Thomas P. DiNapoli
COMPTROLLER

OFFICE OF THE
NEW YORK STATE COMPTROLLER

DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY

AMBER CHARTER SCHOOL

FINANCIAL MANAGEMENT PRACTICES

Report 2007-S-101

AUDIT OBJECTIVE

Our objective was to determine whether Amber Charter School (Amber) had established and maintained an adequate system of internals control over the following areas of financial operations: financial oversight, financial practices, fixed assets, payroll and employee background checks.

AUDIT RESULTS - SUMMARY

We found that Amber's Board of Trustee's (Board) needs to improve its oversight of Amber's financial operations. The Board did not review and approve Amber's contracts or pay raises. Appropriate background checks were also not performed on at least seven staff and bank reconciliations were not reviewed by the Board as required in the by-laws.

We reviewed Amber's monthly bank reconciliations for fiscal year 2006 and found they were not performed on a timely basis and were generally inaccurate. School staff prepared "preliminary" bank reconciliations using incorrect general ledger balances. Weeks later, "Amended" bank reconciliations were prepared, but some of these were still inaccurate.

Amber has two imprest petty cash funds; one maintained by its bookkeeper and the Chief Financial Officer (CFO); the second by the Facilities Director. We found that the petty cash fund maintained by the Facilities Director was kept in her personal bank account off school premises.

We reviewed 17 contracts totaling $996,769, entered into by Amber during the fiscal year ended June 30, 2006, to determine whether school management complied with Amber's contract procedures. We found that Amber officials did not obtain either, oral quotes or written bids for 14 of the 17 contracts. Consequently, there is no assurance that the price paid for each of the 14 contracts was reasonable. These contracts totaled $958,000. We also noted that Amber paid its cleaning contractor $9,730 for cleaning supplies and services above and beyond what was required by the contract. In our view, Amber should bid out these additional goods and services or, alternatively, amend the original contract.

Amber does not maintain adequate fixed asset inventory records. In the absence of such records, Amber cannot readily assure themselves of the accuracy of the fixed asset balances recorded in the general ledger. Nor can they perform a proper physical inventory to account for all of their fixed assets. This is significant because the general ledger showed that Amber had invested over $150,000 in equipment, some of which is susceptible to theft.

To verify that pay increases were processed accurately, we reviewed payroll and personnel records for a sample of 29 of the 63 staff members who were employed by Amber for the 2006 school year and who had received pay increases. We found the pay increases were awarded accurately. However, we noted that the CFO received a pay increase of almost 19 percent in one year, in addition to a $5,000 bonus, without evidence of Board approval. We recommended that the Board approve all raises and bonuses.

Our report contains 12 recommendations to improve internal controls over Amber's financial management practices.

This report, dated March 27, 2008, is available on our website at: http://www.osc.state.ny.us. Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
Division of State Government Accountability
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BACKGROUND

In December 1998, the New York State Legislature authorized the creation of charter schools in the State. This legislation is known as the New York Charter Schools Act of 1998 (Act). This legislation authorized the establishment of charter schools as independent public schools governed by not-for-profit boards of trustees and managed according to the terms of a five-year performance contract or "charter." Charter schools provide opportunities for teachers, parents, community members, and not-for-profit organizations to establish and maintain schools that operate autonomously of existing schools and school districts.

Established in 2000, Amber Charter School (Amber) is one of 41 schools authorized by the State University of New York and chartered by the Regents of the State of New York. Amber's charter was renewed on May 17, 2005 for an additional five years. The school is located in upper Manhattan, and has over 340 students enrolled in kindergarten through sixth grade.

Under the Act, Amber is entitled to receive funding from local, State and Federal sources. Such funding includes per pupil payments for general operating support, additional State resources for special education, No Child Left Behind Federal funds, and in-kind services from the New York City Department of Education (DoE) - the school district in which Amber is located.

Amber's students have scored in the top quarter in the New York State tests in social studies and science over the past three years. English Language Arts (ELA) and mathematics scores are on the rise as well. In fact, Amber's ELA scores outpaced Community School Districts 4, 5 and 6 (all in upper Manhattan).

Amber has a Board of Trustees (Board), which is responsible for overseeing both the academic and financial activities of the school. The Board's Finance Committee reviews annual budgets and financial reports of the school.

