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# Audit Report

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Our World Neighborhood Charter School

for the Period

July 1, 2004 through November 15, 2005

CH-1005-1

June 9, 2006

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





THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

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June 9, 2006

Mr. Steven Zimmerman  
Board President  
Our World Neighborhood Charter School  
36-12 35<sup>th</sup> Avenue  
Astoria, New York 11106

Dear Mr. Zimmerman:

The following is our final audit report (CS-1005-1) on Our World Neighborhood Charter School for the period July 1, 2004 through November 15, 2005. 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,

Michael Abbott, CPA

Enclosure

cc: T. Savo, J. Stevens, 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), B. Ferguson (Chief Administrative Officer), Ira Schwartz, Darlene Mengel, Allan Ray

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# Executive Summary

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## Background and Scope of the Audit

Our World Neighborhood Charter School (School) is responsible for providing educational services to about 650 students, grades K through 8, in 2 school buildings. The budget for the 2005-06 school year is \$6.5 million. The School, located in Astoria Queens, is a State University of New York chartered entity. The School's Charter Agreement (Charter) was approved on March 20, 2001 and the School began operations in September 2002.

Student performance on the 2004-05 grade 4 English Language Arts (ELA), mathematics, and science assessments shows significant improvement over the 2003-04 assessments. For example, 75 percent of the School's students met or exceeded the standards for the ELA, compared to 50 percent the previous year and the 2004-05 State average of 70 percent. Similarly, 79 percent of the School's students met or exceeded the standards for the science assessment, compared to 67 percent the previous year and nearly met the 2004-05 State average of 80 percent.

The Office of Audit Services reviewed selected management practices, records, and documentation for the period July 1, 2004 through November 15, 2005. 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 many of the necessary internal controls in place, but identified improvement opportunities in several areas. Some key improvement opportunities were found in the following areas:

- The Board of Trustees (Board) meeting minutes did not show the Board routinely received the required reports to effectively monitor the financial condition of the school. For example, the Board minutes did not show review and approval of the budget, approval of any budgetary transfers, or receipt of budget status reports. The Board minutes also did not show discussion of audit findings or approval of corrective action plans to address specific findings; did not show discussion and authorization of conference attendance; and did not show review of bank accounts annually, authorizations of required accounts, and recommendations for closure of unneeded accounts.
- The School's fiscal year and the actual number of school days provided are inconsistent among the School's Charter, the by-laws, and the School calendar. This may create some confusion as to what actual practice should be. The School should resolve these inconsistencies and obtain the State Education Department's (Department's) approval for any changes to the Charter.
- The School can improve controls over bank reconciliations by delivering unopened bank statements to the reconciliation preparer before delivery to the Chief Administrative

Officer (CAO)/Principal for review, and by requiring signatures of both the preparer and the reviewer on the monthly bank reconciliation.

- The Parent Teacher Organization (PTO) is not independent of the School in financial matters. The CAO/Principal is a signer on the PTO checking account and the PTO is using the School's tax-exempt identification number. While the PTO provides benefits to the School, its finances should be separate.
- The audit found several questionable expenditures paid from the Petty Cash Fund including payments for printing (\$157) and custodial services (\$240) that should have gone through the School's purchasing process, a \$60 loan to the PTO, \$18 for a personal expense (birthday cake), and \$68 in sales tax for 37 reimbursements. The audit found the School does not have specific procedures to define the types of expenditures that are appropriate and the documentation required for reimbursement from the Petty Cash Fund.
- Personnel files do not contain all necessary information, such as, documentation of reference checks and evidence of certification. Without this documentation, the School has less assurance it is hiring the most qualified individuals.
- The School did not establish adequate controls over the \$2.8 million in assets that it owns. Fixed assets, specifically about \$200K of furniture and equipment, were not labeled with School identification tags, the fixed asset inventory did not contain sufficient identifying information, and a physical inventory was not taken within the last year.

## **Comments of School Officials**

School officials' comments about the findings were considered in preparing this report. They agreed with 27 of the 29 recommendations. Three findings from the draft report were resolved and removed from this report. As a result, recommendations 9, 27, and 30 were intentionally left blank to facilitate the School's preparation of its response. The response further indicated that actions have been taken to implement 27 recommendations. Recommendation 8 is under consideration and School officials do not agree with recommendation 15. The full text of the response is included as Appendix B.

