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To

- drbassett@cox.net

Subject

FY12 Audit Letter

Email Body

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Arizona State Board for Charter Schools

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May 2, 2013

Patricia Bassett
Omega Schools, Inc.
8632 W. Northern Ave.
Glendale, AZ 85305

Dear Patricia Bassett:

The Arizona State Board for Charter Schools (Board) has reviewed your fiscal year 2012 audit package. The Board utilizes this information as one of several tools in determining compliance with your charter contract. The audit also serves as a valuable tool to charter operators in identifying a school's strengths and weaknesses.

The audit package identified one or more material weaknesses and significant deficiencies at the school that need to be addressed to be in compliance with Generally Accepted Accounting Principles (GAAP) and your charter contract. In addition, the compliance questionnaire identified weaknesses (signified by "no" answers) at the school that should be addressed in order to comply with certain laws and regulations. Please refer to your fiscal year 2012 audit package for the specific deficiencies and begin the process of correcting them as soon as possible.

In addition, a corrective action plan is required to be submitted to the Board because your audit identified a qualified opinion on the financial statements, weaknesses in internal control related to financial record retention (repeat) and segregation of duties, and issues of noncompliance with attendance record retention and state unemployment requirements. The specific requirements are listed below by area with associated deadlines. Further, the audit identified an issue involving employment eligibility verification.

Qualified Opinion
The audit indicated a qualified auditor's opinion of the financial statements because of the nature of the charter holder's records. Specifically, the auditors' report refers to the audit firm being unable to obtain complete records supporting the charter holder's accounts payable balance stated at $634,278 as of June 30, 2012, which is included in the liabilities in the statement of financial position and expenses in the statement of activities. In communications with the audit firm subsequent to the audit's submission, Board staff was informed that the qualified opinion was the result of the combination of Findings 2012-2, 2012-3 and 2012-4. In Finding 2012-2 the audit firm "noted that significant quantities of deposits, invoices, and payroll registers were not on file". [Please also see the "Financial Record Retention (Repeat) section of this letter.] In Finding 2012-3, the audit firm noted that the subsidiary accounts payable detail does not tie to the control. In Finding 2012-4, the audit firm noted that the charter holder recorded expenses on a cash basis, which represents a departure from GAAP. The issues found in Findings 2012-3 and 2012-4 were also identified in the fiscal year 2011 audit. By **June 1, 2013**, please provide a written explanation for why this occurred and a description of how the charter holder has changed its internal processes to ensure the completeness of accounts payable. As part of the explanation regarding the changes made to internal processes, the charter holder should minimally address changes made related to the matters identified in the three findings referenced above. Please note that in accordance with the Board's Audit & Compliance Questionnaire Follow-up Matrix, this information may be disclosed at an upcoming Board meeting for possible disciplinary action.

Financial Record Retention (Repeat)
For the second year in a row, your audit identified weaknesses in internal controls relating to the retention of financial records. As indicated above, the fiscal year 2012 audit noted "significant quantities of deposits, invoices, and payroll registers were not on file". Specifically, 30 of 60 invoices, 12 of 15 deposits, and 3 of 6 payroll registers sampled were not on file. As you may recall, the charter holder was required to submit a corrective action plan because a similar issue involving only supporting documentation for non-payroll cash disbursements was identified in the fiscal year 2011 audit. As part of the 2011 corrective action plan received in fiscal year 2013, the charter holder stated that invoices are filed by date within the vendor file and after the annual audit, records are maintained in accordance with state records retention requirements. In addition to any information submitted as part of the qualified opinion response [see above], by **June 1, 2013**, please provide the following:

- The date the fiscal year 2011 corrective actions were implemented.
- The specific steps the charter holder has taken since receiving its fiscal year 2012 audit to ensure that supporting documentation for each entry in the charter holder's accounting records is available for the auditor to review for the fiscal year 2013 audit. In the response, minimally, please make sure to address each area identified in the fiscal year 2012 audit (invoices, deposits and payroll registers).
- Confirmation that you have read the Board's policy, "Audit & Compliance Questionnaire Follow-up Matrix" (http://asbcs.az.gov/pdf/Audits/2008%20Audit%20Documents/Audit%20Matrix%202008%20Revision%20FINAL.pdf).

