
**Thomas P. DiNapoli
COMPTROLLER**



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**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**BROOKLYN CHARTER
SCHOOL**

**FINANCIAL MANAGEMENT
PRACTICES**

Report 2006-N-9

AUDIT OBJECTIVE

Our objective was to determine whether the Brooklyn Charter School (Brooklyn) has established and maintains an adequate system of internal control over the following areas of financial operations: financial oversight, disbursements, payroll and personnel services, and equipment and inventories.

AUDIT RESULTS - SUMMARY

We determined that the Brooklyn Charter School has not established and maintained an adequate system of internal controls over the basic financial operations we tested. Our audit disclosed significant control weaknesses in nearly all 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 Brooklyn's Board of Trustees (Board) and school officials need to improve their oversight of the school's fiscal operations and to strengthen compliance with the internal controls outlined in their Internal Controls of Assets - Policies and Procedures Manual (Manual), particularly in the areas of financial oversight, disbursements, payroll, and equipment inventory. We noted that Board oversight at Brooklyn has been weak since the school's inception. Without improvement, assets remain at increased risk of misappropriation or misuse.

We found that individuals were not always complying with established procedures before making cash disbursements. For example, 27 of the 35 disbursements we tested, (77 percent) did not have adequate supporting documentation, such as pre-approvals, purchase orders, invoices, and/or receiving reports. We also found that Brooklyn officials were not maintaining the petty cash fund in accordance with the Manual. For

example, we identified transactions that exceeded the approved dollar limit and found the need to improve petty cash recordkeeping.

Payroll represents a significant portion of Brooklyn's expenditures; therefore, good internal controls are essential. We found that payroll records were not being maintained properly or reviewed to ensure that employees were paid only for time worked. In addition, we identified three employees who were not paid the correct rate of pay and, as a result, were underpaid \$2,160 from September 2005 through June 2006.

Brooklyn operates an after-school program called the test preparation program. School employees who provide after-school program services are required to complete a time record in support of payment for their program services. We found that 13 of the 43 program payments we reviewed, as well as 26 of the 43 related times sheets, lacked certain required approvals. In addition, we found that Brooklyn treated the assignment of their employees to the after-school program as an independent contractor service. As a result, Brooklyn officials were not including after-school program payments in the W-2s of their employees who provided program services.

We found that Brooklyn officials did not maintain adequate control over the school's equipment inventory. For example, the school neither maintained perpetual inventory records nor performed a physical inventory of its equipment at least once a year. We also found that the school had no policies and procedures for the proper control of equipment.

Our report contains eight recommendations to improve internal controls over Brooklyn's financial management practices.

This report, dated March 4, 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 authorized the creation of charter schools in the State by passing the New York Charter Schools Act of 1998 (Act). This legislation authorized the establishment of charter schools as independent public schools governed by not-for-profit boards of trustees and managed according to the terms of a five-year performance contract or "charter." Such charters 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 April 2000, Brooklyn Charter School (Brooklyn) is one of 31 schools currently approved by the New York City Department of Education (DoE) and chartered by the Regents of the State of New York. Located in Brooklyn, the school offers instruction at the kindergarten through fifth grade levels. Under the Act, Brooklyn 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 Title 1 dollars, and in-kind services from the school district in which the charter school is located. During the school year ended June 2006, Brooklyn had approximately 217 students.

According to Brooklyn's financial statements, total revenues for the fiscal years ended on

June 30, 2005, and June 30, 2006, were \$2,019,794 and \$2,712,858, respectively. Total expenses were \$2,008,002 and \$1,945,703, respectively, for the same period. In addition, the school's operations are located in a facility provided by DoE at no charge.

AUDIT FINDINGS AND RECOMMENDATIONS

We determined that the Brooklyn Charter School has not established and maintained an adequate system of internal controls over the basic financial operations we tested. Our audit disclosed significant control weaknesses in nearly all areas we tested and there is either noncompliance with procedures or a failure to establish sound basic control procedures over the operations.

Financial Oversight

Board Oversight

Like all of New York's charter schools, Brooklyn is governed by a Board of Trustees (Board). The Act gives the Board final authority over the school's policies, operational decisions, and fiscal management. Board members have a fiduciary responsibility for school assets and finances; and they must exercise good faith, due diligence, care, and caution. Accordingly, the Board should design, adopt, and monitor policies and procedures that will safeguard the school's resources from misappropriation or improper use.