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# Table of Contents

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<b>INTRODUCTION.....</b>	<b>1</b>
BACKGROUND.....	1
OBJECTIVES, SCOPE, AND METHODOLOGY .....	2
AUDIT RESULTS .....	2
COMMENTS OF SCHOOL OFFICIALS .....	3
<b>GOVERNANCE AND PLANNING.....</b>	<b>4</b>
GOVERNANCE RESPONSIBILITY .....	4
<i>Budgets and Budgetary Transfers</i> .....	4
<i>Audit Findings</i> .....	5
<i>Conference Attendance</i> .....	5
<i>Bank Accounts</i> .....	6
<i>Bonding Employees</i> .....	6
<i>Basis of Accounting</i> .....	6
RECOMMENDATIONS .....	7
COMMENTS OF SCHOOL OFFICIALS .....	8
SCHOOL CHARTER .....	8
RECOMMENDATIONS .....	9
COMMENTS OF SCHOOL OFFICIALS .....	9
AUDITOR’S NOTE.....	9
<b>REVENUE AND CASH MANAGEMENT .....</b>	<b>10</b>
BANK RECONCILIATIONS .....	10
RECOMMENDATIONS .....	10
COMMENTS OF SCHOOL OFFICIALS .....	11
AUDITOR’S NOTE.....	11
SCHOOL RELATIONSHIP WITH THE PARENT TEACHER ORGANIZATION (PTO) .....	11
RECOMMENDATIONS .....	12
COMMENTS OF SCHOOL OFFICIALS .....	12
<b>PURCHASING AND EXPENDITURES.....</b>	<b>13</b>
USE OF PETTY CASH FUNDS.....	13
RECOMMENDATION.....	13
COMMENTS OF SCHOOL OFFICIALS .....	14
<b>PAYROLL AND PERSONNEL .....</b>	<b>15</b>
PERSONNEL FILE DOCUMENTATION.....	15
RECOMMENDATIONS .....	16
COMMENTS OF SCHOOL OFFICIALS .....	16
TIMECARD PROCESSING .....	16
RECOMMENDATIONS .....	17
COMMENTS OF SCHOOL OFFICIALS .....	17
JOB DESCRIPTIONS .....	17
RECOMMENDATION.....	18
COMMENTS OF SCHOOL OFFICIALS .....	18

<b>FACILITIES AND EQUIPMENT .....</b>	<b>19</b>
FIXED ASSETS .....	19
RECOMMENDATIONS .....	19
COMMENTS OF SCHOOL OFFICIALS .....	20
AUDITOR'S NOTE.....	20

Appendix A – Contributors to the Report

Appendix B – Response of School Officials

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# Introduction

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## Background

Our World Neighborhood Charter School (School), located in Astoria, Queens, is a State University of New York (SUNY) chartered entity. The School is responsible for providing educational services to about 650 students, grades K through 8, in 2 school buildings with a 2005-06 budget of \$6.5 million. The Charter was approved on March 20, 2001 and the School began operations in September 2002. The School came to life as the result of the efforts of a group of parents living in the Long Island City-Astoria-Woodside neighborhoods. The mission of the School is “to provide kindergarten through 8<sup>th</sup> grade students with the foundation of a rigorous liberal arts education within an environment of great cultural diversity.”

Student performance for the 2004-05 grade 4 English Language Arts (ELA), mathematics, and science assessments show significant improvement. For example, 75 percent of the School’s students met or exceeded the standards for the ELA compared to the State average of 70 percent. Similarly, 79 percent of the School’s students met or exceeded the standards for the science assessment, compared to the State average of 80 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 July 2005 and available online at <http://www.emsc.nysed.gov/irts/655report/2005/home.htm>.

## **Objectives, Scope, and Methodology**

The audit examined selected management practices, records, and documentation for the period July 1, 2004 through November 15, 2005. 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 many of the necessary internal controls in place, but identified improvement opportunities in several 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 further 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 27 of the 29 recommendations. Three findings from the draft report were resolved and removed from this report. As a result, recommendations 9, 27, and 30 were intentionally left blank to facilitate the School's preparation of its response. The response further indicated that actions have been taken to implement 27 recommendations. Recommendation 8 is under consideration and School officials do not agree with recommendation 15. The full text of the response is included as Appendix B.

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# GOVERNANCE AND PLANNING

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A board of trustees is responsible for the education of the children attending its charter school and must provide for the governance and oversight of the school's affairs, personnel, and properties.

The audit determined the Board of Trustees (Board) has addressed many of its governance and planning responsibilities related to the control environment, policies and procedures, staffing, strategic planning, and budget development. Nevertheless, the Board could make improvements related 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 public interest is best served.

The Board is responsible for the overall direction, operation, assets, and fiscal well-being of the school. As such, the Board has the authority and duty to adopt the 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 and budget transfers, audit findings, conference attendance, bank accounts, and bonding employees.

