members of contract alternative education programs.

- Require public school districts contracting with alternative education programs to perform fiscal oversight functions.

- Require the filing of management agreements for contract alternative education programs with the Minnesota Department of Education (“MDE”) and the school districts contracting for alternative education programs.

- Subject contract alternative education programs to charter school conflict of interest requirements.

- Subject contract alternative education programs to charter school real property lease restrictions.

- Require audited financial statements of contract alternative education programs to be provided directly to MDE and to the school districts contracting for alternative education programs.
The Office of the State Auditor (“OSA”) received concerns about the financial operations of Center for Training and Careers (“CTC”), a Minnesota alternative education program that had contracts with the Minneapolis and Richfield Public Schools.

The OSA conducted a review of CTC, a nonprofit corporation, and found that CTC’s internal controls were not adequate to safeguard approximately $18 million in public funds it received from public school districts during the time period of May 2001 through August 2008, to properly authorize its financial transactions, to accurately record its financial activity in the accounting records, or to conduct its financial activities in a reasonable and prudent manner.3

This Report summarizes our findings and offers legislative recommendations for contract alternative education programs. In compliance with Minn. Stat. § 6.51, this Report is being filed with the Hennepin County Attorney to institute such proceedings as the law and the public interest require.

Background

Alternative education programs are designed to provide viable educational options for students who are experiencing difficulty in the traditional education system. The Minnesota Department of Education (“MDE”) estimated that almost 140,000 students were served by more than 150 alternative programs during the 2007/2008 school year.4 Twenty-eight of the alternative programs were provided by nonpublic entities that contracted with public school districts to provide instructional services to at-risk students who met statutorily-defined graduation incentives criteria.5 Under Minnesota law, for each student enrolled in a contract alternative education program, the public school

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3 The OSA’s authority to review the books, records, documents, and accounting procedures and practices of a vendor under a contract with a unit of local government or a vendor receiving any pass-through disbursement of public funds is found in Minn. Stat. § 16C.05, subd. 5. During its review of the public funds received by CTC, the OSA reviewed CTC documents and interviewed various former CTC employees, Board members, and vendors, and MDE and public school district personnel.


5 Id. See Minn. Stat. § 124D.68, subsd. 2 and 3(d).
district must provide the program with at least 95% of the available general education revenue for that student.6

CTC was a contract alternative education program that operated from 2001 through January 22, 2009. CTC had contracts with the Minneapolis and Richfield Public Schools. At one point, CTC had two sites in Minneapolis (one on Lake Street and one on Nicollet Avenue) and one in Richfield.7

**CTC – A Contract Alternative Education Program**

CTC was “a not for profit educational institution designed to provide school-to-work alternative education programming to Language minority students grades 9-12.”8 The name of a pre-existing nonprofit organization, Center for Safe Schools and Communities, Inc. (“CFSS”), was changed to CTC in November 2000.9 Louis D. Gonzales (“Gonzales”) was CFSS’s President and incorporator, and became CTC’s President.10

According to CTC’s By-Laws, CTC’s Board of Directors was responsible for the “maintenance of the property, affairs and business of CTC, and advice as to the fiscal and program operations of CTC.”11 Meetings of the Board were to be held monthly.12 Officers of the non-profit corporation consisted of the President (who was also co-chair “in pertetua” [sic]), the Chair, the Secretary, and the Treasurer.13

