

**SCHOOL DISTRICT OF ESCAMBIA COUNTY
INTERNAL AUDITING DEPARTMENT**

JACKIE HARRIS PYRAMID SCHOOL OF LEARNING

PROJECT # 2004-01

Accepted By Audit Planning and Review Committee:

May 26, 2004

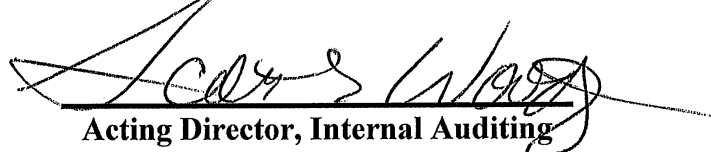
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Field Work Conducted By :


Auditor

Report Issued By:


Acting Director, Internal Auditing

**SCHOOL DISTRICT OF ESCAMBIA COUNTY
JACKIE HARRIS PYRAMID SCHOOL OF LEARNING
REVIEW REPORT**

Background

The Jacqueline Harris Pyramid School of Learning (JHPSL) is a charter school of the Escambia County School Board (ECSB) operating under the direction of a Florida not-for-profit corporation, New Road to Learning, Inc. JHPSL currently contracts with Saltmarsh, Cleaveland & Gund, CPAs, for compilation of monthly financial statements from client data and Hurd and Finley, CPAs, for external audit services. JHPSL also contracts with Payroll Management, Inc. for the processing of biweekly payroll. In addition to normal Florida Education Finance Program funding, JHPSL receives additional monies from capital project funding administered through its sponsor, the Escambia County School District. Florida Statute 1002.33(5) 2 requires "the sponsor shall monitor the revenues and expenditures of the charter school."

Scope

As part of the annual work plan, we conducted a review of JHPSL to verify compliance with terms and conditions of the charter agreement between the ECSB and the JHPSL. Two objectives of our review were to ascertain if revenues received and expenditures made by JHPSL had adequate documentation and to determine if these transactions were accounted for properly. Additionally, our scope expanded beyond financial statement items to include FTE (Full Time Equivalency) reporting issues, teacher certification and other items pertinent to this engagement. Our review period was July 1, 2002 through April 30, 2003 and covered all unaudited financial statements to date from June 30, 2002 to April 30, 2003.

Our review was conducted in accordance with Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors, Inc. Field work was performed from May 12, 2003 through May 23, 2003.

Methodology

At the onset of field work, a recent turnover in the accountant's position at JHPSL precluded us from ascertaining fully how all aspects of internal control had functioned in the past year. We reviewed the unaudited financial statements from July 2002 through March 2003 to ascertain the viability of the school on a short-term basis, to verify the various revenue sources and to determine if expenditures were reasonable for a school of their size. The minutes of the Board for New Road to Learning, Inc. meetings were reviewed to verify management oversight was being administered. We reviewed insurance policies to verify insurance requirements of the charter agreement were adhered to. Expenditures were reviewed to determine if sound business practices, with respect to purchases, were being followed. Payroll records were analyzed to match

employees with employment contracts and those employees listed as teachers on the payroll records were matched with teacher certifications.

Findings

Internal Controls

Only minimal internal controls were in place to ensure receipts and expenditures were accounted for properly. Disbursements were processed on one-part check stock with only an accompanying check stub used to document the expenditure. There was no evidence showing the pre-approval of disbursements and account coding was not assigned when the disbursements were made. Checks were written to individuals and businesses for services without identification for 1099 reporting requirements. The Board approved a yearly budget, but the monthly financial statements did not incorporate the budget to facilitate variance analysis. Similar comments on internal control deficiencies were noted in the independent auditor's report to the Board for New Road to Learning, Inc.

Board Oversight

The Board for New Road to Learning, Inc. meeting minutes indicate a pattern of sporadic meetings. The minutes of the July 10, 2002 meeting state the Board had not met since January 17, 2002 and no meetings were held between November 2002 and April 2003. The employee contract for the Executive Director lists no salary and has not been signed by a member of the Board. A document was found stating a Board meeting was held on October 3, 2002 to sign a lease agreement with Creative Projects LLC. This document was not similar to others in form, and the next Board meeting held on November 21, 2002 does not mention the October meeting. This suggests that Board members were present to sign the agreement on October 3, 2002, but no formal Board meeting was held. Monthly financial statements do not contain a monthly or year-to-date budget to actual comparison. Without these comparisons, it is difficult for the Board to determine if the school is operating within budget.

