
**Thomas P. DiNapoli
COMPTROLLER**



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**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**FAMILY LIFE ACADEMY
CHARTER SCHOOL**

**FINANCIAL MANAGEMENT
PRACTICES**

Report 2007-S-102

AUDIT OBJECTIVE

Our objective was to determine whether Family Life Academy Charter School (Academy) established and maintains an adequate system of internal control over the following areas of financial operations: financial oversight, cash disbursements and procurement, payroll and personal services, equipment inventory, and computer usage.

AUDIT RESULTS - SUMMARY

Our audit disclosed control weaknesses in many areas we tested and there is either noncompliance with procedures or a failure to establish sound basic control procedures over the operations.

We found that Academy's Board of Directors (Board) and school officials need to strengthen controls over Academy's financial operations. The Board needs to be more active in monitoring operations. For example, we found that most contracts were not competitively bid, yet Academy procedures required competitive bidding. The Board did not meet the required number of times and did not document all contract and/or budget related discussions in its meeting minutes. It also did not document actions taken by committees it had formed.

All personnel who work at the school should be fingerprinted and subjected to background checks. However, we found that two security guards employed by the Academy's landlord had neither been fingerprinted nor subjected to background checks.

We found that the internal controls related to cash disbursements were not operating effectively. Records regarding most disbursements were not properly maintained. School officials were not able to locate any supporting documentation for three of 29

disbursements we tested totaling \$12,557. Of the remaining 26 disbursements, we found various problems with the documentation for 24 of them, totaling \$120,071. For example, 13 disbursements had no purchase orders and 19 had no written approvals. In addition, packing slips were not available for four of the ten purchase transactions where packing slips should have been received.

As of February 2007, we identified that Academy had ten active contracts with various vendors worth approximately \$188,576. We found that eight contracts totaling \$128,063 were entered into without the required prior approval of the Principal or the Board. Further, six of the ten contracts that exceeded \$10,000 should have been competitively bid but were not. We also found that four contracts were not signed by all parties, as required.

We reviewed the personnel files for 17 employees who received pay increases during the 2005-06 and 2006-07 academic years. While the computer system showed the 17 employees received pay increases, we could not find documentation showing the pay increases were approved by the Principal for 12 of the 17 employees, as required.

Good internal controls require that the procurement, payroll and inventory functions exhibit adequate separation of duties. The Academy has limited staff and resources to fully separate duties for these functions. We recommend that school officials review their processes to see how they can better separate duties with the resources that are available. We found that Academy's Operations Manager has too many responsibilities in both the procurement and payroll areas and there is no independent oversight over these functions.

We also found Academy needs to better monitor controls over its equipment and the use of school computers by school staff and students. We judgmentally selected 11 out of approximately 85 computers used by employees and students and found that individuals had accessed or attempted to access inappropriate and sexually-related Internet sites on three of them.

Our audit report contains 19 recommendations to improve internal controls.

This report, dated February 21, 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
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

In December 1998, the New York State Legislature passed a law authorizing the creation of charter schools in the State. This legislation is known as the New York Charter Schools Act of 1998 (Act). It 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 2001, Family Life Academy Charter School (Academy) is one of 48 schools approved by the State University of New York and chartered by the Regents of the State of New York. Academy's charter was renewed on July 1, 2006 for an additional two years. The school is located in the Bronx, and, as of the school year that ended June 2006, Academy had 290 students enrolled in kindergarten through fifth grade.

Under the Act, Academy 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 Academy is located.

According to Academy's financial statements for the fiscal year ended June 30, 2006, the school's operating expenses totaled \$3.2 million, of which \$2.2 million related to payroll costs (including fringe benefits). Revenues for the same fiscal year totaled about \$3.1 million, of which \$2.8 million was basic school aid provided by DoE. The Academy rents space in a building owned by the Latino Pastoral Action Center (LPAC), a faith based organization that serves the Highbridge community in the South Bronx. LPAC's founder is one of the co-founders and current member of the Academy's Board.

In May 2007, the Commissioner of Education designated Academy as a High Performing/Gap Closing school under the No Child Left Behind Act. Academy was recognized because during the 2005-06 school year, it met all applicable State standards for English and math and also made adequate yearly progress in English and math for two consecutive years.

AUDIT FINDINGS AND RECOMMENDATIONS

Our audit disclosed a control weakness in that many incompatible duties are assigned to one individual. We also noted either noncompliance with procedures or a failure to establish sound basic control procedures over selected aspects of the operations.

Financial Oversight

Board Oversight

The Academy is governed by an 11-member Board of Trustees (Board). The Act gives the Board final authority for the school's policies, operational decisions, and fiscal management. Board members have a fiduciary responsibility for school assets and finances. Academy's by-laws require the Board to meet once a month and a quorum of Board members must be present to lawfully conduct Board meetings. We reviewed the Board minutes for calendar years 2005 and 2006, and determined that the Board did not meet the required number of times. For 2005, the Board met 8 out of 12 times and a quorum was not reached in at least two of the eight meetings. In 2006, the Board met 10 out of 12 times required by the charter.

Further, while our review of the Board minutes indicated that school operations were discussed, the minutes are not specific regarding Board decisions or actions on fiscal matters. For example, we could not determine whether the Board approved all contracts or discussed the budget and/or all major personnel or payroll issues, such as salary increases for the Principal. We also found that information in the Board minutes for two months (April and May 2005) was identical, raising questions about accuracy.

