

THOMAS P. DiNAPOLI
STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

February 28, 2007

Mr. Andrew Jackson
Chairman of the Board
The Renaissance Charter School
35-59 81st Street
Jackson Heights, New York 11372

Re: The Renaissance Charter School:
Financial Management Practices - Report
2006-N-5

Dear Mr. Jackson:

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, we audited The Renaissance Charter School (TRCS). The objective of our audit was to determine whether TRCS established and maintained an adequate system of internal controls over selected financial management practices. Our audit covered the period July 1, 2004 through April 30, 2006.

A. Background

In December 1998, the Legislature passed a law authorizing the creation of charter schools in New York State. This legislation is known as the New York Charter Schools Act of 1998. 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." Such schools provide opportunities for teachers, parents, community members, and not-for-profit organizations to establish and maintain schools that operate autonomously from existing schools and school districts.

TRCS, established in September 2000, is one of 23 schools chartered by the New York City Department of Education (DoE). TRCS is a former public school from the Chancellor's District. TRCS opted to convert to charter status because the administrative staff believed they could increase student achievement with the added flexibility in governance that is available to charter schools. TRCS is located in Jackson Heights, Queens and has 498 students enrolled in kindergarten through grade 12.

According to TRCS's financial statements for the fiscal year ended June 30, 2005, the school's operating expenses in that year totaled about \$5.148 million, of which \$4.08 million related to personal service costs (including fringe benefits) and \$1.07 million related to other than personal service costs. Revenues totaled about \$5.026 million, of which \$4.27 million was provided by DoE for basic school aid. TRCS also received \$356,569 in Special Education Aid from DoE, \$277,829 in federal funding, and

\$117,202 in grants, donations and other types of revenue. TRCS operated at a deficit of about \$122,000 for 2005.

In addition, DoE pays the cost of food, transportation, textbooks and special education services for TRCS. DoE also provides TRCS with building, custodial, safety and health services at no charge. According to TRCS officials, this additional support has a value of about \$1.7 million annually.

As one of five charter schools created by the conversion of a pre-existing public school, TRCS is required to pay its staff in accordance with the terms and conditions of the prevailing public school teacher contract. Under the contract, staff salaries, fringe benefits and pension contributions have escalated since TRCS opened in September 2000. These escalating costs resulted in fiscal stress. According to TRCS's annual independent audits, the school operated at a deficit in two of its first five years of operation. However, the audit report for the year ended June 30, 2005 indicated that, after five years of operation, TRCS had accumulated an operating surplus of \$1.57 million, which represents about 30 percent of its annual budget.

In 2005, TRCS's charter was renewed by the New York State Board of Regents. In renewing the charter, the Board of Regents cited TRCS's academic achievement, its fiscal soundness and its stable leadership. TRCS has received the prestigious Blackboard Award for Academic Excellence and, in the 2005-06 school year, TRCS high school seniors received more than \$2 million in college scholarships. At the time of our audit, more than 1,200 applicants were on a waiting list to be admitted to TRCS.

B. Audit Scope, Objective and Methodology

We audited selected financial management practices of TRCS for the period July 1, 2004 through April 30, 2006. The objective of our audit, which was conducted in accordance with generally accepted government auditing standards, was to determine whether TRCS established and maintained an adequate system of internal controls over the following areas of financial operation: Board of Trustee oversight, revenue collection, cash and investments, payroll, contracting and procurement, equipment and asset management, and budgeting and expenditure control.

To accomplish our objective, we interviewed officials of TRCS, the State Education Department (SED) and DoE. We reviewed applicable laws, policies and procedures related to the financial operations of the school. We also examined the financial and operating records of TRCS, and the work performed by the firm of certified public accountants engaged to audit TRCS's financial statements.

We selected a judgmental sample of 100 of the 2,259 disbursements made by TRCS for the period July 1, 2004 through March 22, 2006 and reviewed the documentation supporting the disbursements to ensure that they were valid and appropriate. Fourteen of the 100 disbursements were payroll transactions, while the remaining 86 disbursements were non-payroll transactions. Additional details about our sampling methodology are provided later in this report.

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, several of which are performed by the Division of State Services. 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 management functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

We found that the internal controls established by TRCS are generally adequate. However, improvements are needed in certain controls, particularly in the area of contracting and procurement. We also determined that modifications need to be made in the composition of TRCS's Board of Trustees, as the percentage of Board members who are TRCS employees exceeds a limit that is specified in TRCS's charter.

