



CSIS California School Information Services

December 2, 2009

Sheila Jordan, Superintendent
Alameda County Office of Education
313 West Winton Avenue
Hayward, CA 94544

Dear Superintendent Jordan:

The purpose of this letter is to update the Alameda County Office of Education regarding progress made by the FAME Public Charter School in addressing the recommendations identified by the Fiscal Crisis and Management Assistance Team (FCMAT) in its final report dated April 6, 2009.

In June 2008, FCMAT and the Alameda County Office of Education entered into an agreement for FCMAT to conduct an AB 139 extraordinary audit of the FAME Public Charter School. The scope of work specified that FCMAT would complete the following:

1. Examine the contract and related Personnel Action Transmittal (PAT) for the charter director to confirm the provisions by which the director would be eligible for additional compensation in the form of a stipend(s) or salary increase. Confirm the method of payment for additional compensation, allowances and stipends and whether income taxes and statutory deductions were withheld and processed appropriately. Confirm the approval process for the contract and PAT, which are inconsistent on the area of additional compensation.
2. Examine petty cash and accounts payable disbursements and supporting documentation from July 1, 2006 to the present. Identify any purchases, payments, donations, contributions, or reimbursements to current or former employees or other individuals or entities that may represent a misuse of public funds or be inconsistent with board policies, bylaws, or board authority of the FAME Public Charter School.
3. Examine payments or cash withdrawals from financial accounts held in the name of the FAME Public Charter School from July 1, 2006 to the present. Identify any purchases, payments, donations, contributions, or reimbursements to current or former employees or other individuals or entities that may represent a misuse of public funds or be inconsistent with the board policies, bylaws, or board authority of the FAME Public Charter School.

FCMAT

Joel D. Montero, Chief Executive Officer

1300 17th Street - CITY CENTRE, Bakersfield, CA 93301-4533 • Telephone 661-636-4611 • Fax 661-636-4647
422 Petaluma Blvd North, Suite. C, Petaluma, CA 94952 • Telephone: 707-775-2850 • Fax: 707-775-2854 • www.fcmat.org
Administrative Agent: Larry E. Reider - Office of Kern County Superintendent of Schools

4. Examine credit card records, if applicable, for July 1, 2006 to the present. Identify any purchases, payments, donations, contributions, or reimbursements to current or former employees or other individuals that may represent a misuse of public funds or be inconsistent with the board policies, bylaws, or board authority of the FAME Public Charter School.
5. Examine all forms of payment for compensation or reimbursement to specific current and former employees to confirm if the payments are consistent with authorized employee contracts or goods and services purchased for the direct benefit of the charter school program and its operations.
6. Confirm board policy and operational procedures related to where the authority to approve personnel transactions, including changes in compensation, assignment, work year, etc. are vested; and whether the policies and procedures are followed.
7. Review the charter's policy on conflict of interest and the requirements under the Fair Political Practices Commission related to the disclosure of certain financial interests and sources of income to the public. Confirm whether any actions by the executive director related to changes in the level of compensation or payment to an employee(s) in any form resulted in a personal or financial benefit to the director.

The report issued in April, 2009 provided a number of recommendations for the operational areas identified in the scope of work.

FCMAT visited the charter school on September 28 through October 1, 2009 to collect data, conduct interviews and review supporting documentation. The following comments summarize the charter school's progress regarding each recommendation:

Recommendations – Cash Flow and Loans

The charter school should:

1. Review and update its cash flow analysis at least monthly to reflect the most current information as well as actual receipts and expenditures for prior months.

Recommendation Implemented

Charter school staff indicated that the cash flow statement is updated each month and that updates are presented monthly at a governing board meeting. Board meeting minutes indicate that these presentations began at the April 14, 2009 meeting. The June 18, 2009 board meeting minutes indicate that a fiscal policies manual was approved. The manual includes Policy 2100.1, Financial Accounting and Reporting, and Policy 2300.1, Budget Policy, which require that a cash flow statement be provided to the governing board monthly.

During FCMAT's fieldwork, charter school staff provided a copy of the 2009-10 cash flow statement that contained actual monthly data through August 2009. An updated copy of the cash flow statement provided to FCMAT following fieldwork contained actual data through September 2009. The 2009-10 beginning cash balance on the cash flow statement was \$1,941,441. This did not match the charter

school's unaudited actual and audited cash balance of \$1,995,062.45, which includes cash in county treasury, cash on hand, and cash in banks.