Academy officials agreed with our findings and stated that monthly Board meetings, as outlined in their by-laws, are not practical, especially during the summer months when Board members are on vacation. They stated that they will amend their by-laws to lessen the number of required Board meetings. Further, they agreed that future Board meeting minutes will be more detailed and will include the actions discussed and voted on by the Board.

In addition, Academy's by-laws also stated that the Board can establish committees, such as a Finance Committee, to further school operations. Actions of all committees are to be reported to the Board and records of such actions must be prepared and retained. While it appeared from reviewing the minutes that these committees did meet, the minutes did not state what was discussed or what, if any, action was taken.

Academy officials said that they will now document the committees' proceedings.

Fingerprinting

According to Article 56, Section 2854 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 Commissioners Regulations defines a prospective employee as anyone who will reasonably be expected to provide services which involve direct contact, meaning in person, face-to-face communication or interaction, with students under the age of 21. These requirements are intended to ensure that individuals working in a school pose no threat to the safety and well-being of the school's students. As part of this check, all potential employees are required to submit their fingerprints to the State Education Department. Once this is done, they receive a

clearance form showing they can work at the school. These forms must be kept in the employee's personnel file at the school.

Since LPAC owns the building in which the school is located, both LPAC and the school have employees working the security desk of the building. All students must pass this desk to enter or leave the school. To determine whether Academy was in compliance with the Act, we selected a judgmental sample of 14 out of 53 Academy employees and two security guards employed by the LPAC and reviewed their personnel files. We found that all 14 Academy employees had the required fingerprint clearance forms. However, there was no documentation showing that the two security guards employed by the LPAC had the required fingerprint clearance forms. As a result, high-risk individuals might be able to work with or near students.

Academy officials stated that they have discussed this matter with LPAC officials, who agreed to have fingerprinting for their employees that have contact with students. As of July 27, 2007, Academy officials received a fingerprint clearance form for one of these two individuals. The other individual's fingerprint clearance form is still pending approval from the State Education Department.

Annual Independent Audit

According to Section 2854(1) (c) of the Act, an annual fiscal audit of the school is required. The Academy's by-laws require that the audits be conducted by a certified public accounting firm. 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 the Academy's auditing firm for the 2005-2006 fiscal year. The reports provided by the auditing firm indicate that the audit was conducted in accordance with generally accepted government auditing standards. The firm provided all of the required auditor's reports and the audit results were discussed with the Board.

Recommendations

1. Require the Board to hold meetings as often as required in the by-laws.
2. Require the Board to include more details in meeting minutes to reflect actions discussed and voted upon by the Board, including committee actions.

(Academy officials agree with recommendations 1 and 2. They also stated that they are seeking to amend their by-laws to reduce the number of meetings required each year.)

3. Verify that the LPAC security guard has received a fingerprint clearance form.

(Academy officials state that in their view they cannot require the landlord to have their security guard(s) fingerprinted and submitted for a background check. However the landlord has agreed to do so voluntarily and the guard's background check has been performed and clearance has been obtained.)

Cash Disbursements and Procurement

Supporting Documentation

The Academy's Internal Control and Procedures Manual (Manual) requires that purchases be pre-approved and that supporting documentation pertaining to the

purchases be prepared and maintained (e.g. purchase orders, invoices, packing slips, checks, etc.). For the period July 1, 2005 through January 29, 2007, Academy made 1,079 cash disbursements totaling \$2.5 million.

To determine whether Academy officials were in compliance with Manual procedures, we judgmentally selected a sample of 29 cash disbursements of various types (e.g., equipment, employee reimbursement) made during this time and totaling \$136,390. We found that the internal controls related to cash disbursements were not operating effectively and records regarding most of these disbursements were not properly maintained. For example, school officials were not able to locate any supporting documentation for three of the 29 disbursements totaling \$12,557. Of the remaining 26 disbursements, we found various documentation problems for 24 of them, totaling \$120,071. For example, 13 of the 24 had no purchase orders and 19 of the 24 disbursements had no written approvals. In addition, packing slips were not available in four of the ten purchase transactions where packing slips should have been generated. School officials also could not provide us with the cancelled checks to support the payment for 12 of the 26 disbursements in our sample.

We also reviewed the cash disbursement journal for the period July 1, 2005 through January 29, 2007, and found that 69 check numbers were omitted from this journal. Academy officials were able to provide us with all but one the 69 cancelled checks. We noted that the cancelled checks were found in various places within the Operations Manager's office instead of in one central location.

Academy officials agreed with our findings and said they will ensure all supporting

documentation for disbursements are prepared and maintained for easy access.

Petty Cash

According to the Manual, the petty cash fund (Fund) should contain approximately \$250 and be used as little as possible. The Fund is maintained in the school's main office and monitored by the Assistant Operations Manager. As petty cash is needed, the Fund Custodian is required to fill out a voucher indicating the amount, purpose and person to whom the money was given. The person receiving the money must sign the voucher and supply receipts to support the amount received.

To determine whether school officials were complying with procedures, we performed several tests. First, we reviewed all 16 transactions relating to the Fund on February 12, 2007. While we found receipts for purchases, we did not find vouchers to support authorization for any of the 16 transactions. Further, the total amount in the Fund was \$294 instead of \$250 indicated by Fund records. We determined that the Fund overage was not detected because Academy officials were not reconciling the Fund on a routine basis.