Student Ratios

The charter agreement calls for minority/majority ratio of 35%/65% within a three year period and/or provide extensive evidence of an effort to enroll students from all races. Based on FTE reporting the current ratio is approximately 95%/5%; however, the school was only in the second year of operation for the period under audit.

Related Party Transactions

Note number six (6) of the June 30, 2002 audited financial statements mentioned a lease agreement between JHPSL and Creative Projects LLC. This transaction occurred after the period audited by the external auditors and was noted as a related party transaction in the notes to the financial statements.

In August 2002, minutes of the ECSB meeting refer to discussions and motions to sell property located at 1408 E. Blount Street, Pensacola, Florida to JHPSL for use as a charter school building. The ECSB voted on August 7, 2002 to sell the property to JHPSL for the appraised market value within sixty days. On Oct. 4, 2002 the Blount street property was sold to Creative Projects LLC for the appraised value of \$520,000. Creative Projects LLC is a limited liability company with two managing members. The Executive Director of JHPSL is one of the two listed manager/members. The other manager/member is the Pensacola Family Care for Youth & Family Services Inc. The 2002 uniform business report filed by Pensacola Family Care for Youth and Family Services Inc. lists the Executive Director of JHPSL as the President. Also on Oct. 4, 2002 JHPSL entered into a lease agreement with Creative Projects LLC for the property and was required to pay the ad valorem taxes on the building, to maintain the fire and casualty insurance on the building, and make monthly lease payments of \$10,000 per month for a term of ten years. The lease agreement calls for two non-refundable security deposits to be paid to the lessor. The first of these deposits for \$79,147.00 was paid on Oct. 4, 2002. The second security deposit for \$60,000 is to be paid within the first 24 months of the lease. The first security deposit paid by JHPSL on Oct. 4, 2002 included closing costs and the down payment listed on the closing statement of the sale documents for the Blount property, between Creative Projects LLC and the Escambia County School Board. In addition, JHPSL spent \$295,782.00 on renovations to the building. Based on the fact JHPSL paid the closing costs, a down payment on the property when it was purchased, renovation costs, the taxes and casualty insurance, and taking into account the related nature of the parties, the lease payments may not be an arm's length transaction. Please see the attached diagram (Exhibit A), which reflects the nature of the related party transactions.

The contract for renovations on the property is a related party transaction since the contractor is a member of the Board for New Road to Learning Inc. Also, the approval of this contract does not appear in the Board minutes. The Executive Director signed the contract for JHPSL on October 3, 2002 and there is an amendment to the contract dated December 28, 2002 that is not detailed and it is not mentioned in the minutes of the November Board meeting. The next Board meeting for New Road to Learning, Inc. was held on April 24, 2003, so it does not appear that the Board voted on the amendment to the contract.

Recommendations

We recommend JHPSL implement the external auditor's recommendations regarding internal control discussed in the June 30, 2002 financial statement audit. In addition, the budget should be incorporated into the monthly financial statements to determine if the school is being operated within the budget on a monthly and year-to-date basis.

There should be a more active role by the Board for New Road to Learning, Inc. in the oversight of the school and Board meetings need to be held on a more frequent basis. Major purchases, or contractual obligations made by the Executive Director should first

be brought before the Board for approval and the vote of the Board should be reflected in the meeting minutes. For large purchases, competitive bid processes should be undertaken to obtain the best pricing.

Related party transactions should be subjected to further review by objective outside parties, to validate the amounts reflected as expenses in the financial statements. We also recommend the sale of the Blount Street property to Creative Projects LLC and the lease agreement be further analyzed by the School Board Attorney. The current lease agreement between JHPSL and Creative Projects LLC should undergo an independent market analysis to validate the amount of the lease payments due to the related party nature of the principals. Also, the renovation of the Blount property needs to be analyzed by an independent entity to validate the amount paid for renovations, since the contractor is a related party to the school.

To ensure compliance with the three year time frame for a minority/majority ratio of 35%/65%, we recommend the Board of Trustees for New Road to Learning, Inc. develop a plan for meeting the terms of the charter agreement concerning this issue.