2. Review spending patterns and expenditure allocations and make adjustments necessary to address the cash flow deficiency so that RAN proceeds can be used for cash flow needs and not as operating capital.

Recommendation in Progress

The charter school's 2008-09 unaudited actuals report indicates that general fund revenues exceeded expenditures by \$627,977. The 2009-10 adopted budget projects that general fund revenues will exceed expenditures by \$49,313.

Based on the continued and increased cash deferrals included in the state's 2009-10 budget, including deferrals equal to 25% of the current year funding into 2010-11, it is imperative that the charter school continue to monitor its current year and subsequent year cash flow at least monthly and continue to carefully monitor its annual budget to ensure that expenditures do not exceed revenues.

3. Determine if an additional loan from the RAN lender is needed to cover cash flow needs for the remainder of the 2008-09 fiscal year, rather than borrowing from private individuals.

Recommendation Implemented

On July 9, 2008 the charter school obtained a revenue anticipation note (RAN) from Wells Fargo Institutional Securities, LLC in the amount of \$2 million. This note matured on September 1, 2009 and was repaid by the charter school as of the same date. On April 28, 2009 the charter school obtained a RAN from Wells Fargo Institutional Securities, LLC in the amount of \$1.575 million, which will mature on September 1, 2010.

The charter school's 2009-10 cash flow statement indicates that it will need an additional loan of \$1.3 million in June 2010 to end the year with a positive cash balance.

4. If cash flow needs in future years warrant, obtain a RAN or other similar funding sufficient to meet the needs of the charter school without resorting to borrowing from private individuals.

Recommendation Implemented

Charter school staff members reported that they have not been asked to provide personal loans to the school and that the school has not obtained loans from other private individuals. In addition, the charter school's 2008-09 independent audit

report indicates that the previous loans to private individuals have been repaid as of June 30, 2009 and does not indicate any new loans from private individuals.

5. If loans from private individuals are necessary for cash flow purposes, offer market-rate loan fees and other terms that reflect an appropriate formal business relationship with lenders.

Recommendation Implemented

The minutes of the charter school's June 18, 2009 board of directors meeting indicate that a fiscal policies manual was approved. The manual includes Policy 4100.1, Debt Management, which states the following:

6. The School will seek financing options that are at the lowest interest cost and in the best interests of the School. The School shall make every effort to use governmental loan sources when available, including but not limited to the State Revolving Fund Loan Program.
7. It is the Board's intent to avoid borrowing from individuals if any other method of financing is available. Staff shall make every effort to obtain financing from institutional lending sources, including banks, finance companies, and state and federal entities before seeking financing from private individuals.
8. If no alternate financing alternatives are available and financing must be obtained from private individuals, a report must be prepared by staff and presented to the Board detailing what efforts had been made to solicit institutional/public financing, and providing evidence that the rates proposed for private individual financing are market rates.

Charter school staff members reported that no loans have been obtained from private individuals since October 2008.

6. Seek cash flow and other loans from the state of California specifically for charter schools, if the state makes such loans available and if continued assistance with cash flow is needed.

Recommendation Implemented

Charter school staff members reported that no loans have been obtained from the state of California since October 2008. However, the charter school's fiscal policies manual includes Policy 4100.1, Debt Management, which includes the following statement:

6. The School will seek financing options that are at the lowest interest cost and in the best interests of the School. The School shall make every effort to use governmental loan sources when available, including but not limited to the State Revolving Fund Loan Program.

7. File corrected 2006 and 2007 Forms 1099 for the private individual whose information was not reported properly.

Recommendation Implemented

Charter school staff provided new analyses of loan payments on certain loans from one individual (including allocations to loan fees and interest) that are different from those indicated on the original payment check stub provided to FCMAT during its prior review. However, the loan payment analyses support the 2006 and 2007 Form 1099 filed by the charter school, so no further action is required.

8. Follow the terms of the MOU with the Alameda County Office of Education regarding advance written notification of its intent to apply for a loan and the repayment plan.

Recommendation Implemented

Charter school staff provided written notification to the Alameda County Office of Education regarding their intent to refinance the revenue anticipation note on April 6, 2009 and closed the financing on April 28, 2009. The charter school also included a payment plan dated May 3, 2009 with the debt disclosure report presented to the county office. Charter school and county office staff members met on May 20, 2009 to review the charter school's notification; the county office requested this delay to allow time to review the charter school's documents.

