

Summary of New York Office of State Comptroller Internal Control Audit Findings New York City Charter Schools

In 2004 the New York State legislature adopted legislation requiring all School Districts and Charter Schools to receive an audit of their systems for internal controls by the Office of the State Comptroller (OSC or Comptroller) before March 31, 2010. Of the approximately sixty charter schools in New York City, fourteen have completed their audits and the final reports have been published on the State Comptroller's website.

FMA has reviewed the final audit reports for the fourteen schools whose audits have been completed by the State Comptroller as of April 23, 2008 and developed a summary of the findings, on the following pages. The results of FMA's review show the following:

The primary areas of internal control risk found in the audits do date are:

- **Summary Findings** – nine of the fourteen schools were found to have generally adequate controls, however certain deficiencies were noted, but five of the fourteen schools were reported to have some significant weaknesses in their internal controls.
- **Board financial oversight** – findings for ten of the fourteen schools noted the schools' Boards of Trustees were not effectively exercising their financial oversight responsibilities
- **Fixed assets** – nine of the fourteen schools were found to have insufficient control and management of their equipment
- **Purchasing and disbursements** – all of the fourteen schools had insufficient policies, enforcement and monitoring of purchases and cash disbursements. Additional findings showed problem areas in bidding for contracts, management of petty cash and credit cards.
- **Payroll and personnel** – many of the schools had findings showing problems in this area including lack of fingerprinting and background checks, errors in salary payments, lack of time records, poor management of terminations and more.
- **Revenue and cash receipts** – some schools were found to manage this area ineffectively

Areas of consistent weakness included:

- Lack of policies and procedures, or if policies and procedures are written, non-enforcement or implementation of the policies and procedures
- Lack of documentation for financial transactions
- Failure to receive appropriate approvals prior to incurring expenses
- Failure to monitor, review, and ensure the timeliness and accuracy of financial transactions

The Comptroller's **key recommendations** included:

- Developing or updating fiscal policies and procedures to address the internal control issues noted
- Monitoring and enforcement of the adopted policies and procedures, including
 - Effective involvement and oversight of fiscal matters by the Board of Trustees
 - Effective enforcement of policies by school leadership

The Comptroller's office is expected to begin and/or complete audits for the more than forty-five remaining NYC charter schools in time for the March 2010 deadline, about 20 schools per year for the next two years. If it is determined that the additional 30-40 new charter schools opened in the next two years must also be audited before March 2010, the number of school audits per year could rise to 40 per year in 2008 and 2009.

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In addition, beginning December 2006, new SAS auditing standards require auditors to increase their review of an organization’s internal controls and increases the reporting requirements.

Primary Topic	Sub-Topic	Finding Highlights	Comptroller’s Recommendations	# of Schools
Summary Audit Findings	Controls generally adequate but..	<ul style="list-style-type: none"> “We found that the internal controls established by the school were generally adequate, however...” <ul style="list-style-type: none"> ...certain improvements should be made” ...we identified certain weaknesses in controls over financial operations” ...compliance with controls in Fiscal Policies and Procedures needs to be improved” ...Trustees need to improve their oversight of controls and fiscal operations” controls can be strengthened to improve the school’s financial management” 		9 of 14 schools
	Weaknesses found...	<ul style="list-style-type: none"> We identified a number of weaknesses in the school’s internal controls over financial operations. 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 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. 		5 of 14 schools
Financial Oversight	Board Oversight	<ul style="list-style-type: none"> “the (Board meeting) minutes do not reflect discussions on financial matters, approval and adoption of the budget or show monitoring of financial operations” “Board has not adopted written policies and procedures in the areas of cash disbursements, payroll, credit card usage, and equipment inventory controls, and no record of monitoring in the Board minutes” “composition of school’s Board of Trustees does not comply with authorizer’s directive, an excessive number of school employees on the Board” “the Board did not meet as often as required in its charter” “Board has not established competitive bidding thresholds” “Board did not meet the required number of times.” 	<ul style="list-style-type: none"> Prepare and maintain thorough minutes for all Board meetings. Discuss all areas of the school’s financial operations such as budget, payroll, and revenue at Board meetings. Adopt formal, written policies and procedures that cover all aspects of financial control, including when budget modifications should be approved. Develop a plan to ensure that Board meetings are held as often as required in the school’s charter so that needed fiscal oversight can be provided. Ensure that the composition of Board membership complies with by-laws. Require the Board to hold meetings as often as required in the by-laws. 	10 of 14 schools
	Annual Audit	<ul style="list-style-type: none"> “Audit reports did not affirm that the work had been conducted in accordance with government auditing standards” 	<ul style="list-style-type: none"> Ensure the annual audit is conducted in accordance with government auditing standards. 	one of 14 schools

