

Genesee Community Charter School

Non-Payroll Disbursements

JULY 2020



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Genesee Community Charter School

Audit Objective

Determine whether School officials ensured that non-payroll disbursements were adequately supported, properly approved and for School-related purposes.

Key Findings

- The Board did not adopt or enforce adequate disbursement policies.
- Of 1,317 disbursements reviewed, 207 check disbursements, totaling \$176,847, and 274 debit and credit card transactions, totaling \$84,672, did not have adequate supporting documentation.
- The School did not have written agreements with six service providers paid \$43,144; had inadequate agreements with nine providers paid \$267,432; and did not monitor for contract compliance, which resulted in apparent overpayments of \$2,180.

Key Recommendations

- Review and revise policies, and adopt additional policies, to address current operations and needs, and ensure adopted policies are communicated to staff and enforced.
- Ensure a thorough, independent review of disbursements occurs prior to payment to verify that disbursements are adequately supported and for School purposes.
- Execute detailed written agreements with all service providers and ensure agreements are monitored for compliance.

School officials disagreed with some of our findings but indicated they have begun implementing corrective action. Appendix B includes our comments on issues raised in the School's response.

Background

The Genesee Community Charter School (School) is located at the Rochester Museum & Science Center in the City of Rochester.

The School is governed by a 14-member Board. The school leader is the chief executive officer and responsible for day-to-day oversight and management. The current school leader started July 1, 2018. The former school leader retired, but continued to work part-time during the 2018-19 school year to assist with the transition.

According to the School's bylaws, the Treasurer is responsible for the custody of all funds and complete and accurate financial records. The Coordinator of School Operations (CSO) conducts day-to-day financial activities and the School contracts with an accountant to assist with financial recordkeeping and reporting.

Quick Facts

2019-20 Appropriations	\$3.3 Million
Non-Payroll Disbursements (July 1, 2017 – April 30, 2019)	\$2.5 Million

Audit Period

July 1, 2017 – October 24, 2019

Non-Payroll Disbursements

How Should a Board Oversee Disbursements?

The board is responsible for overseeing financial activities and safeguarding resources. Appropriate oversight and monitoring includes establishing and enforcing clearly defined bylaws and other policies to establish controls and help ensure that disbursements are authorized, adequately supported and for actual and necessary expenditures before approval for payment. Adopted policies must be effectively communicated to those within the organization and monitored for compliance.

An effective claims auditing process subjects all proposed payments to an independent, thorough and deliberate review to ensure they have adequate supporting documentation, represent actual and necessary expenditures and are in accordance with school policies. To properly audit credit card purchases, the board should ensure that officials reconcile credit card statements with itemized receipts and invoices in a timely manner. Debit cards pose significant risks because users have direct access to a school's bank account, without audit and approval prior to payment, making it more difficult to detect unauthorized use.

The School's bylaws require the Treasurer to keep, or cause to be kept, complete and accurate accounts of disbursements. Effective financial software controls ensure that deletions and adjustments cannot be made without authorization and that an independent party may routinely review data entered into and changed in the system. The software should provide a means of determining the identity and activity of individuals who access the software.

School policy requires a properly completed purchase order (PO) for each purchase decision. The CSO is responsible for processing POs, and the school leader has approval authority for all purchases. The policy also states that vendor invoices, supported by an approved, properly completed PO, should be "date received" stamped, entered into the software, and reviewed and approved by the school leader before being processed for payment. Additionally, the policy requires that invoices and related general ledger account codes be reviewed by an outside accountant on a weekly basis.

School policy requires checks to be prepared by persons independent of those who initiate or approve expenditures. Check signers should examine all original supporting documentation to ensure that each item has been properly reviewed before signing a check, and should not sign a check if supporting documentation is missing or there are questions about a disbursement. The policy prohibits checks being written to cash.

For travel advances, the policy requires a school leader-approved request, a completed detailed expense report upon return also approved by the school leader, and the timely return of any cash not spent. Additionally, reimbursements for travel expenses, business meals or other approved costs are to be made only

upon the receipt of a properly approved and completed expense reimbursement form. All receipts must be attached and a brief description of the business purpose of the trip or meeting must be noted on the form. Additional guidelines on the back of the expense report form include a meal reimbursement limit of \$35 per day and a requirement to submit odometer readings for mileage reimbursement.

The Board Did Not Adopt Adequate Policies

The School had an accounting and financial policies and procedures manual (manual), dated November 2009, that included policies for purchases and disbursements. However, the guidelines for disbursements were limited and did not address debit or credit card use, disbursements during field studies¹ or shipping and delivery charges (such as when they are allowed or what is considered a reasonable charge).

While there were limited policies addressing certain aspects of employee travel reimbursements, there was no comprehensive policy detailing authorized expenditures such as travel costs or meals (during travel or for school-related events) for all payment methods (advances, reimbursements, school debit or credit cards, or a check paid directly to a vendor). It was also unclear whether credit and debit card transactions should be held to the same requirements as other purchases, such as daily meal limits for reimbursements.