## *Budgets and Budgetary Transfers*

A board has the fiduciary responsibility to oversee and approve the school budget prior to expending funds, monitor the budget status throughout the year, and approve budgetary transfers as needed and appropriate. A board must ensure that financial resources are being used efficiently and effectively toward meeting the school's goals, and that its assets are properly safeguarded.

Budget status reports should be reviewed periodically and expenditures should be limited to authorized amounts. Schools should have a process to approve budgetary transfers in a timely manner and ensure individual accounts are not overspent.

The Board meeting minutes made no reference to the Board's discussion or approval of the budget prior to implementation, the Board's regular review of budget status reports, or the Board's approval of budgetary transfers. Our review of budget status reports noted several overspent budget lines. For example, while not overspending the total salaries' budget, the School overspent the accounts for a reading specialist by \$18,980, a guidance counselor by \$5,852, and a custodian by \$10,940, indicating that budgetary transfers were not made to ensure appropriations were available before expending funds in these categories. Further, we saw no evidence of a process for the regular review of budget status reports. This can lead to overspending the budget.

### *Audit Findings*

A school must formulate and implement corrective action plans to address audit findings. The board should approve and monitor the corrective action plans.

The Board meeting minutes do not show that audit findings were discussed or corrective action plans to address audit issues were approved. For example, in the June 30, 2003 management letter, the School's independent auditor identified that the Parent Teacher Organization (PTO) was using the School's tax-exempt identification number and the Chief Administrative Officer (CAO)/Principal was signing PTO checks. These findings were not addressed in any Board meeting minutes and have not been corrected. This issue is discussed in a later section of the report.

### *Conference Attendance*

Attendance at training sessions and professional conferences can provide valuable benefits to the school by exposing staff to innovative ideas and methods. A board should review and evaluate all requests for staff to attend training and conferences, balancing perceived benefit to the school

against relative cost, or designate another individual to review and approve training and conference requests.

No evidence of discussion or approval for training or professional conferences was found in the Board minutes. Further, the Board minutes did not document that the Board had designated the CAO/Principal to approve training or conference attendance. Without documented review and approval of training and conference requests, the School has less assurance its training funds are being used to obtain the maximum benefit.

### *Bank Accounts*

The board has the power and duty to designate one or more banks for the deposit of all school monies. This helps ensure only authorized bank accounts are used.

The Board meeting minutes do not document discussion or approval of banks accounts for use by the School. For example, we noted one account with a balance of about \$10,000 that was opened in 2004 to establish a line of credit and was never used. When brought to the attention of School officials, the account was closed.

### *Bonding Employees*

School employees and board members, having access to, or control over school resources and assets should be bonded as a precaution to protect the school's assets.

The School bonds its CAO/Principal and Business Manager as part of its insurance coverage, and Mosaica Education, Inc. (MEI), the School's management company, bonds the MEI Accountant. Nevertheless, not all staff members having access to financial assets of the School are bonded. For example, the custodians of the Petty Cash Funds are not bonded. As a result, the School would not be covered for a misappropriation by one of these individuals.

### *Basis of Accounting*

*Guidelines for Audits of Financial Statements of Charter Schools* (Guidelines) provide guidance to charter schools and their auditors for the annual audit process and uniformity in reporting. These Guidelines assist the boards

in meeting their responsibilities in maintaining accountability over public funds and for reporting annually to the Governor and Legislature of the status of charter schools. These Guidelines include the following reporting requirements: “The financial statements should be prepared on the accrual basis of accounting in accordance with generally accepted accounting principles for not-for-profit organizations.”

The School’s Accounting Procedures Manual states the School is using the cash or modified accrual basis of accounting. However, the accrual basis of accounting is actually being used. School officials said the Accounting Manual would be corrected.

## **Recommendations**

1. Obtain Board approval for all corrective action plans to address audit findings.
2. Ensure the budget is approved by a majority vote of the Board at an official meeting prior to expending funds.
3. Actively monitor the budget by regularly comparing the budgeted revenues and expenditures to actual revenues and expenditures to avoid overspending the budget.
4. Establish a process for the regular monitoring and review of budget status reports and making any adjustments, as necessary.
5. Ensure budgetary transfers are approved and made timely during the year to prevent overspending any budget lines.
6. Establish a policy to review requests for staff training or attendance at professional conferences, requiring a majority vote of the Board for approval or authorize CAO/Principal to approve training and conference attendance on their behalf.
7. Use only banks and bank accounts authorized by the Board.
8. Consider bonding all staff with access to financial resources and assets of the School.

9. Intentionally left blank.
10. Update the School's Accounting Procedures Manual to reflect the correct basis of accounting.