Subsequent Events

After completion of field work and before issuance of this report subsequent events occurred that caused our report to be modified. Provisions in the charter agreement requires submission of monthly financial statements and various progress reports by Jackie Harris Pyramid School of Learning to Escambia County School District for oversight. During our field work we could not find evidence of submission or review of these documents. As requested by the Escambia County School Board, District staff has recently implemented procedures to report quarterly to the Board on charter schools. This quarterly update process resolves findings from our original report and necessitates removing these findings and the associated recommendations.

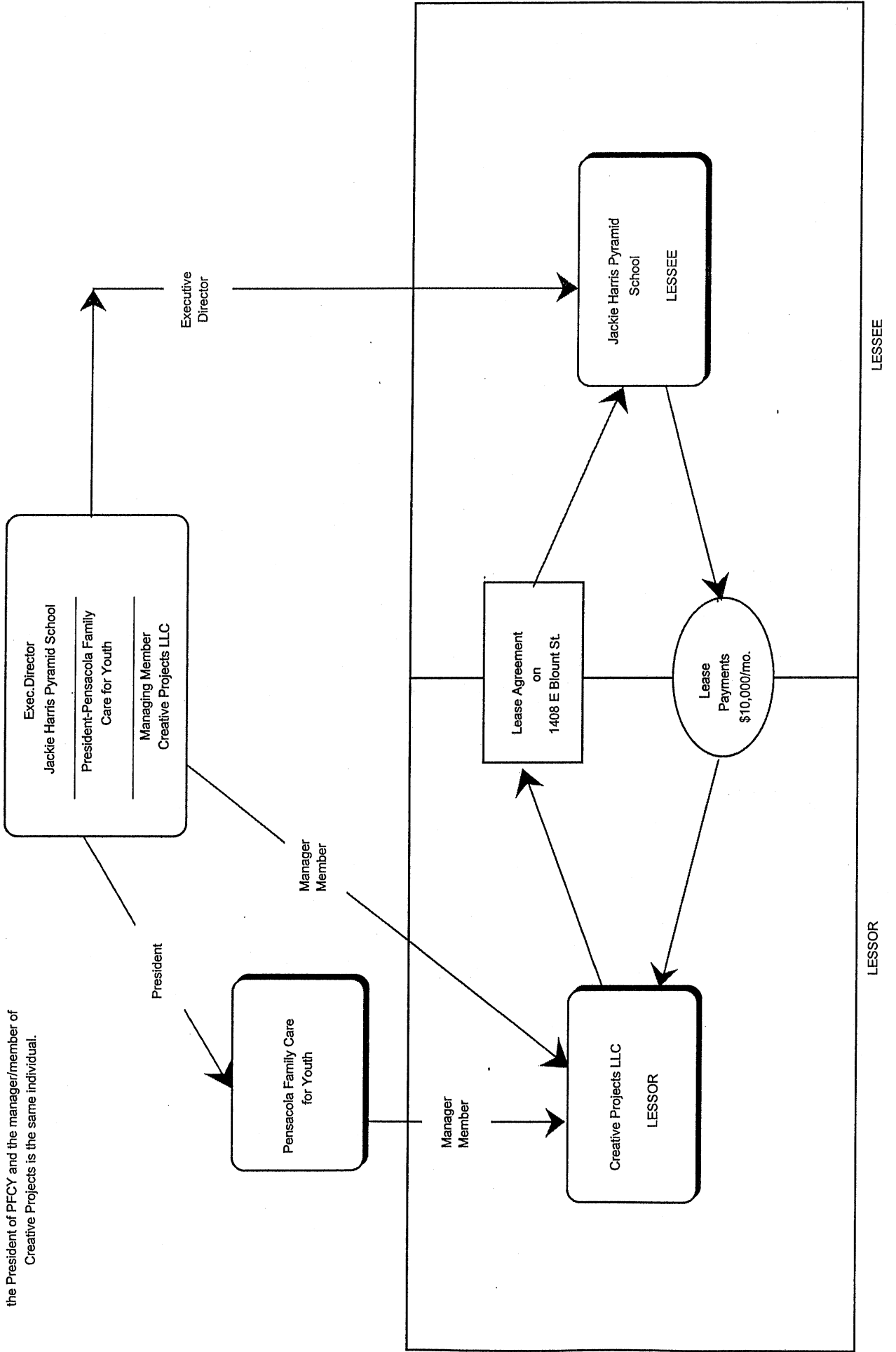
Conclusion

In conclusion, no new policies and procedures need to be established to remedy the problems encountered during this review. The current charter agreement, if followed, provides all necessary procedures for District personnel to ascertain compliance with terms and conditions of sound charter school operations.