The charter school's June 18, 2009 board of directors meeting minutes indicate that a fiscal policies manual was approved. The manual includes Policy 4100.1, Debt Management, which states, "Advance written notification of all borrowings shall be provided to ACOE as per the current MOU requirements."

FCMAT found no evidence that the charter school applied for or obtained other loans.

Recommendations – Executive Director's Compensation

The charter school should:

1. File with the federal and state taxing agencies corrected forms W-2 that include all reportable wages for the executive director for the 2006 and 2007 calendar or tax years.

Recommendation In Progress

County office staff have communicated with charter school staff to identify information needed to prepare corrected W-2c forms for 2006 and 2007, but as of FCMAT's completion of fieldwork, staff from the charter school and county office had not held a meeting to resolve this issue. However, subsequent to fieldwork FCMAT received notification that county office staff and the charter school's

executive director met on November 9, 2009. The executive director anticipates that this issue will be resolved by December 31, 2009.

The charter school's executive director also indicated that she has secured assistance from a certified public accountant (CPA) to gather the information needed to file amended tax returns based on the W-2c forms. A meeting was scheduled for October 2009 between the executive director and the CPA. In addition, FCMAT observed that the instructions for filing a W-2c form indicate that corrections are to be filed as soon as any errors in the original forms are discovered.

2. Ensure that reportable wages for all employees are paid through the payroll system rather than through accounts payable, and ensure that they are properly reported on Form W-2.

Recommendation in Progress

In addition to paying some of the executive director's reportable wages through the accounts payable system in 2008, a review of the 2008 1099 forms indicates that three part-time teachers received payments for tutoring services through accounts payable. Charter school staff reported that this procedure has been changed in 2009-10 and part-time teachers who also provide tutoring services will be paid through the payroll system.

In April 2009, the charter school entered into a contract with an outside provider for payroll services, and charter school staff indicate that the school is working with the provider to ensure that all reportable wages are paid through the payroll system.

3. Ensure that all compensation changes for the executive director are approved by the board of directors.

Recommendation Implemented

The June 18, 2009 board of directors meeting minutes indicate that a fiscal policies manual was approved. The manual includes Policy 3100.1, Executive Director's Contract, which states, "Any modification or addition to Executive Director compensation shall be approved by the board as an Addendum to the contract."

On December 12, 2008 the board of directors entered into an amended employment agreement with the executive director. The agreement was approved at the December 12, 2008 board meeting and was signed by the board members.

4. Ensure that all payment authorizations for the executive director are signed by a member of the board of directors.

Recommendation Implemented

The fiscal policies manual approved at the June 18, 2009 board of directors' meeting includes Policy 3100.1, Executive Director's Contract, which states, "All payment authorizations for Executive Director compensation shall be signed by a member of the Board. Under no circumstances may the Executive Director be compensated as an independent contractor, and any compensation shall be paid through the payroll system and is subject to standard payroll taxes and reporting."

Because the executive director sits on the governing board, FCMAT recommends that the policy clarify that the board member who signs the payment authorizations for the executive director be a member other than the executive director.

5. Ensure that any bonuses paid to the executive director are consistent with the employment agreement and are approved by the board of directors. Specifically, the December 2007 PAT should be reviewed to determine if it is consistent with the terms of the employment agreement.

Recommendation Implemented

The president of the board of directors indicated that the amounts paid in December 2007 should be characterized as bonuses and were consistent with language in the agreement. Nonetheless, in a gesture of good will, the executive director returned two weeks of her accrued vacation to the charter school in the summer of 2009 as an offset to this disputed amount.

The executive director was given a bonus in December 2008 equal to one month's salary. The personnel authorization transmittal (PAT) stated that the bonus was given because the charter school received a "clean audit." The November 13, 2008 board of directors meeting minutes indicate that a bonus was approved for an annual unqualified audit. However, it appears that this bonus was not consistent with the language provided in article 2 of the executive director's employment agreement, which was in effect at that time.

On December 12, 2008, the board of directors signed a new employment agreement with the executive director that contains no bonus provisions.

The fiscal policies manual approved at the June 18, 2009 board of directors meeting includes Policy 2700.1, Bonuses, Incentives and Awards, which outlines the charter school's method for providing bonuses, incentives and awards to staff members.

6. Review the executive director's housing allowance payments and recover any funds that have been paid in error.

Recommendation Implemented

The housing allowance overpayment for January 2008 was applied to the same contract obligation for the month of December 2008 after FCMAT apprised the charter school of the error in November 2008. No further action is required.