## Comments of School Officials

School officials agreed with recommendations 1 through 7 and 10 and have either implemented or are in the process of implementing these recommendations. Recommendation eight, related to bonding employees, is under consideration. The School is considering increasing bonding of its employees, however, the School has confirmed with its insurance carrier that currently there is adequate Employee Practices Liability Insurance coverage to mitigate any potential risk to the School.

## School Charter

A school charter, approved by SUNY and the Department, defines the operating requirements of a school. Facts represented in the charter are the basis of a school's operation. For example, the charter stipulates the fiscal year and the number of days a school will be in operation. Any modifications to the charter must be approved prior to implementation. The audit noted discrepancies in the Charter and by-laws related to the fiscal year and number of school days.

### Charter/By-Law Inconsistency

The charter is the governing document defining the boundaries under which a charter school is established. By-laws provide additional structure, but must be consistent with the charter.

According to its Charter and the School calendar, the School's fiscal year begins on July 1 and ends on June 30. The by-laws of the School, however, are not consistent with its Charter, defining the fiscal year as August 1 through July 31. The by-laws should be changed to avoid any misunderstanding. The School has submitted a request to CSI to amend the by-laws.

### Days of Operation

The Charter states the School will operate on a 200-day schedule. The School calendar for 2005-06 indicates a 191-day schedule. School officials stated that a request to change the schedule was submitted to the SUNY Charter School Institute (CSI) in October 2005; however, the request was not sent to the Department.

## **Recommendations**

11. Amend the School by-laws to reflect the dates in the Charter for the fiscal year.
12. Obtain approval from both the Charter School Institute and the Department before implementing changes to the School Charter.

## **Comments of School Officials**

School officials agreed with recommendations 11 and 12, however, the response to recommendation 12 does not address Department approval.

## **Auditor's Note**

A representative of the Department's Charter School Office confirmed that any material change to a school's charter must be approved by the Department. A change to the number of school days is considered to be a material change.

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# REVENUE AND CASH MANAGEMENT

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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. The School adheres to good revenue and cash management practices; however, it could improve controls over bank reconciliations and its financial relationship to the PTO.

## **Bank Reconciliations**

A bank reconciliation is an important control that can be 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 disclose errors and irregularities. The individual performing the reconciliation and the individual reviewing it should be identified on the document.

While the School's bank reconciliations are up to date and verified to the accounting records, neither the preparer nor the reviewer signed and dated reconciliations. In its management letter, the School's CPA firm recommended that bank statements should be delivered, unopened, to the CAO/Principal for review prior to reconciliation as an additional control over the reconciliation process because he believed the MEI Accountant was performing reconciliations. Since the bank statements are currently reconciled by an MEI employee who is independent of accounting and the check preparation process, this procedure is not necessary. As such, the bank statements should go unopened to the bank reconciliation preparer.

## **Recommendations**

13. Deliver unopened bank statements to the individual responsible for the bank reconciliation. This should be someone independent of handling or recording cash receipts or disbursements.

14. Require the individual responsible for bank reconciliations to sign and date the reconciliation when complete.
15. Require the CAO/Principal to date and sign the reconciliation after reviewing and approving the reconciled bank statements.

## **Comments of School Officials**

School officials agreed with recommendations 13 and 14 and are in the process of implementing these recommendations. School officials did not agree with recommendation 15. The response indicates that currently the Board reviews all bank reconciliations as part of the unaudited interim financial statements that are presented at each Board meeting. The reconciliations are also reviewed by the CAO at that time, but does not initial or sign the reports. As such, the School believes there is sufficient separation of duties within its cash management procedures (including bank reconciliations).

## **Auditor's Note**

A stronger control over the preparation and review of bank reconciliation includes having the CAO sign the reconciliation as evidence to the Board of an independent review by him. The process of the Board accepting and reviewing bank reconciliations should be noted in the Board meeting minutes.

## **School Relationship with the Parent Teacher Organization (PTO)**

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

The CAO/Principal is a signatory on the PTO checking account and the PTO is inappropriately using the School's tax-exempt identification number. These findings were identified in the June 30, 2003 management letter and have not been addressed by the School. In addition, our audit noted the School made a \$60 loan to the PTO. Subsequent to our field work, School officials indicated that they have

begun the process to establish appropriate separation of financial operations between the PTO and the School.

## **Recommendations**

16. Remove the CAO/Principal as a signatory on the PTO checking account.
17. Do not allow the PTO to use the School's tax-exempt identification number.
18. Do not lend funds to the PTO.

## **Comments of School Officials**

School officials agreed with recommendation 16 through 18 and are in the process of implementing these recommendations.

