

**TECH INTERNATIONAL CHARTER SCHOOL**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORTS**

**FROM AUGUST 11, 2011 (INCEPTION)  
THROUGH JUNE 30, 2013**

**TECH INTERNATIONAL CHARTER SCHOOL**

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**Independent Auditor's Report on Financial Statements  
and Supplementary Information**

**Board of Trustees  
Tech International Charter School**

***Report on the Financial Statements***

We have audited the accompanying financial statements of Tech International Charter School which comprise the balance sheet as of June 30, 2013, and the related statements of activities and cash flows for the period August 11, 2011 (inception) through June 30, 2013, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tech International Charter School as of June 30, 2013, and the changes in its net assets and its cash flows for the period August 11, 2011 (inception) through June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013 on our consideration of Tech International Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tech International Charter School's internal control over financial reporting and compliance.

*Loeb & Troper LLP*

October 28, 2013

**TECH INTERNATIONAL CHARTER SCHOOL**

**EXHIBIT A**

**BALANCE SHEET**

**JUNE 30, 2013**

**ASSETS**

Current assets	
Cash	\$ 258,594
Grants and contracts receivable	139,995
Prepaid expenses	14,743
Security deposits	<u>20,833</u>
Total current assets	434,165
Cash - reserve for dissolution (Note 2)	25,000
Fixed assets - net (Note 3)	<u>125,696</u>
Total assets	<u><u>\$ 584,861</u></u>

**LIABILITIES AND NET ASSETS**

Current liabilities	
Accounts payable and accrued expenses	\$ 52,135
Accrued salaries and related liabilities	120,998
Refundable advances	<u>35,508</u>
Total current liabilities	208,641
Deferred rent (Note 4)	<u>97,388</u>
Total liabilities	306,029
Net assets - unrestricted (Exhibit B)	<u>278,832</u>
Total liabilities and net assets	<u><u>\$ 584,861</u></u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**EXHIBIT B****TECH INTERNATIONAL CHARTER SCHOOL****STATEMENT OF ACTIVITIES****FROM AUGUST 11, 2011 (INCEPTION) THROUGH JUNE 30, 2013**

Operating revenues and other support	
State and local per-pupil operating revenues	\$ 2,215,291
Government grants and contracts	755,757
Contributions	58,620
In-kind contribution	237,373
Other income	40,667
	<hr/>
Total operating revenues and other support	3,307,708
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Expenses (Schedule 1)	
Program services	
Education	2,259,119
Special education	155,679
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Total program services	2,414,798
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Supporting services	
Management and general	593,315
Fund raising	20,763
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Total supporting services	614,078
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Total expenses	3,028,876
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Change in unrestricted net assets (Exhibit C)	278,832
	<hr/>
Net assets - unrestricted - beginning of period	-
	<hr/>
Net assets - unrestricted - end of period (Exhibit A)	\$ 278,832
	<hr/>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## TECH INTERNATIONAL CHARTER SCHOOL

## STATEMENT OF CASH FLOWS

FROM AUGUST 11, 2011 (INCEPTION) THROUGH JUNE 30, 2013

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 278,832
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	19,372
Increase in assets	
Grants and contracts receivable	(139,995)
Prepaid expenses	(14,743)
Security deposits	(20,833)
Increase in liabilities	
Accounts payable and accrued expenses	52,135
Accrued salaries and related liabilities	120,998
Refundable advances	35,508
Deferred rent	97,388
	<u>428,662</u>
Net cash provided by operating activities	
	<u>428,662</u>
Cash flows from investing activities	
Fixed asset acquisitions	(145,068)
Cash - reserve for dissolution	(25,000)
	<u>(170,068)</u>
Net cash used by investing activities	
	<u>(170,068)</u>
Net change in cash	258,594
Cash - beginning of period	-
	<u>-</u>
Cash - end of period	\$ <u>258,594</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.



# TECH INTERNATIONAL CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

FROM AUGUST 11, 2011 (INCEPTION) THROUGH JUNE 30, 2013

### NOTE 1 - NATURE OF ORGANIZATION

Tech International Charter School (TICS) is an educational corporation that operates as a charter school in the borough of Bronx, New York. On August 11, 2011, the Board of Regents and the Board of Trustees of the State University of New York, on behalf of the State Education Department, granted TICS a charter valid for a term of 5 years and renewable upon expiration. TICS was organized to give students a rigorous, technology enhanced, internationally focused education that develops critical thinking skills, and builds outstanding academic achievements using a combination of traditional and innovative pedagogies. In fiscal year 2013 TICS operated classes for students in 6<sup>th</sup> grade.