7. Reconcile all vacation earned, used and paid to the executive director, and recapture any overpayments.

Recommendation Not Implemented

A formal vacation accrual record for the executive director is not available. Charter school staff members reported that accrual recordkeeping will be implemented via the payroll system that was implemented in April, 2009 using an outside services provider.

The charter school board members interviewed believe that all vacation payouts to the executive director were appropriate. The executive director has used or been paid for all accrued vacation earned through June 30, 2008, and has used or returned all accrued vacation for 2008-09 in July and August 2009. Thus the charter school's board and executive director believe there is no need to reconstruct the executive director's accrued vacation history.

8. Develop a policy requiring that all accruals and use of vacation, sick leave and any other leaves be tracked for all employees, including the executive director.

Recommendation Implemented

The charter school's governing board amended and approved the FAME Public Charter School Employee Handbook on August 14, 2009. The handbook includes a provision on page 27 which requires employees to submit a leave of absence form for vacation time, sick leave or unpaid leave. The handbook also states that the charter school will track accruals and use of leave for all employees. Charter school staff members provided FCMAT with copies of recently implemented absence forms.

In interviews, the charter school's payroll services provider indicated that the AptaFund payroll system provides for reporting of employee leave accruals and that leave balances would be printed on the monthly payroll checks by the end of October 2009.

9. Require the executive director to comply with the employment agreement regarding notifying the board of directors about vacation time.

Recommendation Implemented

The executive director took a six-week vacation during the summer of 2009, and the board president acknowledged that the director provided a request to the board of directors in advance. The minutes of the June 18, 2009 board of directors meeting indicate that the executive director reported to the board that she would “use 6 weeks (7-1 to 8-11) and relinquish the remaining 2 weeks, per Board request, to accommodate any disputed vacation days noted in the FCMAT report.” The minutes go on to state, “The Board President and other members noted that they were satisfied with the vacation schedule.”

The fiscal policies manual approved at the same board meeting includes Policy 3100.1, Executive Director’s Contract, which states, “The contract must include a requirement that the Executive Director notify the Board regarding planned vacations so that accurate vacation accrual records are kept.”

FCMAT recommends that the charter school do the following:

- Require that all of the executive director’s vacation requests be submitted in writing on an approved form.

FCMAT recommends the charter school board of directors do the following:

- Take action regarding such requests at a regularly scheduled meeting of the board.
- Acknowledge the board’s action by indicating approval or disapproval via the board president’s signature on the form.
- Ensure that the minutes of the meeting record the board’s action.

10. Determine whether the medical, dental and life insurance benefits referred to in the employment agreement are intended to be provided in lieu of purchase, or if the executive director is to be reimbursed only if benefits are purchased.

Recommendation Implemented

On December 12, 2008 the FAME Public Charter School and the executive director entered into an amended employment agreement, which states the following:

Whereas, as of the date the Agreement was amended above as noted, the Executive Director is waiving her right to receive employer-paid health benefits, to receive the enrollment growth stipend, rent payment reimbursements or the employer-paid life insurance premiums...

For the period of January 1, 2009, to June 30, 2010, the Executive Director’s gross base salary per year will be \$240,000, and is to be paid in equal monthly payments, subject to all regular withholdings. This salary as of January 1, 2009, is in recognition for the Executive Director’s personal contributions made as well as her unequalled

experience and expertise which have unique value to the Board. This salary also takes into consideration the Executive Director's waiver of her rights to the health benefits package and other benefits previously provided by the Employer and contained in the Agreement as noted above.

11. Ensure that the automobile provided for the executive director in the employment agreement is reported correctly on the executive director's Form W-2.

Recommendation in Progress

Staff from the Alameda County Office of Education met with charter school staff on November 9, 2009 to identify information needed to prepare corrected W-2c forms for 2006 and 2007. The charter school's executive director indicated that she has obtained assistance from a CPA to gather the information necessary to file amended tax returns based on the W-2c forms.

The instructions for filing a W-2c form state that corrections are to be filed as soon as any errors in the original forms are discovered.