According to Amber's financial statements for the fiscal year ended June 30, 2006, the school's operating expenses were approximately $3.4 million, of which $2.1 million was payroll cost. Revenues totaled approximately $3.9 million, of which $3.1 million was provided by DoE for basic school aid. Amber received $580,485 in federal contracts and grants, $82,335 in private grants and contributions, $39,790 in rental income and $35,929 in other types of revenue from interest earnings and fundraising. Amber also received support from DoE to pay for the cost of transportation for Amber's students. Per Amber officials, this additional support had a value of about $134,000 annually.

According to Amber's annual independent audits, the school operated at a deficit in its first year. However, the audit report for the year ended June 30, 2006, indicated that, after seven years, Amber had accumulated net assets of about $2.1 million.

AUDIT FINDINGS AND RECOMMENDATIONS

Our audit disclosed that Amber needs to improve its internal controls in several areas of its operations. We found that controls need to be improved in obtaining employee background checks, bank reconciliations need to be properly performed and reviewed, and contracts need to be competitively bid, as required by the school's procedures.

Financial Oversight

Board Oversight

Amber is governed by a Board of Trustees (Board). Amber's by-laws require that the Board have no less than seven and no more than 19 members. The Act gives the Board final authority for the school's policies, operational decisions, and financial management. As a result, Board members have a fiduciary responsibility for school assets and finances.

Amber's by-laws state that meetings must be held "regularly" but do not specify the frequency with which Board meetings should be held. We reviewed the Board minutes for the period July 1, 2005 through November 30, 2006 and determined that the Board had met 13 times during the 17 month period. Barring a specific criteria, we can not conclude if the Board met its obligation to hold regular meetings. (Subsequent to our audit Amber officials informed us that their by-laws were modified to require meetings to be held every other month.)

Our review of the Board minutes found that school operations and finances were discussed and decisions were documented. However, our review also disclosed that the Board was not involved in the approval of salary increases and bonuses or the review of bank account reconciliations. Observations and recommendations on these matters are discussed in subsequent sections of this report.

Annual Independent Audit

According to Section 2854(1) (c) of the Act an annual audit of the school's financial statements is required. Amber's by-laws require that the audits be conducted by a certified public accounting firm and the State Education Department further requires that all such audits be conducted in accordance with generally accepted government auditing standards, as issued by the United States Government Accountability Office.

We reviewed the reports provided by Amber's auditing firm for the 2005-2006 fiscal year. The reports indicate that the audit was conducted in accordance with generally accepted government auditing standards. The firm also provided all of the required audit reports and discussed audit results with the Board.

Fingerprint Clearance

According to Article 56, Section 2854(3)(a-2)(i) of the Act, a criminal history record check must be performed for all prospective charter school employees who do not hold a valid clearance from the Commissioner of Education. Part 87 of the Commissioner's Regulations defines a prospective employee as anyone, including Board members, consultants, and vendors, who will reasonably be expected to provide services to the school or to have direct contact with students under the age of 21. In accordance with this requirement, Amber's charter renewal application states that the school's director will conduct an appropriate criminal history check and prepare and process all new employee documentation. These requirements

are intended to ensure that these individuals pose no threat to the safety and well-being of the school's students.

Employees who cannot be or have not been cleared in advance of their initial employment date can obtain an Emergency Conditional Clearance (ECC) to start work. However, the Board must pass a resolution stating that the employee has been recommended by the Board Chairman for an ECC and that the employee is appointed on an emergency conditional basis. Further, ECC's are valid for just 20 days and must be renewed by the Board or through Board delegation. Finally, clearances obtained prior to July 1, 1990, are not useable; an applicant who was cleared before that time must be re-fingerprinted.

We reviewed the files of all 6 Amber employees and one New York City, Department of Health nurse assigned to work at Amber. Our review found that Amber did not have clearances for seven staff (six Amber employees and the nurse.) We also noted that the school had retained the services of some substitute teachers without written assurance that these individuals were appropriately cleared. Further, we also found no evidence that ECC's were approved by the Board for each of these seven employees. School staff told us they only recently were made aware of the ECC procedure. As a result, people with a criminal history, might be working at Amber and have contact with children.

In response to our findings, Amber officials said that one of the seven staff was a handyman and in their view, they were not required to have a clearance. Amber officials told us most of their substitute teachers are provided by the DoE, and copies of their clearances were obtained and kept on file at the school. There were no assurances that clearances were obtained for other substitute teachers.

The law requires that all employees of the school or an employee of a provider of contracted services be fingerprinted, who will reasonably be expected to be in contact with students. We believe that the handyman should be fingerprinted if he is an employee of the school or an employee of a provider of contracted services and may be in contact with students.

