

COMMUNITY ROOTS CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2010

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October 22, 2010

Board of Trustees  
Community Roots Charter School  
51 Saint Edwards Street 3<sup>rd</sup> Floor  
Brooklyn, NY 11205

In planning and performing our audit of the financial statements of Community Roots Charter School (the "School") as of and for the year ended June 30, 2010, 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 our auditing procedures 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.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

The observations we have identified is described in the attached Exhibit I. We have determined that these observations do not constitute a significant deficiency or material weakness. Management's responses to the observations have not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Exhibit II and III that accompanies this letter summarizes status of prior year observations and corrective actions taken by the School on prior year observations.

Board of Trustees  
Community Roots Charter School

This communication is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Department of Education of the City of New York, The State Education Department of the State University of New York, and others within the School and is not intended to be and should not be used by anyone other than these specified parties.

We already discussed these comments and suggestions with management. We would be pleased to discuss these comments with you at greater length and assist you in the implementation of any of our recommendations should you desire.

We appreciate your cooperation and the assistance we received during the course of our audit.

  
FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
October 22, 2010

COMMUNITY ROOTS CHARTER SCHOOL  
MANAGEMENT LETTER  
JUNE 30, 2010

CONTENTS

EXHIBIT I – CURRENT YEAR OBSERVATIONS

A.	General Ledger Maintenance	1
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EXHIBIT II – CURRENT YEAR STATUS OF PRIOR YEAR OBSERVATIONS

A.	Capital Assets	2
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EXHIBIT III – CORRECTIVE ACTIONS TAKEN ON PRIOR YEAR OBSERVATIONS

A.	Procurement of Goods and Services	3
B.	Insurance Coverage	4
C.	Cancelled Check not Supported by Dual Signatures	4

COMMUNITY ROOTS CHARTER SCHOOL  
MANAGEMENT LETTER

EXHIBIT I – CURRENT YEAR OBSERVATIONS

A. GENERAL LEDGER MAINTENANCE

Observation

Although schedules were prepared for our audit field work, these schedules and reconciliations were not prepared and updated throughout the fiscal year ended June 30, 2010. This resulted in various adjustments to the general ledger during the year end closing of books and records which prolonged the completion of the audit. These adjustments could have been minimized had accounts been analyzed and compared with the general ledger on a regular basis.

Recommendation

Accounts should be analyzed and reconciled with the general ledger on a monthly or quarterly basis. Periodic in-depth account analysis and reconciliations will help the School to detect and correct errors in the general ledger on a timely basis. Management should utilize the outside finance consulting firm periodically throughout the year and establish a standardized reporting package that will allow management to analyze and reconcile accounts.

Management's Response

Director of Finance will have monthly meetings with the Co-Directors to review the current fiscal status and review all financial activity. Additionally, the School will conduct quarterly meetings with outside consulting firm to review and reconcile accounts in addition to make recommendations on process improvements.

COMMUNITY ROOTS CHARTER SCHOOL  
MANAGEMENT LETTER

EXHIBIT II – CURRENT YEAR STATUS OF PRIOR YEAR OBSERVATIONS

In conjunction with performing the audit of the School's financial statements for the year ended June 30, 2010, we followed up on the status of implementation of audit recommendations which were made during the year ended June 30, 2009.

A. CAPITAL ASSETS

Observation

We noted the following matters related to the School's capital assets:

- The School maintains an inventory listing of property and equipment by room location. The inventory is identified, tagged and entered into a detailed fixed asset ledger. However, this fixed asset ledger does not contain a clear trail to the fixed asset register maintained in the books and records of the School.
- Postage, shipping and other charges associated with capital assets were not capitalized.

Recommendation

As indicated in the School's policies and procedures, fixed assets acquisitions should be identified, tagged and entered into a detailed fixed asset ledger. Tags should be placed in a visible area and there should be a clear trail of tracing the capital asset to the fixed asset ledger maintained by the School. On an annual basis, the School should take a physical inventory of all capital assets to ensure the completeness and accuracy of the School's records.

Acquired fixed assets should be stated at acquisition cost, including all costs necessary to bring the asset to its location in working condition.

Management's Response

Management is in agreement and will implement the recommendation.

Current Year Status

During our 2010 audit, we noted that the School is properly capitalizing all costs associated with bringing the capital asset into service. However, the School has not fully completed the inventory of fixed assets and did not provide a clear trail from the fixed asset inventory to the financial register.

Updated Management's Response

Management is in agreement and will implement the recommendation.

COMMUNITY ROOTS CHARTER SCHOOL  
MANAGEMENT LETTER

EXHIBIT III – CORRECTIVE ACTIONS TAKEN ON PRIOR YEAR OBSERVATIONS

A. PROCUREMENT OF GOODS AND SERVICES

Observation

We noted the following exceptions regarding the School's procurement system during our test of 25 sample transactions for fiscal 2008:

- Purchase orders/invoices to document prior authorization and/or approval were not consistently used. Four instances where approval signatures on the purchase orders/invoices are missing but checks were drawn to pay for the goods.
- Six instances where we noted no evidence of cancelation on purchase invoice when paid.

Recommendation

The School should enforce the procurement policies and procedures that are outlined in its fiscal policies and procedures manual. The School should document in writing all decisions that are not consistent with policy. If such situations are common, consideration should be given to modifying the policy.

Management's Response

Management will review roles, responsibilities and procedures to identify ways the recently hired Finance Assistant can support the Director of Finance. The School's growth in student population, staff and budget has led to a tremendous increase in volume of financial transactions. Management agrees consistency for all transactions must be ensured and will implement the recommendation.

Corrective Actions

During our test of 30 transactions, we noted that general, administrative and capital expense invoices are now booked on a PO basis and analyzed by the Finance Manager with approval from the Director of Finance. All purchases are made in accordance with the School's fiscal policies and procedures.

COMMUNITY ROOTS CHARTER SCHOOL  
MANAGEMENT LETTER

B. INSURANCE COVERAGE

Observation

We noted insurance coverage under employee dishonesty is limited to \$250,000. This coverage appears low based on current cash values; therefore we believe the School is under insured in regards to the above coverage.

Recommendation

We recommend an increase of coverage for employee dishonesty to an amount that covers maximum cash held by the School at any one time during the year. In addition, the School should periodically review insurance coverage to ensure proper and adequate means by which to preserve School assets.

Management's Response

Management is in agreement and will implement the recommendation.

Corrective Actions

Management has implemented the recommendation by expanding coverage to \$1,000,000.

C. CANCELLED CHECK NOT SUPPORTED BY DUAL SIGNATURES

Observation

During our test of cash disbursement transactions, we noted three sample checks that did not contain dual signatures. The School's policies and procedures require dual signatures for payments in excess of \$5,000.

Recommendation

The School should strictly comply with their "processing accounts payable" policies.

Management's Response

Management is in agreement and will implement the recommendation.

Corrective Actions

During our 2010 audit, we did not note any exceptions.