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# PURCHASING AND EXPENDITURES

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Good business practice requires guidance on the use of petty cash funds, including the amount and types of expenditures that can be paid from petty cash funds and the required supporting documentation necessary for petty cash reimbursement.

## Use of Petty Cash Funds

The School has established two petty cash funds to provide for payments of certain expenditures. The School's Accounting Procedures Manual states the fund is to be used for those purchases of minor items in accordance with company policy. Our review of a sample of 77 expenditures paid from the \$300 petty cash account at the elementary school disclosed the following questionable uses of the petty cash fund:

- Payments of \$157 for printing and \$240 for contracted custodial service that should go through the normal purchasing routine;
- A disbursement in which the School made a loan to the PTO for \$60 for six days;
- A personal expense of \$18 for a birthday cake for a staff member; and
- Thirty-seven instances of reimbursement for about \$68 of sales tax for petty cash purchases.

The School's Accounting Procedures Manual references a Petty Cash Policy, but at the time of field work, the Board had not established the policy. Subsequent to field work, the Board approved a Petty Cash Policy; however, neither the Policy nor the Accounting Procedures Manual specifies the types of purchases appropriately reimbursed through the fund or the documentation required.

## Recommendation

19. Expand the petty cash procedures to provide guidance on appropriate expenditures and required documentation for reimbursement from a petty cash fund.

## **Comments of School Officials**

School officials agreed with recommendation 19 and are in the process of implementing this recommendation.

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# Payroll and Personnel

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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 can make improvements in the areas of personnel file documentation, timecard processing, and job descriptions.

## Personnel File Documentation

The audit sampled 11 personnel files to ensure the School maintained documentation of its hiring practices and salary and employment agreements. We identified the following deficiencies:

- Six files were missing documentation of reference checks;
- Two files did not contain evidence of required certifications;
- One Salary/Employment agreement was not signed, one was not clear on a bonus amount, and one agreement did not reflect the employee's part-time status;
- Two files did not include the hire date and one file reported the hire date incorrectly; and
- One file was missing a signed release for a background check.

Without documentation of a thorough check of credentials and references, and complete and accurate salary and employment information, the School has less assurance it is

hiring the most qualified individuals and paying them appropriately.

Subsequent to our field work, the Board instituted a Hiring Policy and procedures that defined the documentation necessary in the employees' personnel files. The document addresses both faculty positions and staff and administrative positions.

## **Recommendations**

20. Ensure all references are verified and documented in employee files.
21. Ensure each staff member hired for a position requiring certification has the appropriate certification and a copy of the certification is maintained in the employee's file.
22. Maintain all required documents and information in employee files including background check releases, Salary/Employment agreements, and hire dates.

## **Comments of School Officials**

School officials agreed with recommendations 20 through 22 and are in the process of implementing these recommendations.

## **Timecard Processing**

To help ensure that employees are paid the correct amount, controls over timecard processing are necessary. Controls include employees' signatures, supervisory reviews, supervisors' signatures on time cards, and independent reviews of payroll worksheets prior to payroll preparation. The School requires teacher aides and hourly cafeteria staff to use time cards to record their work hours.

During the audit, we sampled one payroll period for 65 employees. We noted the following:

- Not all times cards had in and out times stamped;
- Time cards were not signed by the employee or the supervisor; and

- Two discrepancies in the calculation of time worked between time cards and the management company's salary worksheet prepared by clerical staff resulted in an hourly employee being underpaid by one hour and a teacher aide's leave accruals being undercharged by one day.

Without routine supervisory review of time cards and the salary worksheet, the School does not have assurance staff are paid for time actually worked and leave accrual records are correct.

Subsequent to our field work, the Board approved a Timecard Verification Policy and a Sick/Personal/Vacation Days Policy. These policies address the requirements to sign in and out and quantify leave accruals for three groups of employees: teachers and assistant teachers, twelve-month employees, and part-time employees.

## **Recommendations**

23. Ensure all required employees punch in and out.
24. Ensure time cards are processed according to the Timecard Verification Policy including signature of the employee and review and signature of the supervisor.
25. Establish a procedure for the independent review of payroll worksheets prior to payroll preparation.

## **Comments of School Officials**

School officials agreed with recommendations 23 through 25 and are in the process of implementing these recommendations.

## **Job Descriptions**

Schools should maintain accurate and up-to-date job descriptions to ensure the job requirements are understood and to provide a fair and equitable measurement for employee evaluation.

The School developed job descriptions for most positions, but did not have a job description for its part-time business manager position. The job description will be especially important when the contract with MEI ends on June 30, 2006 and the School will need to hire a full-time business manager/accountant.