We noted that since the school's inception, Board oversight at Brooklyn has been weak. Brooklyn began as the Clearpool Children's Charter School in 2000. In its first few years, the school faced several significant challenges to its financial and operational status, its governance structure, and its charter

compliance. In July 2002, Clearpool Children's Charter School was placed on probation by the Chancellor of DoE - primarily because the school's Board did not uphold programmatic or fiscal oversight and governance responsibilities. The school's lack of effective controls, including the absence of regular financial reporting, violated the financial policies of its charter.

In subsequent months, Brooklyn worked with DoE's Office of New Schools to create and implement a corrective action plan. As a result, the school severed its relationship with its institutional partner, Clearpool Inc., changed its name to Brooklyn Charter School and contracted with a new partner, Sheltering Arms Children's Services, Inc. (Sheltering Arms). On May 19, 2003, Brooklyn signed a Memorandum of Understanding with Sheltering Arms to assume primary responsibility for the school's accounting and fiscal controls and to ensure sound fiscal management.

However, when Brooklyn's external certified public accountants audited the school's financial records for the year ended June 30, 2005, they found significant deficiencies in the design and operation of the school's internal controls and indicated that the control environment lacked a sufficient level of control consciousness. The accountants attributed these conditions to the school's overreliance on Sheltering Arms to monitor and perform accounting functions. For example, the accountants indicated that Brooklyn did not maintain adequate general or subsidiary ledgers for recording the school's financial transactions. Brooklyn officials also told us that Sheltering Arms was going through financial difficulties of its own. The contract with Sheltering Arms ended on June 30, 2005; and on October 6, 2005, Brooklyn hired a certified public accountant to reorganize the accounting system and

correct the financial records. In May 2006, Brooklyn's charter was renewed for five years. Brooklyn currently functions as an independent institution.

Although the school appears to be making progress, significant improvements are still needed. For example, Brooklyn officials stated that the Board does not have an audit committee and that other committees (e.g., finance) are not functional. Such committees could play an important role in monitoring the financial operations of the school. In addition, we reviewed the minutes of Board meetings held during the 21-month period September 2004 through May 2006 and found that while the Board had discussed both academic and financial matters, including budgets and teacher salaries, it had not met ten times per year as required by the school's charter. For the academic years 2004-05 and 2005-06, the Board met six times and eight times, respectively. Brooklyn officials stated that they plan to submit an application to DoE to reduce the number of required Board meetings.

As detailed throughout this report, the Board needs to oversee the school's fiscal operations more closely, as many of the school's fiscal practices did not comply with its requirements. It is thus critical for Board members to meet often as specified by the by-laws and to stay informed on the financial management practices and controls of Brooklyn.

Recommendations

1. Develop a plan that ensures that Board meetings are held as often as required and include steps to monitor Brooklyn's financial management practices and controls.

(Brooklyn officials did not state in their response whether they agree or disagree with the recommendation. They did state that they have endeavored to meet the requirements regarding the frequency of the Board meetings; however, it has been a challenge. They do disagree with our conclusion that missed meetings have resulted in less than adequate supervision of the school's financial operations. They also stated that they have attempted to reduce the number of meetings called for by their charter but SED and the DoE have not yet approved the change to their charter.)

2. Establish functional committees that will monitor the financial operations of the school. Establish an internal audit function to test controls and report the results of testing to the Board members and the external auditors.

(Brooklyn officials do not state whether they agree or disagree with the recommendation. They state that over time the various Board committees have been restructured and that all committees review and monitor the operations of the school.)

Annual Independent Audit

According to Section 2854(1)(c) of the Act, an annual fiscal audit of the school is required. Brooklyn's Internal Controls of Assets - Policies and Procedures Manual (Manual) requires that the audit be conducted by a certified public accounting firm in accordance with the government auditing standards issued by the United States Government Accountability Office.

When we reviewed the work performed by Brooklyn's auditing firm, we found that the school has been audited annually and that the

resulting reports state that the audits were conducted in accordance with government auditing standards. We also found that the audit results had been discussed with the Board.