We then reviewed all transactions relating to the Fund for June 2006, since Academy officials told us that June has the highest number of transaction due to graduation and year-end ceremonies. We found numerous examples where disbursements were made from the Fund for regular and/or planned events. For example, an employee was reimbursed more than \$40 for automobile mileage and staff purchased \$151 worth of water for a planned event. We question whether these are the most appropriate uses of the Fund. Academy officials agreed with us

and stated they will take action so procedures relating to the Fund are followed.

We also note that security over the Fund is not adequate. We found that the key that unlocks the drawer where the money is maintained was taped to the bottom of a computer monitor. As a result, petty cash funds could be accessed by individuals other than the Fund Custodian. Academy officials indicated they would make improvements to ensure that petty cash funds are properly safeguarded.

Bidding Practices

Good business practices require that Academy officials maintain certain information regarding all contracts with vendors. This information includes the vendor's name, the length of contract, and the contract cost. Further, the contract documents should be stored in a location that's readily accessible. As of February 2007, Academy informed us they had ten active contracts with various vendors worth approximately \$188,576. When we asked Academy officials for copies of the contracts, they were not able to easily identify or locate them in a timely manner and it took several weeks to provide all of the contracts to us.

Once we received the contracts, we reviewed all documentation relating to the contracts and procurements. The Manual requires competitive bidding for all purchases of furnishings, equipment and supplies costing more than \$10,000. Further, all procurements must be pre-approved by the Academy's Principal or the Principal's designee to ensure that only authorized purchases are made.

To determine whether Academy officials were complying with these procedures, we

reviewed the ten contracts and found that eight of the contracts, totaling \$128,063, did not have required prior approval. Furthermore, six of the ten contracts should have been competitively bid but were not. Academy officials stated that they generally solicit bids and quotes from vendors, but they did not keep any of the bidding documentation. Further, they stated that two vendors were a sole source, but could not provide any documentation to support this.

In reviewing the contracts, we also noted signatory problems with four of the ten contracts. For example, one contract was not signed by the Academy; another contract was not signed by the vendor; and one contract was not signed by either the Academy or vendor. In addition, we found that one vendor's bid proposal was accepted by the Academy, was used in the place of a contract, and was not signed by either party. We recommend Academy have all contracts signed by both parties.

Academy officials said they will take corrective action regarding proper contract documentation.

Consultant Contracts

The Manual requires a contract to be in place for every consultant whose compensation will exceed \$600. Consultants cannot be paid until a contract is signed. To determine whether Academy officials complied with these procedures, we reviewed payments made to two consultants (one for \$3,553 and one for \$1,487) for the period July 1, 2005 through January 29, 2007. We found that neither had contracts with Academy. Since contracts were not used for the consultants, we could not determine if the payments were appropriate.

Recommendations

4. Comply with established policies and procedures for disbursements and petty cash.
5. Keep all checks in a central location.
6. Improve security over the Fund.
7. Store all active contracts in an easily accessible location.
8. Comply with established policies and procedures for bidding, contracts, and pre-approvals.
9. Ensure that all contracts are signed as required.

(Academy officials agree with recommendations 4 through 9. However, they disagree with some of our examples. We address this further in the Comptroller's Comments in Appendix B.)

Payroll and Personal Services

Time and Attendance

According to the Manual, all teaching and professional employees are required to identify sign-in and sign-out times on their time records. The Operations Manager approves all time records.

To determine whether Academy employees were complying with these procedures, we selected a judgmental sample of ten employee time records covering two periods: August 28, 2006 through September 1, 2006; and, September 4, 2006 through September 8, 2006. We found that six employees did not show sign-in or sign-out times on their respective timesheets. We recommend Academy officials better monitor to ensure all

employees are accurately reporting time worked.

We noticed similar issues relating to the payment of overtime. The Manual states that overtime cannot be paid without prior approval from the Principal. We reviewed all the overtime records for the period August 26, 2006 through January 26, 2007. In total, eight employees were paid for 87.5 hours of overtime totaling approximately \$1,800. We found that none of the overtime was pre-approved by the Principal, as required.

Pay Increases

According to the Manual, modifications to the payroll system, including information about pay increases, can only be made after written authorization by Academy's Principal. We reviewed the personnel files and payroll system records for a judgmental sample of 17 employees who received pay increases during the 2005-06 and 2006-07 academic years. Our sample consisted of administrative staff, teachers, and teaching assistants. While the payroll system showed the 17 employees received pay increases, we could not find documentation showing the pay increases were approved for 12 of the 17 employees. The increases for these 12 employees totaled approximately \$568 per pay period.

Academy officials agreed with us and stated they will ensure all pay increases are documented and maintained in the personnel files for each employee.

Employee Separations

Good business practices require that the Academy prepare and maintain end of employment notices for those individuals who have separated from the Academy (e.g. resigned, terminated or retired). These notices should include the employee's name,

the last date of employment, and the reason for the separation. Further, individuals no longer employed at the school should be removed from Academy's payroll system in a timely manner.

To determine whether Academy followed these practices, we reviewed the personnel files for all 20 employees who had separated from the school at the end of the 2005-06 academic year. We found that there was no end of employment notices or similar documentation for 14 of the 20 employees. In one instance, we found the employee was terminated on November 18, 2004. However, the same person reappeared on the July 15, 2005 and July 29, 2005 payrolls - eight months later. In total, the former employee received payments totaling \$2,256. We did not find any documentation in the files explaining the reason the payments were made eight months after the date of termination.