Therefore, we were unable to determine whether certain transactions – such as \$40 for a hotel cleaning tip, a hotel room for the night of the last day of a conference, or an \$89 meal – were appropriate School disbursements. We also found that the School paid \$1,530 in sales tax and \$683 in shipping for debit and credit card transactions. While some of these shipping charges may have been needed, it is questionable whether other charges were reasonable or necessary. For example, shipping charges were paid on some purchases from a major online retailer which may have been avoidable if all purchases were either made from one School account with free shipping or combined with other purchases to reach free shipping thresholds. Additionally, the School paid \$56 for priority mail shipping on a \$116 purchase (48 percent) and \$55 for rush delivery on a \$209 purchase (26 percent). The School may have avoided unnecessary costs if authorized purchasers had clear guidelines to avoid exorbitant shipping charges or limit expedited charges to types of purchases deemed to warrant them.

The School also had a separate, undated purchasing policy which in some instances contradicted the manual. For example, the manual required verbal quotes for purchases costing \$1,000 to \$2,000, two written quotes for purchases

¹ Field studies are field trips providing students opportunities to “learn on location” with a purpose of addressing specific learning goals and providing research that students will use in their studies throughout the year. While most field studies were local day trips, there were also overnight and out-of-state trips.

costing \$2,000 to \$3,000 and three written quotes for purchases over \$3,000; however, the separate policy required three verbal quotes for purchases exceeding \$5,000 and three written quotes for purchases exceeding \$10,000. Neither the manual nor the separate policy specified how to retain documentation after purchase. School officials and staff did not know there were two different policies, were unsure of which policy should be followed and could not adequately explain the thresholds for obtaining quotes.

Because the Board did not establish adequate policies, officials and staff did not have proper guidance regarding their responsibilities for processing non-payroll disbursements.

The Board Did Not Enforce Established Policies

The School's practices did not align with its policies because the Board did not regularly review, address or ensure compliance with the existing policies. We reviewed 473 non-payroll check disbursements totaling \$739,507 from July 1, 2017 through April 30, 2019² and identified the following examples of non-compliance with School policies and bylaws:

- The Treasurer did not ensure that complete and accurate records of disbursements were maintained. For example, the CSO did not record individual vendor purchases made with debit cards, and combined multiple card transactions made on the same day by recording the total daily amount. Additionally, checks were often printed and recorded with incorrect dates (not the date they were generated). The CSO was unaware that check dates did not print properly and was unable to provide an explanation.
- Invoices were not stamped with the date received. The CSO stamped the invoices "Entered" but did not include a date. Due to the unreliability of check dates, the accurate dating of invoices is especially significant to the disbursement review process.
- The School did not use POs, but instead had a requisition form and a professional development reimbursement form. These forms were not consistently used and were not signed to indicate approval. We found 291 disbursements (62 percent) totaling \$685,006 that did not have either a requisition or a professional development form. Additionally, forms that were prepared often did not contain sufficient, complete information regarding the details and purpose of the disbursement.
- The school leader did not review and approve most invoices. Generally, the check signer reviewed and approved them. The 473 check disbursements reviewed were signed by the Treasurer (63 percent), Secretary (27 percent),

² See Appendix C for details on our sampling methodology.

school leader (5 percent), former school leader (4 percent) and former Board President (1 percent).

- The accountant told us she did not review invoices or have any involvement with disbursements other than reviewing the budget codes in the financial software.
- Checks were prepared by the CSO who also initiated purchases.
- One \$500 check was written to cash and three checks totaling \$2,395 were written to petty cash.
- There was an overall lack of supporting documentation for all disbursement types reviewed.³ For example:
 - Employee travel reimbursements generally had expense reimbursement forms, but they were not always completed and the same standard format was not used. Additionally, all receipts were not included and the forms did not always have a description of the business purpose. Information was also limited for mileage, sometimes lacking the destination, purpose or odometer reading.
 - Documentation for cash advances was generally insufficiently detailed and often lacked documented approval other than the signed checks. In addition, employees often did not complete an expense report, and instead provided their receipts and remaining cash to the curriculum specialist.⁴ While the curriculum specialist told us that she prepared a sheet to document the expenditures and balance of cash owed and then turned over the documentation to the CSO with the cash for deposit, there was no documentation of her review or of the school leader's approval as required. Additionally, not all of the redeposits of cash we reviewed were supported by the curriculum specialist's summary sheets.
- Certain meal reimbursements were limited to \$35 per day while others were limited to \$40 per day and some were not limited at all. The CSO told us the school leader increased the allowable limit. However, the form was not updated to reflect this and there was no documentation of an increase to the meal reimbursement limit. Further, when one individual paid for a group's meal, officials did not prepare a summary or compare everyone's reimbursements to identify any duplicate or excessive claims.
- We were unable to determine whether quotes were obtained because officials did not retain documentation other than the quote from the selected vendor. Further, officials allowed an information technology (IT) vendor to

3 See "Disbursements Lacked Adequate Supporting Documentation" for further details.

4 The curriculum specialist coordinates and oversees field studies, which was the purpose for most of the cash advances.

obtain equipment quotes on the School's behalf, and also to submit quotes from his firm and independently determine that his firm's quotes were the lowest price. We found this vendor's prices were reasonable, but officials cannot ensure they are obtaining the best value when they allow this practice.