Disbursements

Cash Disbursements

According to the Manual, all purchases must be pre-approved by the Business Manager and the Head of School (who functions in the role of a principal); and all administrative (non-contract) purchases require a purchase order. The Manual further requires that adequate supporting documentation be obtained before disbursing a check for payment. Brooklyn's administrative staff is required to compare each invoice with the original order and to verify the receipt of goods before making disbursements. Each vendor invoice should be checked for accuracy. Further, the packing list and the purchase order should be reviewed to verify the quantities and descriptions of the items received. No payment should be made without a properly-approved invoice or other supporting documentation.

To determine whether Brooklyn officials followed the Manual, we reviewed a judgmental sample of 35 disbursements totaling \$147,581. Generally, our sample consisted of various types of expenditures including office supplies, equipment, personal services and credit card payments. The sample included payments to individuals as well as to companies. Twenty-two of the 35 disbursements were selected from 399 transactions totaling \$1,568,838 that occurred in the 2004-05 fiscal year. The remaining 13 were selected from 477 transactions totaling \$1,744,884 that occurred in the 2005-06 fiscal year. With few exceptions, we found that Brooklyn did not maintain sufficient supporting documentation for disbursements.

In the absence of this documentation, there is less assurance that the purchases were authorized and that the school actually received what it paid for. In addition, when we reviewed the available supporting documentation, we found 38 necessary items were missing for 27 of the 35 payments, totaling of \$125,870. The missing items are detailed in Table 1 which follows:

Table 1: Discrepancies Regarding Cash Disbursements	
Discrepancies Categorized	# of Discrepancies
No Pre-Approval and/or Purchase Order	15
No Invoice	4
No Receiving Report or Packing Slip	19
Total	38

Brooklyn officials acknowledged there were many deficiencies in the school's financial procedures and internal controls for the 2004-05 fiscal year, as well as the early part of the 2005-06 fiscal year.

Petty Cash Fund

The Manual provides guidelines for the maintenance of a petty cash fund to reimburse employees for minimal out-of-pocket business-related expenses not to exceed \$100. However, for fiscal years 2004-05 and 2005-06, we identified seven transactions that exceeded the \$100 limit, for a total \$5,001 in disbursements. Of these payments, the Head of School received six reimbursements totaling \$4,164.

We also determined that the petty cash fund was not organized adequately and that records of transactions were not maintained in an appropriate accounting manner. For example,

we reconciled the petty cash fund for the month of May 2006 and found receipts for 17 disbursements from the fund, totaling \$1,705 that had not been recorded in the petty cash withdrawal record, as required. Brooklyn officials stated that they have since recorded all transactions properly. In addition, the Business Manager told us that he does not generate a monthly reconciliation report, as required. As a result, Brooklyn officials have no assurance that the petty cash fund balance is accurate; and there is an increased risk that misappropriations may occur without the knowledge of Brooklyn officials. On May 1, 2007, Brooklyn officials provided us with a reconciliation of the petty cash fund as of May 31, 2006, including the previously-unrecorded petty cash receipts.

Brooklyn officials acknowledged the operational deficiencies we identified and stated that future payments would not exceed \$100 from petty cash and that monthly reconciliation reports would be prepared.

Other Disbursement Matters

According to the Manual, the school may issue corporate credit cards to staff as designated by the Head of School. Such credit cards shall be used solely for school business. The Manual requires that all credit card billings be reviewed and checked against invoices, and that discrepancies be reported to the Head of School for further investigation. Brooklyn maintains one debit card, rather than a credit card, that can be used for charging purchases as well as obtaining cash from an ATM. When we reviewed Brooklyn's general ledgers for fiscal years 2004-05 and 2005-06, we identified a total of 14 debit/ATM transactions totaling \$7,629. Of the 14 transactions, we selected for further review the 6 transactions with the highest dollar value. These six transactions had a total value of \$6,015. We found no

supporting documentation for one ATM withdrawal, totaling \$302. According to an annotation in the general ledger, these funds had been used to purchase class supplies.

Using pre-numbered checks helps to provide an adequate audit trail and unique accountability for each disbursement. When we reviewed the school's 2004-05 and 2005-06 general ledger, we found that Brooklyn had issued 97 checks with duplicate numbers. These checks totaled \$175,274 and were issued to various vendors. One of the check numbers had been used three times. However we found no mismanagement of funds associated with these payments.