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Fixed Assets	Equip. Inventory	<ul style="list-style-type: none"> • "school does not maintain perpetual inventory records and does not perform annual physical inventory..." • School has not established basic policies and procedures for inventory control." • "officials had not properly tagged all their fixed assets and equipment" • "the disposal of equipment was not recorded and duties were not adequately separated among different employees" • "he tracking sheet for equipment removed from the school did not contain sufficient information to adequately account for the equipment" 	<ul style="list-style-type: none"> • Develop and implement formal policies and procedures for recording, control, and disposition of equipment • Require that all inventory items are properly tagged, denoting school ownership. • Perform an annual physical inventory of equipment. • Maintain an accurate record of all fixed assets and equipment, including initial purchase date, initial purchase amount, and a description of each item. • Revise the Manual to include procedures for maintaining and updating the master equipment inventory record. 	9 of 14 schools
	Restricted use of assets	<ul style="list-style-type: none"> • "school had not established a cell phone policy...cell phones had often been used during school hours, when and-line office phones were available...some calls had been placed and received in the evening and were of a personal nature" • "students had been able to access sexual-related images and videos using the Google Internet" 	<ul style="list-style-type: none"> • Develop and implement a cell phone issuance and usage policy. • Reevaluate the effectiveness of the web-filtering software used by the school and monitor Internet usage actively for visits to inappropriate websites. 	2 of 14 schools
Liquid Assets	Investment policy	<ul style="list-style-type: none"> • "school does not have a formal investment policy...the balance in one of its checking accounts never went below \$200,000 during our audit period, and was as high as \$1.2 million." 	<ul style="list-style-type: none"> • Adopt an appropriate investment policy and invest any funds in excess of current needs in accordance with this policy. 	one of 14 schools

Primary Topic	Sub-Topic	Finding Highlights	Comptroller's Recommendations	# of Schools
Disbursements & Procurement	Purchasing procedures	<ul style="list-style-type: none"> • "pre-approvals were not obtained in 30% to 40% of instances" • "officials had circumvented authorization process by dividing purchase amounts...creating individual amounts under the level requiring authorization." • "purchasing requirements were not met for 40% of purchases, ... in 33% of the purchases, there was no purchase order and/or no authorizing signature on the payment request...in 8% of the purchases, there was no documentation indicating that the good or service had actually been received...in two of the purchases, there was no invoice" • "no receiving report was on file for 77% of purchases" • "Business Manager does not keep the check register up-to-date" • "lack of supporting documentation for 12 of the sampled disbursements, totaling \$102,857" 	<ul style="list-style-type: none"> • Develop and implement detailed policies and procedures for cash disbursements. • Ensure compliance with established policies and procedures for disbursements, including that all required pre-approvals have been obtained before making purchases, receipt of a good or service is documented by a receiving report before payment for the good or service is authorized, and that supporting documentation is obtained before disbursing a check. • Monitor the school-based checking account, ensuring that all signatures on the checks are those of authorized signers and that the account is used in accordance with established procurement procedures. • Comply with established policies and procedures to ensure that sales taxes are not paid. • Define documentation requirements for non-contractual purchases. 	13 of 14 schools
	Contract Bidding	<ul style="list-style-type: none"> • "When we reviewed the contracts, we found that none of them had been competitively bid, and that most of the contracts had not been approved by the Board..." • school has established no written policies and procedures regarding bidding and Board approval" • "no evidence that school officials had followed the written bidding policies outlined in the Manual" • "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." • "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" 	<ul style="list-style-type: none"> • Develop and implement policies and procedures that specify detailed bidding procedures and Board approval thresholds. Include policies related to documentation for sole source contracts. • Define the complete competitive bidding process; Establish criteria for selection of sole source vendors • Comply with established policies and procedures for bidding, contracts, and preapprovals. • Ensure that all contracts are signed as required. 	8 of 14 schools
	Contract monitoring	<ul style="list-style-type: none"> • "neither school nor contractor officials kept track of the actual number of hours of service contractor employees provided to school." 	<ul style="list-style-type: none"> • Validate that school is being charged appropriately only for services actually provided by contractor. 	one of 14 schools