TICS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. TICS is supported primarily by state and local per-pupil operating revenues.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of accounting*** - The financial statements are prepared on the accrual basis of accounting.

***Use of estimates*** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash - reserve for dissolution*** - The cash reserve for dissolution represents funds held aside for contingency purposes as required by the school's charter.

***Accounts receivable*** - Accounts receivable consist of unpaid tuition balances. Accounts receivable are presented net of allowances for doubtful accounts. The allowances are based on management's evaluation of the collectibility of the related accounts. Interest is not accrued or recorded on outstanding receivables.

***Allowance for doubtful accounts*** - TICS determines whether an allowance for uncollectibles should be provided for pledges and accounts receivable. Such estimates are based on management's assessment of the aged basis of its contributions and other sources, current economic conditions and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

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## TECH INTERNATIONAL CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

FROM AUGUST 11, 2011 (INCEPTION) THROUGH JUNE 30, 2013

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Prepaid expenses** - Payments made to vendors that cover future periods are recorded as prepaid expenses.

**Fixed assets** - Fixed assets are recorded at cost. Items with a cost of \$2,500 or more and an estimated useful life of more than one year are capitalized. Depreciation is provided on the straight-line basis over the estimated following useful lives of assets:

Computer equipment	3 years
Furniture and fixtures	7 years

**Refundable advances** - Refundable advances are monies owed to New York City Department of Education when payments received exceed the per-pupil revenue.

**Operating leases** - Operating lease payments are charged to rental expense. Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

**Unrestricted net assets** - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

**State and local per-pupil operating revenues** - Revenues from the state and local governments resulting from TICS' charter status and based on the number of students enrolled are recorded when services are performed in accordance with the charter agreement. These grants are recorded as revenue by TICS when services are rendered.

**Government grants** - Revenues from other government grants to which TICS is entitled is recognized mostly on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by TICS.

**Contributions** - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donors. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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## TECH INTERNATIONAL CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

FROM AUGUST 11, 2011 (INCEPTION) THROUGH JUNE 30, 2013

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*In-kind contributions* - These contributions are recorded at fair value at the date of donation. Revenues and expenses for certain contributed services and supplies are reflected in these financial statements, since the services and supplies provided meet the criteria for recognition under Generally Accepted Accounting Principles.

*Other revenues* - The nonreimbursable portion of meals served and field trips are included in other revenues.

*Functional allocation of expenses* - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*Uncertainty in income taxes* - The School has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2011 and subsequent remain subject to examination by applicable taxing authorities.

*Subsequent events* - Subsequent events have been evaluated through October 28, 2013, which is the date the financial statements were available to be issued.

## NOTE 3 - FIXED ASSETS

Computer equipment	\$ 65,286
Furniture and fixtures	19,963
Construction in progress	<u>59,819</u>
	145,068
Accumulated depreciation	<u>(19,372)</u>
	<u>\$ 125,696</u>

## NOTE 4 - LEASE COMMITMENT

On November 23, 2011, TICS entered into a lease agreement for premises located at 3120 Corlear Avenue for a five-year term, with an option to extend for an additional five years. As of the date of the report, the lease extension was not signed. The \$97,388 of deferred rent represents the cumulative difference between the fixed rental payments and rent expense as recorded on the straight-line basis over the lease term.

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## TECH INTERNATIONAL CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

FROM AUGUST 11, 2011 (INCEPTION) THROUGH JUNE 30, 2013

**NOTE 4 - LEASE COMMITMENT (continued)**

The future minimum lease payments as of June 30, 2013 are:

2014	\$ 580,000
2015	924,000
2016	933,240
2017	<u>942,572</u>
	<u>\$ 3,379,812</u>

Rent expense for the period August 11, 2011 through June 30, 2013 was \$381,209.

**NOTE 5 - PENSIONS**

Beginning September 1, 2013, TICS participated in a 401(k) plan administered by Fidelity, a Professional Employer Organization (PEO).

TICS contributes 5% to all employees, although they are not vested until serving a five-year period.

Pension expense for the period August 11, 2011 through June 30, 2013 was \$42,341.

**NOTE 6 - CONTINGENCIES**

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

**NOTE 7 - CONCENTRATIONS**

Financial instruments which potentially subject TICS to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

TICS obtained approximately 67% of its operating revenues through its charter from New York State.