Brooklyn officials told us that a mistake had been made when checks were ordered. Some of the newly-printed checks bore the same numbers as previously-used checks. Brooklyn officials told us that they have corrected this matter and will ensure that all checks used in the future will be numbered sequentially.

Recommendations

3. Comply with established policies and procedures for purchases, disbursements, and petty cash.

(Brooklyn officials do not state whether they agree or disagree with all parts of this recommendation. They state that some of the deficiencies occurred at the beginning of the audit scope period and have since been corrected. Regarding the petty cash fund, ATM transactions and other matters, they agree with the recommendation.)

4. Implement a system for ensuring that check numbers are numbered sequentially.

(Brooklyn officials agree with this recommendation.)

Payroll and Personnel Services

Time and Attendance

To track time and attendance properly, the Manual requires employees to sign the attendance log each day. In addition, Brooklyn's Payroll and Attendance Process Manual requires the school's Administrative Assistant to mark employee absences on the daily attendance log. This log is used to prepare the payroll attendance report, which supports the school's payroll, and to maintain the leave balances for each employee. The Head of School is required to verify the accuracy of the payroll attendance report for each pay period.

We judgmentally selected the pay period March 27, 2006, through April 7, 2006 and reviewed relevant time and attendance documents for compliance with procedures. We found that 6 of the 27 employees listed on this payroll did not always sign the attendance log. We also found that one employee's sick leave accruals were not charged for a one-day absence during the period. In addition, the Head of School did not adequately compare the payroll attendance report with the attendance log. As a result, there is a risk that employee accruals may not have been charged appropriately and that employees may have been paid for time not worked.

Pay Rate Accuracy

Employees should be paid according to their approved rate of pay. The Manual requires the school to maintain documentation of authorized pay rates in the employee personnel files. We compared the payroll payments of 27 employees listed on the March 27, 2006 through April 7, 2006 payroll to their approved rates of pay in their personnel files. We determined that three employees (11 percent) were not being paid at

the correct rate of pay from September 2005 through June 2006; as a result, these employees were underpaid a total of \$2,160. Brooklyn officials agreed with our findings and stated they have taken corrective action to resolve this problem.

Test Preparation Program Payments

From October 2005 through March 2006, Brooklyn operated a test preparation program (Program) in which employees helped students in the third, fourth, and fifth grade prepare for the New York City-wide examinations. The employees were paid at the rate of \$50 per hour.

To determine whether Brooklyn officials followed established policies and procedures in administering the Program, we reviewed all 43 Program payments totaling \$17,350 for the 2005-06 fiscal year. The payments pertained to 12 school employees. Our testing found procedural exceptions with 13 (30 percent) of these payments as follows:

- Checks require the signatures of both the Head of School and an authorized Board member. Four of the checks we reviewed had not been co-signed.
- Four checks paid to the Assistant Director had been co-signed by the Assistant Director.
- The invoices/vouchers for five of the payments did not have a required approval signature.

In addition, the timesheets supporting 26 (60 percent) of the payments did not have required supervisory signatures.

Brooklyn officials told us they treat their employees as independent contractors when they provide services to the Program. All

income earned as an independent contractor is reported on IRS Form 1099 instead of the usual IRS Form W-2 that is used to report the earned income of employees. In addition, neither State nor Federal taxes are being withheld from the earnings. We believe that school employees working for the Program provided by Brooklyn should be treated as school employees.

According to IRS guidance, if the school district can control what will be done and how it will be done (as in the case of Brooklyn), the worker is an employee. An example used on the IRS website, involves a school district paying its coaches a fee for their services. The IRS concluded that teachers activities are subject to the school's control to an extent comparable to typical employees under common law, i.e., the school district has a right to control the manner and means by which coaches and athletic directors perform their functions; therefore they are employees.

Recommendations

5. Provide Brooklyn administrators with training on payroll policies and procedures.

(Brooklyn officials did not respond to this recommendation.)

6. Ensure that payroll payments agree with approved pay rates.

(Brooklyn officials agree with this recommendation.)

7. Include all future Program payments in employee W-2s.

(Brooklyn officials state that they no longer pay their staff as independent contractors.)