Recommendation

1. Comply fully with the Act, Commissioner's Regulations and Amber's policies and procedures regarding fingerprinting and background checks for all employees.

   (Amber officials disagree with our position that the handyman needs to have fingerprint clearance. However, they have obtained clearance for the remaining six staff.)

Financial Practices

Bank Reconciliations

Accurate and timely Bank reconciliations are important because they ensure that cash account balances are accurate, can uncover differences that may need further investigating, and can uncover errors and irregularities more quickly, thus enabling the entity to take corrective action. Amber's Accounting System and Operating Procedures (Procedures) state that all bank accounts should be reconciled once a month. Further, it requires a copy of the reconciliation and bank statement to be provided to Amber's Finance Committee on a monthly basis.

To determine whether school management was complying with Amber's Procedures, we requested and reviewed the monthly checking account reconciliations for the 2006 fiscal

year. We found that school staff did not prepare timely and accurate reconciliations of the bank accounts. Amber staff would perform "Preliminary" bank reconciliations using incorrect general ledger cash balances. Subsequently, sometimes more than a month later, "Amended" bank reconciliations were prepared. However, several of the amended versions were also inaccurate.

We found that incorrect general ledger balances were used in all 12 monthly reconciliations. For example, the ending cash balance used in the preliminary May 2006 bank reconciliation was $233,736, while the ending general ledger balance was actually $337,292, a difference of $103,556. The amended version, prepared seven weeks later, narrowed this difference to $540. The certified public accounting firm that conducts the annual audit of Amber's financial statements also found similar errors in bank reconciliations, but deemed the differences per the amended versions to be immaterial. Further, we found there was no monitoring of this process by the Finance Committee, as required by Amber's Procedures.

Amber school staff stated that bank reconciliations were not always performed timely because their records were not up-to-date at the time of the reconciliations.

Petty Cash

Amber maintains two imprest Petty Cash Funds to facilitate the day-to-day operational needs of the administrative and instructional staff. Amber set the amount to be maintained in each of the Petty Cash Funds at $200. One of the funds is maintained by Amber's bookkeeper and the Chief Financial Officer (CFO); the second by the Facilities Director.

We found that the Petty Cash Fund maintained by the Facilities Director was kept in her personal bank account off school premises. The Fund contained $200. The CFO said she was unaware that the Facilities Director kept the petty cash in a personal bank account. School officials corrected this problem by removing the Petty Cash Fund from the Facilities Director's personal account.

This occurred because there was a lack of adequate monitoring of these funds. In response to our preliminary findings, Amber officials agreed to monitor petty cash expenditures more closely.

Non-Payroll Expenditures

The State Education Department requires that all expenses be reasonable, necessary and directly related to district operations. School management should maintain complete and accurate documentation for all expenditures, including travel and conference expenses.

We reviewed Amber's travel and entertainment expenses for the fiscal year ended June 30, 2006. We selected a judgmental sample of 59 out of 4,057 disbursements made during this time and found two instances where school employees were reimbursed for purchasing alcoholic beverages; one while attending training and the other for fundraising activities, both of which occurred off school premises. These two alcoholic beverage purchases amounted to approximately $100. School management asserted that the alcohol was purchased with non-school funds. However, they could not provide documentation to support this assertion. Further, Amber officials said that it is customary to have wine and food at fundraising events to show appreciation for the generosity of the contributors and they noted that the fundraising activity yielded $8,500 for the school. Amber officials stated that they have since begun segregating funds

from public and private sources, and in the future will use private funds to purchase alcoholic beverages.

Additionally, we believe that Amber should review the use of cell phones it has provided to its staff. During our audit period, Amber's telephone expenses totaled $14,764, of which $8,398 (57 percent) was for cell phone usage. Amber received reimbursement for over $6,000 of their cell phone costs through a federal grant reducing the net cost to a little over $2,000.

We noted that school management provided cell phone service for the following individuals:

- Chief Executive Officer (CEO)
- Principal
- Director of Facilities
- Chief Financial Officer
- Security Officer
- Janitor

Amber's CEO stated that phones were provided to these individuals to allow them to be in touch while they are attending off-site meetings and to minimize the use of the intercom system during school hours. However, our review of the cell phone bills leads us to question whether the phones are used primarily for business. For example, we noted that the phone assigned to the CFO had nearly 70 percent of the call time used during the evening and weekends. We were unable to ascertain to whom calls were made because the numbers called are not provided on the bills. We also found that several other staff members used more than their allotted number of minutes; thus resulting in overage charges of $584 during our audit period.

