
Audit Report

Harriet Tubman Charter School

for the Period

July 1, 2004 through March 28, 2006

CH-0106-1

June 27, 2007

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
Albany, New York 12234





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June 27, 2007

Mr. Clifford Frazer
Board President
Harriet Tubman Charter School
3565 Third Avenue
Bronx, New York, 10456

Dear Mr. Frazer:

The following is our final audit report (CS-0106-1) on the Harriet Tubman Charter School for the period July 1, 2004 through March 28, 2006. The audit was conducted pursuant to the New York Charter Schools Act of 1998 and in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

Ninety days from the issuance of this report, School officials will be asked to submit a report on actions taken as a result of this audit. This required report will be in the format of a recommendation implementation plan and it must specifically address what action has been taken on each audit recommendation.

I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

James A. Conway

Enclosure

cc: T. Savo, J. Duncan-Poitier, J. Delaney, B. Porter, D. Hinchcliff, C. Szuberla, C. Foster (DOB), K. Sifontes (OSC), J.D. Merriman IV (Charter School Institute), M. Ashton (Office of Charter Schools), Gwen Stephens (Principal), I. Schwartz, D. Mengel, A. Ray

Executive Summary

Background and Scope of the Audit

Harriet Tubman Charter School (School) is responsible for providing educational services to about 400 students in grades K through 8. The budget for the 2005-06 school year was \$3 million. The School, located in Bronx, New York, is a Board of Regents chartered entity. The School's Charter Agreement (Charter) was approved on January 13, 2000 and the School began operations in September 2001.

The School contracted with a Management Company on June 26, 2004 for a period to end June 30, 2010 to assume the management of the educational curriculum as well as provide assistance with financial operations. The School is to pay the Management Company a service fee equal to a percent of certain funds received.

Student performance for the 2004-05 grade 4 English Language Arts (ELA) and mathematics assessments did not meet the State averages. For example, only 55 percent of the School's students met or exceeded the standards for the ELA compared to the State average of 70 percent. Similarly, 66 percent of the School's students met or exceeded the standards for the mathematics assessment, compared to the State average of 87 percent.

The Office of Audit Services reviewed selected management practices, records, and documentation for the period July 1, 2004 through March 28, 2006. The objective of the audit was to assess the School's internal controls, which are designed to help ensure its goals and objectives are accomplished; laws, regulations, and good business practices are complied with; assets are safeguarded; and accurate and reliable data are maintained and reported.

Audit Results

The audit found that the School has a number of serious internal control issues, some of them are as follows:

- The increasing negative fund balance in the School's general fund is an indication of serious fiscal stress. As of June 30, 2004, the fund balance in the general fund reported in the audited financial statements was negative \$250,371. As of June 30, 2005, this amount had increased to a negative \$757,888. In the audited financial statements as of June 30, 2006, the fund balance was a negative \$971,772.
- The School maintained a Petty Cash Fund of \$1,000. In a 15-month period, over \$20,000 in checks were written to reimburse the Fund. Current receipts were not available and a number of the receipts furnished included sales tax. The Executive Director was the custodian of the Fund even though she was seldom at the School.
- Bank reconciliations were not prepared, reviewed, or presented to the Board of Trustees (Board).
- Checks were written to the Executive Director and Director of Operations and signed by these two individuals.
- Two credit cards issued to the Executive Director and the Director of Operations were used to charge over \$75,000 between July 2004 and May 2006. There was no evidence

of a review or approval process for charges, no receipts were available, explanations were minimal or missing, and the bills were paid directly from the statements.

- The Board did not routinely receive the required reports to effectively monitor the financial condition of the school. For example, the Board did not review and approve the budget, approve any budgetary transfers, or receive budget status reports. It also did not discuss audit findings of the independent auditor or approve corrective action plans to address specific findings; did not discuss and authorize conference attendance; and did not review bank accounts annually, authorize required accounts, or recommend closure of unneeded accounts.
- The School's Director of Operations is responsible for many functions, which raises some concerns with the adequacy of controls, including separation of duties. This individual opens mail; handles all cash receipts; is solely responsible for the internal accounting system; preparation of financial statements; monitoring of staff attendance for payroll purposes; and preparing, signing, and mailing checks.

Given the critical nature of the conditions, the School should take immediate action to make improvements in these areas. A more detailed discussion of the results of the audit is presented in the report.

Comments of School Officials

School officials' comments about the findings were considered in preparing this report. They agreed with 80 of the 82 recommendations. The response indicated that actions have been taken to implement 67 of the recommendations. The full text of the response is included as Appendix B.

Table of Contents

INTRODUCTION.....	1
BACKGROUND.....	1
OBJECTIVES, SCOPE, AND METHODOLOGY	2
AUDIT RESULTS	2
COMMENTS OF SCHOOL OFFICIALS.....	3
BUDGETING, ACCOUNTING AND REPORTING	4
NEGATIVE FUND BALANCE.....	4
<i>Recommendations</i>	4
COMMENTS OF SCHOOL OFFICIALS	5
BANK RECONCILIATIONS	5
<i>Recommendations</i>	5
COMMENTS OF SCHOOL OFFICIALS.....	6
SEPARATION OF DUTIES.....	6
<i>Recommendation</i>	6
COMMENTS OF SCHOOL OFFICIALS.....	7
TIMELINESS OF ANNUAL FINANCIAL AUDIT	7
<i>Recommendation</i>	7
COMMENTS OF SCHOOL OFFICIALS.....	7
MANAGEMENT LETTER OBSERVATIONS	7
<i>Recommendation</i>	8
COMMENTS OF SCHOOL OFFICIALS.....	8
STATUS OF INDEPENDENT AUDITOR.....	8
<i>Recommendation</i>	9
COMMENTS OF SCHOOL OFFICIALS.....	9
AUDIT FORMAT.....	9
<i>Recommendations</i>	9
COMMENTS OF SCHOOL OFFICIALS	10
BUDGET NOT MONITORED.....	10
<i>Recommendations</i>	10
COMMENTS OF SCHOOL OFFICIALS.....	10
INACCURATE COUNT OF STUDENTS REPORTED.....	10
<i>Recommendations</i>	12
COMMENTS OF SCHOOL OFFICIALS.....	12
SUBMISSION OF GRANTS EXPENDITURE REPORTS.....	12
<i>Recommendations</i>	13
COMMENTS OF SCHOOL OFFICIALS	13
VADIR SUBMISSION	13
<i>Recommendation</i>	13
COMMENTS OF SCHOOL OFFICIALS.....	13
BACKUP OF ACCOUNTING DATA.....	13
<i>Recommendations</i>	14
COMMENTS OF SCHOOL OFFICIALS.....	14
PURCHASING AND EXPENDITURES.....	15

INADEQUATE DOCUMENTATION AND INAPPROPRIATE CHARGES TO CREDIT CARDS	15
<i>Recommendations</i>	16
COMMENTS OF SCHOOL OFFICIALS	17
PAYMENT DOCUMENTATION.....	17
<i>Recommendations</i>	18
COMMENTS OF SCHOOL OFFICIALS	18
CHECKS SIGNED BY PAYEES	19
<i>Recommendation</i>	19
COMMENTS OF SCHOOL OFFICIALS	19
PETTY CASH FUND.....	20
<i>Recommendations</i>	20
COMMENTS OF SCHOOL OFFICIALS	21
CLEANING SERVICE PAYMENTS	21
<i>Recommendations</i>	21
COMMENTS OF SCHOOL OFFICIALS	21
AUDITOR’S NOTE.....	21
CAR SERVICE PAYMENTS.....	22
<i>Recommendations</i>	22
COMMENTS OF SCHOOL OFFICIALS	23
TRACKING LONG-TERM LOAN.....	23
<i>Recommendations</i>	23
COMMENTS OF SCHOOL OFFICIALS	23
GOVERNANCE AND PLANNING.....	24
GOVERNANCE RESPONSIBILITY	24
<i>Recommendations</i>	25
COMMENTS OF SCHOOL OFFICIALS	25
FINANCE COMMITTEE RESPONSIBILITIES	25
<i>Recommendations</i>	26
COMMENTS OF SCHOOL OFFICIALS	26
BOARD CHAIR ACTING AS SECRETARY	27
<i>Recommendation</i>	27
COMMENTS OF SCHOOL OFFICIALS	27
SCHOOL’S RELATIONSHIP WITH THE PARENT’S ORGANIZATION	27
<i>Recommendations</i>	27
COMMENTS OF SCHOOL OFFICIALS	27
PAYROLL AND PERSONNEL.....	29
STATUS OF EXECUTIVE DIRECTOR.....	29
<i>Recommendations</i>	30
COMMENTS OF SCHOOL OFFICIALS	30
PERSONNEL FILE DOCUMENTATION.....	30
<i>Recommendations</i>	31
COMMENTS OF SCHOOL OFFICIALS	32
CERTIFICATION TO TEACH 7 TH AND 8 TH GRADES	32
<i>Recommendation</i>	33
COMMENTS OF SCHOOL OFFICIALS	33
TIMESHEETS.....	33
<i>Recommendation</i>	34