FCMAT reviewed the executive director's 2008 form W-2, which was prepared and filed by the county office on behalf of the charter school, and noted that taxable income differed from FCMAT's estimate. The charter school reported most of this difference to the IRS on a Form 1099. A reconciliation of these amounts follows:

FCMAT 2008 Calculation:	
Salary	\$165,000
Bonus	\$13,750
Vacation	\$41,250
Grant Writer Stipend	\$39,958
Auto (estimate only)	\$19,205
Housing/In-Lieu Benefits	\$57,500
Total	\$336,663
W-2 as submitted to IRS	\$219,068
1099 as submitted to IRS	\$97,458
Auto - not reported	\$19,205
Difference (Section 125 Plan)	\$932

12. Refrain from entering into independent contractor agreements with the executive director or other charter school employees.

Recommendation Implemented

The revised employee handbook dated August 2009 states, “Any employee of FAME may not also serve as an independent contractor for FAME at the same time, and FAME’s independent contractors may not work for FAME as an employee at the same time.”

A review of the accounts payable records from November 1, 2008 through September 29, 2009 indicates that the executive director has not received any payments as an independent contractor during this time.

13. Require that all claims for reimbursement include itemized supporting documentation to ensure that only appropriate charter school-related expenses are reimbursed.

Recommendation Implemented

The fiscal policies manual approved at the June 18, 2009 board of directors meeting includes Policy 2600.1, Expense Reimbursement, which states the following:

An employee must receive permission in advance from their supervisor, and once the expenditure is made, provide the following to the Director of Finance for review and authorization of reimbursement:

1. A concise description of the cost or activity being submitted for reimbursement, including a listing of participants where applicable;
2. A clear and specific school-related reason for the expense;
AND
3. Verification of amount paid, through itemized receipt (or mileage log for mileage).
4. Signature of employee requesting reimbursement.

The policy further states:

The Executive Director may expend up to \$5,000 per month on reimbursable expenses without prior Board approval. However, following such expenditure, all Executive Director expense reimbursement claims must be submitted in the same format described above for review and authorization by a member of the Governing Board as well as the Director of Finance.

14. Review all prior expense claims filed by the executive director and recover any funds that were paid in error or that did not have a legitimate business purpose.

Recommendation Implemented

The board president reported that the board of directors reviewed all expenditures incurred by the executive director and reimbursed by the charter school. None were determined to have been paid in error and all were determined to have a legitimate business purpose; therefore, no reimbursements were required from the executive director.

15. Ensure that all expense claims submitted by the executive director are reviewed and authorized by a member of the board of directors.

Recommendation in Progress

In interviews, charter school board members indicated that the board president reviews the executive director's expense claims. A review of the accounts payable records from November 1, 2008 to September 29, 2009 indicated that the executive director has not been reimbursed for expenses through accounts payable since November 13, 2008. Interviews further indicated that the executive director is using the debit card associated with the petty cash account for expenditures because she may spend up to \$5,000 without prior board approval.

The charter school should ensure that a policy is in place that provides for a member of the board of directors to review expenses incurred by the executive director through the petty cash account. Because the executive director sits on the governing board, the policy should clarify that the board member who reviews the executive director's expenses is a member other than the executive director.

16. Establish a board policy with guidelines regarding allowable and prohibited expenditures.

Recommendation in Progress

The fiscal policies manual approved at the June 18, 2009 board of directors meeting includes Policy 2200.1, Bank Accounts and Petty Cash, Policy 2500.1 Debit and Credit Cards, and Policy 2600.1, Expense Reimbursement, which include guidelines regarding allowable and prohibited expenditures. The charter school should work with its legal counsel to ensure that these policies are in compliance with all applicable laws.

Recommendations – Other Expenditures

The charter school should:

1. Cease using the petty cash account and credit card account for routine operating expenses; pay these expenses using the accounts payable system (operating account).

Recommendation in Progress

FCMAT reviewed all petty cash account transactions for November 2008 through August 2009 and observed that routine operating expenses are being funded through this account. However, the number of such transactions has decreased significantly since FCMAT's review in October 2008.

The charter school should investigate whether it is eligible to participate in the state's CAL-Card program through the California Department of General Services, and cease use of the petty cash account for routine operating expenses.

A review of credit card statements from September 2008 to September 2009 indicated that the use of credit cards for routine operating expenses decreased significantly since FCMAT's prior review. The supporting documentation provided with the July 2009 credit card statement was missing a receipt for a hotel charge dated June 21, 2009.

2. Require that all purchases using petty cash, credit card accounts or operating funds have properly authorized written purchase requisitions, and require itemized receipts and the signature of the employee for each purchase.

Recommendation in Progress

FCMAT reviewed all petty cash account transactions for November 2008 through August 2009 and found that purchase requisitions are not used for this account. Itemized receipts were not provided to support a significant number of transactions, but the executive director made notations on the bank statement describing the business purpose of these disbursements. Employees did not always sign the receipts. All statements were authorized for payment by the executive director.