## **Recommendation**

26. Ensure accurate and up-to-date job descriptions are in place for all positions.

## **Comments of School Officials**

School officials agreed with recommendation 26 and are in the process of implementing this recommendation.

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# FACILITIES AND EQUIPMENT

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Schools must provide adequate facilities and equipment for educating their students. The School can make improvements in the controls over fixed assets.

## Fixed Assets

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. The maintenance of adequate asset records and the fair reporting of fixed assets enable schools to conform with generally acceptable accounting principles and provide management with tools for establishing appropriate controls.

The School had no policies or procedures for its \$2.8 million fixed asset and equipment inventories and had not marked all its assets with School identification decals. A fixed asset inventory is maintained, but it does not include adequate descriptive information such as serial number, location, and condition of each item. Generally, a physical inventory should be conducted annually; however, the last inventory the School completed was at the end of the 2003-04 school year.

School officials indicated they plan on hiring an individual in April 2006, who will be responsible for all aspects of the School's fixed assets including the physical inventory.

## Recommendations

27. Intentionally left blank.
28. Establish policies and procedures for fixed assets and equipment inventory.
29. Tag assets with School ownership and identification labels.
30. Intentionally left blank.

31. Expand the fixed asset inventory to include serial number, location, condition of item, and any other data item that would provide value to a user of the inventory document.
32. Conduct a physical inventory annually.

### **Comments of School Officials**

School officials agreed with recommendations 28, 29, 31, and 32 and are in the process of implementing these recommendations.

### **Auditor's Note**

The fixed asset inventory documents provided during the audit did not include the serial number and location of the assets listed.

Contributors to the Report  
Our World Neighborhood Charter School

- Nancy Taylor, CPA, Manager
- Lynn Humiston, Auditor-In-Charge
- Patrick Orton, Senior Auditor



Our World Neighborhood Charter School  
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May 25, 2006

Lynn Humiston CISA, CISSP, CISM  
Information Security Officer  
The State Education Department  
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OFFICE OF  
AUDIT SERVICES

Dear Ms. Humiston:

This letter is in response to the recommendations made by you from the audit performed of Our World Neighborhood Charter School for the period July 1, 2004 through November 15, 2005. The following corrective action plan has already been instituted to address the specific issues raised during this audit.

**Management Responses (including Corrective Actions) to Auditor Recommendations**

*Basis of Accounting*

Recommendation #1 - Obtain Board approval for all corrective action plans to address audit findings.

Management Response #1 - Agreed. OWN's Board has approved the school's corrective action plans in the past. However, it appears that the Board's approval had not consistently been evidenced within the text of the Minutes or Resolutions. This has subsequently been addressed.

Recommendation #2 - Ensure the budget is approved by a majority vote of the Board at an official meeting prior to expending funds.

Management Response #2 - Agreed. The Audit and Finance Committee of OWN's Board will review the school's Budget which will be voted on by the entire Board for approval prior to the expending of funds. OWN's Board has reviewed and approved the school's budgets in the past, but again the approval had not been consistently evidenced within the text of the Minutes or Resolutions. The FY2007 budget will be approved at OWN's June 2006 Board Meeting.

Recommendation #3 – Actively monitor the budget by regularly comparing the budgeted revenues and expenditures to actual revenues and expenditures to avoid overspending the budget.

Management Response #3 - Agreed. OWN's Board does "actively monitor" the schools budgets and financial results. Monthly Financial Statements inclusive of line item Budget Performance Measurements are performed at each Board Meeting. OWN can attribute much of its fiscal success to the execution and perpetual measurement of its budget which is an integral component of the overall Strategic Plan. Again such Board review had not been consistently evidenced within the text of the Minutes or Resolutions. This has subsequently been addressed.

Recommendation #4 – Establish a process for the regular monitoring and review of budget status reports and making any adjustments, as necessary.

Management Response #4 - Agreed. This response is substantially the same as the response to Recommendation #3. OWN's Board will continue to perform Budget Performance Measurements on a monthly basis (as stated in OWN's Monthly Financial Closing Procedure), and the Board will also ensure that such measurements are evidenced within the text of the Minutes and corresponding attachments.

Recommendation #5 – Ensure budgetary transfers are approved and made timely during the year to prevent overspending any budget lines.

Management Response #5 - Agreed. OWN's Board has taken steps to ensure that the process of budgetary transfers is performed where required in a more timely fashion. Budget revisions/transfers associated with OWN's FY2006 Budget were reviewed and approved at the May 2006 Board Meeting.

Recommendation #6 – Establish a policy to review requests for staff training or attendance at professional conferences, requiring a majority vote of the Board for approval or authorize CAO/Principal to approve training and conference attendance on their behalf.