COMMENTS OF SCHOOL OFFICIALS	34
BACKGROUND CHECKS AND FINGERPRINTING OF BOARD MEMBERS	34
<i>Recommendations</i>	34
COMMENTS OF SCHOOL OFFICIALS	34
REVENUE AND CASH MANAGEMENT	35
CASH FLOW PROJECTIONS	35
<i>Recommendations</i>	35
COMMENTS OF SCHOOL OFFICIALS	35
FACILITIES AND EQUIPMENT	36
INVENTORY	36
<i>Recommendations</i>	36
COMMENTS OF SCHOOL OFFICIALS	37
STUDENT SERVICES.....	38
UNCOLLECTED SCHOOL LUNCH PAYMENTS	38
<i>Recommendations</i>	38
COMMENTS OF SCHOOL OFFICIALS	39
NON-COMPLIANCE WITH SCHOOL LUNCH REQUIREMENTS.....	39
<i>Recommendation</i>	39
COMMENTS OF SCHOOL OFFICIALS	39

Appendix A – Contributors to the Report
Appendix B – Response of School Officials

Introduction

Background

Harriet Tubman Charter School (School), located in the Bronx, New York, is a Board of Regents chartered entity. The School provides educational services to about 400 students in grades K through 8 with a 2005-06 budget of \$3 million. The Charter was approved on January 13, 2000 and the School began operations in September 2001. The mission of the School is “to recognize that all human beings are endowed with unique talents. Our goal is to lead students to the realization, development, and expression of that potential.”

The School contracted with a Management Company on June 26, 2004 for a period to end June 30, 2010 to assume the management of the educational curriculum as well as provide assistance with financial operations. The agreement requires the School to pay the Management Company a service fee equal to a percent of certain funds received.

Student performance for the 2004-05 grade 4 English Language Arts (ELA) and mathematics assessments did not meet the State averages. For example, only 55 percent of the School’s students met or exceeded the standards for the ELA compared to the State average of 70 percent. Similarly, 66 percent of the School’s students met or exceeded the standards for the mathematics assessment, compared to the State average of 87 percent.

Additional information about the School’s financial condition and student performance can be obtained from the following sources:

- *The New York State School Report Card* (Report Card) published April 2006 and available online at <http://www.emsc.nysed.gov/repcrd2005/home.shtml>; and
- *A Report to the Governor and the Legislature on the Educational Status of the State’s Schools* (Chapter 655 Report) published October 2006 and available online at <http://www.emsc.nysed.gov/irts/655report/2006/home.htm>

Objectives, Scope, and Methodology

The audit examined selected management practices, records, and documentation for the period July 1, 2004 through March 28, 2006. The objective of the audit was to assess the School's internal controls, which are designed to help ensure:

- its goals and objectives are accomplished;
- laws, regulations, and good business practices are complied with;
- assets are safeguarded; and
- accurate and reliable data are maintained.

To accomplish our objective, we reviewed applicable laws, regulations, policies and procedures, and the School's Charter; interviewed State Education Department (Department) and School management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the School's audited financial statements.

We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other procedures considered necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions, and recommendations.

Audit Results

The audit found that the School has financial and internal control weaknesses and identified improvement opportunities in a number of areas.

The improvement opportunities are addressed in more detail in the following sections of the report. The Board should give careful consideration to the recommendations to improve the operation and management of the School.

Comments of School Officials

School officials' comments about the findings were considered in preparing this report. They agreed with 80 of the 82 recommendations. The response indicated that actions have been taken to implement 67 of the recommendations. The full text of the response is included as Appendix B.

BUDGETING, ACCOUNTING AND REPORTING

Schools must have adequate budgeting, accounting, and reporting systems in place to ensure that accurate, timely, and complete financial records are maintained and disclosed in periodic reports to the board, the public, and the State. The School can make improvements related to its financial budgeting, accounting, and reporting systems.

Negative Fund Balance

A school must operate within an annual budget that reflects the expected revenue and expenses for the year. Since the revenue stream for charter schools is based on the number of students served (tuition revenue) and the State and federal grant funding available, a continued and growing negative fund balance poses a question as to the school's ability to meet its current and future obligations.

The increasing negative balance in the School's general fund is an indication of fiscal stress. As of June 30, 2004, the general fund balance was a negative \$250,371. By June 30, 2005, the negative balance had increased to \$757,888 and by June 30, 2006, the negative balance was \$971,772. This does not allow the School any flexibility to address revenue shortfalls or meet unanticipated expenses.

School officials stated they plan to rely on donations to keep the School operating. This has not proved to be a feasible plan to date. For the year ended June 30, 2005, the School only received \$18,600 in gifts, donations, and interest, even though they incurred significant expenses for public relations and fund raising.

Recommendations

1. Develop a corrective action plan to address the increasing negative fund balance.
2. Implement oversight controls over all School spending.

Comments of School Officials

School officials agreed with and implemented recommendations 1 and 2.

Bank Reconciliations

Bank reconciliations are important controls that are used to verify the accuracy of the cash balance recorded in the accounting records and on the bank statements. The reconciliation must be prepared in a timely manner by an individual who is not involved in the handling or recording of cash receipts or disbursements, and must be reviewed by someone independent of the preparer. This separation of duties helps provide accountability over funds and is more likely to disclose errors and irregularities. The individual performing the reconciliation and the individual reviewing it should sign and date the document.

Bank reconciliations were not prepared for the bank accounts maintained by the School. The Director of Operations provided an account reconciliation from the School's accounting system for one of the bank accounts; however, this did not provide enough information to complete an accurate reconciliation and there was no evidence of bank statements being reconciled to the general ledger.

Failure to complete bank reconciliations may have contributed to the issuance of check number 2225 for \$150,000 being presented on August 16, 2005, when the available balance in the account was \$52,595. The School incurred a charge of \$33 for insufficient funds. A difference of this magnitude indicates a lack of control over available cash.

Recommendations

3. Reconcile all bank statements in a timely manner to verify the accuracy of the cash balance in the accounting records and on the bank statements.
4. Assign an individual to be responsible for preparing bank reconciliations. This should be someone independent of handling or recording cash receipts or disbursements.

5. Assign an individual to be responsible for reviewing the bank reconciliations. This should be someone independent of the preparer.
6. Require both the preparer and reviewer to sign and date the reconciliations when complete.

Comments of School Officials

School officials agreed with and implemented recommendations 3 through 6.

Separation of Duties

The State Comptroller's *Standards for Internal Control in New York State Government* defines separation of duties as the division of key tasks and responsibilities among the various employees and units of an organization. No one individual should control all of the key aspects of any transaction or event. By separating key tasks and responsibilities, such as receiving, recording, depositing, securing, and reconciling assets, management can reduce the risk of error, waste, or wrongful acts occurring or going undetected.

The School's Director of Operations is responsible for many incompatible functions, which raises concerns about the adequacy of controls, including separation of duties. This individual opens the mail; handles all cash receipts; is solely responsible for the internal accounting system (both data entry and backups); prepares financial statements; monitors staff attendance for payroll purposes; and prepares, signs, and mails checks.

This issue has been raised in the annual financial audit as having an impact on the timely update of accounting records and contributed to the late submission of the annual audit to the Department.

Recommendation

7. Reassign incompatible duties to other members of the staff. Ensure that no one person has complete control over all aspects of a transaction including approval, receipt, payment, and reconciliation.

Comments of School Officials

School officials agreed with and implemented recommendation 7.

Timeliness of Annual Financial Audit

Each year the annual financial audit is due at the Department by November 1st. Timeliness of this submission is necessary for the Department to monitor the fiscal health of a school. In addition, an on-time audit provides a school with the opportunity to develop and enact a corrective action plan with sufficient time to have an impact within the school year.

The annual audit for the 2004-05 school year was due November 1, 2005. The audit was submitted to the Department on March 6, 2006. The 4-month delay in submission did not afford the School time to develop a corrective action to address the audit issues within the school year.

Recommendation

8. Ensure the annual audit is submitted by November 1st.

Comments of School Officials

School officials agreed with and plan to implement recommendation 8.

Management Letter Observations

The management letter is a method for the school's external auditor to identify non-material instances of non-compliance and other conditions, with recommendations for improvement. Schools ideally use this information to develop a corrective action plan leading to future improvement of the operation.

The management letter of the Independent Auditor's Report for the year ending June 30, 2005, stated that it was difficult to track and review transactions between the School and the Management Company. Transactions could not easily be ascertained and verified. Payments by the Management

Company, made on behalf of the School, were not clearly defined and there was no supporting documentation. In addition, there was no periodic reconciliation between the School and the Management Company, resulting in a number of discrepancies that should have been resolved prior to the audit.