Further, please be advised that because of the repeat violations, requests to amend your charter for the purposes of expansion will be placed on hold until compliance is demonstrated. This includes increasing the enrollment cap, adding sites and adding grade levels.

Segregation of Duties
Finding 2012-6 identified weaknesses in internal control relating to segregation of duties. The charter contract requires the charter holder to follow standard internal control. This would include segregating duties to reduce the likelihood that error, mismanagement or fraud will go undetected and to safeguard assets. Please submit in writing by **June 1, 2013**, what the charter holder has done to address this issue so that it does not recur in the future.

Attendance Record Retention
The audit indicated that the charter holder was unable to provide teacher attendance registers for 7 of 10 students tested. By **June 1, 2013**, please provide the Board with the following:

- Confirmation that you have read ADE Guideline & Procedure EX-34 (http://www.azed.gov/wp-content/uploads/PDF/EX-34.pdf) and the Student Records portion of the General Retention Schedule for School Districts and Charter Schools (http://www.azlibrary.gov/records/school.cfm).
- An explanation as to why this occurred and the steps the charter holder has taken to address this issue so that it does not recur in the future.

State Unemployment
The audit indicated the charter holder has elected the state unemployment reimbursement option and has unpaid liabilities to the Arizona Department of Economic Security (ADES). By **June 1, 2013**, please provide the following:

- The amount owed as of June 30, 2012 and April 30, 2013 to the ADES.
- If applicable, evidence of any payments made to the ADES since the audit report's release towards the amount owed. Evidence would include, for example, bank statements showing electronic fund transfers or copies of canceled checks.
- A copy of the approved payment plan with the ADES. If a payment plan has not yet been approved with ADES, please provide an update on the charter holder's efforts to finalize a payment plan.
- A written statement reflecting the changes the charter has made to its procedures to ensure that future amounts are submitted timely to the ADES.

Employment Eligibility
In addition, your audit indicated that I-9 forms were missing for 1 of 6 employees sampled. Pursuant to federal law, all U.S. employers must verify the employment authorization of all workers they hire regardless of the worker's immigration status and document this through the completion and retention of Form I-9 (Employment Eligibility Verification Form). Additionally, under Arizona law (The Legal Arizona Workers Act) employers may not hire any "unauthorized alien" as an employee or independent contractor and must use the federal government's E-Verify program to check the employment eligibility of every new employee hired after December 31, 2007. For additional information on the Form I-9, please visit the U.S. Department of Homeland Security website at www.dhs.gov. For additional information on Arizona's Legal Arizona Workers Act, please visit the Attorney General's website at http://www.azag.gov/LegalAZWorkersAct/FAQ.html#whattocomply. This information is provided to remind you of your obligations to comply with federal and state laws and your charter contract. While no written response to the Board is required at this time, you are expected to comply with these obligations. Moreover, if the noncompliance is identified for a second time as defined by the Board's *Audit & Compliance Questionnaire Follow-up Matrix*, a corrective action plan may be required.

Lastly, repeat deficiencies were identified in your fiscal year 2012 audit that were not addressed from your last audit.

Board staff will review the fiscal year 2013 audit to identify whether these deficiencies have been corrected. Repeat issues in the 2013 audit could result in the necessity of a corrective action plan and/or other action as deemed appropriate by the Board.

NOTE: Please note that the Board's processes for five year interval reviews and charter renewal include historical financial, contractual and legal compliance. Therefore, issues identified through the annual audits will be considered by the Board and may adversely affect the Board's decision regarding a charter holder's request for charter renewal.

Except as indicated above, this letter does not address student attendance reporting issues identified through your audit. Those issues will be reviewed by the Arizona Department of Education.

In August 2012, the Board adopted a Financial Performance Framework, which uses information from the annual audit reporting packages to evaluate a charter holder's financial performance. Please note that a charter holder's financial performance will be considered by the Board during five-year interval reviews, when making decisions about eligibility for expansion, in considering whether to renew the charter contract, and at other times when the Board makes decisions related to a charter holder's academic and/or operational performance. The financial framework and related guidance are available on the Board's homepage (http://asbcs.az.gov).

If you have any questions or concerns, please feel free to contact me at (602) 364-3106.

Sincerely,
Andrea Leder
Government & Financial Services Manager

Date Sent

05/02/13

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