Management Response #6 - Agreed. OWN's Board has in fact authorized the CAO to approve training and conference attendance as part of OWN's overall Professional Development strategy. However, it appears that the Board's delegation of this specific authority had not been evidenced within the text of the Minutes or Resolutions. This will be addressed at OWN's June 2006 Board Meeting.

Recommendation #7 – Use only banks and bank accounts authorized by the Board.

Management Response #7 - Agreed. All bank accounts that have been established and/or closed in the school's name have all been done so with the full prior knowledge of OWN's Board. In fact, all bank accounts include Board Members as signatories on the accounts. Again such Board review had not been consistently evidenced within the text of the Minutes or Resolutions. This has subsequently been addressed.

Recommendation #8 - Consider bonding all staff with access to financial resources and assets of the school.

Management Response #8 - Under Consideration. OWN is currently considering expanding the bonding process. OWN has also confirmed with its insurance carrier (Hartford) that there is adequate Employee Practices Liability Insurance (EPLI) coverage to further mitigate any potential risk to the school.

Recommendation #9 -

Management Response #9 -

Recommendation #10 - Update the School's Accounting Procedures Manual to reflect the correct basis of accounting.

Management Response #10 - Agreed. The manual has been updated to incorporate the auditors' recommended changes. The changes to the manual were discussed previously with the Board and will be approved at the June 2006 Board Meeting. Please note that the school had been utilizing the correct method of accounting, the accrual basis of accounting with generally accepted accounting principles for not-for-profit organizations. The manual has been updated to reflect this appropriate accounting practice.

### *School Charter*

Recommendation #11 - Amend the School by-laws to reflect the dates in the Charter for the fiscal year.

Management Response #11- Agreed. Own's Board has submitted to Charter School Institute a formal request to adjust the dates of the fiscal year in its by-laws.

Recommendation #12 - Obtain approval from both the Charter School Institute and the Department before implementing changes to the Charter.

Management Response #12— Agreed. OWN does; in fact, obtain approval from its authorizer, Charter School Institute before implementing changes to the School Charter.

OWN will continue to seek approval from CSI prior to any potential future changes to its School Charter.

### *Bank Reconciliations*

Recommendation #13 – Deliver unopened bank statements to the individual responsible for the bank reconciliation. This should be someone independent of handling or recording cash receipts or disbursements.

Management Response #13 – **Agreed.** OWN believes that while there is sufficient separation of duties within its Cash Management procedures (including bank reconciliations) the school will implement the auditor’s recommendation of having the unopened bank statements delivered to the bank reconciliation preparer. The current process of bank statement review by the CAO prior to reconciliation was instituted predicated on OWN’s independent auditor’s recommendation at the conclusion of the FY2005 audit. OWN has subsequently clarified the independent auditor’s position.

Recommendation #14 – Require the individual responsible for bank reconciliations to sign and date the reconciliation when complete.

Management Response #14 – **Agreed.** OWN has implemented the process of having all bank reconciliations signed and dated by the preparer upon completion. This control will augment the existing control inherent to the accounting software (MAS500) that creates a user ID dated “thumbprint”.

Recommendation #15 – Require the CAO/Principal to date and sign the reconciliation after reviewing and approving the reconciled bank statements.

Management Response #15 – **Does not agree.** Currently the Board reviews all bank reconciliations as part of the unaudited interim financial statements that are presented at each Board meeting. The reconciliations are also reviewed by the CAO at that time. Again OWN believes that there is sufficient separation of duties within its Cash Management procedures (including bank reconciliations).

Recommendation #16 – Remove the CAO/Principal as a signatory on the PTO checking account.

Management Response #16 – **Agreed.** The school is currently in the process of removing the CAO/Principal as a signatory on the PTO checking account. The CAO/Principal has not in the past ever written a check without prior authorization of the Executive Committee of the PTO. In addition, the PTO account is independently

reconciled and the reconciliations are presented at the Board Meetings and with the PTO Executive Committee.

Recommendation #17 - Do not allow the PTO to use the school's tax-exempt identification number.

Management Response #17 - **Agreed.** OWN was given guidance that establishing the PTO under the school's EIN was an acceptable process of maintaining the PTO's cash transactions with the stipulation that funds would not be commingled, therefore separate accounts were established and tracked in that manner. However, based on guidance from the auditors, the Board has approved the removal of the PTO from the school's EIN. The Board is currently assisting the PTO establish itself as its own tax-exempt entity.

Recommendation #18 - Do not lend funds to the PTO.