The independent auditor also indicated the General Ledger was not ready for audit. The year-end journal entries, accruals, and deferrals had not been recorded. These conditions contributed to the lateness of the annual audit report and were also noted in the previous audit period. These issues remained unaddressed at the time of this audit.

Recommendation

9. Address concerns or issues raised by the independent auditor in the management letter.

Comments of School Officials

School officials agreed with and plan to implement recommendation 9.

Status of Independent Auditor

The New York Charter Schools Act of 1998 requires that a charter school “shall be subject to the financial audits, the audit procedures, and the audit requirements set forth in the charter. Such procedures and standards shall be applied consistently with generally accepted accounting and audit standards. Independent fiscal audits shall be required at least annually.”

An independent audit must be conducted for each school year. Government auditing standards require that the auditor conducting the audit should be free both in fact and appearance from personal, external, and organizational impairments to independence. Personal impairments result from relationships and beliefs that might cause auditors to limit the extent of the inquiry, limit disclosure, or weaken or slant audit findings in any way.

The School used the same auditor for the years ending June 30, 2003, 2004, 2005, and 2006. The partner representing the firm and signing the audit report was one of the

founding Board members of the School. Although this individual resigned from the Board in March 2001, the previous connection raises a potential question about the independence of the auditor.

Recommendation

10. Engage an audit firm with no previous connection to the School, School administrators, or Board members.

Comments of School Officials

School officials agreed with and have implemented recommendation 10.

Audit Format

The Department issued the Guidelines for Audits of the Financial Statements of Charter Schools. This document was provided to assist charter schools and their auditors through the annual audit process. Under these Guidelines, charter school audit reports should include all statements required by the Financial Accounting Standards Board (FASB) Statement 117 on *Financial Statements of Not-for-Profit Organizations*. These are the Statement of Financial Position, Statement of Activities, and Statement of Cash Flows. The School's financial statements for the year ended June 30, 2005, did not include these required statements.

In addition, the reporting requirements indicate that the financial statements should be prepared on the accrual basis of accounting in accordance with generally accepted accounting principles for not-for-profit organizations; however, the financial statements for the year ended June 30, 2005, were prepared using the modified accrual basis of accounting.

Recommendations

11. Prepare all required statements as part of the year-end financial statements.
12. Prepare all statements using the accrual basis of accounting.

Comments of School Officials

School officials agreed with and plan to implement recommendations 11 and 12.

Budget Not Monitored

A board has the responsibility to monitor the financial condition of its school. To ensure fiscal stability, schools need to carefully develop balanced budgets, verify whether projected revenues are realized and expenditures are within budgeted amounts. To provide an accurate picture of a school's financial position, timely recording of all revenues and expenditures is necessary.

The School has an annual budget, however, it is not periodically compared with actual revenues and expenditures. Regular comparison and analysis of actual revenue and expenditures to budgeted amounts allows identification and investigation of variances and allows time for the School to take corrective actions. In addition, the School does not record all revenues and expenditures in a timely manner.

Recommendations

13. Conduct regular comparisons of budgeted amounts to actual to identify variances for follow up and adjustment.
14. Enter all revenues and expenditures in a timely manner.

Comments of School Officials

School officials agreed with and have implemented recommendations 13 and 14.

Inaccurate Count of Students Reported

Student tuition paid by the home district, comprises a significant portion of a charter school's revenue. Accurate reporting and reconciliation is key to maximizing revenue and ensuring student counts are not over or under-reported. Accurate reporting of special education students is an

important part of this reporting/reconciliation process, since services for these students are reimbursed at a higher rate.

General Education

Student count is reported in terms of full time equivalent (FTE) enrollment. A student counted as 1 FTE means the student was enrolled in the program for the entire year.

Documentation of the annual reconciliation with the New York City Department of Education (NYCDOE) indicated a total FTE attendance of 263.19 for students attending the School in 2003-2004; however, the supporting documentation only shows 169.13, a difference of 94.06.

Special Education

Schools are reimbursed based on the percent of time a special education student spent in a resource room, receiving special services, or participating in special programs. There are rates for less than 20 percent, 20 to 60 percent, and more than 60 percent of the time.

Similarly, the breakdown of special education students reported did not reconcile to the supporting documents provided. The School reported four students in the less than 20 percent category, while the supporting documents only showed three students. In addition, the School reported 11 students receiving 20 to 60 percent special education services, while the supporting documents only showed 9 students. There was no indication that the NYCDOE noted these discrepancies or withheld funds to recover the difference between actual and reported students.

There were also a number of incorrect categorizations of special education students in 2004-2005 school year, for example:

- A student listed as receiving less than 20 percent special education services for four of the five reporting periods and 20 to 60 percent for one period was reported as having received 20 to 60 percent for the entire year, resulting in over-reported service level for 80 percent of the year; and
- A student listed as receiving 20 to 60 percent service for the entire year was reported as attending less than one

month and receiving no special education services, resulting in under-reported service level for a full year.

In addition, incorrect FTE calculations for some students resulted in underreporting the FTE count by 1.42.

Recommendations

15. Ensure counts submitted to NYCDOE for reimbursement are correct and in agreement with School attendance records.
16. Ensure all special education counts submitted to NYCDOE for reimbursement accurately reflect the dates of attendance and the correct service level.

Comments of School Officials

School officials agreed with and have implemented recommendations 15 and 16.

Submission of Grants Expenditure Reports

Final Expenditure Reports (FS-10-F) for federal categorical grants are generally due to the Department within 90 days of the project completion date, while State categorical grants have a 30 day deadline. These timeframes are necessary to meet federal and State fiscal requirements and expenditure deadlines.

The Department's Grants Finance Unit contacted the School on January 3, 2006, to inform School officials they were delinquent in submitting the required FS-10-Fs and at risk of a stop payment being placed on all federal and State categorical grants awarded to the School through the Department. Submission was required within 30 days of the correspondence. The School submitted the FS-10-Fs in March 2006, over a month later than the submission requirement. There were outstanding questions and the School failed to address the open issues with the Grants Finance Unit. The Department initiated a stop payment as of June 27, 2006. Over \$74,000 of their 2004-05 funding, as well as most of the 2005-06 funding was held up at that time. The stop payment was removed in September 2006 when the School responded to the open issues.

Recommendations

17. Submit all required grant documents to the Department timely.
18. Respond promptly to questions and issues raised by the Grants Finance Office to avoid delay in receiving funds.

Comments of School Officials

School officials agreed with and have implemented recommendations 17 and 18.

VADIR Submission

The Violent and Disruptive Incident Report (VADIR) for the 2004-05 school year was due to be submitted to the Department by January 2006.

The School submitted its VADIR on June 29, 2006, nearly six months late.

Recommendation

19. Comply with all Department requirements regarding submission of required reports such as the VADIR.

Comments of School Officials

School officials agreed with and have implemented recommendation 19.

Backup of Accounting Data

Timely and accurate backup of accounting data is necessary in the event of an equipment failure, fire or water damage, or other disaster. Data backups should be stored in a secure location sufficiently removed from the home site.

According to the School's Fiscal Policies and Procedures Manual (Manual), the accounting system data is to be backed up daily by the Treasurer of the Board or the Director of Operations to ensure the recoverability of financial information in case of hardware failure. The

backup should be stored in a fire safe area and properly secured.

While on site, the auditors observed the Director of Operations had sole access to the accounting system. She indicated that she backed up the system daily, but stored the backups in her office, located in the basement of the School. The backups were not stored in a fire safe area and were not properly secured.

Recommendations

20. Implement a daily backup process for accounting data.
21. Store backups in a secure location sufficiently distant from the School to ensure recoverability in the event of a disaster affecting the building.
22. Since the records on the accounting system contain personal and confidential information, ensure records and backups are properly secured to prevent loss or disclosure.

Comments of School Officials

School officials agreed with and have implemented recommendations 20 through 22.

PURCHASING AND EXPENDITURES

Schools spend significant amounts to purchase products and services each year. The School should ensure that purchases are made in compliance with its policies and result in securing goods and services in the right quantity, at the right time, and for the right price. The School has opportunities to improve their purchasing procedures and payment practices.

Inadequate Documentation and Inappropriate Charges to Credit Cards

Schools are responsible for protecting their limited resources and must ensure that credit card expenditures are for valid and legal purposes that benefit the school. Schools should maintain complete and accurate documentation to support all credit card charges. An approval process should be in place and charges should not include sales tax.