## TECH INTERNATIONAL CHARTER SCHOOL

## SCHEDULE OF FUNCTIONAL EXPENSES

FROM AUGUST 11, 2011 (INCEPTION) THROUGH JUNE 30, 2013

	No. of Positions	Program Services			Supporting Services		
		Education	Special Education	Total	Management and General	Fund Raising	Total
Administrative staff	4				\$ 163,487	\$	\$ 163,487
Instructional personnel	12	\$ 614,857	\$ 55,000	\$ 669,857			\$ 669,857
Noninstructional personnel	2	316,530	25,994	342,524	73,187		73,187
Total salaries		931,387	80,994	1,012,381	236,674		236,674
Payroll taxes and employee benefits							
Board and staff development		218,360	20,380	238,740	52,406		52,406
Classroom supplies and textbooks		33,176	2,895	36,071	8,253		8,253
Contracted services		125,806	911	126,717		1,823	1,823
Depreciation			4,150	4,150			
Food services		14,529	1,268	15,797	3,575		3,575
Insurance		126,684		126,684	9,595		9,595
Miscellaneous expenses			239	2,973	35,402		35,402
Occupancy (Note 4)		2,734			679		679
Professional fees		315,194	27,504	342,698	77,560		77,560
Repairs and maintenance		79,206	2,247	81,453	118,177	18,940	137,117
Student and staff recruitment		26,409	2,305	28,714	6,497		6,497
Student field trips					22,407		22,407
Supplies and equipment		6,631		6,631			6,631
Telephone		350,676	10,314	360,990	15,120		15,120
Travel		10,566	922	11,488	2,600		2,600
		17,761	1,550	19,311	4,370		4,370
Total expenses (Exhibit B)		\$ 2,259,119	\$ 155,679	\$ 2,414,798	\$ 593,315	\$ 20,763	\$ 614,078
							\$ 3,028,876

See independent auditor's report.

**SCHEDULE 2**

**TECII INTERNATIONAL CHARTER SCHOOL**

**SCHEDULE OF REVENUES AND EXPENSES**

**FROM AUGUST 11, 2011 (INCEPTION) THROUGH JUNE 30, 2013**

	<u>August 11, 2011 through June 30, 2012</u>	<u>Year Ended June 30, 2013</u>	<u>Total</u>
Operating revenues and other support			
State and local per-pupil operating revenues		\$ 2,215,291	\$ 2,215,291
Government grants and contracts	\$ 292,415	463,342	755,757
Contributions	35,644	22,976	58,620
In-kind contribution		237,373	237,373
Other income		40,667	40,667
	<u>328,059</u>	<u>2,979,649</u>	<u>3,307,708</u>
Total operating revenues and other support			
Expenses (Exhibit B)			
Program services			
Education		2,259,119	2,259,119
Special education		155,679	155,679
		<u>2,414,798</u>	<u>2,414,798</u>
Total program services			
Supporting services			
Management and general	334,224	259,091	593,315
Fund raising		20,763	20,763
	<u>334,224</u>	<u>279,854</u>	<u>614,078</u>
Total supporting services			
Total expenses	<u>334,224</u>	<u>2,694,652</u>	<u>3,028,876</u>
Change in unrestricted net assets	\$ <u>(6,165)</u>	\$ <u>284,997</u>	\$ <u>278,832</u>

See independent auditor's report.



**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with Government Auditing Standards**

**Independent Auditor's Report**

**Board of Trustees  
Tech International Charter School**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tech International Charter School, which comprise the balance sheet as of June 30, 2013, and the related statements of activities and cash flows for the period August 11, 2011 (inception) through June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2013.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Tech International Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tech International Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Tech International Charter School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, as described in the accompanying schedule of findings and questioned costs as item 2013-01 that we consider to be a significant deficiency.

#### ***Compliance and Other Matters***

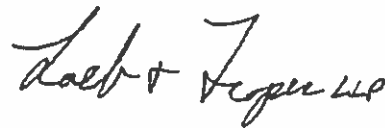
As part of obtaining reasonable assurance about whether Tech International Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### ***Tech International Charter School's Response to Findings***

Tech International Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Tech International Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### ***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



October 28, 2013



**TECH INTERNATIONAL CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2013**

**Financial Statement Findings**

**2013-01 Student Eligibility**

**Criteria**

TICS is required to verify eligibility for all students prior to enrollment.

**Condition/Context**

TICS did not maintain documentation for students discharged during the school year.

**Effect**

We were unable to verify eligibility for seven of forty-five students tested.

**Cause**

Management transferred all student files for discharged students to their respective schools.

**Recommendation**

We recommend that TICS maintain student files for all students.

**View of Responsible Officials and Planned Corrective Actions**

See corrective action plan.