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6 See Minn. Stat. § 124D.69, subd. 1.
7 According to the Minneapolis Public Schools, the two Minneapolis sites were in operation at the same time for only about two months. As of June 30, 2006, CTC reported serving 293 students in Minneapolis and 150 students in Richfield. See CTC’s 2006 Year-End Reports. The September 16, 2004, CTC Board meeting minutes reported that CTC had 496 students between the two sites.
8 CTC By-Laws at 1.0 (May 1, 2001). See also CTC By-Laws (November 2000).
9 See Articles of Incorporation of Midwest Center for Safe Schools and Communities, filed with the Minnesota Secretary of State’s Office (“SOS”) on June 17, 1996; Amendment of Articles of Incorporation, filed with the SOS on June 25, 1997 (changing name to Center for Safe Schools & Communities, Inc.); Amendment of Articles of Incorporation, filed with the SOS on November 6, 2000, and Restated and Amended Articles of Incorporation of Center For Safe Schools and Communities, Inc., dated November 6, 2000, and filed with the Secretary of State’s Office on February 7, 2001 (changing name to Center for Training and Careers, Inc.).
10 See, e.g., Articles of Incorporation of Midwest Center for Safe Schools and Communities, Inc., (Gonzales is incorporator); Annual Registration Minnesota Nonprofit Corporation, filed with the SOS on November 6, 2000 (Gonzales is President of CFSS); Restated and Amended Articles of Incorporation of Center For Safe Schools and Communities, Inc., dated November 6, 2000, and filed with the SOS on February 7, 2001 (Gonzales is incorporator of CTC); Agreement Special School District No. 1 and CTC 2006-2008, and CTC Service Agreements with ISD 280 (Gonzales signed as President of CTC).
11 CTC By-Laws at 2.3 (May 1, 2001). See also Minn. Stat. § 317A.201 (“The business and affairs of a [nonprofit] must be managed by or under the direction of a board of directors.”)
12 CTC By-Laws at 2.4 (May 1, 2001).
13 CTC By-Laws at 2.1 and 3.0 (May 1, 2001).
In a letter dated December 10, 2008, CTC announced that, after receiving a request for information from MDE, CTC initiated an internal investigation of certain past financial transactions, “the results of which were a surprise and were reported to both [MDE] and the Richfield Police.” According to the letter, CTC would close at the end of the semester, on January 22, 2009.

CTC Contracts with Minneapolis Public Schools: Payments of Over $13.5 Million

From May 2001 through June 2008, Special School District No. 1, Minneapolis Public Schools, had contracts with CTC for educational services for students who were expelled or excluded from the Minneapolis Public Schools, or who were otherwise eligible to receive educational services in an alternative setting.

Under the contracts, the Minneapolis Public Schools paid CTC over $13.5 million. The payments were based upon the average daily membership (“ADM”) of students served by CTC, with adjustments to the monthly payments as necessary to reconcile the total amount paid to CTC with actual enrollment. Final payments were determined based upon final ADM counts provided by the State. The Minneapolis Public Schools charged CTC a fee for administrative expenses.

In the Spring of 2008, the Minneapolis Public Schools received concerns about CTC’s financial practices. In a letter dated May 13, 2008, the Minneapolis Public Schools requested a meeting with Gonzales to review CTC’s financial records for the past six years. In response, Gonzales sent the Minneapolis Public Schools a letter in which he described CTC’s accounting practices as “impeccable.”

When the contract between CTC and the Minneapolis Public Schools expired on June 30, 2008, the Minneapolis Public Schools chose not to offer a new contract to CTC. The students were transferred to a program offered through Volunteers of America.

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14 CTC filed a Notice of Intent to Dissolve with the SOS on December 8, 2008. The Richfield Police Department turned its file over to the OSA.
15 See, e.g., Agreement Special School District No. 1 and CTC 2003-2004 ¶ I.A.
16 See, e.g., Agreement Special School District No. 1 and CTC 2006-2008 ¶ V and Exhibit 3.
17 For example, in September 2005, the Minneapolis Public Schools notified CTC that it would reduce future CTC payments to offset overpayments made during the 2004/2005 school year. See Letter dated September 8, 2005, from Mary Barrie (Minneapolis Public Schools) to Gonzales.
19 See Letter dated May 13, 2008, from Mary Barrie to Gonzales. The District’s contract with CTC allowed the District access to review CTC’s financial records during normal business hours for a period of six years.
21 See Letter dated June 12, 2008, from Mary Barrie to Gonzales.
CTC Contracts with Independent School District 280 – Richfield (“ISD 280”): Payments of Over $4.5 Million