Please see the director's response attached.

EXHIBIT A

Note:
 The Executive Director of the Jackie Harris School &
 the President of PFCY and the manager/member of
 Creative Projects is the same individual.



March 12, 1003

Mr. Scott T. Woody
Acting Director, Internal Auditing
School District of Escambia County
215 West Garden Street
Pensacola, Florida 32501

Dear Mr. Woody:

Enclosed is a copy of Jacqueline Harris Preparatory Academy's response to the Tentative Review Report. Items 1, 2, and 3 of the recommendations have been answered by our outside auditors per attachment.

I am addressing herewith Item No. 4 regarding our charter stipulation that at the end of three years, the school should have a minority/majority ratio of 35/65%. To achieve this ratio, JHPA developed a marketing plan based on county-wide advertising, informational sessions, mall appearances, and networking with other community organizations. For three months before our initial enrollment began, we followed the plan and kept a record of our advertising and activities.

We enrolled our first students on a first come, first accepted basis. We enrolled 142 students, of whom less than ten were Caucasian. This ratio was the result of accepting all students in the order of their applications. Most of these students are still enrolled with JHPA, as our turnover is very low. We can accept 20 new students in Kindergarten and we have advertised countywide each year; however, the result is the same, the ratio is closer to 10/90%.

Please call me if you want further clarification of the above.

Sincerely,


Celestine Lewis, Director

CL/mk

Recommendation #1

The external auditor's 2002 recommendation referred to a lack of segregation of duties. We have engaged a local CPA firm (not our auditors) to provide internal bookkeeping services. These services include monthly financial statements with actual amounts compared to budget. The CPA firm's procedures will assure appropriate segregation of duties.

Recommendation #2

Management of JHPS met with our auditors and the Chairman of the Board shortly after the external audit was completed. We discussed ways to improve attendance at Board meetings and participation of Board members. We believe that our procedures for obtaining Board approval of major purchases and contractual obligations is proper. We admit that we have not provided the proper documentation of Board decisions and approvals, and we will work to improve our documentation.

Recommendation #3

We have a letter from a local realtor stating that the amount of the monthly lease is not excessive. We have enclosed a copy of the letter from the realtor. The lease includes buildings, grounds and certain furniture and equipment. The Board has been apprised of the amount of the lease. As to Board approval of renovations to the Blount Street property, our Board has approved the renovations. We failed to document the approval, as noted in Recommendation #2. We will continue to work to improve our documentation of Board matters.

John S. Carr & Company, Inc.

Post Office Box 12725
Pensacola, FL 32575

Monday, July 21, 2003

Celestine Lewis
1408 E. Blount Street
Pensacola, Florida 32501

Re: New Road to Learning, Inc. dba Jacqueline Harris Pyramid School of Learning

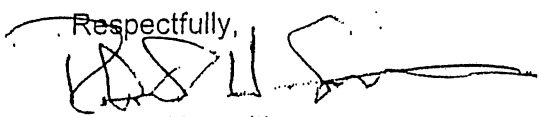
Dear Ms. Lewis:

As per your request, I have reviewed the lease between Creative Projects, LLC and New Road to Learning, Inc. and inspected the property located at 1408 E. Blount Street. The property consists of approximately 23,630 square feet, which is used as a school. The property has been renovated and brought up to current code for schools.

The lease is \$10,000.00 per month for a period of ten years with no escalations in the lease. This equates to \$5.10 per square foot, which is very reasonable for a renovated building with the central location that it has. The tenant has completed renovations at their expense. The tenant pays all of the operating expenses for the property. The interior and the exterior of the property are very well maintained.

If you need additional information, please do not hesitate to call me.

Respectfully,



Robert H. Smith

RHS/bp

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