According to the School's Manual, School credit cards should only be issued with the formal approval of the Board and with proper justification. The cost/benefit to the School should be fully reviewed to ensure that no other purchase method is appropriate. If credit cards are issued, they should be assigned to certain School employees and should be used only for School-related expenditures. Monthly credit card statements should be reconciled to invoices and travel reports, and approved by the Executive Director. In some cases where the Executive Director made the purchase, the approval should be by the Treasurer of the Board or their designee.

Although the School does not have any credit cards issued in its name; the Executive Director and the Director of Operations use the Management Company's credit cards for certain School purchases. We would expect the charges against these credit cards to be scrutinized in the same manner as would the School issued credit cards. We found no evidence of any review or approval process taking place and the credit card bills were paid directly from the statements.

During fieldwork we requested documentation of purchases made using the credit cards. No receipts or documentation

were provided. Subsequent to fieldwork, a file was furnished containing expenditures charged to the credit card by the Director of Operations for the period of August 12, 2003 through August 28, 2005 and by the Executive Director for the period of July 1, 2003 through December 19, 2005. These charges totaled \$59,288. Our review revealed that, no receipts were furnished, individuals in attendance at various events were not always identified, and the reasons for many of the charges were insufficient and in some cases, not provided. Charges were excessive, undocumented, and made with no apparent prior approval, payment approval, or expected benefit to the School.

During the period under review, 73 meetings were held at restaurants with total charges of \$7,800. One such dinner for the Executive Director and a vendor's Marketing Director cost \$489. This excessive spending provided no visible evidence of benefit to the School. Meetings should be held at the School or some other convenient location, but meals should not be a prerequisite of a meeting or at the expense of the School.

Personal items such as gifts and flowers were charged to the School.

The School has a tax-exempt identification number and should not pay sales tax on purchases made within New York. Many of the charges appeared to include sales tax.

Travel, conferences, and training charges amounted to \$36,600, some with no indication of who attended, the reason, or benefit. There was no evidence of approval of these expenditures.

Even though there was over \$2,500 charged for gas, the School did not provide any *Travel Reports* or receipts, as required by the School's Manual.

Recommendations

23. Eliminate the Management Company supplied credit cards.
24. Enact a credit card policy that indicates who is authorized to use School provided credit cards, the types of purchases that are appropriate to make using credit

cards, the required documentation to be submitted for payment approval, and the approval process.

25. Restrict credit card use to actual and necessary School-related expenses.
26. Require the submission of original receipts including documentation and justification for all purchases. Documentation should include the purpose of meetings and a list of attendees, if applicable.
27. Ensure sales tax is not inappropriately paid on purchases made using credit cards.

Comments of School Officials

School officials agreed with and implemented recommendations 23 through 27.

Payment Documentation

Schools are responsible for ensuring payments are for valid and legal purposes; obligations are incurred by authorized officials; goods are actually received or services rendered; obligations do not exceed available funds; and claims are in proper form, mathematically correct, meet legal requirements, do not include sales tax, include applicable discounts, and are in agreement with the purchase order. To determine if these requirements are met, schools should require that complete and accurate documentation be submitted to support all payments.

A judgmental sample of 39 payments was selected and a request was made for supporting documentation. The School only provided documentation for 29 of the payments. The documentation did not have authorization for payment and invoices were not stamped "PAID" to avoid duplicate payments.

One of the payments was a \$2,000 check written to the Executive Director. An invoice was provided for uniforms for the basketball team. The Executive Director stated the vendor would not take a check. The invoice has a name and address but no telephone number and is not marked paid. A search for the vendor was unsuccessful. The address is for a

three-family home in White Plains, New York, owned by another individual. The amount of this transaction is excessive and the invoice is questionable. A reputable vendor would accept a business check, would have a telephone number, and be registered as a business.

No documentation was provided on the remaining ten payments that included:

- a check in the amount of \$2,500 payable to the Director of Operations;
- a check for \$10,000 to another individual;
- a check for \$27,784 to a vendor; and
- a check for \$745 to a relative of the Executive Director.

After reviewing the documentation provided on the 29 payments, the audit raised additional questions and requested further documentation.

No response has been received from the School as of the writing of this report.

Recommendations

28. Require sufficient supporting documentation with appropriate approvals prior to issuing payment for goods or services.
29. Institute a purchase order system with appropriate Board level approval of purchases at a specified level.
30. Require documentation and approval to support any significant increases in the cost of goods or services over the amount of the purchase order.
31. Institute a bidding process for purchases above a certain level. This process should include Board review and approval.
32. Stamp all invoices with "PAID" stamp when paid to avoid duplicate payments.

Comments of School Officials

School officials agreed with and have implemented recommendations 28 through 32.

Checks Signed by Payees

One method of providing greater control over expenditures is to require two signatures on checks if the amount exceeds a certain threshold. In no instance should an individual write a check to himself/herself.

According to the School's Manual, the President of the Board, the Treasurer of the Board, the School Director/Principal and the Director of Operations are the only check signatories.

Our review of check copies that cleared the bank and the bank statements dated June 7, 2005, July 6, 2005, and August 9, 2005, identified two checks payable to the Executive Director and one payable to the Director of Operations that were signed by these two individuals. There were no memo entries identifying the reason for the checks. Since other individuals are authorized to sign checks, it is not necessary or appropriate for a payee to sign a check.

On December 8, 2006, we requested copies and documentation for 53 checks payable to the Executive Director totaling \$100,400, to determine who signed these checks. We have not received the requested copies or accompanying documentation.

Recommendation

33. Establish a dollar threshold at which two signatures are required.
34. Institute controls that prohibit an individual from signing a check made payable to the individual.

Comments of School Officials

School officials agreed with and have implemented recommendations 33 and 34.

Petty Cash Fund

Good business practices require guidance on the amount and type of expenditures that can be paid from petty cash funds and adequate supporting documentation for expenditures.

According to the School's Manual, the petty cash account is to be reconciled on a monthly basis by the account custodian. However, we did not find any evidence of this reconciliation.

A petty cash fund of \$1,000 was established at the School with the Executive Director as custodian. There was no system in place to oversee the fund.

At any given time, the cash plus the approved receipts should equal the amount of the fund. When the petty cash fund was examined during fieldwork, there was \$755 in the fund. Receipts provided did not relate to the current period, with some dating as far back as 2003. The validity of the receipts reimbursed from the petty cash fund could not be determined and many of the receipts included sales tax. The Director of Operations was unable to obtain certain receipts from the Executive Director.

According to the Director of Operations, she simply writes a check for \$1,000 to reimburse the fund when requested to do so. Between July 2, 2004 and December 26, 2005, checks totaling \$20,345 were written to reimburse the petty cash fund. Three of the checks were for \$2,000 and one was for \$1,250, each greater than the amount of the fund. There were also several checks written on the same date totaling more than the established fund amount.

Recommendations

35. Develop procedures to provide guidance on appropriate expenditures and required documentation for reimbursement from the petty cash fund.
36. Establish a reasonable amount for the petty cash fund. A more reasonable level would be \$100.
37. Assign a custodian who will administer and be responsible for the petty cash fund and maintain required records.

Comments of School Officials

School officials agreed with and have implemented recommendations 35 through 37.

Cleaning Service Payments

A contract defines the relationship and responsibilities between the two entities.

The contract between the School and its Management Company states that the latter shall be responsible for cleaning, maintenance, and operation of the School facilities.

For the period July 19, 2004 through January 16, 2006, the School paid \$100,070 for cleaning services. Based on the Management Agreement, the Management Company should have been responsible for this expense.

Recommendations

38. Clarify with the Management Company their responsibility for cleaning services at the School as indicated in the Management Agreement.

39. Recover from the Management Company the amount incorrectly paid by the School.

Comments of School Officials

School Officials disagreed with recommendations 38 and 39, stating that while the School is “managed” by the Management Company, they are not a facilities management company and therefore are not responsible for cleaning services.

Auditor’s Note

The finding and recommendations 38 and 39 are based on the language found in Article 5, Technology; Facilities; Ancillary Property and Support Services section of the agreement between the School and the Management Company. The document states that the Management

Company “shall be responsible for the cleaning, maintenance and operation of the School Facilities.”

The agreement specifically states that the Management Company will be responsible for these services.

Car Service Payments

Amounts expended by a school should be for valid and necessary, authorized, and approved expenses.

The School paid a private car service over \$26,200 between July 19, 2004 and December 12, 2005, which is an average of \$1,500 per month. School officials indicated the service was used to transport staff and guests to the airport and to functions, and provide School staff with transportation home if they were required to work after 7 PM.

The School was able to provide supporting documents in the form of invoices for \$19,826 (76 percent) of the total charges for the period July 7, 2004 through December 17, 2005.