1. Financial Oversight

a. Board Oversight

Charter schools are to be governed by a board of trustees. According to a directive issued by SED, the composition of these boards is subject to certain restrictions. For example, the directive states that the officers and employees of no single organization can hold more than 40 percent of the total seats on a board.

We examined the composition of TRCS's Board of Trustees and found that it does not comply with SED's directive, as 8 of the 17 total Board members (47 percent) are TRCS employees. TRCS officials stated that they believed they were in compliance with SED's directive because some of the TRCS employees on the Board are non-voting members. They stated that this arrangement was verbally approved by SED staff. However, we discussed this matter with SED staff and they stated that the arrangement is not allowable. Accordingly, we recommend the composition of the Board be reconfigured to comply with SED's directive.

We reviewed the minutes of the Board's meetings during our 22-month audit period to determine whether the Board was adequately overseeing school operations. We found the Board was actively involved in the school's operations and was providing adequate oversight. For example, the minutes for the 2004-05 school year indicated that the Board discussed academic, statutory and financial matters. The Board met five times during the 22 month period, and a quorum of members was present at each meeting. When they met, the Board approved regulations covering such areas as financial reports and academic policies.

However, we did identify the following two areas in which improvements were needed in Board oversight:

- The Board minutes did not indicate that the 2004-05 budget was approved by the full Board. A discussion of the budget was included in the meeting minutes of the Board's Financial Committee, but there was no resolution of budget approval in the minutes of the full Board. TRCS officials stated that the Board minutes did not accurately reflect the business conducted and that the budget

- was in fact approved by the full Board. We recommend such approvals be documented in the minutes.
- The Board is required by TRCS policy to approve all contracts in excess of \$10,000. However, we identified five contracts in excess of \$10,000 that were awarded by TRCS in the 2004-05 school year but were not approved by the Board or even mentioned in the Board minutes. We recommend all such contracts be discussed and approved by the Board.

b. Annual Independent Audit

Pursuant to Section 5.3 of TRCS's charter, each year a fiscal audit of the school should be conducted by a certified public accountant. SED further requires that all such audits be conducted in accordance with the government auditing standards issued by the United States Government Accountability Office.

We reviewed the work performed by TRCS's auditing firm. We found that the school had been audited annually, as required. However, the audit reports did not affirm that the work had been conducted in accordance with government auditing standards, as is required by the standards. In addition, contrary to the standards, certain additional auditor reports had not been provided to TRCS in conjunction with the audits. TRCS's independent auditor stated that, in their opinion, the audit work met the requirements of government auditing standards.

Recommendations

1. *Reconfigure the Board to comply with the SED directive regarding the composition of charter school boards of trustees.*

(TRCS officials disagree with this recommendation, again citing the verbal approval of SED officials. In addition, TRCS officials believe there is no basis in law or regulation that supports SED's position.)

2. *Ensure that the approval of the annual budget is documented in the Board meeting minutes.*
3. *Ensure that all contracts in excess of \$10,000 are reviewed and approved by the Board.*

(TRCS officials agree with recommendations 2 and 3.)

4. *Ensure the annual audit is conducted in accordance with government auditing standards.*

(TRCS officials state that all audits were conducted in accordance with government audit standards. They also state that the appropriate language has been included in the 2006 audit report.)

2. Cash, Procurement and Related Areas

- a. Cash and Investments

TRCS has three checking accounts. The bank statements for such accounts should be reconciled by someone who does not perform other cash receipt, cash disbursement or cash recordkeeping functions. If this basic internal control (i.e., the separation of related duties) is not in place, any loss or theft of funds will be more difficult to detect in a timely manner.

TRCS's Director of Finance is responsible for reconciling the three bank accounts. However, this individual also performs other cash receipt, disbursement and recordkeeping functions. For example, this individual also receives and disburses cash, prepares cash deposit slips, and records all cash transactions on TRCS's accounting system. As a result, cash-related duties are not adequately separated among different employees.

Since a small number of employees are responsible for TRCS's financial operations, all related duties may not be able to be separated among different individuals. However, it is imperative that a function as critical as bank reconciliations be performed by someone who does not have other cash-related responsibilities. We therefore recommend that TRCS's bank reconciliations be performed by such an individual. We note that this individual need not be one of TRCS's financial staff (e.g., a Board member could perform the reconciliations).