A review of the credit card statements from September 2008 to September 2009 indicated that purchase requisitions are not used for credit card purchases. While this is often the case with credit card purchases, in many cases the supporting documentation did not contain the employee's signature, and FCMAT found no evidence that the employee's supervisor had reviewed and approved the purchases monthly.

The charter school should require each employee who is provided with a school credit card to review and sign the monthly statement; the employee's supervisor should also review and sign the statement.

3. Assign a designated management employee responsibility for review and authorization of all requisitions against the petty cash and credit card accounts.

Recommendation Implemented

The fiscal policies manual approved at the June 18, 2009 board of directors meeting includes Policy 2500.1, Debit and Credit Cards, which states, “The Director of Finance is the individual responsible for review and authorization of all debit/credit card transactions and approvals.”

4. Prohibit all cash withdrawals from the petty cash account, including those using the PayPal system.

Recommendation Implemented

FCMAT’s review of petty cash account transactions from November 2008 through August 2009 did not reveal any cash withdrawals from the petty cash account or any use of the PayPal system.

The fiscal policies manual approved at the June 18, 2009 board of directors meeting includes Policy 2500.1, Debit and Credit Cards, which states, “No FAME debit/credit card shall be used to make PayPal payments.”

5. Prohibit payment for day labor from the petty cash account. Ensure that all employees, including day laborers, are paid through the payroll system and that IRS regulations and employment laws are followed.

Recommendation Implemented

FCMAT did not find any payments to day laborers or employees in its review of petty cash account disbursements from November 2008 through August 2009. The fiscal policies manual approved at the June 18, 2009 board of directors meeting includes Policy 2200.1, Bank Accounts and Petty Cash, which states, “All payments for labor must be processed through the payroll system to insure that all applicable IRS regulations and labor laws are followed.”

6. Establish a board policy that identifies allowable and prohibited expenditures as well as the public purpose for purchases of items such as gift cards, flowers and gift baskets.

Recommendation in Progress

The fiscal policies manual approved at the June 18, 2009 board of directors meeting includes Policy 2700.1, Bonuses, Incentives and Awards. This policy states the following regarding nonmonetary rewards:

In certain instances, staff gifts and treats are pre-authorized and do not require specific approval from the Executive Director if meeting the following specific guidelines. However, no state or federal funds will be used to pay for expenditures included in item “a.” or “b.” Managers making such purchases may submit for reimbursement without pre-approval. Guidelines are as follows:

- a. Flowers may be sent by the manager in a case of bereavement of spouse/father/mother/child/sibling (maximum \$100).
- b. Flowers may be sent by the manager if the employee is hospitalized with a serious illness/injury (maximum \$100).
- c. Managers may take their employees to lunch as a “staff appreciation event” once per year. This item DOES require approval from the CFO.

Although this policy identifies allowable expenditures, it does not explain the public purpose for the items listed, nor does it state which funds other than federal and state funds will be used to pay for the items. The charter school should work with its legal counsel to ensure that the policy is in compliance with all applicable laws.

7. Indicate the business purpose and participants when meals are provided as a part of staff development, staff appreciation or any other activity. Require itemized receipts for all meal purchases.

Recommendation in Progress

A review of petty cash account transactions for November 2008 through August 2009 found that most disbursements for meals included the business purpose of the meal and the names of employees who participated. However, the supporting documentation for some disbursements did not include an itemized receipt or information regarding employee names. One transaction was a \$1,500 payment to a local restaurant that was approved by the executive assistant and contained no details of the meals provided other than a notation that it was a staff development activity. Following FCMAT’s field work, a receipt from the restaurant was provided indicating the activity was for approximately 80 people, but there were no notes on the receipt substantiating this number or approval for payment. The executive director verbally acknowledged to FCMAT that the activity was authorized.

A review of credit card accounts for September 2008 to September 2009 indicated that most purchases included the business purpose of the meal. However, some purchases did not include an itemized receipt or the names of the attendees.

The fiscal policies manual approved at the June 18, 2009 board of directors meeting includes Policy 2500.1, Debit and Credit Cards, which states the following:

Each charge to the debit/credit card must be supported by a physical receipt (or printout of receipt in the case of online purchases) of the expenditure and a concise description of the cost or activity and its school-related purpose. The actual receipt MUST contain detail of the item or items purchased. A credit charge receipt showing only the amount of the charge is not sufficient even when accompanied by a narrative description.