In response to our draft report, Amber officials stated that they will implement a cell phone use policy that will limit the use of cell phones to adhere to the daytime minutes allowed by Amber's cell phone contractual plan. If an Amber employee uses more minutes than the plan allows, that person will be required to pay for the overage.

Contracts

Amber's procedures require school management to obtain either oral quotes or written bids for contractual services where it is in the best interests of the school. Amber's charter requires records to document the bidding for contracts over $1,000. We reviewed 17 contracts totaling $996,769, entered into by Amber during the fiscal year ended June 30, 2006, to determine whether school management complied with contract bidding procedures. We found Amber officials did not obtain bids for 14 of the 17 contracts we reviewed with a total value of $958,000.

The absence of bidding for contractual services eliminates competition and does not ensure goods and services are obtained at the best possible price. According to the CFO, they were not aware that contract bids were required or that existing contracts should be rebid upon expiration. However, in response to our findings, Amber officials stated said that they will implement a policy to document all oral bids.

Our review of payments made to the cleaning contractor also disclosed that the contractor was paid $9,370 for cleaning supplies and services above and beyond the requirements of the contract. We reviewed the contract and believe that these additional supplies and services should have been bid out under another contract or as an amendment to the original contract.

Recommendations

2. Prepare timely and accurate bank reconciliations using correct general ledger balances; resolve any reconciling items.

3. Reinstruct the Board's Finance Committee as to their duties and require them to review bank reconciliations, as required by Amber's procedures.

4. Do not allow petty cash funds to be placed in personal bank accounts.

5. Do not use the school's public funds to purchase alcoholic beverages.

6. Review the usage of the cell phones to ensure their use is for school purposes and that any overages are incurred for business purposes.

7. Comply with contracting procedures and obtain required quotes and bids before awarding or revising any contracts.

   (Amber officials agreed with recommendations 2, 3, 4, 6 and 7. They did not address recommendation 5.)

Fixed Asset Inventory

Good financial practices require that school management maintain proper records of their fixed assets and perform a physical inventory on an annual basis. Fixed assets include school equipment such as computers and audio-visual devices. Proper records include a detailed inventory listing, which shows the purchase date, cost, location, assignment, and serial number of the items. The items should be periodically checked to ensure they have not been stolen or misappropriated.

We found that Amber does not maintain adequate records of its over $150,000 in fixed assets. Nor does staff perform an annual physical inventory. For example, Amber officials said that there was never a detailed inventory list of all of Amber's fixed assets. The CFO has initiated an inventory list for computer assets. However, this inventory list lacks historical cost and dates of purchase.

Recommendation

8. Maintain a detailed fixed asset inventory record, which includes each item's purchase date, cost, location, assignment and serial number. Periodically perform a physical inventory to verify that the recorded items match the physical inventory.

   (Amber officials agree with this recommendation and are in the process of compiling a detailed inventory report of Amber's fixed assets.)

Payroll

Under ideal conditions, the payroll function should be separated from the personnel function. In such a system, the personnel office would authorize an individual to be placed on or removed from the payroll. The payroll office would process the transactions authorized by the personnel office and the personnel office would monitor the work of the payroll office. Someone independent of both operations would distribute the payroll checks. Adequate controls are essential to ensure that one person does not have unchecked access to an entire processing cycle.

We found that the CFO is assigned to perform incompatible duties related to the personnel and payroll functions for Amber. For example, the CFO has the ability to directly

add and remove staff from the payroll system and is also responsible for supervising the payroll staff that processes other payroll transactions. Additionally, Amber management does not have written payroll policies or procedures either for adding or removing staff from the payroll or for accruing vacation, sick and personal days.

We discussed these internal control weaknesses with the CFO, who agreed that the duties she performs are incompatible and should not be the responsibility of one person. She told us that she discussed the scope of her responsibilities with senior management, but no action has been taken to alleviate the situation. She also agreed that formal payroll procedures should be included in Amber's operations manual.

(In the written response to our draft report, Amber officials stated the lack of segregation of duties was mainly due to size of the organization and the small number of staff; however, Amber is in the process of updating manuals, to ensure that internal controls are in place to verify that payments are accurate before they are made and to minimize mistakes.)

Pay Increases

Amber's salary schedule for the instructional staff is based on the pay rates set by the United Federation of Teacher's (UFT) for Department of Education instructional staff.