We were also informed that all bank reconciliations are disposed of after they are completed and reviewed. Such reconciliations should be maintained for a reasonable period of time so that they can be reviewed as needed by other personnel.

Generally, funds not needed for current operations should be invested to generate a reasonable rate of return. TRCS has invested funds in excess of its current needs in certificates of deposit with its bank. However, TRCS may not be realizing its full investment potential, as the balance in one of its three checking accounts never went below \$200,000 during our audit period, and was as high as \$1.2 million. We question why additional funds in excess of current needs were not invested into interest bearing accounts. As a result, TRCS is losing the opportunity to earn additional revenue.

We note that TRCS does not have a formal investment policy. Such a policy would specify the types of investments that are allowable and the degree of risk that is acceptable. Such a policy would also require TRCS to shop around for the best available rate of return for the type of investment sought. We recommend such a policy be adopted by TRCS's Board.

We also reviewed TRCS's revenue collection process. Our review included limited testing, and we found that the controls over the process were generally adequate.

b. Contracting and Procurement

Many of the purchases made by TRCS are made through contracts. Such purchases should comply with disbursement and procurement guidelines that have been developed by TRCS. To determine whether these purchases did in fact comply with these guidelines, we selected a sample of 30 contract purchases for review. We selected the 30 purchase transactions from the 2,259 total disbursement transactions processed by TRCS during the period July 1, 2004 through March 22, 2006. Our sample was judgmental. We selected a variety of types of purchases in an effort to cover the major types of contract expenses. We then reviewed the documentation relating to each selected purchase transaction.

We found that, in many instances, the sampled purchases did not comply with TRCS's disbursement and procurement guidelines. For example, according to these guidelines, purchases of office supplies and equipment between \$250 and \$1,000 must be approved by one of the five members of the TRCS management team (the Co-Director of Operations), and if such purchases exceed \$1,000, they must be approved by two members of the management team. However, in eight of the office supply/equipment purchases in our sample, none of the required approvals had been documented. Five of these eight purchases exceeded \$1,000, while three were between \$250 and \$1,000.

Also, according to TRCS's disbursement and procurement guidelines, a formal purchase request must be submitted for approval before a purchase order is issued and a formal receiving report documenting the receipt of the goods or services must be submitted before payment is made. However, no purchase request was on file for 18 of the 30 purchases and no receiving report was on file for 21 of the 30 purchases.

In the absence of a properly approved purchase request form or other required prior approvals, TRCS officials have less assurance purchase transactions are valid, appropriate and necessary. Further, in the absence of a receiving report, TRCS officials have less assurance the school has gotten what it paid for. These control weaknesses have additional significance, because TRCS's purchasing duties are not adequately separated among different employees due to limited staff (i.e., the individual responsible for issuing purchase orders also prepares the documents submitted for payment processing). It is therefore critical that TRCS officials ensure that all required prior approvals are obtained before purchase orders are issued and receiving reports are obtained before payments are made.

Some of TRCS's purchases are not made through contracts. To determine whether these purchases were adequately controlled, we selected a judgmental sample of 56 such purchases. We selected the purchase transactions from the 2,259 total disbursement transactions processed by TRCS during the period July 1, 2004 through March 22, 2006. In selecting the sample, we focused on unusual or higher-risk purchases. We found that 53 of the 56 transactions appeared to be valid and appropriate. However, two of the transactions may have been questionable and one was a duplicate payment, as follows:

- In one of the transactions, a school employee was paid to provide catering services at the school. The records show that, during the 2004-05 fiscal year, the employee received several such payments totaling \$6,194. However, there were no records indicating that prices were solicited from different catering vendors. As a result, TRCS officials have no assurance the prices charged by the employee were reasonable. If the employee is asked to provide catering services again, TRCS administrators should document the reasons why the employee's catering service was selected (e.g., a lower price) over other catering services that are available in the community.
- TRCS's attorney is paid a monthly retainer fee of \$3,000. However, in one of the transactions in our sample, the attorney received an additional payment of \$2,225. The Co-director for Operations explained that the additional payment was made for services (contract negotiations) that were not covered by the retainer agreement. However, the retainer agreement does not explicitly mention contract negotiation services and there was no explanation for the additional payment in TRCS's files. We recommend the retainer

agreement be revised to more clearly describe (a) the types of services that are covered by the agreement and (b) the types of services that will result in additional payments.