The invoices indicated that \$15,155, or 76 percent, of the amount supported by invoices were payment for services provided to the Executive Director, the Director of Operations, and the Office Manager. They further indicated that these three School officials availed of the private car service for personal purposes. For example, invoices indicated trips for the following reasons:

- Take baby sitter home;
- To shopping mall;
- To stores;
- To Radio City Music Hall after hours;
- To Jones Beach Theater and back after hours (\$400);
- To and from restaurants after hours;
- To and from various other locations after hours; and
- To School from home.

Recommendations

40. Ensure car service is for business purposes only.

41. Institute an approval process and a limit for car service expenses. Alternative and less costly transportation options should be utilized.

Comments of School Officials

School officials agreed with recommendations 40 and 41. The use of car service has been discontinued and an approval process has been established for travel.

Tracking Long-Term Loan

A school should maintain a record of all its long-term debt. The record should show appropriate detail, reflecting the balance owed, payments made, principal, interest, and projected payments for the obligation. Such a record assists a school in budgeting and in determining its current and future position relative to its debt.

The School does not maintain a record of its long-term loan even though the School has a \$1.2 million, long-term loan from its Management Company. This obligation should be recorded and tracked. The need is emphasized by the School's independent auditor's comment that it is difficult to reconcile the School's financial position with the Management Company.

Recommendations

42. Create a long-term debt record to reflect the Management Company loan and any future long-term obligations.
43. Reconcile the amounts entered in the register with the Management Company to determine agreement and conduct reconciliations periodically.

Comments of School Officials

School officials agreed with and have implemented recommendations 42 and 43.

GOVERNANCE AND PLANNING

A board of trustees has ultimate responsibility for the fiscal health and stability of the school. A board should develop policies and delegate administration of the school to the principal, senior administrators, and board-appointed officers to manage the school within the established policies. The principal, senior administrators, and board-appointed officers should then be held accountable for results.

The audit determined the Board has not addressed its governance and planning responsibilities related to the control environment, policies and procedures, staffing, strategic planning, and budget development. The Board needs to make improvements relative to its governance responsibility and the School Charter.

Governance Responsibility

Boards of trustees have a governance role as overseers of a school's management to ensure that assets are used properly, laws and regulations are followed, and the students' interest is best served.

The Board is responsible for the overall direction and fiscal well being of the School. As such, the Board has the authority and duty to adopt policies, rules, and by-laws that are necessary to meet its statutory responsibilities and secure the best educational results for its students.

The audit determined the Board could make improvements related to its actions addressing budgets, budget transfers, audit findings, bank accounts, conference attendance, and credit card and payment oversight.

A review of the Board meeting minutes indicated that the Board did not discuss or vote on the following:

- Addressing audit findings;
- Approving the budget prior to expending funds;
- Approving budget transfers;
- Reviewing monthly budget status reports;
- Reviewing and approving bank reconciliations;
- Authorizing banks and bank accounts annually;

- Reviewing and approving credit card charges; or
- Authorizing conference attendance.

Recommendations

44. Address audit findings by instituting a corrective action plan approved by the Board.
45. Ensure the budget is approved by a majority vote of the Board at an official meeting prior to expending funds.
46. Actively monitor the budget by regularly comparing the budgeted revenues and expenditures to actual revenues and expenditures to avoid overspending the budget.
47. Establish a process for the regular monitoring and reviewing of budget status reports and making any adjustments, as necessary.
48. Ensure budgetary transfers are approved and made timely during the year to prevent overspending any budget lines.
49. Establish a policy to review requests for staff training or attendance at professional conferences, requiring a majority vote of the Board for approval.
50. Annually authorize banks and bank accounts to be used for School business.

Comments of School Officials

School officials agreed with recommendations 44 through 50 and have implemented recommendations 45 through 48.

Finance Committee Responsibilities

A finance committee is responsible for providing accurate and up-to-date fiscal information to a board to ensure the board has the information needed to make decisions in the best interest of the school.

According to the School By-Laws, the Finance Committee is charged with monitoring and reporting on the business operations of the School. This includes reviewing financial

reports and statements, providing primary contact with the independent auditing firm, and reporting on the status of the School's financial position/condition to the full Board and the broader School community.

In addition, the School's Manual for 2004-05 indicates the Audit/Finance Committee is charged with:

- Nominating the independent auditor;
- Reviewing the scope and results of the annual audit;
- Receiving notice of any consequential irregularities and management letter comments that the auditor noted during the engagement;
- Developing a corrective action plan to address all relevant weaknesses noted by the auditor;
- Reviewing all financial information of the School; and
- Providing recommendations to the Board.

Minutes are not taken or recorded for the Finance Committee meetings; therefore, there is no evidence of when the meetings were held, who attended, or what actions were discussed or taken. The minutes of the Board meetings reviewed did not indicate that the Finance Committee reported on the financial position of the School. In addition, the Finance Committee has not developed a corrective action plan to address the relevant issues noted in the annual financial audit.

Recommendations

51. Hold regular Finance Committee meetings and ensure minutes are recorded noting the date of the meeting, attendees, and any issues discussed or adopted.
52. Ensure the Finance Committee addresses the responsibilities assigned in the School's Manual.
53. Provide a report to the Board at each Board meeting on the financial position of the School and any other issues addressed by the Finance Committee.

Comments of School Officials

School officials agreed with and have implemented recommendations 51 through 53.

Board Chair Acting As Secretary

According to Article IV – 4.2.2 of the By-Laws of the School, Board members are eligible to hold multiple offices. The only prohibition is that “neither the Secretary nor Treasurer may serve concurrently as the Chair.” The Board Chair records the meetings and provides the minutes to the full Board. In effect, the Board Chair is functioning as the Board Secretary.

Recommendation

54. Elect a Board Secretary to fulfill the duties of the office.

Comments of School Officials

School officials agreed with and have implemented recommendation 54.

School’s Relationship with the Parent’s Organization

While parent teacher organizations are important to the success of schools, they must be financially independent.

The Parent’s Organization is not independent of the School. The Director of Operations received the Parent Organization’s bank statement and reconciled the checking account as a part of the School’s accounting records. The Parent’s Organization is also using the School’s tax-exempt identification number. A tax-exempt identification number is issued for a specific organization, in this case the School, and is not to be shared with other entities or organizations.

Recommendations

55. Direct the Parent’s Organization to nominate one of their members to receive their banks statements.

56. Do not allow the Parent’s Organization to use the School’s tax-exempt identification number.

Comments of School Officials

School officials agreed with recommendations 55 and 56 and have implemented recommendation 55. However, the

Parent's Organization is still utilizing the School's tax-exempt identification number.

PAYROLL AND PERSONNEL

In most schools, salaries and fringe benefits make up the single largest expense category in a school's budget. The payroll and personnel functions should be clearly defined through policy and procedures, and closely supervised. Having standards for hiring the most qualified individuals demonstrates a board's commitment to hiring competent and trustworthy people. The board and management need to specify the competency levels for particular jobs and translate them into requisite knowledge and skills to provide each employee with an outline of the areas of responsibility and the specific tasks/duties expected to be performed within those areas. Clear and detailed job descriptions for all employees are essential for this process. It is also good business practice for employees to be evaluated, at least annually, by their immediate supervisor and be provided a written report. The School must make improvements relative to payroll and personnel issues.

Status of Executive Director

A school should maintain accurate and detailed job descriptions for all staff and administrative positions. Duties of individuals selected to fill specific positions should conform to the job descriptions. In addition, contracts for employment should be executed and kept on file, indicating the position, duties, date of hire or appointment, salary, and other information pertinent to the position.

The Executive Director's salary had recently been reduced to \$10,000 per year. She is no longer the on-site head of the School and spends little time there, since a new full-time Principal was hired for the 2005-06 school year. We subsequently learned the Executive Director is also being paid separately to write grants for the School. Since she is being paid as an independent contractor to write grants, this brings into question whether she is a School employee with a salary or an independent contractor. We found no current contract or evidence of Board action or approval in the personnel files indicating her current position and were provided with a very brief, single paragraph, job description. The minimal job description specifically states; "Fundraising activities include grant writing for federal,

state, foundation, corporate, and individual sponsorship.” Since grant writing is part of the job description, the School should not be paying the Executive Director separately to write grants. The School budgeted \$5,300 for health coverage for this individual. Although she is paying part of this amount, she is receiving this benefit as if she were a full-time employee.

Recommendations

57. Clarify the position of the Executive Director as either a School employee or an independent contractor.
58. Maintain contracts in individual personnel files to evidence all relevant aspects of their position, including title, duties, full- or part-time status, date of appointment, and salary.
59. Reflect in Board meeting minutes any staffing actions taken such as hiring, reassignment, or termination.

Comments of School Officials

School officials agreed with recommendations 57 through 59. The position of Executive Director has been eliminated and recommendations 58 and 59 have been implemented.