8. Seek reimbursement from employees for any in-room movie charges paid by the charter school.

Recommendation Implemented

In December 2008, two board members reimbursed the charter school for in-room movie charges incurred while attending a conference in July 2008.

9. Ensure that all accounts are managed so that late fees and insufficient funds charges are not incurred.

Recommendation in Progress

FCMAT found 15 petty cash account overdrafts that occurred over a four-day period in June 2009. The bank charged no fees for the first six overdrafts, but did charge a \$35 insufficient funds fee for each of the last nine overdrafts, resulting in charges totaling \$315.

The executive director indicated that this occurred as a result of some confusion regarding hotel room reservations for a conference attended by the charter school's board members and staff. The executive director reimbursed the charter school for all of these charges from her personal funds. The charter school has implemented procedures to help prevent situations like this in the future.

The charter school should investigate whether it is eligible to participate in the state's CAL-Card program through the California Department of General Services, and cease using the petty cash account for travel expenses. This will help avoid insufficient fund fees in the future.

FCMAT reviewed the September 2008 to September 2009 credit card statements and noted late payment fees on the September and November 2008 statements, and finance charges for the September 2008 through January 2009 statements. However, no such charges have been incurred since that time.

10. As long as the vehicle provided to the executive director is registered in the name of the charter school, ensure that evidence of the vehicle's insurance is kept in the vehicle and on file at the administrative office at all times.

Recommendation in Progress

The fiscal policies manual approved at the June 18, 2009 board of directors meeting includes Policy 2900.1, Risk Management, which states the following:

Proof of all insurance, including but not limited to proof of vehicle insurance on any vehicles provided to staff members, must be kept on file in the School's administrative offices at all times under control of the Director of Finance. Proof of vehicle insurance must also be kept within the insured vehicle(s).

Charter school staff provided FCMAT with a copy of the vehicle registration and insurance information. However, when FCMAT asked to see if the information was in the vehicle, the request was not accommodated.

The executive director's amended employment agreement dated December 12, 2008 states, "During the term of this Contract, the Board will provide an appropriate vehicle for use by the Executive Director, and the Board will retain title and maintain all appropriate insurances."

Following FCMAT's fieldwork, charter school staff provided FCMAT with a copy of the revised vehicle registration showing that the registered owner is the Bay Area School for Independent Study, Inc. (BASIS), with a transfer date of October 27, 2009. The charter school should provide the Department of Motor Vehicles (DMV) with documentation indicating BASIS' nonprofit status and a completed REG 5050 form so that the DMV can determine if the organization is eligible for an exempt license plate for this vehicle. The form is available on the following Web site:

<http://www.dmv.ca.gov/forms/reg/reg5050.htm>

11. Establish a board policy that prohibits using charter school funds to pay for citations, fines or penalties incurred by employees.

Recommendation in Progress

The fiscal policies manual approved at the June 18, 2009 board of directors meeting includes Policy 2500.1, Debit and Credit Cards, which states, "FAME debit/credit cards may not be used for ... d. Traffic fines and citations, including parking and speeding tickets." The manual also contains Policy 2600.1, Expense Reimbursement, which states, "The following costs are not eligible for reimbursement: ... d. Traffic fines and citations, including parking and speeding tickets – tolls are reimbursable." However, a policy was not provided that prohibits use of all charter school funds for these purposes.

12. Consider establishing accounts with vendors that accept purchase orders (such as those that provide office supplies) to take advantage of the convenience, controls and cost savings that this arrangement provides.

Recommendation in Progress

Charter school staff stated that most supply purchases for the classroom occur via the school's online purchasing system (OPS) and that this system provides access to requested materials and supplies at competitive prices. Charter school staff are investigating the feasibility of establishing charge accounts at various discount office and building supply stores to complement this system.

Purchase requisitions and/or orders are used for purchases made through the OPS, which provides a significant degree of control over each purchase. The purchasing clerk reviews and approves all purchases transacted through this account, and the staff member requesting the purchase must approve the related invoices for payment.

FCMAT reviewed several transactions that were initiated through the OPS and charged against the operating account and found all of the above controls in place. FCMAT also reviewed transactions charged against the operating account but not initiated through the OPS system and found that controls were lacking. Specifically, it was unclear who initiated some purchases because no purchase requisition was used, and the related invoices were not authorized for payment by the initiator.