Primary Topic	Sub-Topic	Finding Highlights	Comptroller's Recommendations	# of Schools
Disbursements & Procurement	Petty Cash	<ul style="list-style-type: none"> • <i>"petty cash had not been reconciled, and petty cash receipts had not been recorded"</i> • <i>"Policies manual does not set any limit on fund balance, and does not set any limit on disbursement amounts."</i> • <i>"receipts were not at the school and could not be found"</i> • <i>"Fund was poorly maintained; weekly reconciliations were not performed and the majority of the cash disbursements that were documented did not appear to be for valid school-related purposes"</i> 	<ul style="list-style-type: none"> • Actively monitor the use of the Petty Cash Fund and ensure that the Fund is used in accordance with established policies and procedures. • Reconcile the Petty Cash Fund regularly. • Establish limits for both the total Petty Cash Fund replenishment amount and individual reimbursement amounts. 	5 of 14 schools
	Credit Cards	<ul style="list-style-type: none"> • <i>"Board has not established written policy as to what credit cards can and cannot be used for by employees..."</i> • <i>has not established procedures to ensure credit card bills are reviewed before the bill is paid...</i> • <i>officials were unable to provide any documentation to support the (credit card) expenditure." ...</i> • <i>"the files contained no documentation for a significant amount of purchases...We could not determine what had been purchased or whether the purchases were school-related."</i> 	<ul style="list-style-type: none"> • We recommended that school's Board establish an explicit written policy as to what the credit cards can and cannot be used for by the school employees. • Develop and implement a credit card control system to require, at a minimum, that all documentation be retained to support credit card charges, that the individuals that use the cards review their respective transactions to verify the accuracy of charges and that a separate and independent person review the bill and the supporting backup for appropriateness. 	3 of 14 schools
	Accounting for Use of Donated Funds	<ul style="list-style-type: none"> • <i>School paid over \$70,000 to send staff on staff retreats significant distances from NYC...donated funds were used to pay for the trips...however, we could not determine whether the trips were, in fact, paid for with donated funds, because there is no separate bank account for donated funds.</i> • <i>"does not maintain separate accounts for donated funds."</i> • <i>"two instances where school employees were reimbursed for purchasing alcoholic beverages"</i> 	<ul style="list-style-type: none"> • Obtain written approval from the Board for all off-site, staff conferences/retreat and fully document work-related nature of the activities. • Develop a mechanism for maintaining separate accountability for State and donated funds. • Establish separate accounts for public and donated funds. • Do not use the school's public funds to purchase alcoholic beverages. 	3 of 14 schools