These deficiencies resulted from the Board's failure to implement effective controls or provide adequate oversight of disbursements. The CSO's duties were not properly segregated because she performed the purchasing and disbursement activities with limited review, and there was no documented approval process for purchases. The CSO initiated a significant number of purchases (invoiced and by debit/credit card), received invoices, entered disbursements into the software, and prepared and printed checks. Even though checks were signed by another individual who received the supporting documentation for review, and the Treasurer opened and reviewed bank statements (including canceled check images), the review of disbursements was inadequate and ineffective.⁵ Further, with the use of debit and credit cards and check signing authority, the school leaders were able to make and approve their own purchases without any additional approval.

Officials Did Not Implement Essential Financial Software Controls

The financial software did not have the necessary controls to maintain data integrity and deter inappropriate activity. The software allowed changes and deletions to transaction data, including voided transactions, deletions and adjustments to vendor names and disbursement amounts, without approval.

In addition, School officials did not use available software controls to safeguard records and resources. The two users of the financial software (the CSO and accountant) shared one user account, with the same username and password, and had full access to the software. Further, although transaction logs and activity reports were available in the financial software, no school official generated the logs to perform a routine, independent review of user access and activities logged within the software.

We reviewed the sequence of check numbers and found gaps in the sequence due to voided checks, as well as a 1,000-check number gap, which the CSO had not noticed and was unable to explain.

The ability to alter, add or delete data increases the risk of inappropriate disbursements. For example, a user could conceal a theft by issuing an unauthorized check and subsequently deleting the check or changing the vendor name. Additionally, without unique login credentials to link user accounts to

⁵ See "The Review of Disbursements Was Inadequate and Ineffective."

specific individuals with properly authorized access rights, there is an increased risk of unauthorized or inappropriate activity. Further, when users share an account, accountability is diminished and any questionable system activity may not be traceable to a specific user.

The Review of Disbursements Was Inadequate and Ineffective

The Board did not review or approve disbursements. Instead, the individuals signing the checks reviewed and approved the disbursements using different processes for documenting their review. The Treasurer generally signed and dated the invoices or credit card statements reviewed and the Secretary generally initialed, but did not date, the documentation. The current school leader told us she did not sign off on the invoices and, therefore, there was no documentation of her review. Additionally, there was no documentation of the review of invoices or receipts to support cash advances.⁶

Further, the Treasurer told us that his reviews of debit and credit card transactions and employee reimbursements were “spot checks” and he did not review all the detail and supporting documentation. Additionally, the supporting receipts and invoices were disorganized and often stapled together unsorted, impeding a proper review.

We were unable to determine whether disbursements were approved prior to payment because the checks were printed and dated before review, to be signed by the reviewer. Additionally, the invoices, and debit/credit card statements – for transactions reviewed after they were paid with a card – were not always signed and dated to indicate approval. Of the 473 reviewed check disbursements,⁷ the supporting documentation for 197 (42 percent) totaling \$239,092 was either not signed indicating approval (63) or was not dated (134). Of the 27 statements with debit and credit card transactions, 12 (44 percent) did not have signatures or initials to indicate review or approval.

The ineffectiveness of the review process increases the risk that inappropriate transactions could have been made and not detected.

Disbursements Lacked Adequate Supporting Documentation

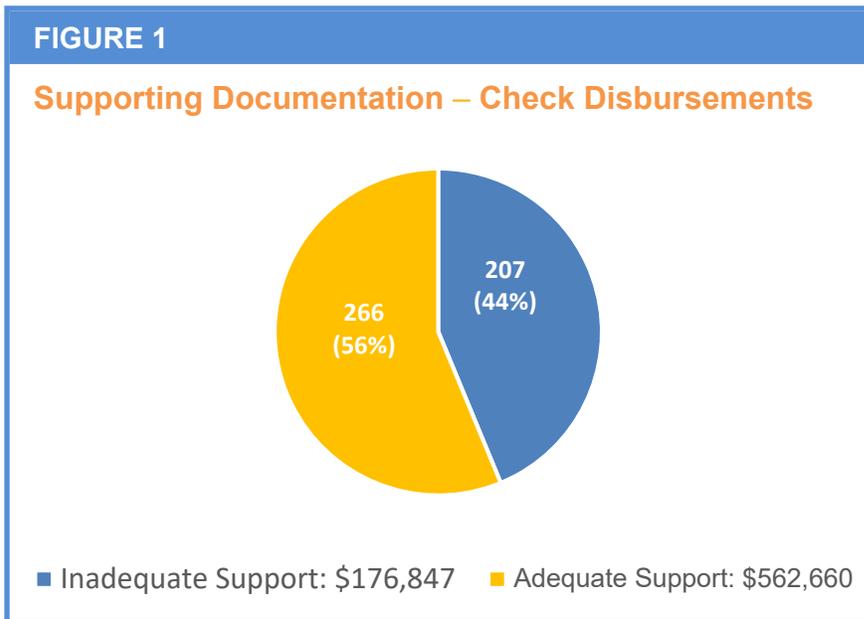
The School made disbursements by check and also used debit or credit cards to make purchases. The School started using credit cards instead of debit cards in February 2018 to eliminate the extra risk of debit cards and did not use debit cards after May 2018. The CSO, school leaders and curriculum specialist had

6 See “The Board Did Not Enforce Established Policies.”

7 See Appendix C for details on our sampling methodology.

School debit and credit cards. Additionally, cardholders sometimes allowed other staff members to use their cards, but did not maintain a log. Disbursements made by both checks and debit and credit cards lacked adequate supporting documentation.