Academy officials stated that the teacher had already earned part of his summer pay before he was terminated. Academy officials showed us timesheets to verify this information. In the future, the reasons for such payments should be documented in the employee's file and as an alternative; Academy could pay the individual any amount owed shortly after the termination to avoid confusion.

Recommendations

10. Require employees to record all time worked on their timesheets.
11. Only pay for overtime that is pre-approved.
12. Maintain adequate records documenting the authorization of all pay increases and all employee separations.

13. Remove former employees from the payroll in a timely manner. Consider distributing any additional funds owed to a employee shortly after their employment ends.

(Academy officials agree with recommendations 10 through 13.)

Separation of Duties

Good internal controls require that the duties for the procurement, payroll and inventory functions be adequately separated. The Academy, like other charter schools, has limited staff and resources to fully separate duties for all of these functions. However, Academy officials should review their processes to see how they can better separate duties with the resources that are available.

We found that Academy's Operations Manager has too many responsibilities in both the procurement and payroll areas. For example, the Operations Manager is responsible for:

- Most procurement processes, including selecting vendors, handling contract negotiations with these vendors, signing these contracts, and maintaining relationships with the vendors.
- Many payroll processes including entering payroll data for new employees into the payroll system, preparing the payroll, calculating and inputs salary increases into the payroll system, processing, distributing pay checks to employees, comparing the pre-payroll to the final payroll, and reconciling payroll input to payroll output.

No other Academy employee periodically reviews the work done by the Operations Manager. Therefore, there are no checks and balances for any of the work performed by the Operations Managers. Academy officials agreed with our findings and said that they are in the process of implementing a reorganization plan to ensure these functions are better separated.

Recommendation

14. Develop and implement procedures to separate duties in key financial areas to the extent practical.

(Academy officials agree with this recommendation and state that action has been taken to reorganize duties.)

Equipment Inventory

Master Inventory Record

To account for equipment properly, the Academy should maintain a perpetual inventory record of all equipment and perform a physical inventory of the equipment belonging to the school. The inventory record should include the equipment's acquisition date, cost, and serial number and disposition date, if applicable. The Manual does not specify the method for conducting an inventory or inventory recordkeeping practices. It only requires an annual physical inventory be performed on or about June 30 of each year. This physical inventory entails ensuring that all fixed assets are properly tagged as being the property of the Academy, and the assets are reconciled to the accounting records. Any discrepancies are resolved as part of the year-end closing procedures.

To meet this requirement, Academy officials stated that employees perform individual physical inventories at the school. For example, teachers perform a physical inventory of items in their classroom while other employees inventory equipment items in other areas such as offices. The results of these inventories are documented on inventory sheets and subsequently rolled into one master equipment inventory record.

To determine whether the Academy had an adequate master inventory record of all equipment, we reviewed their master record as of January 2007. We determined that the Academy's master equipment inventory record was not adequate since it was not up-to-date, did not contain all pertinent information such as serial numbers, and some information was misidentified. For example, we found that a laminator and three computers were not listed on the master equipment inventory record and at least five serial numbers for other items were wrong. In addition, the master equipment inventory record did not include the acquisition date or cost for any equipment. Although Academy officials stated that independent verification is done of these physical inventories, we did not see any evidence of this. We also found that the individual inventory sheets did not indicate the date the physical inventory was conducted.

Further, we did not find any evidence that discrepancies were reconciled or that anyone verified the physical inventory results.

Academy officials stated that they are in the process of implementing changes to their Manual to include detailed procedures for maintaining its inventory list. We recommend Academy update their master equipment inventory record to include all appropriate information.

Shared Equipment

The Academy keeps shared equipment (equipment that is used by more than one teacher) such as laptops, scanners, and digital cameras in a secured area of the school known as the “cage.” Good business practice would require that Academy officials track when the shared equipment is used in the school building and when it is taken off school property.

While we found that Academy officials established a tracking sheet for cage equipment taken off the school grounds, they did not maintain a tracking list when equipment was used in the school. Further, the tracking sheet for equipment removed from the school did not contain sufficient information to adequately account for the equipment. For example, we reviewed the tracking sheet for the 2006-07 academic year and saw that six laptops were signed out on September 11, 2006. However, only one of these instances had a notation indicating the employee who had the laptop. There was no identifying information for the other five so officials could not determine which laptops were taken by whom.

School officials did not monitor to ensure that the tracking sheet was completed and that equipment was properly accounted for. Further, we found that Academy’s Manual does not specify the method for tracking equipment usage on and off school premises. If controls are not improved, there is a risk that equipment may become lost or stolen. For example, during the 2004-05 academic year (prior to our audit), school officials stated that 31 laptop computers had been stolen from the school.

In response to our audit, Academy officials stated that they are in the process of

developing policies and procedures for adequately tracking all equipment usage.

Recommendations

15. Revise the Manual to include procedures for maintaining and updating the master equipment inventory record. Update the master equipment inventory record as appropriate.
16. Require complete information to be filled in on tracking sheets before equipment is taken from the cage.

(Academy officials agree with recommendations 15 and 16.)