The CFO informed us that she determines the pay raises for non-instructional staff based on industry standards and the CEO approves these salary changes, usually at the beginning of the school year. For the 2006 school year, Amber informed us that the instructional staff's pay raises were set at a two percent increase on both September 1, 2005 and March 1, 2006. The increase for non-instructional staff for the 2006 school year was three percent.

To verify that pay increases were completed accurately, we reviewed the payroll and personnel records for a sample of 29 of the 63 staff members who were employed by Amber for the 2006 school year and who had received pay increases. Of these 29 employees, 18 were instructional staff and 11 were administrative or facility staff. We found the pay raises for these 29 people were awarded appropriately and accurately.

Raises for the CFO must be approved by the Board. In reviewing the payroll and pay increase records, we noted that the CFO received a pay increase of almost 19 percent, in addition to a $5,000 bonus. The CEO provided us with a memo that stated the reasons for the CFO's salary increase. However, we saw no evidence in the Board's meeting minutes of a discussion regarding this sizeable increase or the bonus. The CEO stated that he had a discussion with, and approval from the Board's Chairman. As a result, an employee was given a sizeable pay increase and bonus without formal approval of the Board.

Salaries and bonuses are a significant portion of the cost of operating a charter school and the Board should review and approve such transactions. Further, Article IV, Sections 2 and 3 of Amber's by-laws require all such matters to be supervised by the Board's personnel and finance committees and to be approved by the Board.

(In response to our draft report, Amber officials stated that the CFO's raise was approved as part of the increases for nonunion management staff. However, they will insure all such increases are explicitly approved by the Board in the future.)

New Employee Documentation

Amber officials advised us that when a position needs to be filled, prospective instructional staff is interviewed by Amber's Staff Interview Committee, which makes recommendations to school management. School management may either approve or disapprove the request to hire.

Amber's procedures do not specify that these recommendations are to be documented or maintained in the new employee's file. We reviewed the personnel files for all 13 employees hired during the 2006 school year and found none of the files contained any documentation showing that the Staff Interview Committee met with the people or made a hiring recommendation. As a result, Amber management lacks adequate assurances that hired employees were the best available candidates.

(In response to our draft audit report, Amber officials stated that although not documented, formal employee screening and interviewing was performed. In response to our recommendation, officials are in the process of updating Amber policies and procedures to reflect what documentation should be maintained in school personnel files, including the results of the interview and screening process.)

Recommendations

9. Develop procedures to separate personnel and payroll functions where such separation is feasible. At a minimum, assign someone independent of the current payroll and personnel operations to review the payroll and to verify that additions, deletions and salary increases are accurate.

10. Comply with requirements that raises for Amber personnel must be reviewed and approved by the Board. Document the Board's approval in the Board meeting minutes.

11. Maintain documentation of the employee's interview with the Staff Interview Committee.

12. Update policies and procedures to reflect what should be maintained in an employee's personnel file.

(Amber officials generally agreed with recommendations 9 through 12.)

AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. We audited Amber's controls over selected financial management practices for the period July 1, 2005 through April 16, 2007. To accomplish our objective, we interviewed Amber officials and reviewed applicable laws, polices and procedures relating to the financial operations of the school. We also examined various financial and operating records of Amber and certain work performed by the firm of independent certified public accountants engaged to audit Amber's financial statements.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be

considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Section 33 of the General Municipal Law.

REPORTING REQUIREMENTS

We provided a copy of this draft report to Amber Charter School officials for their review and comment. Their comments were considered in preparing this final report and are included as Appendix A. Amber officials generally agreed with our recommendations and stated they have already done so or will be implementing the recommendations.

Within 90 days after the final release of this report, we request that the Chairman of the Amber Board of Trustees report to the State Comptroller advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

CONTRIBUTORS TO THE REPORT

Major contributors to this report were Kenrick Sifontes, Stephen J. Donovan, Marc S. Geller, Orin Ninvalle, Ryan Wendolowski and Sue Gold.

APPENDIX A - AUDITEE RESPONSE

AMBER CHARTER SCHOOL

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February 1, 2008

Mr. Steve Donovan
Audit Supervisor
New York State Office of the State Comptroller
123 William Street, 21st Floor
New York, NY 10038

Dear Mr. Donovan:

We have reviewed the revised draft of your findings on the school's Financial Management Practices, Report 2007-S-101. This draft report contains some of our responses which were provided to you earlier in our initial response letter dated, January 2, 2008, either in writing or at our meeting. However, not all of our responses have been included.