Check Disbursements – We reviewed 473 check disbursements totaling \$739,507⁸ and found that 207 (44 percent) totaling \$176,847 did not have adequate supporting documentation, such as itemized invoices or receipts (Figure 1).

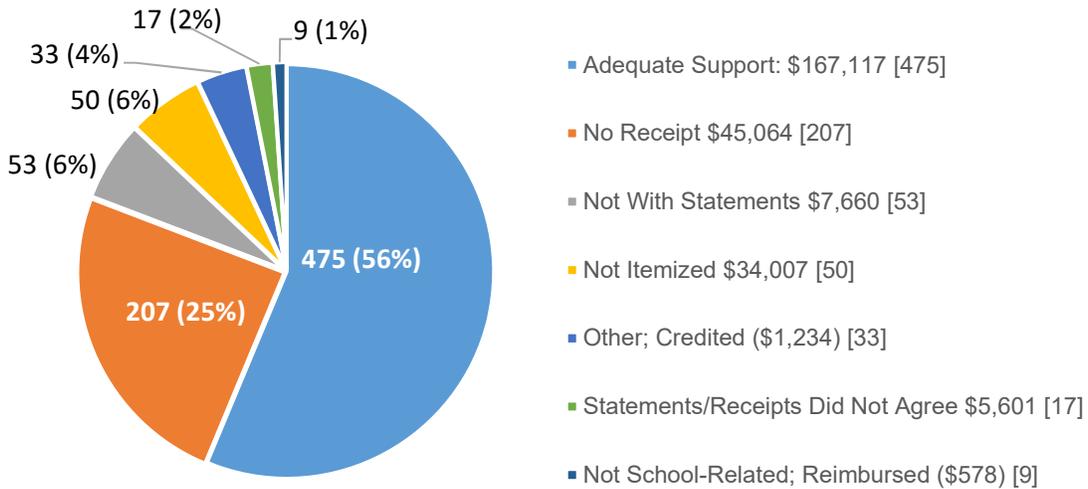


Debit and Credit Card Transactions – We also reviewed all 844 debit and credit card transactions totaling \$258,792 from July 1, 2017 through April 19, 2019. Of these, 274 (32 percent) totaling \$84,672 did not have adequate supporting documentation, 53 totaling \$7,660 had adequate support that was not submitted with the statements to the reviewer, and nine totaling \$578 were non-school related and later reimbursed by the employee (Figure 2).

⁸ See Appendix C for details on our sampling methodology.

FIGURE 2

Supporting Documentation – Debit/Credit Card Transactions



Credit and debit card documentation that was not submitted for review with statements included receipts stored in other places (such as with deposit detail for redeposited unused cash advances) or with statements for later months. For example, documentation for a \$1,926 November 2017 debit card transaction at Disney Resorts, including \$490 in personal expenses for the former school leader’s conference trip, was not submitted until nine months later (August 2018) with her calculation of personal costs and a reimbursement check written to the School. The December 2017 Board minutes stated that the former school leader reported attending a conference in Orlando, Florida; however, there was no documentation of conference attendance or explanation provided with the supporting documentation. These inappropriate costs were not identified and repaid at the time they occurred, in part because officials did not carefully review the debit card transactions on bank statements or require supporting documentation. Similarly, while switching to credit cards should have reduced risk by providing the opportunity to review documentation and approve or deny transactions before the statement is paid, officials relinquished this added control when they did not carefully review credit card statements and itemized documentation before approving the payment.

After our review, we informed School officials of the lack of receipts and asked for further documentation. They subsequently provided documentation for 35 debit and credit card transactions totaling \$7,603. However, this additional documentation had not been provided to the individual who reviewed and approved the credit card payments.

For one vendor, while the product purchased (cleaner) was reasonable, we question whether the cost for this particular product was necessary given the availability of other similar products with significantly lower costs. We compared costs for similar products (concentrated natural solution) and found that the School could have potentially saved approximately \$70 or \$1,180 by purchasing one of two other available natural cleaning products we identified as examples.

Due to the lack of documentation to support the business purpose of purchases, we were unable to determine whether all purchases were for appropriate School purposes. While these expenditures (other than those identified and repaid by staff) appeared reasonable and appropriate, many of the School's vendors provide goods or services that could also be used for personal purposes. Therefore, it is essential to document the business purpose and appropriate approvals for all debit and credit card expenditures prior to payment.