ISD 280 entered into a Service Agreement with CTC on May 17, 2004, to provide educational services to students who had been expelled or excluded from ISD 280 schools, or who were otherwise eligible to receive educational services in an alternative setting. ISD 280 conducted a review of CTC in May 2005. ISD 280 recognized that 17 students were expected to graduate from CTC on June 8, 2005. ISD 280 also noted that previously identified issues, none of them related to CTC’s finances, had either been addressed or developed into an acceptable plan for resolution. ISD 280 entered into a second Service Agreement with CTC on May 9, 2007, that continued until June 30, 2010, unless terminated earlier.

Under the agreements, ISD 280 paid CTC over $4.5 million. ISD 280 paid CTC on a quarterly basis, using the prior year’s weighted ADM. Under the Agreement, ISD 280 withheld 10% of the revenue to compensate for variations due to actual enrollment. ISD 280 retained 5% of the basic education revenue as a management fee.

When CTC made the decision to close, ISD 280 terminated its agreement with CTC effective January 22, 2009.

MDE Reviews of CTC

MDE conducted reviews of CTC’s program and student counts. For example, one MDE audit of CTC’s student count covered the time period of July 1, 2005, through June 30, 2006, and resulted in increased payments to CTC of $4,075.79 in general education aid. Similarly, in April 2007, MDE reported on its audit of CTC’s curriculum, instructional methods, and teacher licensure. The audit found that a number of initiatives had been implemented to address concerns from a previous MDE audit. The audit also “found a number of strengths” in the program and noted that “[l]eadership is strong, consistent and

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24 Id.
27 Id. at Exhibit 3. Any payment adjustments were to be made in August, after the close of the school year, using actual attendance data.
28 See Letter dated August 8, 2007, from MDE to Superintendent of ISD 280. The authority for the MDE audit is found in Minn. Stat. § 127A.41, subd. 3.
30 Id. See also Letter dated March 14, 2005, from MDE to Gonzales.
focused on student success.” The program audit identified three key areas in need of improvement – none of them related to CTC’s finances.31

In October 2008, the Director of CTC at the Richfield site received a letter from MDE requesting records for payments CTC made to a private, for-profit company operated by Gonzales.32 The CTC-Richfield Director found that many of the documents MDE had requested were missing.33

On November 26, 2008, MDE sent a letter to the Office of the Legislative Auditor (“OLA”), reporting its review of a complaint it had received about CTC. The complaint alleged that Gonzales, as President of CTC, directed public funds to a separate entity operated by Gonzales. MDE reported that it also discovered CTC payments to a second nonprofit entity operated by Gonzales. On January 12, 2009, the OLA transferred the matter to the Office of the State Auditor (“OSA”) after determining that CTC was paid through contracts with the Richfield and Minneapolis Public Schools.34

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31 The three areas needing improvement were: 1) 14/36 continual learning plans required under Minn. Stat. § 124D.128 were missing, and others were not fully completed; 2) the development of a stronger attendance policy was recommended; and 3) a work experience program was strongly recommended.
32 See Email dated November 3, 2008 from CTC-Richfield Director to CTC Board members.
33 See Email dated November 3, 2008 from CTC-Richfield Director to CTC Board members.
34 The OSA has the authority to review school districts, their vendor contracts, and relevant vendor “books, records, documents, and accounting procedures and practices.” See Minn. Stat. §§ 6.51 and 16C.05, subd. 5.
Findings

CTC, a nonprofit corporation, received approximately $18 million of public funds during the time period of May 2001 through August 2008. This Report summarizes the OSA’s findings from a review the OSA conducted of CTC. During its review, the OSA received the cooperation of former CTC Board members and employees contacted by the OSA.

I. CTC’s Board of Directors did not provide sufficient oversight of CTC’s financial activity and did not adequately monitor CTC’s contracts with entities related to CTC’s President.