# **TECH INTERNATIONAL**

## **—CHARTER SCHOOL—**

### **Corrective Action Plan**

#### **2013-01 Student Eligibility**

Tech International Charter School was informed that when a student transfers to another school, the transferring school should send all the documents in that student's files to the transferred school. Tech International Charter School's management has been informed that school must retain certain documentation in its student records. Subsequent to the notification of this information, the school's management has contacted the current schools for the students whose information was transferred and has requested copies of the required documentation.

Furthermore, going forward, Tech International Charter School will follow the guidance provided by the auditors and retain a copy of the information in its student records.

**TECH INTERNATIONAL CHARTER SCHOOL**  
**MANAGEMENT LETTER**  
**JUNE 30, 2013**



**Board of Trustees  
Tech International Charter School**

In planning and performing our audit of the financial statements of Tech International Charter School (the "School") as of and for the period ended June 30, 2013 in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the School's internal control to be significant deficiencies.

**Student Eligibility**

The School is required to document its verification of each student's eligibility to attend the School. We noted that student files were not maintained for discharged students and, as a result, we were unable to verify their eligibility to attend classes. Per our discussions with management, this resulted from these students' files being sent to their new schools. We recommend that copies of all pertinent documents be maintained for each student enrolled in the School.

In addition, we wish to make the following observations and recommendations for consideration by management:

**Competitive Bid**

Although the written policy requires competitive bidding for purchases above \$15,000, we noted that no formal bidding was documented during the year. Per our discussions with management, informal notes were kept but no documentation was available. We recommend that the school establish a formal bid document that contains the services bid, the name of the vendors, copies of the bids and the reason the winning bid was chosen.

**Credit Card**

Several employees within the school were given credit cards for purchasing. To provide a better system of controls over the use of the School's credit cards, we recommend that copies of invoices or receipts be attached to the statement along with the purpose of the expenditure.

During the audit process, we noted that several receipts and/or other supporting documentation for charges made to the School's credit cards were not maintained. Although support was ultimately obtained, it is good business practice to properly file and review these documents in a timely manner. We recommend that the School require that supporting receipts be submitted for all charges for which it is practical to obtain a receipt and that the business purpose of the expense be clearly documented.

In addition, it is good business practice for an individual in a higher position to review expenditures of subordinates. We recommend that a member of the board review all expenditures including credit cards for the executive director and head of school.

**Physical Inventory of Fixed Assets**

The School both purchases and receives donated fixed assets, including items that are used by faculty and students. In order to safeguard these assets, we recommend that they get tagged and inventoried. An annual test should be performed to determine whether items are missing or were disposed of.

**Dual Signature**

Authorized signers include the treasurer, executive director, and principal. Current policy requires two signatures on all checks over \$10,000. We noted that this policy was not being complied with. Based on discussions with management, approvals were obtained for these purchases from the treasurer, who is the second signer. If the School changed its policy to no longer require the second signature and now requires a second approval, the manual should be updated and approved by the Board.

### Documentation of Expenses

During the course of our audit we requested supporting documentation for various expenditures. Upon initial review, management was unable to locate supporting documentation for various expenditures. Management was then required to contact vendors as well as the former executive director to complete their disbursement records. We recommend that stronger controls be established.

### Changes in Coding of Cash Disbursements

During the course of our audit, we noted various instances where the account coding of cash disbursements as noted on the approved supporting documentation was different from where the disbursements were actually recorded in the general ledger. This was a result of original miscoding of invoices by department heads and the subsequent corrections by the fiscal staff. We recommend that the individual responsible for coding invoices be more careful in their coding and the fiscal department document their changes on the invoice when they re-code the bills.

### Pay Changes and Annualized Salary

The School has a policy requiring personnel action forms to be completed for all payroll changes. We noted that these forms were not completed. The executive director sent e-mails and informal notes to the fiscal staff for these modifications. It is not good business practice to have personnel expenses modified without updating the employees personnel file. This could result in employees being over or under paid.

### Conflict of Interest

We noted that the School has a formal policy regarding employee conflicts of interest. We recommend that the School maintain the documentation of the annual review. This policy should identify all business relationships and other dealings between the School and its officers, key employees, and other such parties with whom the School conducts business.

This communication is intended solely for the information and use of management, the Board of Trustees and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



October 28, 2013

# TECH INTERNATIONAL

## — CHARTER SCHOOL —

October 25, 2013

Dear Joe,

As the Executive Director of Tech International Charter School, as of August 12, 2013, I am writing to address the observations and recommendations made by your firm, Loeb & Troper LLP, which conducted Tech International's 2012-2013 financial audit.