How Should Officials Execute and Monitor Service Agreements?

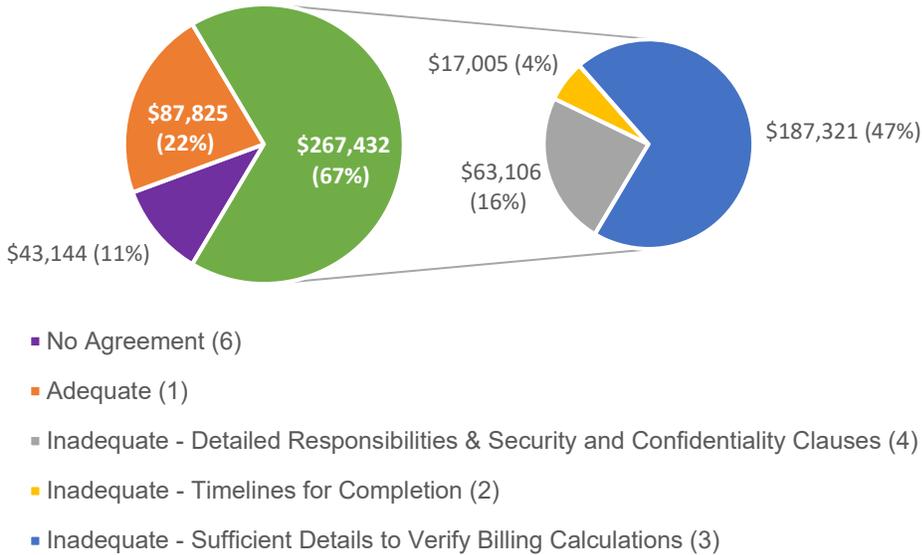
The School should execute written agreements with all service providers. Agreements should clearly define and communicate the intentions of both parties, and clearly address the needs, expectations, roles and responsibilities of the contracted parties, including pricing, billing and terms of payment. Such agreements should be as specific as possible to implement the parties' intent. Agreements that are unwritten or lack such details can lead to indecision, disagreements or additional unanticipated costs. Officials should also ensure that agreements are periodically monitored to ensure compliance.

The Board Did Not Have Adequate Written Agreements With All Service Providers

We reviewed records for 16 service providers paid \$398,402 and found that the School did not have agreements with six providers (\$43,144) and had inadequate agreements with nine providers (\$267,432). The School's agreement with the remaining provider was adequate (Figure 3).

FIGURE 3

Agreements With Service Providers



The nine agreements were inadequate because they did not contain sufficient information, such as detailed roles and responsibilities and applicable security and confidentiality clauses (4), timelines for completion of services (2) or sufficient details (such as rates for all services, products or specific staff positions) to verify billing calculations (3). In addition, one of these contracts was not signed by the vendor.

For example, three of the inadequate agreements were one-page letters offering contract positions, but also including language to accept the offer of employment with a date to report to work. These letters were misleading because the individuals were not employees. Additionally, while the agreements included an hourly rate and approximate number of annual or weekly hours, they did not contain detailed roles and responsibilities, or security and confidentiality clauses. These are especially important given the nature of these positions, including one for IT support.

As another example, the agreement with the school lunch provider listed meal prices, but did not include the cost of extra items, such as bowls, ketchup, mustard and napkins. The school staff member responsible for coordinating school lunch told us that she had not considered requesting cost estimates for these purchases or including them in the contract because they had always been purchased from the meal provider for convenience. Because the School

routinely purchased these items from the school lunch vendor, officials should have included prices for the items in their requests for proposals and resulting contracts.

For certain vendors, such as the transportation provider and professional development and education consultants, officials did not consider a written agreement necessary. In other situations, officials were not aware that agreements were insufficient or outdated, or did not consider the need to update them.

Because the School did not have an agreement for transportation services, it received inadequately detailed bills that also did not correspond with staff expectations. The transportation invoices did not identify bus size or how the rates were charged. Invoices had varying rates and amounts for similar trips and there was no documentation or explanation for amounts billed. For example, some trips were billed based on a rate for the number of hours and mileage and others were a flat fee.

The staff member mainly responsible for coordinating transportation told us she did not receive or review the invoices or know how they were billed. When we showed her some invoices, she said they did not reflect her understanding of how the services would be billed, but believed that the amounts paid were reasonable for the services provided (i.e., larger bills for a longer trip or longer wait time). She also told us she provided her cost estimates (or quotes the vendor recently started providing) for requested services to the CSO for comparison with invoices, and discarded her copy at the end of the school year because she believed the CSO was retaining the official copy. However, the CSO said she did not retain the documentation because the estimates never matched the invoices. Therefore, we were unable to compare the estimates/quotes to the amounts billed. The choice to accept instead of follow up on the differences between estimated and invoiced costs may have caused the School to pay more for transportation services than necessary or planned. We reviewed a recent quote which contained only a lump sum amount and did not have any details, such as the hourly rate. As a result, officials do not have adequate information to understand how they are being billed for transportation services and cannot compare services and costs with those of other providers.