Equipment and Inventories

According to Brooklyn's financial statements for the fiscal years ended on June 30, 2005, and 2006, the total value of the school's property and equipment was \$108,661 and \$154,867, respectively. Net property and equipment, after accumulated depreciation, was valued at \$62,388 and \$87,534 respectively, for the same periods.

To account for equipment properly, Brooklyn officials should maintain a perpetual inventory record and perform an annual physical inventory of all equipment belonging to the school. In addition, each equipment item should be tagged to denote Brooklyn ownership; and its location should be documented. Furthermore, all equipment transfers, additions, and disposals, must be documented.

We found that Brooklyn officials did not maintain a perpetual inventory of equipment and did not perform a physical inventory until we identified the deficiency during the audit. We also found that Brooklyn officials have not established any policies or procedures related to inventory management. As a result, because of this significant lack of internal controls, Brooklyn is at increased risk that equipment could be lost or stolen without timely detection. School officials agreed that the policies and procedures had not been in place for the 2004-05 fiscal year or for most of the 2005-06 fiscal year.

Recommendation

8. Develop and implement formal inventory policies and procedures for the recording, control, valuation, and disposition of equipment.

(Brooklyn officials agree with this recommendation.)

AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. We audited Brooklyn's controls over selected financial management practices for the period of July 1, 2004, through June 26, 2006. To accomplish our objective, we interviewed Brooklyn officials and reviewed applicable laws, policies, and procedures related to the school's financial operations. We also examined the financial operating records of Brooklyn and the work performed by the firm of certified public accountants engaged to audit Brooklyn's financial statements. Our review included the school's Internal Controls of Assets - Policies and Procedures Manual as well as its Payroll and Attendance Process Manual.

To determine whether disbursement, procurement, and contracting practices were in compliance with the Manual, we selected a sample of 35 checks for review and confirmation of pre-approvals and other supporting documentation. To determine whether time and attendance records and employee pay rates were accurate, we reviewed the records of 27 Brooklyn employees.

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

government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

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

REPORTING REQUIREMENTS

We provided a draft copy of this report to Brooklyn officials for their review and comments. Their comments were considered in preparing this report. A copy of their

comments is included as Appendix A in this report, along with State Comptroller's Comments in Appendix B

Within 90 days after the final release of this report, we request the Chairman of the Brooklyn 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, Tom Trypuc, Marc Geller, Altagracia Rodriguez, Bebe Belkin, Joseph Giaimo, Brenda Maynard, Elaine Yu, Hunan Zhang, Daphnee Sanon, and Paul Bachman.

APPENDIX A - AUDITEE RESPONSE



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October 31, 2007

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Reponses to State Audit: Financial Management Practices Report 2006-N-9 Draft

General Comments

The Audit Report and Cover Letter (date September 12, 2007) was received on September 20, 2007 at The Brooklyn Charter School (BCS). BCS found the general tone of the report to be negative and not aligned with the positive growth that BCS has experienced from 2003 to the present. Though the report gives some insight into the historical struggle of the school it does not credit the school for establishing and implementing its current systems which maintain adequate controls over Financial Operations including oversight, disbursement, payroll and inventory. As a matter of fact, the majority of deficiencies were identified and described for the period 2004-2005. BCS has since developed and maintained many well adapted and effective internal control procedures and financial systems. Furthermore, BCS must comment on the apparent inadequacies of members of the State Audit Team during the three to five months of active engagement at the school site. It was uncertain whether members of the State Audit Team understood the process of the Audit or were able to effectively interpret the information requested and presented. Verbal reports of this nature were shared with Senior Personnel from the State Comptroller's Office.

Page 2: Audit Results-Summary

BCS finds the opening summary statement on Page 2 of the report which states "Our audit disclosed significant control weaknesses.....over the operations" to be consistent with a past time period relating to BCS operations; that time period being prior and up to 2004-2005. BCS also suffered some inadequacies and deficiencies during its transition year 2005-2006. Both of these periods are the basis of the current audit report from the state.