While, as you know, I did not participate in the audit process and was not employed by Tech International during the period covered by the audit, the observations and recommendations made in your firm's management letter dated September 28, 2013, which followed a financial audit, began to be addressed in August 2013.

Below are the actions Tech International has taken in response to each of the observations and recommendations made:

### **Competitive Bid**

A formal vendor bidding process has been established, whereby purchases for products and services are bid out when the cost of each item/service exceeds \$5,000. Proposals from at least two vendors are sought, the proposals are considered and vendor selection is made. The proposals are kept on file. This process is not followed, however, when there is only one vendor for the product/service sought (e.g. Apple). Additionally, if the product/service vendors are online, a simple web search for the lowest price/best product/service is done, copies of online pricing pages are made, a purchase decision is made and the item secured.

### **Credit Card**

The Executive Director, Principal and Director of Operations are the only employees who possess charge cards and they are the only staff authorized to make purchases. The Director of Operations makes most all charge card purchases, based on written approval (an email, a signed order form, etc.) from the Executive Director or Principal. Orders made by or for the Executive Director (over \$1,000 are approved by the outside accounting firm, acting as the CFO, which then shares that information with the board of directors each month). Further, there is a \$2,000 cap on purchase made charge cards for all three key

employees mentioned. In addition, email notifications are sent to the Executive Director from the school's bank when purchase activity exceeds the daily limit of \$250. Also, all receipts are kept by the Director of Operations and are reviewed by the Executive Director during a weekly financial reconciliation meetings with Tech International's outside accounting firm.

### **Physical Inventory of Fixed Assets**

Tech International has completed an inventory of technology assets, as of October, 2013. Since equipment isn't being secured by/donated to Tech International at the rate it was previously, an annual review of inventory will take place to determine where the organization stands with regard to non-functioning, missing or acquired equipment. The current inventory is attached to this letter.

### **Dual Signature**

The policy of having two signatures, that of the Executive Director and Principal, on checks for amounts over \$10,000 is being complied with presently. Check requests are completed by the Director of Operations and are accompanied by backup documentation (an invoice and other background information for non-recurring expenses such as rent), the requests are reviewed by the organization's outside accounting firm, the check requests are signed by the Executive Director and Principal and then the check itself is signed by the aforementioned parties.

### **Documentation of Expenses**

Presently, all expenses are documented. Purchases made by check are based on purchase orders where an invoice and backup documentation are required before purchase requests are signed off on. The invoice and cancelled checks provide a record of the expenses. Charge card transactions are made once requests by staff for budgeted items are approved in writing by the Principal or Executive Director. For charge card transactions, receipts accompany product/service documentation (invoice, online printout, etc.) and card purchases are reviewed weekly. Employee expense reimbursements (for approved activities/purchases) and petty cash expenses require receipts. Both are reviewed weekly with the outside accounting firm.

### **Changes in Coding of Cash Disbursements**

The Director of Operations has been provided with a list of General Ledger codes pulled from the Tech International budget. G/L codes are noted on all purchase orders. Each week, the Executive Director reviews purchase activity with the outside accounting firm. At that point, confirmation of G/L codes for purchase orders, petty cash disbursements,



employee expense reimbursements and charge card transactions are reviewed and confirmed or reassigned to ensure that the paperwork (e.g. PO for checks) note the correct G/L accounts to which the disbursement should be assigned.

### **Pay Changes and Annualized Salary**

Presently, salary changes for all employees take place on an annual basis before the beginning of the school year in September. These increases, where applicable, would be connected with a formal review process and/or would be based on standard cost-of-living increases. Separate from salaries, for 2013-2014, some staff may be eligible for a performance-based related to being given significant new responsibilities (e.g. serving as lead teacher, coaching and mentoring a team). Changes in salary or awarding of a bonus are first approved by the Board of Trustees, a letter reflecting the changes then would be signed off by the Executive Director and provided to the employee as well as placed in his/her employee file. At that time of approval/employee notification, the payroll provider would be notified by the Director of Operations.

### **Conflict of Interest**

Tech International's key employees—Executive Director, Principal and Director of Operations—all will sign conflict of interest forms. Annually, vendor and employee relationships will be evaluated to ensure that the policy is being complied with.

The above procedures and controls, except those related to conflict of interest, are in effect as of the date of this letter. The conflict of interest procedure, along with updates to the Tech International employee manual, will be in effect by or before December 31, 2013.

Regards,



**Oslene Carrington**  
Executive Director

cc: Board of Trustees  
Adjowah Scott, Principal  
Rose Castillo, Director of Operations  
Accounting Solutions of New York, Inc.