Without adequate written agreements, the intentions of the School and related parties are unclear. A lack of agreements could result in additional liabilities or incomplete services to the School. Further, officials cannot ensure that they have protections in place to safeguard sensitive and confidential data.

The Board Did Not Ensure Compliance With Agreements

School officials did not adequately review invoices for compliance with agreements, such as ensuring bills were calculated in accordance with agreed upon rates, because the Board did not adopt guidance establishing who was responsible for contract management. Without periodically monitoring agreements, officials cannot ensure that parties are complying with contract terms in the best interest of the School.

We reviewed invoices and compared disbursements to the agreements to determine whether officials appropriately paid the providers. We found that eight providers were paid according to agreements and one was overpaid at least \$1,668, and we were unable to determine whether one provider was paid appropriately because the invoices did not include the individuals' job titles to compare to rates in the agreements. Additionally, one service provider without an agreement was paid prior to services being performed.

- The School's agreement with the accountant stated that she "will provide accounting and financial services on an as needed basis at a current rate of thirty-five dollars per hour," but did not itemize examples of the types or frequency of services. The accountant was overpaid \$1,668 for eight invoices because she started billing for an hourly rate (\$40) that exceeded the rate authorized in the agreement (\$35). Although the original agreement was from 11 years ago, the Board President told us the Board did not authorize a new agreement or rate. We were unable to determine whether seven other invoices were paid in accordance with the agreement because they did not list the number of hours or the hourly rate. Additionally, the accountant's invoices did not have a consistent, detailed format to indicate the hours per day, total invoice hours, hourly rate, total charged and a detailed description of work performed. Therefore, officials cannot verify the charges are appropriate and ensure they are paying for services provided.
- Although the IT service provider was paid at the agreed upon rate, he may have been overpaid \$512 in 2018 because the hourly details for time worked as listed on the invoice were less than the total number of hours billed. For example, the invoice listed three days worked at three hours each day – a total of nine hours – but the total number of hours billed for that week was listed at 10. Additionally, the vendor did not invoice for 228 hours worked from July 30, 2018 through March 8, 2019 until March 8. These invoices did not list the detailed hourly schedule worked, so we were unable to determine if the total number of hours billed was calculated correctly. Further, the long delay in billing increases the risk of billings for time not worked over the last seven months. Officials did not require the IT consultant to provide additional detail for these late-billed services before approving payment.

What Do We Recommend?

The Board should:

1. Review and revise policies and adopt additional policies to address current operations and needs, and ensure adopted policies are communicated to staff and enforced.
2. Ensure a thorough, independent, documented review of disbursements occurs prior to payment.
3. Ensure that School officials provide and retain adequate supporting documentation and disbursements are made only for appropriate School purposes.
4. Ensure that all financial software users have their own unique username.
5. Consider alternative software or implement compensating controls for software deficiencies, such as independent review of system audit logs.
6. Execute detailed written agreements with service providers and ensure the agreements are monitored for compliance.
7. Consult with the School's attorney on seeking repayment for the overpayments identified.

Appendix A: Response From School Officials⁹



Genesee Community Charter School at the Rochester Museum & Science Center

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Board of Trustees

June 10, 2020

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President

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Annemarie Wess
Vice President

To Whom It May Concern:

Michelle Burack
Secretary

This letter acknowledges our acceptance of the preliminary draft Office of the State Comptroller Non-Payroll Disbursements Report received on May 11, 2020. This report was an audit of the School's ability to adequately support and approve non-payroll disbursements based on GCCS' policies and procedures from July 1, 2017 – October 24, 2019. This was a timely report and audit from the State Comptroller since the School has been reviewing many policies and procedures to ensure a financially stable and transparent environment for the community.

Kevin Sutherland
Treasurer

Allison Schultes

Mark Schiesser

Ryan O'Malley

Elizabeth Pietrzykowski

Marcia Joy

Nolica Murray-Fields

Traci Terrance

Jessica Nordquist

Cheryl Moeller

As part of the School's review of these policies, the Genesee Community Charter School's Finance Committee (created by the GCCS Board of Trustees) identified that the School's Accounting and Financial Policies and Procedures Manual was outdated and therefore spent the 2019-2020 school year revising the manual to match the current procedures in place. Therefore, it was no surprise to see that the first finding and recommendation was to review and revise policies to address current operations and needs. In fact, the Board created and adopted a new Procurement Policy on November 6, 2019 that provided important clarity to some of the specific examples evidenced in the report. The revised Accounting and Financial Policies and Procedures Manual is expected to be finalized and approved by June's Board of Trustees meeting this year. Corresponding reimbursement and travel forms are currently being updated.

See
Note 1
Page 18

Education Governance Council

Shannon Hillman
School Leader

Rebecca Mason

Margaret Deutschbein

The report recommends, "Debit cards pose significant risks because users have direct access to a school's bank account, without audit and approval prior to payment, making it more difficult to detect unauthorized use." GCCS has already cancelled all debit cards and replaced them with credit cards. Additionally, the Board's Finance Committee was advised by the School's independent auditor to transition from a school debit to credit card to reduce risk and liability. The transition was made in February, 2018. However, the audit period included this transition and as a result, provided additional scrutiny.