Personnel File Documentation

Personnel file folders should be maintained on all school staff. These folders should be up-to-date and complete with salary agreements or contracts, new hire forms, authorization change forms where applicable, State and federal withholding forms, emergency contact information, employment applications, certifications, fingerprint clearance, background release forms, reference checks, authorization for salary change, and evaluations. Evaluations should be performed at least on an annual basis for all employees to document the individual’s strengths, training programs, and improvement opportunities.

All of the school’s personnel folders were reviewed, consisting of 32 regular employees and 1 substitute teacher. The files were disorganized and incomplete. Our review of the files disclosed the following:

- Salary agreements or contracts for 2005-06 – 13 contracts were not on file and 1 file was not available;
- New Hire Forms – one file did not have a form, five files did not have an effective date of hire, one form indicated a discrepancy between contract salary and the form, one form had no explanation of title or responsibilities, and one form for a part-time employee had no explanation of hours/days of work;
- Authorization for change forms were not carefully prepared – during the March 2006 fieldwork, one form was found dated July 1, 2006 and signed by the Director of Operations;
- Contracts make no reference to title, duties, or effective date of hire;
- Required forms – 6 files did not include an I-9, 6 did not include a NYS IT-2104, and 15 did not include emergency contract information as required by the School's Manual;
- Employment Application – 22 files did not include an employment application as required by the School's Manual;
- Certifications – 16 files did not have copies of certifications or did not have the proper certification for the employment area (4 administrators, 8 teachers, and 4 teacher aides);
- Fingerprints – only three individuals had fingerprint clearance on file;
- Background Release Form – 14 files did not contain background release forms;
- Reference Checks – there was no evidence in the files of reference checks being performed prior to hiring staff;
- Authorization for Salary Change – one employee did not have adequate documentation for an authorization for a salary change; and
- Evaluations – 21 of the 26 employees who should have been evaluated did not have evaluations on file.

Recommendations

60. Ensure all personnel file folders contain up-to-date salary agreements or contracts and these documents are complete with all required information.
61. Ensure all personnel file folders contain a New Hire form and the form is accurate and complete.

62. Ensure all required forms are carefully prepared with accurate and complete information.
63. Ensure all personnel file folders contain required forms such as I-9s, NYS IT-2104s, and an Emergency Contact Information form.
64. Ensure all job applicants have completed the Employment Application form and filed in their personnel folders upon hiring.
65. Ensure all individuals have appropriate certification for their position and that proof of certification is filed in the personnel folders.
66. Ensure all individuals working for the School have appropriate fingerprint clearance and the clearance is filed in the personnel folders.
67. Ensure a Background Release form is completed for each employee and the form is filed in the personnel folders.
68. Ensure all references are verified and documented in personnel folders.
69. Ensure all Authorizations for Salary Change forms are signed by the required parties and filed in personnel folders.
70. Conduct evaluations of all staff, at least annually, file a copy in the personnel folders, and provide printed copies to the individuals.

Comments of School Officials

School officials agreed with and have implemented recommendations 60 through 70.

Certification to Teach 7th and 8th Grades

A charter school must employ teachers certified in accordance with the requirements applicable to other public schools.

For the 2004-05 school year, the School consisted of Kindergarten through Grade 7. For the 2005-06 school year, the School expanded to include Grade 8. The teacher certifications on file were for Pre-Kindergarten, Kindergarten, and Grades 1 through 6. Certifications were not on file indicating teachers were certified to teach Grades 7 and 8.

Recommendation

71. Ensure teachers who are teaching in Grades 7 and 8 have the required certification.

Comments of School Officials

School officials agreed with recommendation 71, however, since under charter law they are allowed to have some teachers that are either uncertified or that are teaching out of their certification area if they exhibit particular strengths, the School reserves the right to make that accommodation within the boundaries of charter law if it is deemed highly likely to improve student learning.

Timesheets

To help ensure that employees are paid the correct amount, controls over timesheet processing are necessary. Controls include employee's signatures and supervisory reviews, signatures on timesheets, and independent reviews of payroll worksheets prior to payroll preparation.

According to the School's Manual, each employee's timesheet is forwarded to the administrative assistant or receptionist on a bi-weekly basis, which ensures all timesheets are submitted in a timely manner. The administrative assistant or receptionist forwards the timesheets to the Director of Operations who reviews and approves them.

Contrary to this policy, the School does not use timesheets to record staff time. The Director of Operations observes daily staff attendance and maintains School records for payroll and time accruals. This process does not provide any signed documentation of staff time and attendance. In the event the Director of Operations cannot perform this

function, another employee would not be able to properly record staff attendance since there is no written record.

Recommendation

72. Initiate the timesheet process as defined in the School's Manual. Require all staff to submit signed, bi-weekly timesheets for approval, review, and processing.

Comments of School Officials

School officials agreed with and have implemented recommendation 72.

Background Checks and Fingerprinting of Board Members

Schools create policies, procedures, and governance plans to guide operations and institute controls. A school must comply with any such documents it creates.

The School's Governance Plan states the School will have background checks and fingerprint reports on file for all School staff and the members of the Board. The School did not provide supporting documentation for background checks or fingerprint reports for Board members.

Recommendations

73. Comply with the Governance Plan and conduct and document background checks on all current and future Board members.

74. Ensure all current and future Board members have fingerprint clearance and maintain copies of the reports.

Comments of School Officials

School officials agreed with recommendations 73 and 74 and have implemented recommendation 73. The response to recommendation 74 did not address the fingerprint clearance for Board members.

REVENUE AND CASH MANAGEMENT

Schools collect and invest significant sums in revenue each year. They must have adequate controls in place to ensure funds are collected and deposited, accounted for accurately, and safeguarded.

Cash Flow Projections

Cash flow projections facilitate prudent and effective management of funds. Schools should prepare cash flow projections and update them as necessary to determine if they can meet their cash needs during the year. The development of a cash management program is predicated on accumulation of timely and accurate information.

A cash flow projection should start in July with the beginning total cash position of the school. To the beginning balance, the estimated monthly expenditures and revenues should be subtracted or added to arrive at an estimated cash position each month. Estimates should be based on historical data and adjusted each month using actual results.

The School did not maintain updated cash flow projections. On numerous occasions, the audit requested a cash flow statement from the Director of Operations; however, none was provided. There was no evidence in the Board meeting minutes reviewed that cash flow projections were presented or discussed at the meetings.

Recommendations

75. Require a responsible official to prepare a cash flow projection at the beginning of the year and update it monthly.
76. Ensure presentation of the updated cash flow projection is an item at the monthly Board meetings.

Comments of School Officials

School officials agreed with and have implemented recommendations 75 and 76.

FACILITIES AND EQUIPMENT

Schools must provide adequate facilities and equipment for educating their students. In addition, schools must implement the necessary inventory control to safeguard their assets. The School has opportunities to improve their inventory control.

Inventory

Schools generally have a significant investment in their fixed assets. Inventory controls over all assets are needed to safeguard property against loss, establish effective utilization, determine needs, and identify surplus items. Adequate controls include maintaining complete and accurate records; tagging assets with ownership and identification labels; and periodically conducting physical inventories, typically on an annual basis. The maintenance of adequate asset records and the fair reporting of fixed assets enable schools to conform with generally accepted accounting principles and provide management with tools for establishing appropriate controls.

The School has no policy or adequate controls relative to the inventory (storage) of supplies, materials, and equipment. The School only tracks its technology inventory.

Recommendations

77. Conduct a periodic physical inventory to include all fixed assets belonging to the School.
78. Tag assets with School ownership and identification labels.
79. Ensure all items are listed on a comprehensive inventory to include descriptive information such as; item name, source, cost, serial number, location, condition, and any other data items that would provide value to a user of the inventory document.

Comments of School Officials

School officials agreed with recommendations 77 through 79. Recommendation 77 has been partially implemented with an inventory of all books in the classrooms. The remainder of fixed assets must be inventoried. The School plans to implement recommendation 78 and has implemented recommendation 79.

STUDENT SERVICES

Schools provide various services for their students including food service and transportation. In addition schools should provide students with a learning environment that is safe and secure.

Schools participating in the federally assisted National School Lunch Program, School Breakfast Program, or Special Free Milk Program can provide nutritious meals for free or reduced prices to eligible children. Eligibility is based on an application submitted by the parents of the students. Information in the application, such as income level, can qualify a student for free or reduced-price meals. The School could make some improvements related to the School Lunch program.

Uncollected School Lunch Payments

Free and reduced-price lunches are provided to students based on need established by an application process. Students not eligible for free or reduced-price meals must pay the appropriate amount to keep the program financially sound.

The School is not collecting or being reimbursed by the parents for the daily cost of school lunches for students who are not eligible for free or reduced-price meals. The Director of Operations periodically bills parents for meals, but collection of these bills is not effective. We were told that the School recovered less than \$100 for the 2004-05 school year. For that school year, 33.5 percent of students were eligible for free lunch. Based on that percentage, over 150 of the 230 enrolled students should have been paying for their daily lunches, either full-price or reduced-price.