*
Comment
1

*
Comment
2

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Comment
1

*See State Comptroller's Comments, page 14

Currently BCS operations are much improved and BCS is operating in accordance with its Financial Management Plan and Internal Control Procedures. BCS external Auditors reported clearly defined operations in Fiscal Year 2005-2006 “We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.” Schall & Ashenfarb Audited Financial Statements June 30th, 2006. During the monitoring visit by the Department of Education and The State Education Department for periods 2005-2006 and 2006-2007 BCS was credited with efficient and effective adherence to Fiscal Management Policies and Procedures.

Page 3: Financial Oversight/Board Oversight

Board Oversight of Fiscal Operations at BCS is good. A significant portion of each Board Meeting is devoted to the review of the Budget and Fiscal Operations. Department of Education Officials who have attended BCS Board Meetings confirm the Board diligence with Fiscal oversight. In Fiscal year 2005-2006 BCS began monthly submissions of all financial statements to the Department of Education. All statements are prepared by BCS certified CPA, reviewed by the Head of School who then submits all documents to the Chairman and Chief Financial Officer of the Board of Trustees for final review.

BCS Board Committees have been re-structured over time with changes in personnel. All committees in particular, the Financial Committee, review, monitor, and advise the Fiscal operations of the school.

Page 3: Board oversight

Board Meetings have been a challenge for BCS board members who’ve tried to approach the Department of Education and the State Department to amend the number of meetings. The primary reasons are as follows:

- BCS is functioning in all operations at a high level of efficiency
- BCS would like to attract more influential Board members who would probably respond with less time commitment.

BCS has made every effort to meet its meeting requirements as stated in the Charter. Though this total number has not been met it does not reflect lack of oversight on the Board’s part.

Page 5: Cash Disbursements

Most, if not all of the fallouts regarding cash disbursements, packing slips and supporting documentation were identified for FY 2004-2005 and the implementation year 2005-2006. All deficiencies have since been corrected and supporting documentation with the required signatures are found in BCS records for all disbursements.

Page 6: Petty Cash

BCS has since complied with the recommendations provided by the State Auditors with regard to policies and procedures for purchases and disbursements of petty cash.

* Comment 3

*See State Comptroller’s Comments, page 14

Page 6: Other Disbursement Matters

No corporate credit cards are issued to staff by the Head of School. It is true that one ATM withdrawal totaling \$302.00 was found without supporting documentation. This was an error. All other ATM activities to-date, have the necessary supporting documents.

BCS did have pre-numbered checks with duplicate numbers in 2004-2005. This was a mistake when checks were ordered. The Board of Trustees was immediately notified of this error and there was no associated mismanagement of funds. All corrections were made to ensure that this will not re-occur.

Page 7: Payroll and Personal Services

Before the attendance log is transferred to Payroll it is reviewed by the Operations Manager who follows up with all sign-ins and attendance queries. The Head of School signs off on the final payroll before processing by ADP. While there may have been a few missing signatures, there was no inappropriate payment with the payroll register. BCS now insures that all attendance log are signed on a daily basis by all its employees.

Page 7: Pay Rate Accuracy

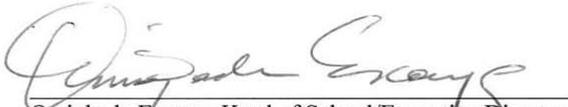
This was an error which has since been corrected. No further errors have been made and BCS systems are in place to insure accurate pay rates.

Page 7: Test Preparation Program Payments

BCS attempted this Test Preparation Program only once from October 2005 to March 2006. The model required a lot of management with regard to time sheets, invoices, paychecks and state tax compliance. BCS no longer employees its Faculty as independent contractors and this program no longer exists.

Page 8: Equipment and Inventories

BCS began to implement an equipment and inventory policy in the latter part of Fiscal Year 2005-2006. Those systems have been updated and refined to the present. It is true that such policies and procedures were not in place prior to 2005-2006.



Omigbade Escayg, Head of School/Executive Director

Cc: Henry Lambert, Chairman, BCS Board of Trustees

APPENDIX B - STATE COMPTROLLER COMMENTS

1. We do acknowledge that progress has been made to meet the minimum expected requirements of operating a charter school from a financial management perspective. However it should be noted that adequate internal controls and solid financial management are minimum expectations for a charter school.
2. The work of all audit staff is subjected to supervisory and management review before it is released.
3. At the closing conference, the Brooklyn Head of School offered the assessment that the committees were not functioning.