Management Response #18 - **Agreed.** OWN is not in the habit of lending funds to the PTO. There was one instance where the PTO had an emergency expenditure that required a cash transaction of \$60. The PTO provided OWN with a check for \$60 in consideration of the funds that were disbursed from OWN's petty cash fund. The transaction was well documented. OWN will not facilitate any such future transactions.

### *Use of Petty Cash Funds*

Recommendation #19 - Expand the petty cash procedures to provide guidance on appropriate expenditures and required documentation for reimbursement from a petty cash fund.

Management Response #19 - **Agreed.** While OWN had an existing petty cash policy in its original Accounting manual, OWN agreed with the auditors that the policy should be updated. This policy was formally updated and approved at the December 19, 2005 Board meeting. OWN believes that the policy over how the petty cash fund is established and maintained is sufficient control. While the nature of the usage of the fund may vary, the approval processes for those usages remain rigid, therefore mitigating the potential for misuse of the fund.

### *Personnel File Documentation*

Recommendation #20 - Ensure all references are verified and documented in employee files.

Management Response #20 - **Agreed.** The school does agree with the need to perform reference checks. The school also agrees that it does not have copies of reference check

information in employee files; however the school confirms that reference checks are preformed routinely as part of the hiring process.

Recommendation #21 - Ensure each staff member hired for a position requiring certification has the appropriate certification and a copy of the certification is maintained in the employee's file.

Management Response #21 - **Agreed.** All teachers that are hired as certified do, in fact have the copies of their certification on file. Some teachers are hired as uncertified and therefore would not have copies of certification on file.

Recommendation #22 - Maintain all required documents and information in employee files including background check releases, Salary/Employment agreements, hire dates and signed Code of Ethics forms.

Management Response #22 - **Agreed.** Personnel files should and do contain the required documentations for each post. All documents required by the school's authorizer are in the employee personnel files.

### *Timecard Processing*

Recommendation #23 - Ensure that all required employees punch in and out.

Management Response #23 - **Agreed.** OWN agrees that all required employees should punch in and out on a daily basis. In an effort to ensure employee's compliance with OWN's policy outlined in the December 22, 2005 Board Book, employees had been re-instructed on time card ownership policy.

Recommendation #24 - Ensure time cards are processed according to the Timecard Verification Policy including signature of the employee and review and signature of the supervisor.

Management Response #24 - **Agreed.** OWN agrees that all timecards will be processed in accordance with the established policies of the school.

Recommendation #25 - Establish a procedure for the independent review of payroll worksheets prior to payroll preparation.

Management Response #25 - **Agreed.** OWN agrees and in accordance with section 6 of OWN's Accounting Procedures Manual, an independent review of payroll worksheets is performed routinely as a component of the payroll creation and submission process.

### *Job Descriptions*

Recommendation #26 – Ensure accurate and up-to-date job descriptions are in place for all positions.

Management Response #26 – **Agreed.** OWN agrees with this recommendation. OWN currently has accurate and up-to-date job descriptions for all positions.

### *Technology Plan*

Recommendation #27

Management Response #27

### *Fixed Assets*

Recommendation #28 – Establish policies and procedures for fixed assets and equipment inventory.

Management Response #28 – **Agreed.** OWN has established policies and procedures for fixed assets and equipment inventory. See attached. OWN would also like to refer the auditors back to OWN's Accounting Manual where the policy are contained.

Recommendation #29 – Tag assets with school ownership and identification labels.

Management Response #29 – **Agreed.** OWN has implemented the use of assets tags to identify School ownership of fixed assets, and equipment as of April 2006 as recommended by the auditors.

Recommendation #30

Management Response #30

Recommendation #31 – Expand the fixed asset inventory to include serial number, location, condition of the item, and any other data item that would provide value to a user of the inventory document.

Management Response #31 – **Agreed.** The perpetual inventory maintained by OWN already includes the serial number and location. Condition of the fixed asset is limited to whether it was new or used upon acquisition. If an asset becomes unusable the asset is retired.

Recommendation #32 – Conduct a physical inventory annually.

Management Response #32 - Agreed. It is agreed that a physical inventory is an integral part of OWN's policies and procedures. Management has taken great strides in controlling OWN's fixed assets. A perpetual inventory is maintained on a real time basis. The physical inventory will be performed concurrent with the end of the school's fiscal year as recommended by the auditors.

The Management and Board of Trustees of OWN would like to take this opportunity to thank the auditors of the Office of Audit Services for conducting a timely, efficient audit and for their valuable insight that assists Our World Neighborhood Charter School down the continued path of success.

Thank you again.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Ferguson", with a long horizontal flourish extending to the right.

Brian Ferguson

Chief Administrative Officer  
Our World neighborhood Charter School