Recommendations

80. Charge daily or weekly for school lunches and monitor payment to prevent the amount owed from becoming burdensome.

81. Institute a procedure to collect delinquent bills.

Comments of School Officials

School officials agreed with and plan to implement recommendations 80 and 81.

Non-Compliance with School Lunch Requirements

The Department's *Free and Reduced-Price Income Eligibility and Policy Information* provides guidelines for schools to follow in the processing of applications for free and reduced-price meals and free milk. It provides prototypes of letters and forms to be used by the school. Public release of certain information for the free and reduced-priced meal plan is mandatory.

The School has not complied with the public release requirement for the 2005-06 school year. There was no evidence that the appropriate notification was supplied to parents of students. Given the problem the School has in collecting payment for school lunches, ensuring all parents receive the notification could increase the number of students participating in the program.

Recommendation

82. Comply with the Department's guidelines to ensure all parents are aware of the programs available to students.

Comments of School Officials

School officials agreed with and have implemented recommendation 82.

Contributors to the Report
Harriet Tubman Charter School

- Nancy Taylor, CPA, Manager
- Maria Castro Guzman, CPA, Manager
- Lynn Humiston, Auditor-In-Charge
- Gerald Aberbach, Senior Auditor

Harriet Tubman Charter School

Gwendolyn Stephens, *Principal*

Roberto Bosenor, *J.A. Academy Director*
Ledonnis Hernandez, *Elementary Academy Director*

May 17, 2007

NYS Education Department
89 Washington Avenue, Room 524 EB
Albany, NY, 12234

Attention: Lynn Humiston, CISA, CISSP, CISM
Information Security Officer

RECEIVED

JUN 15 2007

OFFICE OF
AUDIT SERVICES

Dear Ms. Humiston,

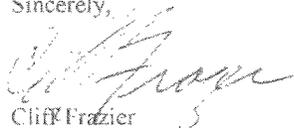
Attached please find the School's response to the Final Draft Report from the Office of Audit Services.

As you will see the School agrees with most of the recommendations that the Office of Audit Services recommends and have implemented corrective actions to prevent these types of findings or similar findings in the future.

We want to assure you that we understand the seriousness of this matter and that the Board and School are committed to sound financial management.

Thank you for your time and consideration.

Sincerely,



Cliff Frazier
Board Chair
Harriet Tubman Charter School Board of Trustees

OAS DRAFT REPORT RESPONSES

#1 – Agree

Harriet Tubman Charter School (HTCS) agrees that managing the revenue stream of an institution dependent largely on State and Federal funds can be challenging. It is important to note however that without the investment in the new construction, HTCS would not have been able to provide the programming it described in its charter application and that most organizations incur debt to enable expansion. This year is the first year that the school has a full Kindergarten through Eighth grade student population and is not engaging in any major construction to accommodate the students. We are providing a five-year fiscal plan as documentation that HTCS can and will turn around into a profitable school.

Additionally, Edison debt service payments have been suspended for two years (FY07 and FY08) to allow the school to create a fund surplus to apply towards the accumulated deficit. The Edison debt service payments will be included beginning in the FY09 school year. Beginning with the FY08 school year, we have created the budget in a very conservative manner that will further enhance the fund surplus at the end of the school year to apply towards deficit reduction.

#2 – Agree

In the past, the HTCS paid most, if not all, of their non-personnel expenses by writing checks from the Board checking account. This process did not allow for outside review and oversight by the Board and/or the management company. Effective November 1, 2006, all personnel and non-personnel expenditures for HTCS are processed after approval by site based personnel through the management company which provides an additional layer of control previously not in place.

The Board of Trustees has established a Finance Committee to meet each month in order to review the status of the school finances and to address financial concerns of the school. The Finance Committee makes recommendations to the full Board for approval of action items. Additionally, the Finance Committee and Board of Trustees have approved a Fiscal Policy and Procedures Manual for the school that will be reviewed by the Finance Committee on a yearly basis.

#3 – Agree

All school bank accounts are now reconciled on a monthly basis and presented to the Finance Committee for review and approval.

#4 – Agree

The Finance Specialist now prepares bank reconciliations for the Treasurer of the Board and the finance committee to review and approve monthly.

#5 – Agree

The Treasurer of the Board now reviews and approves the bank reconciliations on a monthly basis.

#6 – Agree

Each bank reconciliation is approved, in writing, by the preparer and the Board Treasurer after all questions have been resolved.

#7 – Agree

After Board approval of the budget, which included the additional Finance Specialist position, the Finance Chair and Director of Operations reviewed the Fiscal Policy and Procedures Manual to ensure that duties were segregated appropriately. This process also involved Edison Schools Inc. to ensure that duties and responsibilities included two and sometimes three reviewers for documents and payments. HTCS is a much larger entity today than when it began and recognizes it must operate with individuals having clearly defined roles. The Board is committed to add a person with significant financial expertise or a certified public accountant to the Finance Committee to further enhance the oversight the committee provides.

As an example of the improved segregation of duties, mail is now opened in the main office and then forwarded to the school principal for review. Any items relating to finance are then brought to the Finance Specialist for final disposition.

#8 – Agree

The FY07 independent audit will be submitted by the November 1st deadline. The HTCS Finance Committee is charged with the responsibility of monitoring the audit progress, resolving any issues and/or concerns, and reporting the status to the full Board on a monthly basis.

#9 – Agree

The HTCS Finance Committee will review each of the Management Letter comments for the FY05 and FY06 school year and develop an action plan to remedy any deficiencies noted by the auditor. Additionally, the Finance Specialist position at the school has greatly enhanced the controls and timing concerns that have been noted in the previous Management Letters.

#10 – Agree

A Request for Proposal for a new auditing firm was completed in FY07. The Board of Trustees, the Finance Committee, and the school's management company reviewed each of the bids that were submitted. A new auditing firm with no previous connections to the school, school administrators, or board members has been selected. The new auditing firm will conduct the FY07 independent financial audit of HTCS. Additionally, the new auditing firm will begin preliminary test work in June and July 2007.

#11 – Agree

The new audit firm is fully aware of the required audit format and required financial statements. These statements will be prepared for the FY07 audit, and monitored by the HTCS Finance Committee.

#12 – Agree

The new audit firm is fully aware of the requirement to use the accrual basis of accounting when preparing the financial statements. These statements will be prepared on an accrual basis for the FY07 audit, and monitored by the HTCS Finance Committee.

#13 – Agree

A Budget-to-Actual Report is prepared each month and presented to the Finance Committee. Comments/Notes are recorded next to each large variance noted on the report. If there are any questions from committee members that cannot be addressed at the current meeting, the responses to those questions are discussed and resolved at the next Finance Committee meeting.

#14 – Agree

All revenues and expenditures are entered into the school accounting system on a monthly basis and presented to the Finance Committee for review.

#15 - Agree

The school has established a monthly process of reconciling the student count on its student record system with the system provided by the New York City Department of Education (NYCDOE). These two systems are reconciled prior to invoicing the NYCDOE for students attending HTCS.

#16 - Agree

As previously stated the school has established a monthly process of reconciling the student count, including students with special needs on its student record system with the system provided by the New York City Department of Education (NYCDOE). These two systems are reconciled prior to invoicing the NYCDOE for students with special needs attending HTCS.

#17 – Agree

The Finance Committee of the Board is committed to on time submission of all financial reports. Grant documents are monitored by the Director of Operations, the Finance Specialist and the Finance Committee to ensure that required documentation is submitted in a timely manner.

#18 – Agree

The HTCS Principal and Director of Operations will address all inquiries raised by the Grants Finance Office. Additionally, those inquiries will be reported/submitted to the Finance Committee for resolution when necessary.

#19 – Agree

The Board of Trustees of HTCS is committed to on time submission for all reports including the Violent and Disruptive Incident Report. The report was submitted on a timely basis in January of 2007 and the report will be submitted in January of each year from now on.

#20, #21 – Agree

HTCS has sent backups of the files to the independent auditor in the past as part of external storage. The HTCS Fiscal procedure now requires that backups of the financial records are maintained at a safe and secure remote location. The Director of Operations and the Finance Specialist maintain a log of the backups. The Board can access the log to ensure that backups are being done as described in the policies and procedures adopted by the Board. The Financial Specialist and Treasurer also have access to the accounting system.

#22 – Agree

The finance records of the school are maintained in a locked office with the individual records that containing personal information being further secured in a locked cabinet within that office.

#23 – Agree

The Management Company supplied credit cards were cancelled in September 2006. Therefore, no employee has a corporate or school related credit card.

#24 – Agree

The Fiscal Policy and Procedures Manual approved by the Finance Committee and the Board of Trustees describes the appropriate types of credit card purchases allowed for reimbursement.