- One transaction (a \$227 disbursement for the purchase of a classroom easel) was a duplicate payment. After we brought this matter to the attention of TRCS officials, they recovered the duplicate payment.

We also reviewed TRCS's controls over its equipment inventories. Our review included limited testing and we found that the controls were generally adequate.

Recommendations

5. *Assign bank reconciliation responsibilities to an individual without other cash-related responsibilities. Retain the bank reconciliations for a reasonable period of time.*

(TRCS officials state that due to the small number of staff, this duty cannot be assigned to someone independent of other cash related tuitions. However, they believe the monthly review of the reconciliations by the independent auditor provides adequate control.)

6. *Adopt an appropriate investment policy and invest any funds in excess of current needs in accordance with this policy.*

(TRCS officials state they have a conservative investment policy but are seeking further input from governmental agencies before adopting a policy.)

7. *Ensure that all required prior approvals have been obtained before purchase orders are issued.*

8. *Ensure that the receipt of a good or service is documented by a receiving report before payment for the good or service is authorized.*

9. *If an employee is paid to provide personal services, document the reasons why the employee's services were selected (e.g., a lower price) over other services that are available in the community.*

10. *Revise the attorney's retainer agreement to more clearly describe the types of services that are covered and those that will result in additional payments.*

(TRCS officials agree with recommendations 7 through 10.)

3. Payroll and Personal Services

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. Thus, no one person could control a payroll transaction from beginning to end.

However, at TRCS, a single individual handles many of the payroll processes. For example, this individual maintains all personnel records, enters all data into the payroll system, distributes paychecks and pay stubs, and mails out any undistributed paychecks. Since TRCS has a limited number of staff, it cannot separate duties in an ideal manner. However, certain critical duties should be assigned to someone who is independent of the payroll and personnel offices. Specifically, such an individual should receive the payroll directly from the outside payroll firm, review and verify the payroll, and handle the distribution of the paychecks and pay stubs. In this way a regular independent review of the payroll can be performed.

To determine whether payroll transactions were valid and appropriate, we selected a judgmental sample of 14 payroll disbursements and reviewed the documentation supporting them. All 14 disbursements were paychecks issued to individual TRCS employees. We selected the 14 disbursements from the 2,259 total disbursement transactions processed by TRCS during the period July 1, 2004 through March 22, 2006.

For 5 of the 14 disbursements, we verified the accuracy of the paycheck amounts. We selected the five paychecks from a payroll register in March 2006, systematically selecting every thirteenth paycheck from the 66 paychecks listed on the register. We also selected five overtime payments from that payroll register and verified the accuracy and validity of the payments. For the final four disbursements in our sample, we selected two paychecks issued to two employees who had just been added to the payroll and two paychecks issued to two employees just before they were deleted from the payroll, and verified the accuracy and validity of the payments. We judgmentally selected the four paychecks from the payroll additions and deletions that were processed in the year ended March 31, 2006. We found that all 14 payroll disbursements in our sample were valid and appropriate.

During our review of the overtime payments, certain other payments came to our attention that required further review: overtime payments to teachers during summer school sessions. In the summer of 2004, nine teachers received such overtime payments. According to the teachers' employment contract, the nine teachers should have been paid \$36.50 per hour for this overtime. We reviewed the overtime payments to the nine teachers and found that four of the teachers were paid at the authorized contract rate (\$36.50 per hour). However, the other five teachers were paid \$43.34 per hour for their overtime. As a result, it appears that the five teachers were overpaid a total of \$2,190 for their overtime in the summer of 2004.

TRCS officials were unable to explain why the five teachers were paid at a higher rate than was authorized by their contract and are investigating the matter. We recommend TRCS officials recover the \$2,190 in excess overtime payments, unless it can be shown that the higher hourly rate was in fact authorized. In addition, if the higher hourly rate for the 2004 summer session was not in fact authorized, we recommend TRCS officials review the overtime payments for the 2005 summer session and recover any amounts paid in excess of the rates authorized for that session. We further recommend that payroll calculations routinely be verified for accuracy.