According to CTC’s By-Laws, CTC’s Board of Directors was responsible for the “maintenance of the property, affairs and business of CTC, and advice as to the fiscal and program operations of CTC.” The OSA found that the CTC Board did not adequately monitor CTC’s contracts, expenditures, or financial transactions.

The CTC Board did not independently review and approve CTC expenditures. Instead, in a resolution dated July 1, 2001, signed by the CTC Board Chair, the CTC Board of Directors authorized Gonzales as signatory on behalf of CTC on any business transactions affecting CTC.

Effective April 1, 2003, CTC hired a private, for-profit company called Little Feathers Group (“LFG”) to provide CTC with management services. In addition to being President of CTC, Gonzales was the President and CEO of LFG. LFG was an “S Corporation” so profits and losses flowed directly through to the owner(s). Based upon the OSA’s review of CTC’s cancelled checks, it appears CTC paid LFG almost $2.8 million during the time period of April 15, 2003, through September 25, 2007.

The OSA received a draft version of the CTC-LFG agreement. The OSA also received two fully signed versions of the agreement containing different compensation provisions but the same signature page. In addition, the OSA received an amendment to the agreement signed by Gonzales as LFG’s President and by CTC’s Board Treasurer. The OSA reviewed CTC’s Board meeting minutes and found no evidence that the full CTC Board approved all versions of the agreements.

35 CTC By-Laws at 2.3 (May 1, 2001). See also Minn. Stat. § 317A.201 (“The business and affairs of a [nonprofit] must be managed by or under the direction of a board of directors.”)
36 Management Agreement between CTC and LFG at ¶ 8.1. The contract was to continue until March 31, 2013. However, the contract appears to have ended in March 2007 when LFG employees were put on CTC’s payroll.
37 See Articles of Incorporation of Little Feathers Group Corp., filed with the Minnesota Secretary of State’s Office on August 1, 2002; 2006 Domestic Corporation Annual Renewal filed with the SOS (Gonzales identified as CEO of LFG); Amendment to contract between CTC and LFG dated June 20, 2003 (Gonzales identified as President of LFG).
CTC did not adequately monitor its contract with LFG. In addition, in a resolution dated October 17, 2006, the CTC Board authorized Gonzales, as President of LFG, to continue as signatory on behalf of CTC on any business transactions affecting CTC.\textsuperscript{39}

CTC paid LFG for services under the CTC-LFG agreement and LFG invoices. However, based on our review, it appears CTC also paid directly for some of the same services. These CTC payments included more than $91,500 to a consultant, over $114,000 for grant writing and website development services, and payments for site directors. In effect, it appears that CTC paid for these services twice – once when it paid LFG for the services and again when CTC paid directly for the services.

In addition to being President of CTC and LFG, Gonzales was President of Center for Safe Schools and Communities, Inc. (CFSS), a nonprofit entity.\textsuperscript{40} CFSS’s Articles of Incorporation were amended in November 2000 to change CFSS’s name to CTC.\textsuperscript{41} Even though CFSS and CTC were the same entity, the OSA found that CTC entered into annual contracts with CFSS, and paid CFSS almost $102,000 during the time period of April 9, 2003, through April 15, 2008.\textsuperscript{42} The OSA found no evidence in the Board meeting minutes that these contracts were disclosed to or approved by CTC’s Board.\textsuperscript{43}

\section{CTC’s Board was not consistently provided with clear, accurate and complete information about CTC’s transactions with entities related to CTC’s President.}

Generally accepted accounting principles require the disclosure of material related party transactions and certain control relationships.\textsuperscript{44} Related party transactions include transactions between an entity and its principal owners, management, or members of their immediate families, or transactions between affiliates.\textsuperscript{45} The disclosure of these transactions is important, in part, due to the instances of fraudulent financial reporting.