The report recommends, "To properly audit credit card purchases, the Board should reconcile credit card statements with itemized receipts and

See
Note 2
Page 18

⁹ The School officials' response references information on page 10 in the draft report. The referenced information is now on page 9, due to changes during final formatting.

invoices in a timely manner.” Our position is it’s the Board’s responsibility to enforce clearly defined policies that establish controls to ensure disbursements are authorized, adequately supported, and for necessary and reasonable business related expenditures not to review the actual credit card statements and itemized receipts themselves. The updated Accounting Manual requires the Coordinator of School Operations and the Treasurer review the actual credit card statements and all itemized receipts for accuracy and completeness before payment is made. We contend this provides proper oversight of credit card purchases and will allow GCCS to avoid late fees and penalties that certainly would ensue from delays if the Board has to take up the day-to-day operations of reviewing credit card statements and itemized receipts.

Although the School acknowledges that additional documentation is needed to support debit/credit card transactions, the report highlighted an example involving a conference in Orlando, Florida that is atypical of routine procedures and is misrepresented in the report.

See
Note 3
Page 18

In November 2017, the School Leader presented a workshop titled “Cultivating Culture” at the Blue Ribbon Schools of Excellence National Conference held at the Disney World Yacht Club Resort in Orlando, Florida. Since the conference took place November 28-December 1, adjacent to Thanksgiving Day weekend, the School Leader’s husband accompanied her on the trip. They spent the weekend before the conference enjoying Disney World together, and then her husband continued to vacation while the School Leader attended the conference.

The School Leader charged pre-conference expenses to her own credit card and expenses while the conference was on-going to the GCCS debit card. Because the vendor included all charges on a single account, the School Leader had to follow up with the vendor to get additional clarifying supporting documentation to separate personal from GCCS expenses. Unfortunately, the vendor was slow to respond which caused a delay in the School Leader’s reimbursement to the GCCS, but all personal expenses were reimbursed to GCCS in full.

See
Note 4
Page 18

While the School acknowledges the need to provide further documentation regarding particular school-related items to support the need for school-usage, the second (and only other) example in the credit/debit card transactions provided in the report involved a natural cleaner that was purchased from a vendor based on multiple recommendations from staff members who provided research to show that was a natural solution able to prevent the spread of germs and is an effective cleaner. The School reviewed all the factors that went in to choosing this vendor and stands by its decision. NYS acknowledges management must consider all factors in selecting a vendor, not solely price, so we don’t understand why NYS doesn’t accept GCCS’ choice of this vendor which was duly vetted. Again, this was an atypical circumstance that did not follow the trends of the other transactions during the audit period.

See
Note 5
Page 18

Additionally, the School would like the address the additional 35 receipts provided upon request noted on page 10 of the report. Not all receipts are provided at the time the credit card statement needs to be paid. When a receipt is not recovered at the time the balance needs to be paid, the Coordinator of School Operations and the Board of Trustees Treasurer notates this on the statement, yet still pays the statement in full in order to not incur any interest charges or late fees. Documentation is attached to the credit card statement after it is provided. These statements are held separately until all charges are reconciled.

See
Note 6
Page 19

The audit notes checks should not be made to cash or petty cash and we agree. GCCS agrees with this recommendation, had made this change, and the prohibition is reflected in the new accounting manual. Please note, although a small number of checks had been written to cash

See
Note 7
Page 19

and petty cash, at the recommendation of the GCCS' banker, for advances to teachers to cover student field trip expenses, all such checks were cashed appropriately and all funds have been properly accounted for.

The audit notes the Treasurer's review of debit and credit card transactions and employee reimbursements were "spot checks" and he did not review all of the detail and supporting documentation. The CSO assembling and doing an initial review of these AP vouchers was GCCS mitigating control over the Treasurer's only auditing these transactions. Since NYS is claiming this is not sufficient, the Treasurer will review all transactions on these types of AP Vouchers.

See
Note 8
Page 19

In response to the section regarding service agreements, the School acknowledges the need to provide additional details in some service agreements with current service providers, however 5 of the 15 "inadequate" service agreements are not working with the School any longer. Additionally, the subtitle states that all service agreements were inadequate which contradicts the corresponding information provided on page 11.

See
Note 9
Page 19

The report claims the School's Accounting and Payroll Specialist was overpaid \$1,668 for eight invoices because she started billing at \$40 per hour instead of \$35 per hour. Although the Board President told Auditors the Board did not authorize a new agreement or rate, the Treasurer did approve this increase, representing a 1 ¼% annualized COLA for 11 years of service, at the end of a Finance Committee meeting. The Auditors spoke with the Board Treasurer only once over the course of the entire audit resulting in full facts not being gathered for this and other areas cited in this report. The vendor has submitted a new evergreen contract to GCCS for the Board's review and approval.