Computer Usage

According to the Manual, use of the school’s computers to access the Internet should only be for school and business use. In addition, school employees are not allowed to share their network access with others.

To determine whether school computers were being used appropriately, we judgmentally selected 11 out of approximately 85 computers used by employees and students. We selected five desktops and six laptops from different locations throughout the school building (e.g. teacher’s lounge, student computer lab, Principal’s office, school’s main office). We reviewed the hard drives for inappropriate files and the history files of Internet search engines. We found the following:

- Inappropriate and sexually-explicit words were typed into search engines such as Google, Yahoo and MSN on the desktop computer of a school administrator. When tested, we found that these sites could be accessed.

- Evidence that students had accessed sexually-related Internet sites on a desktop computer located in the student's computer lab. When tested, we found that inappropriate images and videos could be accessed using the Google Internet search engine.
- Cookies indicating that sexually-related websites were accessed through the account of the former president of the PTA as well as other employees. The desktop computer was located in the teacher's lounge.

Academy officials stated that they have used web-filtering software on their computer network since the school opened in the 2001 in order to prevent inappropriate access to the Internet. However, Academy officials believe that incorrect parameters were set on the software when it was installed, thereby allowing access to inappropriate material. Further, officials stated that the software had been temporarily turned off for a period of time. Academy officials stated that they are in the process of investigating these matters.

Academy officials also said that employees were not routinely signing off the network after each computer session. In some instances, computers were not shut down at the end of the day or at the end of the work week. In addition, employees would often share passwords with each other. Since this is a violation of Academy's policies, we recommend Academy officials re-enforce its Network policies with employees. As a result of our audit, school officials stated they are in the process of implementing changes for Internet usage and improving controls over passwords.

Recommendations

17. Reevaluate the effectiveness of the web filtering software including the software settings.
18. Actively monitor Internet usage for inappropriate websites.
19. Re-enforce computer network policies with employees, specifically that employees should not share passwords and should sign off as soon as they are done using the computer.

(Academy officials agree with recommendations 17 through 19 and their response indicates that a number of actions were taken to strengthen controls.)

AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. We audited the Academy's controls over selected financial management practices for the period January 2005 through May 31, 2007. To accomplish our objective, we interviewed Academy officials and reviewed the Academy Manual and laws, policies and procedures related to the financial operations of the school. We also examined the financial operating records of Academy and the work performed by the firm of certified public accountants engaged to audit Academy's financial statements.

We reviewed the fingerprint records of 14 of 53 Academy employees as well as two security guards employed by building's owner. We also reviewed 29 of 1,079 checks disbursed from July 1, 2005 through January 29, 2007. We reviewed the school's 10 contracts that were active during the audit period.

In addition, we reviewed the personnel files of all 20 employees who separated from the school at the end of the 2005-06 academic year. We tested 11 of 85 computers used by Academy employees and students.

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 under Article V, Section 1 of the State Constitution, and Section 33 of the General Municipal Law.

REPORTING REQUIREMENTS

We provided preliminary versions of the matters presented in this report to Family Life Academy officials for their review and comments. Their comments were considered in preparing this draft report. A copy of the response to the draft report is included as Appendix A. Our rejoinders to the Academy's comments are presented in Appendix B.

Within 90 days after the final release of this report, we request the Chairman of Academy's Board of Trustees to 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 Lynch, Sheila Jones, Irina Kovaneva, Brenda Maynard, Dan Rzcinski, Clarissa Pickett and Sue Gold.

APPENDIX A - AUDITEE RESPONSE



Family Life Academy
Charter School
14 West 170 Street Bronx, NY 10452 (718)410-8100

October 28, 2007

Mr. Kenrick Sifontes
Audit Manager
Office of the State Comptroller
123 William Street - 21st Floor
New York, NY 10038

Re: Family Life Academy Charter School Audit

Dear Mr. Sifontes,

The Family Life Academy Charter School wants to thank you and Ms. Sheila Jones for the support you both provided throughout the months the audit team was in our school. Your authentic communication with us and your timely response to concerns ensured that the audit process progressed in a professional manner.

Family Life Academy Charter School (FLACS) prides itself in having a team that believes in continuous growth and using all experiences as an opportunity for learning. The audit conducted by the Office of the State Comptroller has certainly been one of the experiences that will continue to support FLACS in its constant quest towards excellence. We certainly increased in our knowledge of financial management and internal controls however we want to ensure the State Comptroller's Office that our school has been evolving since its inception (2001) and that FLACS is continuously changing, adjusting and refining its practices based on recommendations from our authorizers, our auditors and consultants. Charter Schools have certain unique issues due to their small operations unit and their few years in operation but we all strive towards ensuring integrity in all operational matters.

We feel that although the audit experience was valuable and that the findings fairly represented the conditions found for the years audited there are, however, a number of exceptions that will be addressed in this letter.

Audit Results Summary

Family Life Academy Charter School wants to note our disappointment in the manner in which the summary describes the internal controls and basic financial operations of FLACS. Our school was granted its second renewal in April 2006 and our authorizer found FLACS to be fiscally sound and to have an 'adequate system of internal controls and financial oversight'. In addition, this year's independent audit report from Tempesta and Farrell, P.C. stated that the auditors 'noted no matters involving internal controls over financial reporting and its operation that we consider to be material weaknesses'. Our school prides itself in working diligently to ensure that all our systems for operations and instruction are consistently planned, reviewed, implemented, monitored, assessed and refined. Certainly we have had our challenges due to the limited number of staff members in operations, new operations staff members and limited space, however this has not stopped the team from continuously making the changes necessary and making the effort to ensure that procedures are followed and maintained. The statements in the summary insinuate that FLACS has no systems in place which certainly is not characteristic of our manner of operations. It is for this reason that we strongly disagree with the introductory remarks in the report.