TRCS staff are not required to maintain a daily time and attendance record. Instead, an individual in the Business Office maintains a log of absences for each TRCS employee. To determine whether employee absences were accurately recorded in this log, we observed employee attendance on April 28, 2006 and ascertained that three employees were not working on this day. We then reviewed the log of absences

several days later to determine whether the three absences were properly recorded. We found that two of the three absences were recorded, but the third absence was not recorded. As a result, this employee's balance of accrued leave was one day higher than it should have been.

We recommend that the employee's leave balance be adjusted to reflect the absence on April 28, 2006. We further recommend that all employees be required to maintain a daily time and attendance record, the record be approved by the employee's supervisor at least monthly, and the absences on this daily record be compared against the absences recorded in the Business Office's log of absences.

Recommendations

11. *Assign the responsibilities for receiving and verifying the payroll and distributing payroll checks to someone who is independent of the payroll and personnel functions.*

(TRCS officials state that due to the small size of their staff, this is not feasible and their current system of reviews are adequate.)

12. *Recover the \$2,190 in excess overtime payments, unless it can be shown that the higher hourly rate was appropriately authorized. In addition, if this hourly rate was not appropriately authorized, review the overtime payments for the 2005 summer session and recover any amounts paid in excess of the rates authorized for that session.*

(TRCS officials are reviewing this matter and will recover any overpayments.)

13. *Ensure that payroll calculations are routinely verified for accuracy.*

14. *Adjust the identified employee's leave balance to reflect the absence on April 28, 2006.*

15. *Require employees to maintain a daily time and attendance record that must be approved by the employee's supervisor at least monthly. Compare the absences recorded on this daily record to the absences recorded in the Business Office's log of absences to ensure that all absences are recorded and employee leave accrual balances are accurate.*

(TRCS officials agree with recommendations 13 through 15.)

In response to our audit observations, TRCS officials stated that, notwithstanding the financial control issues reported, the school's positive academic achievements should be noted. For example, they informed us that, according to SED, TRCS will be a school in good standing in the 2006-07 school year. The school has maintained this status for its six years as a charter school. Additionally, it has made adequate yearly progress on every accountability measure.

We provided a copy of this report, in draft, to TRCS officials for their review and comment. We have considered the comments of TRCS officials in the preparation of this report and have included their comments as Appendix A. TRCS officials agreed with most of our recommendations. Our comments to TRCS' response are contained in Appendix B.

Within 90 days after the final release of this report, we request the Chairman of the TRCS 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.

Major contributors to this report were Kenrick Sifontes, Tom Trypuc, Stephen Lynch, Marc Geller, Mostafa Kamal, Hector Arismendi, Sarah Malkoukian and Dana Newhouse. We wish to thank the management and staff of The Renaissance Charter School for the courtesies and cooperation extended to our auditors during the audit.

Very truly yours,

Steven E. Sossei
Audit Director

cc: Mr. Brian Fleischer
Mr. Nader Francis
Mr. George Davis
Ms. Lisa Ng

THE RENAISSANCE CHARTER SCHOOL

"Developing Leaders for the Renaissance of New York"

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January 19, 2007

Mr. Steven E. Sossei
Audit Director
Office of the State Comptroller
Division of State Services
State Audit Bureau
110 State Street, 11th Floor
Albany, NY 12236

Re: Renaissance Charter School Audit

Dear Mr. Sossei:

The Renaissance Charter School (Renaissance) wishes to thank you and your staff for the professional manner in which the audit was conducted. In particular thanks are extended to our Audit Supervisor, Mr. Marc Geller, who facilitated this process with competency and fairness.

As one of the first charter schools audited, this process was a learning experience for everyone involved. We believe that through this audit our school and charter schools around the state will continue to be excellent models for school reform through our increased knowledge of internal controls and financial management. We are also hopeful that the unique issues that face charter schools such as small business offices, which make optimum segregation of duties difficult and often impossible, and lack of adequate guidance from authorizers and governing bodies on matters such as board configuration and investment policies will be brought to light and addressed accordingly.

We feel that for the most part, the findings fairly represent some of the conditions present at the beginning of the audit. There are, however, a few important exceptions which will be addressed in this letter. We note that several of the issues highlighted by the auditors resulted from only a few isolated occurrences, and in some cases only one occurrence, and should not be generalized as representative of school procedures as a whole.

For summary purposes, our responses to the draft report's findings and recommendations are below.