13. Review shipping charges and consider establishing an account with the US Postal Service to lower costs.

Recommendation in Progress

Charter school staff reported they are investigating options to reduce shipping costs, but no action has been taken to date.

Recommendation – Right Start Foundation

The charter school should:

1. Ensure that administrators and board members are aware of the statutory provisions regarding the separation of church and state, and refrain from any activity that may violate these provisions.

Recommendation Implemented

FCMAT's review of expenditures from the petty cash and operating accounts for November 2008 through August 2009 and credit card statements for September 2008 to September 2009 did not reveal any transactions in support of activities that appear religious or sectarian in nature.

The minutes of the May 3, 2009 board of directors meeting indicate that the governing board adopted Policy #2008-25, Nonsectarian Curriculum Policy.

Recommendations – Conflict of Interest

The charter school should:

1. Ensure that all employees and board members who are in the classifications which require them to complete Form 700 do so and submit the form to the proper county agency.

Recommendation in Progress

The charter school's governing board approved a revised conflict of interest code on December 17, 2008. FCMAT was provided with copies of the annual Form 700 statements for 2008 and, in the case of new employees and employees who had changed positions, statements made upon assuming their offices or positions. For the following offices or positions, FCMAT received either annual statements or statements made upon assuming the office or position:

- Board members
- Chief executive officer
- Chief financial officer
- Chief operating officer
- Accounts payable clerk
- Purchasing clerk
- Administrators (2)
- Site program administrator (1)

However, two of the statements were not dated prior to the April 1, 2009 reporting deadline as indicated in the Form 700 reference pamphlet published by the Fair Political Practices Commission. FCMAT also noted that not all individuals used the 2008-09 version of the form.

2. Ensure that the board members and designated employees complete ethics training regarding the roles and responsibilities of public officials in relation to conflicts of interest and the Fair Political Practices Act.

Recommendation Implemented

The May 21, 2009 board of directors meeting minutes indicate that the board received conflict of interest training from the charter school's legal counsel. The charter school also provided FCMAT with a copy of the training materials provided to the board members.

In interviews, the executive director and board members indicated that the executive director plans to relinquish her seat on the board when a candidate can be found to replace her.

Recommendations – Board Meetings

The charter school should:

1. Conduct all governing board meetings in accordance with the Ralph M. Brown Act, including meeting within the required geographic boundaries and posting board agendas.

Recommendation Implemented

The board agendas and/or minutes provided to FCMAT for the 2008-09 fiscal year and for August through October 2009 indicate that the board held meetings within the geographic boundaries of the charter school, either at the Newark administrative offices or at one of the school sites.

The minutes of the January 15, 2009 meeting were not complete and contained notations stating, "insert" or "insert update" after several items. In addition, the August 12, 2008 and February 19, 2009 agendas did not include a start time for the meetings. Following FCMAT's fieldwork, the charter school provided a copy of the draft minutes for the January 15, 2009 meeting and indicated that these would be presented to the governing board for approval in December 2009.

2. Ensure that the governing board members receive training regarding the Ralph M. Brown Act from an agency that has expertise in this area, such as the CSBA.

Recommendation Implemented

The March 31, 2009 board of directors meeting minutes indicate that the board received training from the charter school's legal counsel regarding the Ralph M. Brown Act and open meeting laws. The charter school also provided FCMAT with a copy of the training materials provided to the board members.

The charter school's fiscal policies manual contains Policy 2600.1, Expense Reimbursement, which states, "Travel Meals – FAME will pay the reasonable, actual expenses for meals when

traveling, not to exceed \$100 per day except with specific management approval. These must be verified by an itemized receipt.” Because this amount exceeds the per diem rate in IRS Publication No. 1542, the charter school should review this procedure with its independent auditor to determine if amounts exceeding the IRS regulations must be reported on an employee’s Form W-2.

The charter school has made significant progress in addressing the findings and recommendations in the FCMAT report, and in April 2009 hired a chief operating officer to help the charter school continue implementing best business practices and procedures.

FCMAT appreciates the opportunity to serve you and we extend our thanks to the staff of the Alameda County Office of Education and FAME Public Charter School for their assistance during this follow-up review.

Sincerely,

A handwritten signature in cursive script that reads "Diane Branham".

Diane Branham
Fiscal Intervention Specialist

c: Carlene Naylor, Associate Superintendent, Business Services
Maram Alaiwat, Chief Executive Officer, FAME Public Charter School