\begin{footnotesize}
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\item[\textsuperscript{39}] According to the Minutes for the October 19, 2006, CTC Board meeting, the vote to pass the resolution was unanimous.
\item[\textsuperscript{40}] See Annual Registration Minnesota Nonprofit Corporation, filed with the SOS on November 6, 2000.
\item[\textsuperscript{41}] See Amendment of Articles of Incorporation, filed with the SOS on November 6, 2000, and Restated and Amended Articles of Incorporation of Center For Safe Schools and Communities, Inc., dated November 6, 2000, and filed with the Secretary of State’s Office on February 7, 2001 (changing name to Center for Training and Careers, Inc.). As a result, the EIN for CFSS and CTC was the same. See, e.g., IRS letters dated December 28, 2000, and May 24, 2001.
\item[\textsuperscript{42}] $63,181.33 from the CTC-Minneapolis checking account; $38,804.33 from the CTC-Richfield checking account.
\item[\textsuperscript{43}] One of the CTC-CFSS contracts appears to be signed by the CTC Board Chair. She informed the OSA that the signature on the contract was not her signature.
\item[\textsuperscript{44}] See Accounting and Auditing for Related Parties and Related Party Transactions: A Toolkit for Accountants and Auditors (December 2001), prepared by the Staff of the American Institute of Certified Public Accountants (hereinafter “AICPA Toolkit”), available on AICPA’s website: http://fvs.aicpa.org.
\item[\textsuperscript{45}] \textit{Id.} at page 7. See also FASB Statement No. 57 (Related Party Disclosures). Related party transactions are not presumed to be carried out on an arm’s length basis. AICPA Toolkit at page 8.
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and misappropriation of assets that have been facilitated by the use of an undisclosed related party. Related parties, such as controlled entities, officers or management, can execute transactions that can defraud the entity by transferring funds to conduit related parties, and ultimately to the perpetrators.  

Beginning with the 2003-2004 school year, CTC had annual financial audits performed by independent auditing firms. The audits disclosed related party transactions with an educational management company. However, the amounts disclosed in CTC’s related party notes, which are part of CTC’s Financial Statements, for the 2003-2006 school years under-reported CTC’s actual payments to LFG, based upon the OSA’s review of CTC’s checks to LFG. In addition, the related party notes for the 2003-2006 school years did not include CTC payments to CFSS.

The OSA also found that the CTC Board was not consistently provided with the audits performed by the independent auditing firms. For example, a bound 2005 Year End and Audit Report purportedly contained the audited Financial Statements for CTC-Minneapolis for the 2004-2005 school year. However, the page from the Financial Statements showing the related party note was not included in the Report. In addition, the page numbers on the audited Financial Statements had been removed and the Table of Contents, that would have disclosed that a page was missing from the Financial Statements, had been replaced with a different Table of Contents.

It appears the CTC Board was not given CTC’s 2003-2004 audited Financial Statements. The OSA observed that the pages showing the related party note and the Table of Contents were removed from the copy of CTC’s 2003-2004 audited Financial Statements the Minneapolis Public Schools provided to the OSA.

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46 AICPA Toolkit at page 5.
48 The related party transactions reported in the audits are divided into categories of services allegedly provided by LFG.
49 The OSA obtained the bound 2005 Year End and Audit Report from one of CTC’s former Board members. CTC’s outside accountants also had a bound copy of the Report.
51 During the OSA’s review of CTC’s files, the OSA found the original, bound 2004-2005 audited Financial Statements. The OSA also found a copy of the audited Financial Statements containing “white out” on the page numbers.
CTC also used the services of an outside firm for accounting services. However, the CTC Board was not regularly provided with the monthly financial information prepared by CTC’s outside accountants.

III. CTC’s internal controls were not adequate to safeguard the approximately $18 million in public funds it received from public school districts.

The CTC Board and CTC’s management were responsible for establishing and maintaining internal controls. This responsibility includes internal controls over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization’s accounting system.