- I. Financial Oversight
 - a. Board Oversight

The Renaissance Charter School stands by its assertion that an official of the New York State Education Department approved our board configuration to include non-voting members. This approval was specifically issued as part of Renaissance's charter renewal application. Your office's

The Renaissance Charter School, p. 2

report that NYSED officials represented the opposite is disturbing and we intend to address the matter independently with NYSED. Notwithstanding, it is our belief that there is no basis in law or regulation which supports placing any mandates on the configuration or substantive composition of charter school governing boards. Moreover, during the last year and a half, our board of trustees has added two new community members and converted a retired member to community status which has affected its composition. At an upcoming meeting, the board intends to review its membership configuration. (Recommendation 1)

Renaissance accepts Recommendations 2 and 3.

b. Annual Independent Audit

Renaissance wishes to clarify for readers of this report that our financial audit has always been conducted in accordance with government auditing standards and will continue to be conducted in accordance with these standards. Additionally, the independent accountants gave a separate report to the school and the auditors affirming that the audit was conducted in accordance with governmental auditing standards. This statement has been included in the Certified Financial Report for fiscal year 2006. (Recommendation 4)

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Comment
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2. Cash Procurement and Related Areas

Due to a small business office staff, Renaissance cannot at this time assign bank reconciliation duties to another individual. We believe that adequate internal controls are maintained through the review of monthly reconciliations by an outside accounting firm. As we informed the auditors, this process has been in place for many years. (Recommendation 5)

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Comment
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As was explained to the auditors, Renaissance's board has a conservative investment policy in place which includes investment of excess funds into Certificates of Deposit. This policy has been reviewed several times by the Finance / Audit Committee of the Board and the board as a whole in general sessions as documented in the minutes. We have asked for clarification on guidelines as they pertain to the investment of tax-levy funds from various governmental agencies and have not been able to ascertain a response. (Recommendation 6)

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Comment
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Renaissance agrees with Recommendations 7 through 10.

3. Payroll and Personal Services

Recommendation 11 is also difficult to implement due to a small business office staff. However, we believe that through a system developed in the first year of our charter of checks and reviews by the Co-Director for Operations and outside accountants that adequate controls are in place.

Renaissance is investigating the alleged overpayment made as listed in the findings of Recommendation 12. If the amount cannot be authorized, we will attempt to recover the overpayment as suggested.

Renaissance agrees with Recommendations 13 through 15. We do, however, wish to clarify our procedure for tracking staff attendance which although explained to the auditor was obviously not

*See Comptroller's Comments, page 14

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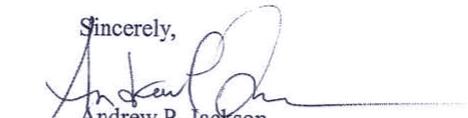
understood as demonstrated by the finding. The business office maintains a daily log of staff absences as well as a Cumulative Account Reserve for each individual staff member. The daily log is updated on a daily basis while the Cumulative Account Reserve (CAR) log is updated monthly. The auditor reviewed the CAR prior to its update which would not be reflective of the daily log. Both logs are reconciled monthly and additionally staff members are asked to review and sign-off on their balances each June.

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Comment
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We are pleased to note that all agreed upon recommendations have been implemented. If you have any questions regarding our response to either the findings or recommendations, please do not hesitate to contact us.

Thank you.

Sincerely,



Andrew P. Jackson
Chairman of the Board

State Comptroller's Comments

1. Under government audit standards, the independent auditor is required to describe in his report (or in a separate report) the scope of the auditor's testing of compliance with laws and regulations and internal controls, and the results of this testing. In presenting the results of the testing, the auditor must report irregularities, illegal acts, other material non compliance and reportable conditions on internal controls. Our review of the auditor's reports disclosed that these additional reporting requirements were not complied with by the auditor.
2. Internal controls are the responsibility of management. Under government audit standards, the independent auditor can not perform internal audit services, nor can the auditor perform a management function. As such this monthly review by the independent auditors can not serve as a substitute for adequate internal controls.
3. We agree that TRCS has a practice of investing excess funds in a conservative manner, using certificates of deposit with their established bank. However, we were not provided with any formal policy by TRCS regarding the investment of excess funds.
4. We did not misunderstand the system used by TRCS staff. We examined the official leave records maintained by TRCS three weeks after we performed our check on the staff and found that one of the three teacher absences was not recorded. Further, we examined the leave records five months later and found that the absence was still not recorded. We stand by our observation.