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Payroll & Personnel Services	Finger-printing	<ul style="list-style-type: none"> • "unable to provide any proof that the security staff at the school were fingerprinted or had undergone background checks." • "8 (19 percent) of the 43 employees began working at the school before receiving fingerprint and background clearances." • "there was no documentation showing that the two security guards had the required fingerprint clearance forms" 	<ul style="list-style-type: none"> • Comply fully with the fingerprinting and background check requirements of the New York Charter Schools Act of 1998 and Part 87 of the Commissioner’s Regulations. 	7 of 14 schools
	Terminations & Resignations	<ul style="list-style-type: none"> • "no documentation in the personnel file indicating that the school official had provided the terminated employee with written notification of termination or resignation" "nine employees were listed on the payroll register as "active" even though they were no longer working for the school...no written policies or procedures for removing terminated employees from payroll." 	<ul style="list-style-type: none"> • Ensure the required written notification is provided for terminations and resignations • Update policies and procedures to document the process of removing terminated employees from payroll. • Remove former employees from the payroll in a timely manner. Consider distributing any additional funds owed to a employee shortly after their employment ends. 	3 of 14 schools
Payroll & Personnel Services	Time Records	<ul style="list-style-type: none"> • "estimates were used for billing purposes (instead of actual hours worked)" • "timecards not available" • "employee absences not tracked" • "staff are not required to maintain a daily time and attendance record" • "the Staff Absence and Lateness Record did not always clearly indicate whether employees were absent for a full day or simply late." • "either [charter school] nor the Foundation has kept track of the actual time Foundation employees spent on administrative services for [charter school]." • "activities are not monitored to ensure that the hours paid for are actually worked" • "six employees did not show sign-in or sign-out times on their respective timesheets." 	<ul style="list-style-type: none"> • Determine and record the time and services provided by staff paid through grants, and charge school accounts accordingly, based on actual expenses rather than estimates. • Maintain up-to-date records of all employees’ leave accrual balances and ensure that an employee’s paycheck is adjusted for any absence that is not covered by accrued leave. • Require employees to maintain a daily time and attendance record that must be approved by the employee’s supervisor at least monthly • Ensure that the time records capture all the hours worked, and that per-session pay is pre-authorized. 	9 of 14 schools
	Pay check security	<ul style="list-style-type: none"> • "Undelivered paychecks/pay stubs were left in the school’s business office without being adequately safeguarded..." • written policies and procedures do not require that such action routinely be taken." 	<ul style="list-style-type: none"> • Establish a policy and procedure to ensure the safekeeping of undelivered paychecks/pay stubs. 	one of 14 schools

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	Over-payments to Employees	<ul style="list-style-type: none"> "lack of supervision of the overtime payment process." "teachers were overpaid for their overtime" "two teachers had been paid as full-time employees even though they did not work the required number of hours" "none of the overtime was preapproved by the Principal, as required." 	<ul style="list-style-type: none"> Monitor overtime payments to ensure the payments are processed correctly and fully supported by complete and authorized time records. Ensure that the time records are maintained on file. Ensure that payroll calculations are routinely verified for accuracy. Only pay for overtime that is preapproved. 	4 of 14 schools
Payroll & Personnel Services	Salary Increases	<ul style="list-style-type: none"> "no written policies and procedures for salary increases" "no written policies and procedures for stipends and bonuses...." "no indication they were either discussed or approved by the Board" "In the absence of policies and procedure it was unclear whether [charter school] was obligated to have paid the bonuses" "we could not find documentation showing the pay increases were approved for 12 of the 17 employees." 	<ul style="list-style-type: none"> Develop written policies and procedures for the authorization and processing of salary increases, payment of bonuses and stipends. Ensure all such increases are fully documented in the affected employees' personnel files. Develop written policies and procedures for employee bonuses. Maintain adequate records documenting the authorization of all pay increases and all employee separations 	4 of 14 schools
	Segregation of duties	<ul style="list-style-type: none"> "A single individual handles many of the payroll processes." "the personnel functions and the payroll functions are handled almost exclusively by a single individual" "there are no checks and balances and a potential exists for inappropriate and undetected payroll transactions to occur" 	<ul style="list-style-type: none"> Assign the responsibilities for receiving and verifying the payroll and distributing payroll checks to someone who is independent of the payroll and personnel functions. Review employee responsibilities for payroll, and to the extent possible, segregate duties. 	6 of 14 schools
Revenue & Cash	Segregation of duties	<ul style="list-style-type: none"> "cash-related duties are not adequately separated among different employees" 	<ul style="list-style-type: none"> Assign bank reconciliation responsibilities to an individual without other cash-related responsibilities. 	2 of 14 schools
	Reconciliations	<ul style="list-style-type: none"> "reconciliations are disposed of after they are completed and reviewed" 	<ul style="list-style-type: none"> Retain the bank reconciliations for a reasonable period of time. 	3 of 14 schools
	School lunch billing	<ul style="list-style-type: none"> "failed to bill parents (for school lunches) in a timely manner... parents resisted when they were subsequently asked to pay the accumulated charges" 	<ul style="list-style-type: none"> Ensure that parents are billed in a timely manner for school lunch charges and that delinquent receivables are pursued, as appropriate. 	one of 14 schools