CTC failed to establish the most basic internal controls needed to safeguard the public funds it received. During its review, the OSA observed the following:

- CTC did not adequately segregate duties.
- CTC checks had only one signature regardless of the amount.\(^5^4\)
- The LFG employee who worked on LFG’s invoices also signed many of CTC’s checks made payable to LFG.
- At times, Gonzales signed CTC checks made payable to his related party entities.
- Related party transactions were under-reported for the 2003-2006 school years on CTC’s audited Financial Statements.
- In at least one instance, CTC’s federal tax Form 1099s did not appear to match the payments made to an independent contractor.
- Receipts, invoices, or other supporting documentation were not maintained for all CTC transactions.
- CTC did not maintain adequate documentation for loans it received from and repaid to Gonzales.

\(^{54}\) The Management Letter for the audit of CTC’s Financial Statements for the year ended June 30, 2007, dated January 11, 2008, contained an audit comment about CTC’s check signing procedures and recommended that checks written over a predetermined amount require two signatures. Prior audits did not contain a similar comment or recommendation. In 2008, a second signature was added to some of CTC’s checks.
IV. **CTC Board members had conflicts of interest that do not appear to have been fully disclosed to or approved by the CTC Board.**

Under the Minnesota Nonprofit Corporation Act, board members may have a direct financial interest in the nonprofit’s contracts, as long as the material facts of the interest are fully disclosed to the board and the contract is approved by a majority in good faith. The OSA found that certain CTC Board members appear to have had financial interests in CTC contracts. For example:

- A Board member who served from 2001 through 2008, and served at various times as the Chair and Treasurer, was CTC’s medical insurance broker. Various CTC Year-End Reports claimed that the Board member waived commissions ranging from $2,500 to $13,000. The Board member told the OSA that the commissions were not, and could not be waived, and that the yearly commissions were less than $13,000. According to the Board member, CTC would have paid the same amount for its medical insurance even if the commissions could have been waived.

- A family member of the person who served as Board Treasurer from 2001 through 2006 owned the Lake Street property leased by CTC. The Board was aware of the family member’s ownership of the property. However, the Board did not approve in advance changes made in the Lake Street lease that were beneficial to the landlord.

- A Board member who served from 2001 through 2007 worked in commercial real estate and assisted CTC with finding properties for its schools. While the Board member told the OSA he twice waived his portion of commissions for this work, he could not waive the portion of the commissions that went to his firm. The OSA found no evidence in the Board meeting minutes that the Board discussed these compensation issues.

- A Board member who served from March 2005 through 2008, and served as Board Chair, worked with a group that brokered telecommunication services.

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55 See Minn. Stat. § 317A.255, subd. 1.
56 CTC’s 2006 Year-End Report to the Minneapolis Public School District stated that the Board member waived commissions of approximately $2,500 per year. CTC’s 2006 Year-End Report to ISD 280 claimed that the Board member waived commissions of approximately $5,000 per year. CTC’s 2006–2007 Year-End Report and 2007–2008 Year-End Report to ISD 280 claimed that the Board member waived commissions of approximately $13,000 per year.
57 The Treasurer told the OSA that he had an unwritten 1/3 interest in the property. Charter schools are generally prohibited from entering a lease of real property with a related party or an immediate relative. See Minn. Stat. § 124D.10, subd. 23a.
58 It is unclear to the OSA whether the Board was aware of the Treasurer’s purported interest in the property.
CTC paid the Board member’s business for services. The OSA found no evidence in the Board meeting minutes that the Board discussed this interest or approved these contracts.

- A Board member who served from September 2006 through 2008 was introduced to the Board as the owner and publisher of a news outlet. CTC paid the news outlet for advertising. The OSA found no evidence in the Board meeting minutes that the Board discussed this interest or approved these payments.

V. CTC did not maintain complete and accurate meeting minutes.

The OSA obtained CTC Board meeting minutes. The OSA also received notes and meeting minutes from CTC Executive Board members who attended the meetings.