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Comment
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* See State Comptroller's Comments, page 21

Our response to the draft report findings are below.

FLACS accepts recommendations 1, 2, and 3

1. The Board of Trustees has accepted the recommendation and will be amending the by-laws to change the number of meetings required yearly in order to ensure compliance with the minimum number of meetings that they must attend.
2. The minutes of all Board and Committee meetings will be more detailed and all committee actions will be documented accordingly in board and committee minutes.
3. The Latino Pastoral Action Center (LPAC) is a non-profit community based organization. Their employees are subject to LPAC policies and not FLACS' policies. The security guards are screened and trained through a security agency, as per the requirements of LPAC. Family Life Academy is housed in LPAC and although Family Life Academy cannot impose policies and practices on LPAC, they have agreed to have their security guards fingerprinted. As of this writing the fingerprint clearance for LPAC'S employees were submitted and clearance was obtained. This information was forwarded to the Comptroller's office when requested in September 2007.

FLACS accepts recommendations 4, 5, 6, 7, 8, and 9

Cash Disbursements and Procurement

- **Comply with established policies and procedures for disbursements and petty cash.**

We want to note that the following statement in the report, 'Contracts were not competitively bid and the Business Manager entered into contract without prior approval', needs to be clarified. The following is our response:

First and foremost the Business manager does not proceed on any contract or securing of services without approval from the principal, the principal's designee or the Board of Trustees. On all check requests, purchase orders etc. an approval signature is required. During the preliminary findings we clearly informed and showed the audit team evidence of the contracts in effect and the documentation. In the preliminary report we responded to this by letting you know that FLACS' Internal Controls Manual requires bids for contracts over \$10,000.00 and that we presently only had four such contracts, Preferred Meals (food services), Nu-Vision (network provider/ tech assist), Scientific Learning (an educational license for a computer assisted program) and Kaplan Planner (an assessment technology license). Of these four all were competitively bid except the Nu-Vision contract which has remained the same since 2001 when the contract was secured.

In addition, during the preliminary findings we clarified for you that we purchased services that were under 10,000.00 for maintenance and installation of air conditioners and other work that were not contracts but job specific services performed at different times based on need. Some of these were performed by the same company but at different times. We also clarified for you that Curriculum materials such as the reading program materials from Harcourt Brace or Saxon Mathematics etc. were not items that we bid because each company has a different focus, content etc. The following are excerpts from our response to the preliminary findings reports given to you in response to approvals:

Approval of Procurements

Contracts that are over 10,000.00 are approved by the Board of Trustees the following contracts were approved and duly noted in the minutes of July 26, 2006: Kaplan, Preferred Meals, Scientific Learning (FAST FORWARD)
Nu-Vision- the network service has been the company providing our internal communication/network

* Comment 2

* See State Comptroller's Comments, page 21

services since the inception of the school. We have the original contract for review in addition to the service maintenance contracts that were provided for review when your team requested it. We have secured the services of Nu-Vision since 2001. FLACS has committed to research new Network and Tech support companies and requests proposals in order to ensure that the best possible services are secured.

Bidding Procedures

Nu-Vision -FLACS had not secured bids for Nu-Vision. This was the service that was secured since the inception of the school and we have remained with their service since the opening of FLACS in 2001. Securing Bids for services and contracts was started in the past year, since the revision of the Policies and procedures manual was reviewed with all the Operations Team in depth. Bids have been secured for contracts over 10,000.00 only (this does not include text books). Smaller purchased service bids were secured in the beginning of this school year.

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Comment
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R&R Westchester Home Improvement- As per your report the R&R services provided to FLACS exceeded 10,000.00. This work was not one contracted service for 10,000.00. R&R came in to work on certain work orders when the need arose to obtain their services. FLACS did not expect to go over 10,000.00. Each service occurred at different times for different reasons so, in essence, each was an individual small contract/service. Example 1- in order to start the new lunch program with Preferred Meals new ovens had to be installed and the electricity in the kitchen area needed dedicated and upgraded lines. Example 2- two rooms on the second floor were not receiving proper heating to ensure a healthy environment for staff and children due to the heating system in the building being old and not working properly, therefore FLACS did not want another year where children and staff had to be relocated on cold days thus interrupting instruction so R&R was contracted to install heaters in these two rooms, Example 3- the computer room - new lines had to be put in order to ensure that the 26 computers in the room worked daily without power problems and constantly going to the fuse box to start the computers every half hour as has been the case in the past years. Each job done by R&R was secured separately and it was considered an individual service, FLACS did not see it as a 10,000.00 contract until your team gave us the report. In addition when a company is found that completes a work order in a professional and exceptional manner FLACS secures their services because they know the work will get done in a timely fashion, correctly and with the least interruptions to children.

Preferred Meals - the bidding for this was done through posting it in the papers and attempting to search food services providers for schools that would give FLACS a proposal and a presentation. The process took months and no one answered the ad. The Operations manager attempted to contact schools but most secured their services from the Office of Food and Nutrition Services - Department of Education.