1. Financial Oversight – Fingerprint Clearance

Recently, Amber has become aware about the procedures of obtaining Emergency Conditional Clearances when the employees have not been fingerprinted in advance of their start date. According to Amber's records, six employees did not contain the required fingerprinting clearance form. Of these six employees, one employee was not required to be fingerprinted, in accordance with the Charter Schools Institute fingerprinting policies. As of today all of our employees are cleared.

2. Financial Practices – Bank Reconciliations

The May bank reconciliation that you refer to was a preliminary reconciliation prepared on June 1, 2006 before all of the School's activity had been recorded in the general ledger. Once all of our postings were completed, the final bank reconciliation was prepared in July 2006, which reflected a $540 difference. The same $540 difference remained at June 30, 2006, the date which our independent auditors conducted their audit. This difference was addressed and corrected. Our accounting staff is trained on bank reconciliation preparation. On a monthly basis our finance committee board is being supplied with a copy of the bank reconciliation with explanations to any difference.

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3. Financial Practices – Petty Cash

We have instituted a policy whereby all petty cash funds be maintained at the school and not be commingled with any employees' personal cash. Additionally, petty cash expenditures and balances will be monitored more closely to ensure compliance with the school's policies.

4. Financial Practices – Non-Payroll Expenditures

Please be advised that the $100 of wine referred to above was served at a fundraising event. This event helped raised $8,500 for the school. The funds raised were used for the best interest of the school. It is customary to have complementary wine and food at fundraising events. This serves as an inexpensive way to thank the contributors for their generosity.

Regarding cell phone usage, Amber has identified several staff members who may be needed to be reached after hours, on weekends or in case of emergencies. For those selected staff members, Amber does pay the cell phone bills. However, Amber has a Federal E-rate grant which reimburses Amber for a portion of the cost of cell phone usage and other telecommunication expenses. Of the total cell phone expenses of $8,398 reflected in your findings, Amber's net cost was only $2,178 after the Federal grant. This represents a small and important cost to ensure that proper and timely communication can be made between the school and those selected staff persons when required. However, Amber will create a cell phone use policy that will limit the use of cell phones to adhere to the daytime minutes allowed according to the cell phone contractual plan. If an employee uses more minutes than the plan allows, he/she will have to pay for the overage.

5. Financial Practices – Contracts

Amber's procedures state that the school management will obtain oral or written bids, where deemed necessary, in the best interest of the school. In addition to price, we consider references, demonstrated skills, reliability and ability to meet Amber's specific needs in making purchases and contracting for professional services. For purchases, however, we heavily considered price. For example, we had a contract with Canon and after conducting some research, we concluded that Ricoh Copier was offering a better price than Canon and we switched vendors. When it came to professional services, however, we felt that price was not the deciding factor. Rather, skill and reliability decided who would be the best vendor to use, and based on that, a decision was made. As for documentation, the school will implement a policy to ensure that documentation is obtained for all oral biddings.

6. Fixed Asset Inventory

Please be advised that of the $260,000 of equipment, $110,000 is the cost associated to networking and wiring the computer system which is not subject to theft risk. Computers, which represent our only significant assets of value susceptible to theft, have been permanently attached to workstations or desks via security cables and locks since 2003 and when possible, kept in locked rooms. We feel this greatly minimizes the risk of theft. In accordance with your recommendation, we are in the process of compiling a detailed fixed asset inventory report.

7. Payroll

We are aware of the lack of segregation of duties in this area which is mainly due to the size of the organization and the limited size of our staff. However, there are controls in place to compensate for it. Among the controls in place is the annually approved budget which is reviewed quarterly by the Board of Directors. Any variances between the budgeted amount and the actual expenditures are addressed at the board meetings. Amber is in the process of updating manuals to fully reflect the internal controls that should be in place to verify that the payments are accurate before being made and to minimize mistakes.

8. Payroll – Pay Increases

The pay raise for the CFO was approved as part of increases for non – union management staff. In the future, Amber will ensure that all approved amounts discussed at Board meetings will be reflected in the Board minutes.

9. New Employee Documentation

Amber's employees were formally screened and interviewed prior to employment. However, we did not document the results of the interview or formal screening in the employees' files. We are in the process of updating our policies and procedures to reflect what should be maintained in the personal files of our employees, including the results of the interview and the screening process.

Please include our responses with your final Amber Charter School's Financial Management Practices Report 2007-S-101. If you have any questions, do not hesitate to contact me.

Sincerely,

Luis A. Miranda Jr, Chairman
Amber Charter School

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