CTC failed to maintain complete meeting minutes. For example, the OSA was provided with a document stating there was no CTC Board meeting in December 2006, due to holiday commitments of the CTC Board. However, the OSA obtained copies of the agenda and meeting minutes for a CTC Board meeting held on December 21, 2006, from members of CTC’s Board. The OSA received no meeting minutes for several CTC Board meetings, including any meetings that occurred in June, July, August, September, November, or December 2007.

The OSA compared the meeting minutes, the Board members’ notes, and the signed CTC-LFG agreements. The OSA found discrepancies leading the OSA to question the accuracy of CTC’s meeting minutes.

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59 The OSA received CTC’s meeting minutes from the OLA and from former CTC Board members. The OSA also received minutes of four CTC Board meetings from the Minneapolis Public Schools.
Legislative Recommendations for Contract Alternative Education Programs

The OSA recommends that the legislature make statutory changes for contract alternative education programs to ensure the proper handling of public funds received by contract alternative programs. More specifically, we recommend that contract alternative education programs be held to some of the same standards as charter schools.

- **Require Training for Board Members of Contract Alternative Education Programs**

  Independent school district board members are required to receive training in school finance and management. Similarly, charter school board members must attend training on board governance, the board’s role and responsibilities, employment policies and practices, and financial management.

  The OSA recommends that contract alternative education programs be required to attend training on board governance, the board’s role and responsibilities, employment policies and practices, and financial management.

- **Require Public School Districts Contracting With Alternative Education Programs to Perform Fiscal Oversight Functions**

  Charter schools are required to have an approved entity serve as an authorizer to oversee the school’s academic and fiscal performance. The OSA recommends that a public school district contracting with an alternative program be required to perform the fiscal oversight functions of a charter school authorizer.

- **Require the Filing of Management Agreements for Contract Alternative Education Programs with MDE and the School Districts Contracting for Alternative Education Programs**

  Minnesota charter schools are required to provide MDE annually with a copy of any agreements for corporate management services. The OSA recommends that contract alternative education programs be required to annually provide a copy of any agreements for corporate management services to MDE and to any public school districts with whom they contract.

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60 See Minn. Stat. § 123B.09, subd. 2.
61 See Minn. Stat. § 124D.10, subd. 4(f).
63 See Minn. Stat. § 124D.10, subd. 6a(b).
• **Subject Contract Alternative Education Programs to Charter School Conflict of Interest Requirements**

With certain exceptions, public school board members may not have a personal financial interest in a school district contract. With certain exceptions, charter school board members and their immediate family members, may not own or be employed by an entity that contracts with the school. Charter school board members and employees are also prohibited from participating in selecting, awarding or administering contracts where a conflict exists. Under the Minnesota Nonprofit Corporation Act, board members may have a direct financial interest in the nonprofit’s contracts, as long as the material facts of the interest are fully disclosed to the board and the contract is approved by a majority in good faith.

The OSA recommends that board members of contract alternative education programs be subject to the same conflict of interest requirements as charter school board members.

• **Subject Contract Alternative Education Programs to Charter School Real Property Lease Restrictions**

Charter schools are generally prohibited from entering a lease for real property with a related party or an immediate relative.

The OSA recommends that contract alternative education programs be subject to the same real property lease restrictions as charter schools.

• **Require Audited Financial Statements of Contract Alternative Education Programs to be Provided Directly to MDE and to the School Districts Contracting for Alternative Education Programs**

The OSA recommends that auditors who perform audits of contract alternative education programs be required to provide the audited financial statements directly to MDE and to the school districts that have contracts for the alternative program.

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64 See Minn. Stat. §§ 471.87-471.89.  
65 See Minn. Stat. § 124D.10, subd. 4a(a).  
66 See Minn. Stat. § 124D.10, subd. 4a(b).  
67 See Minn. Stat. § 317A.255, subd. 1.  
68 See Minn. Stat. § 124D.10, subd. 23a.