Scientific Learning (FAST FORWARD) is a sole vendor of this product and service. A letter from the company was obtained.

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Comment
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US Lec (PHONE SERVICE SINCE 2002) - Bids were not secured (UNDER 10,000 – YEARLY COST APPROXIMATELY 5,000)

- **Consultants**

Two consultants hired at FLACS did not have contracts. Once consultant, Ronit Fisch was part of the contracted services that the school secured when the school opened in 2001 and began working with Teacher's College - Lucy Caulkin Reading and Writing Process. Ms. Fisch was one of the consultants sent to work with the staff. Information on this contract was found in the first Charter Application. All invoices for services were submitted by Ms. Fisch, a signature of approval was not on the invoice however the Operations manager insured that she billed for the dates and times worked and did not issue a check without an invoice

Benjamin Richardson came through a temp agency and FLACS did not have a contract on file for Mr. Richardson. Invoices for the work done were submitted and checked for valid dates of work and time by the Operations manager.

Consultant contracts will be secured in all future transactions with consultants and an approval signature and notation will be made on contracts.

- **Disbursements**

* See State Comptroller's Comments, page 21

According to your report out of 26 contracts 19 did not have written approval. Upon reviewing the contracts in the spreadsheet provided with the report the following are services that we have secured at FLACS since the inception of the school and/or that have approval in a different format than with a signature on a purchase order. The following are examples:

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Comment
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Hartford, Wachovia, Conference Associates, -----These are our Insurance, our Pension Plan and our medical benefits provider. These were secured in 2001 and were approved by the founding board upon the opening of the Charter School.

Harcourt Brace, Zaner Bloser, McGraw Hill ----These are book companies that provide our approved curriculum as per our Charter Renewal

Miss Chocolate is the fundraising company that we used in 2005 - the PTA secured this company and the parents sold the candy and we had to give them their percentage based on the items sold by the return slips of the parents.

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Comment
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The rest of the report says that packing slips were missing and/or no check of items received (inventory) was done/noted or that purchase orders were done. Some of the items noted without purchase orders were the Staples order that is done on line using the Board of Education contract.

As per your report the possible 'effect' is that goods and services may not have been authorized, provided and/or received and it is of great importance that your agency knows that this is a small school and that any of the services or materials ordered are indeed sent and used by FLACS and that no one or any company is paid for goods and services not rendered to our school. The paper work might not be in order as it needs/should be and this will be rectified in the coming year but at no time is any wrongdoing taking place as the 'Effect' seems to imply.

Petty Cash

-As per your report there was no evidence of petty cash vouchers, only receipts of what was purchased was in the petty cash pouch. Vouchers for money dispersed was not common practice, the voucher system was instituted this year to ensure compliance with the Policy and Procedures manual. Only when money was given prior to a purchase was a person asked to initial their name on the petty cash ledger. Your audit team saw evidence of this new procedure.

-As per our manual the total amount that should be in the petty cash should always equal \$250.00. It was found by your team that there was 293.83. This was due to the fact that when the petty cash is going below \$50.00 a check is cashed to replenish with sufficient time to ensure that there are monies to purchase needed materials, incentives etc. The manual will have to be revised to indicate that a check is cashed before the amount goes under \$40.00 thus the total may to be cashed may have to be changed.

-Due to your findings and the evidence that when the person in charge of the petty cash was absent certain procedures were not followed because the person given the task was not clear about the responsibility all personnel dealing with the petty cash, even when assigned temporarily will be given a short and concise training on the safeguarding and disbursements of the petty cash fund and key. As of this response a safe has been bought and bolted to secure all monies collected at FLACS for deposit and petty cash.

-As per the report petty cash is used for purchases and transactions that should not be paid via the petty cash fund. Currently FLACS officials are looking into ensuring that certain materials and purchases are bought via purchase order and paid by school checks in order to minimize the use of the petty cash fund.

-Due to the fact that not all signators are used to sign checks because FLACS practices are that a Board member and a school official are to sign checks which poses a hardship, at times, therefore the petty cash fund is used to reimburse purchases instead of issuing a check. The finance committee will review this practice and make the necessary adjustments.

It is of the utmost importance that your office understands that FLACS' staff and Board of Trustees take all financial matters seriously and that the finances and internal controls are of utmost importance just as the academic program is of great importance to all its stakeholders. The school has gone through several transitions due to the difficult start up and it is now in the process of rectifying, adjusting and looking for better ways to ensure that the school safeguards its finances by having

* See State Comptroller's Comments, page 21

strong internal controls in a way that honors the children and families we serve. We take seriously all comments and suggestions made and we will continue to remedy all matters that need to be changed in the coming months and year.

FLACS Accepts recommendations 10, 11, 12, and 13

Payroll and Personnel Services

Your report stated that six employees five teachers and one administrative staff did not have time sheets for the time periods of 8/28/06-9/1/06 and 9/4/06-9/8/06. These were the first two weeks of the beginning of the school year when all employees are back for two weeks of professional development. Regular payroll sheets are not filled out during that time but there are attendance sheets where employees are checked in during those two weeks. All other pay periods were accounted for as per the documentation that was provided to your team for review. FLACS will institute time sheets during these Professional Development days commencing this new school year to ensure that all records of attendance for all staff is duly noted.