#25 – Agree

Credit card use will be restricted to actual and necessary school related expenses as per the Fiscal Policy and Procedures manual approved by the Board of Trustees.

#26 – Agree

A fully completed reimbursement form, principal and management company approvals, and original receipts and attendance listings to support the expenditure must accompany all credit card and other reimbursement requests.

#27 – Agree

The Management Company supplied credit cards were cancelled in September 2006 therefore no purchases are being made outside of the normal purchasing process which includes protection against the school paying sales tax as a tax exempt entity.

#28 – Agree

All school purchases are now processed through the management company purchasing system. A Purchase Order is generated for all items, and approvals from the school principal and Management Company are required before the Purchase Order is generated.

#29 – Agree

The Board has adopted a Purchasing Policy that delineates the levels of actions and required approvals for purchases in its Fiscal Policies and Procedures.

#30 – Agree

Purchase orders are issued to establish the agreed cost parameters. Any variance from the agreed cost is subject to the same procedures and policies established in the Fiscal Policies and Procedures adopted by the Board.

#31 – Agree

As per Fiscal Policy and Procedures Manual, a formal advertised Request for Proposal is required for all Purchase Orders or contracts greater than \$10,000. The award of the contract or item is offered to the qualified bidder who meets the school's specifications and offers the lowest price. Review and approval by the Board is also required for any items or contract exceeding \$10,000 as specified in the Fiscal Policies and Procedure Manual.

#32 – Agree

Invoice numbers are recorded and maintained and all paid invoices are stamped "PAID" with a check number recorded on the invoice once a payment is made.

#33, #34 – Agree

The Fiscal Policies and Procedures establishes the levels at which multiple signatures are required and also provides the specific prohibition on checks being signed by the same individual as the individual named as the payee.

#35 – Agree

The Fiscal Policy and Procedures Manual approved by the Board of Trustees provides the necessary guidance regarding appropriate expenditures and the required documentation for reimbursement from the Petty Cash Fund.

#36 – Agree

Per the Fiscal Policy and Procedures Manual, the Petty Cash fund has been established at a level of \$100.00.

#37 – Agree

The school principal has been assigned the responsibility for the petty cash fund with support from the Finance Specialist to maintain the required documentation.

#38, #39 – Disagree

HTCS disagrees that Edison Schools Inc. should cover the costs of cleaning. While HTCS is "managed" by Edison Schools Inc., they are not a facilities management company and therefore do not pay for cleaning services. The fees involved with maintaining the building are the Board and landlord's expenses.

#40, #41 – Agree

HTCS has discontinued the use of a car service. Travel to and from conferences is now approved prior to the travel based on the established travel and entertainment policy adopted in the Fiscal Policies and Procedure Manual.

#42 – Agree

HTCS has collected the documents regarding the loan into a binder and have created a transactions log as part of the documentation and recorded the individual transactions in the accounting system.

#43 – Agree

The Director of Operations will print the cash disbursements journal for the loan on a quarterly basis and reconcile the payments with the Management Company. Additionally, the HTCS Finance Committee will monitor this process throughout the year, and the loan payments will also be reconciled and verified during the annual independent audit of the school records.

#44, 45, 46, 47, 48, 49, 50 – Agree

The Board of Trustees and the Finance Committee review and monitor the School's budget on a monthly basis at the Finance Committee Meeting and the Board of Trustees meeting. The Board approves the annual budget prior to the beginning of the new fiscal period and makes adjustments based on recommendations from the school management and the Management Company after careful consideration. Evidence of the approval and changes are contained in the minutes of the Board of Trustees meeting held monthly.

#51 – Agree

This recommendation has been fully implemented. The Finance Committee meets monthly and has since December 2006. An agenda, attendance listing, and details of committee minutes are documented, reviewed by the committee and formally accepted at the next Finance Committee meeting.

#52 – Agree

This recommendation has been implemented and the Finance Committee is fully aware of the responsibilities assigned to this group as outlined in the School's Manual.

#53 – Agree

HTCS agrees with this recommendation. Verbal reports have been provided to the full Board in the past several months due to timing constraints between the Finance Committee meetings and the full Board of Trustee meetings.

The Finance Committee has agree to change their meeting dates so that the Finance meetings are scheduled one week before the full board meeting so that a comprehensive report can be prepared and provided to all Board members.

#54 – Agree

The Board has elected a Board Secretary and notified the State Education Department of that person's new position.

#55 – Agree

The Parent Organization has elected Officers for their group, and all bank statements are forwarded to the President of the parent organization.

#56 - Agree

HTCS agrees. The Center for Charter School Excellence has engaged with the Parent Association to help them incorporate and become an independent organization. The Parent Association is currently utilizing the school's EIN as they do not have one. The Parent Association requested to open a bank account for fundraising activities and have a separate bank account for such activities. HTCS has instituted proper controls to ensure separate accounting for each organization's bank account until the organization can get its own tax identification number.

#57 – Agree

The Executive Director position has been eliminated from the school's organization chart and budget.

#58 – Agree

All employee files contain an Offer Letter or Employee Contract that indicates the position, duties, employment status, date of hire, and salary. With the addition of the Finance Specialist position, HTCS will be better suited to ensure that all required documentation is included in each employee file.

#59 – Agree

The Board of Trustees considers and approves all hiring, reassignments, or terminations and those changes are reflected in the minutes of the Board of Trustees meetings.

#60, 61, 62, 63, 64, 65, 66, 67, 68, 69 - Agree

All employee files will contain an Offer Letter or Employee Contract that indicates the position, duties, employment status, date of hire, and salary. With the addition of the Finance Specialist position, HTCS will be better suited to ensure that all required documentation is completed and included in each employee file. This will include: salary agreements/contracts; New Hire Forms; I-9 Forms; NYS IT-204; Emergency Contact Form; Employment Application; Teaching Certifications; Fingerprint Clearance; Background Check; Reference check information; and Change Form Authorizations.

#70 – Agree

The School completes evaluations of all employees at least annually and copies of the evaluations are maintained in the individual personnel files.

#71 – Agree

The School agrees that it is preferable to employ teachers that hold the appropriate content area certification required of public schools in New York State. However under charter law the school is allowed to have some teachers that are either uncertified or that are teaching out of their certification area if they exhibit particular strengths; and the school reserves the right to make that accommodation within the boundaries of charter law if it is deemed highly likely to improve student learning.

#72 – Agree

The timesheet process as outline in the Fiscal Policy and Procedures Manual has been implemented. Signed timesheets are prepared by all staff members on a bi-weekly basis and submitted to the school for review and approval to process. The timesheets and/or hours are then submitted to the Management Company Payroll Specialist for further review, approval, and processing. Once the payroll has been entered in to the ADP payroll system, a variety of payroll reports are produced and sent to the school principal and Edison School for final review and approval before the actual payroll is processed. All corresponding documentation is maintained at the site and with the management company.

#73 – Agree

Background checks have been conducted on all current board members and it is now the policy of the Board to conduct background checks on new Board members once they are accepted to the Board.

#74 – Agree

Records of the completed background checks are maintained at the school by the Finance Specialist.

#75 – Agree

Cash flow projections are prepared as part of the annual budgeting process and the cash flow projections are updated and reviewed monthly by the Finance Committee.

#76 – Agree

The Finance Committee Chair reviews the cash flow projection with the entire Board at the monthly Board meetings.

#77 – Agree

As of September 2006, HTCS has inventoried every book in the classrooms and teachers have signed acknowledgment of receiving the goods in their classes. A copy of this inventory is provided for your convenience. Also the Fiscal Policy has helped HTCS to streamline the receiving process and inventory protocols. Please see section 10 of the Fiscal Policy for procedures on inventory.

#78 – Agree

The school is planning to implement a process of tagging all assets of the school beginning in the Fall of 2007.

#79 – Agree

The inventory report contains the necessary descriptive information that will provide sufficient information for a user of the list to establish the approximate value of the asset.

#80, 81 – Agree

HTCS agrees that we have not been as successful in collecting funds from parents for the Lunch program, as we would have hoped. To address this and other finance related issues, HTCS has created and filled the position of Finance Specialist. The duties of the

Finance Specialist will include monthly billing to parents. Since HTCS receives satellite food service, the Board has agreed to forward excessively late bills to the Office of School Food and Nutrition in the event of such occurrences.

#82 – Agree

HTCS agrees. HTCS is a satellite food service program. The Office of School Food and Nutrition controls the public release of the majority of the documents. From a school aspect, HTCS makes all families aware that applications are available for them at all times. A set of applications sits by the Front of the school. HTCS publicizes our receipt of lunches from the DOE in the newsletters to families. HTCS has also given the local newspaper the Board Calendars and attached a note to publicize that HTCS is part of the public school system and has lunch forms available for parents.