Overtime

We want to note that in the preliminary findings we clarified the practices at FLACS for hourly workers' overtime practices and per session employment. The concerns in the report pertained mainly to per session employees. In reference to personnel working in per session employment (teachers and assistant teachers) a posting is sent to all staff and then the staff speaks to the supervisors about their interests and a decision is made about their acceptance as a per session employee for the after-school, Saturday Academy or Summer program. Although this is above their regular work hours this is not considered overtime so an overtime sheet does not have to be filled out. Their work is considered a per session job for a certain amount of hours weekly, and for a certain amount of weeks per year.

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Comment
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FLACS will review our procedures and make sure that all jobs and overtime procedures are clearly defined in the employee manual.

Pay Increases

As per your report staff are not paid based on an approved paid increase that is based on employee evaluations. Teachers at FLACS are evaluated for performance on teaching. They are paid based on a scale (the Department of Education pay scale) plus 2% that has been approved by the Board of Trustees in the spring meeting where the projected budget is discussed in detail and then voted on for approval and sent to our authorizer CSI. Other employees; TAs, hourly employees and Operations staff are given a raise between 1 and 5% or more based on their performance. An offer letter is given to each employee during a meeting with the principal to discuss their attendance, work etc. Formal evaluations began this year and they were submitted with the documentation to your team. These are not kept in the personnel files they are kept in the principal's office.

FLACS will place evaluations in personnel files in the coming school year in addition a more detailed plan for pay scales and increases will be developed for the new school year.

Terminations

As per the report on the termination of employees procedures are being reviewed and adjustments made to incorporate recommendations made by your office.

FLACS Agrees with recommendation 14

Separation of Duties

The Operations office has been reorganized as of this writing. Duties have been defined and assigned and bi-monthly meetings have been instituted to discuss/assess all operational matters.

FLACS Accepts and agrees with recommendations 15 and 16

*See State Comptroller's Comments, page 21

Equipment Inventory

As of this writing the procedures for inventory are being revised and implemented. Assessment of effectiveness will be assessed in January and June.

Shared Equipment

As of this writing we are developing policies and procedures for adequately tracking all equipment usage.

FLACS agrees with recommendations 17, 18, and 19

Computer Usage

We want to begin our response to this section by stating the following:

*FLACS is housed in a Community Based Organization thus the facility is used in the evenings, weekends, holidays and summer months by many young people, teenagers and adults. During vacation days while all school personnel, including the principal, are off school premises custodial staff, cleaning services and CBO facilities personnel paint, repair and prepare the facility for use in the fall.

Family Life Academy Charter School wants to state that it is of the utmost importance that the Office of the State Comptroller is assured that all precautions necessary have been taken in order to avoid violations of computer usage.

The following are the steps that have been taken, as of this writing, to safeguard the school against future violations of the Computer Usage policies:

1. All personnel must log out upon completion of work.
2. Passwords can not be shared
3. All computers must be shut down on weekends and during vacations and holidays
4. A person will be designated to monitor computer searches
5. No-Visions was contacted to put in place the following safeguards:
 - Alert two designated school officials when a pornographic or inappropriate website has been searched.
 - Block all access to words that link to pornographic sites
 - Block all access to images and videos that link to pornographic sites
 - Log off computers after being idle for 2 minutes
 - Each time a search is going to be done have the password must be typed

A new company has been secured, NetWork OutSource, to monitor our computer usage and all technology matters.

In addition, our authorizer, CSI (Charter School Institute), the Board of Trustee, the staff, the building Administration and parents were informed of the breach in security of our computers. A discussion about further safeguards, such as the installation of cameras, has taken place but further discussions are needed before a decision is made. The CBO in which the school is housed has assured the school that security and vigilance when programs are in session and building maintenance is occurring will be reviewed and adjusted to insure that Computer usage is limited to authorized personnel and attendance of such personnel will be logged in the Security ledger.

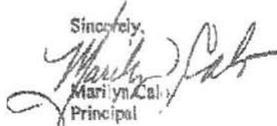
In summary FLACS has accepted the recommendations made by the audit team and we have already made necessary changes as stated above. It is our belief that the Internal Controls and Procedures manual is a living document therefore we will continue to monitor our practices and make the necessary changes to effectively and efficiently meet all the recommendation requirements.

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We want to once again thank you for your advice and support during the audit. In addition thank you for your patience with our operations team, especially our new operations team members. We know that this experience will support our continuous strive towards excellence.

Sincerely,

Marilyn Cal
Principal

C: Francisco Lugovina, Chairman Board of Trustees
Stephen D. Lynch, Office of the State Comptroller

APPENDIX B - STATE COMPTROLLER COMMENTS

1. Certain matters contained in the draft report have been modified or eliminated from the final report based upon the response of the auditee.
2. We have modified the report to reduce the number of exceptions based upon this response.
3. Many of the matters discussed by Academy officials were not included in the draft report, but were matters that had been discussed and resolved during the audit.
4. The letter justifying the sole source was obtained subsequent to our audit and was not obtained contemporaneously with the transaction.
5. The transactions to which Academy officials refer are not contracts, but are disbursement transactions for routine purchases.
6. These transactions, even those with recurring vendors, should all be reviewed and approved in advance of the check being prepared. This was not always done.
7. The overtime transactions cited in our audit report as lacking prior approval were for non-teaching staff (e.g. custodial and security staff) and were not per session payments to teachers.