See
Note 10
Page 19

In conclusion, the Board of Trustees acknowledges and is seriously considering the recommendations based on the findings from the Non-Payroll Disbursements Audit Report. However, GCCS believes this report does not accurately reflect its strong systems, checks and balances as reflected in their annual audit reports provided by the School's independent auditor. After sharing this draft report with GCCS' independent auditor, they were surprised by many of these findings since this report appears atypical and after examining the list of guidance provided, there is very little specific information that reveal what Schools are required to follow beyond their own regulations and procedures. The Board is already working closely with the School to reach compliance through more detailed and thorough documentation of procedures for the remainder of the school year and for the future.

See
Note 11
Page 20

Sincerely,

Michele Hannagan
President, Board of Trustees

Shannon Hillman
School Leader

Appendix B: OSC Comments on the School's Response

Note 1

Ongoing efforts to update and revise the School's Accounting and Financial Policies and Procedure Manual is a positive step toward improving internal control and oversight. Officials did not previously inform us that the Board had adopted a new procurement policy or provide the policy so that we could address it in the report. In fact, the November 6, 2019 Board meeting minutes state that "the procurement policy is under review and will be updated." There was no indication in the following five available board meeting minutes (through April 2020) that the policy was further updated, reviewed or adopted.

Note 2

We agree. Although the draft report recommended that the Board "ensure that a thorough, independent, documented review of disbursements occurs prior to payment," the criteria section said the Board should do it. We updated the cited criteria language to correspond with the recommendation.

Note 3

We selected the trip because it was one of the higher cost examples. However, as our report notes, there were 274 instances of debit and credit card transactions (32 percent of the items tested) lacking sufficient documentation.

Note 4

The School's debit card was charged at the beginning of the trip (November 24, 2017) for the total cost of room charges for the entire trip (eight nights, including those before the conference). The personal card was charged at the end of the trip for the remaining charges (such as meals). Additionally, the supporting documentation used to calculate the personal versus School expenses was printed December 1, 2017, the last day of the trip and nine months prior to repayment. The documentation should have been provided with repayment when the former school leader returned from her trip. There was no documentation indicating that officials were aware the School's charge included personal expenses awaiting repayment.

Note 5

Officials told us the purchase was made based on the recommendation of a staff member who personally used the product, and did not indicate an in-depth review process occurred at the time of purchase or provide any documentation regarding evaluation or factors considered in the purchase, in comparison with other available products. We also questioned the cost because officials did not have any supporting documentation and had to request the invoices from the vendor. Therefore, it was unclear whether the cost of the supplies was known to those who should be approving purchases.

Note 6

These 35 receipts had not been included with any School records, and thus had not been submitted for review or reconciliation with the statements prior to our inquiries. The CSO obtained the additional receipts/invoices from the cardholders (28 from the former school leader, two from the current school leader and two from the curriculum specialist) and from the vendor or vendor website (3), after we informed them of the lack of receipts. Additionally, whether purchases are made online or in person, transaction receipts are generally provided at the time of purchase. Furthermore, we reviewed credit card statements and receipts up to 14 months after payment and still found 108 credit card transactions totaling \$17,915 that did not have receipts. We also did not find that some statements were set aside until all charges were supported with receipts, nor did the CSO explain this as part of the process.

Note 7

This prohibition was included in the policy in effect during our fieldwork, but was not adhered to. Further, we found that not all cash advances were properly supported and accounted for.

Note 8

The procedure is not compliant with School policy and is clearly not sufficient, given the number of unsupported card transactions identified during our testing. Because the CSO initiates a significant number of debit/credit card purchases, someone independent should be reviewing these transactions. Further, the designated independent reviewer/check signer (generally the Treasurer) should review all transactions for all disbursements in detail and follow up on those without adequate documentation before approving them for payment.

Note 9

The heading states that the Board did not have adequate written agreements with all service providers. This is supported by our finding that the School had only one adequate agreement for the 16 vendors tested.

Note 10

In addition to the Board President, both the CSO and school leader were surprised to learn that the billing rate had changed when we discussed the findings with them. The school leader signed one of the checks authorizing payment to this provider with the new rate. Officials did not provide documentation of authorization for a rate increase and did not have a new agreement with the provider. Further, the Treasurer should not unilaterally approve changes to agreements.

Our lack of interaction with the Treasurer was not due to our lack of effort. The Treasurer did not respond to multiple requests for discussion until more than five weeks after our initial request. At that time, we had an in-depth discussion including specific questions on School policy and his duties. The Treasurer also did not respond to our requests (both directly and through the CSO) for additional discussions during fieldwork. The Treasurer did participate in the exit conference discussion regarding the draft report, during which time any pertinent information could have been discussed and provided. However, the Treasurer and other officials did not disclose any such information during the exit conference.

Note 11

The independent auditor's objective, as stated in its engagement letter, was to express an opinion about – and report on internal controls that would affect – whether the School's financial statements were fairly presented in all material respects. Our audit was not a financial statement audit. We conducted a performance audit to measure the School's performance against established criteria, including its financial policies, procedures and processes for disbursements. Our audit tests of non-payroll disbursements identified numerous examples indicating that the policies and procedures and "systems, checks and balances" the Board and School officials had implemented were ineffective.

Appendix C: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Section 2854 of the New York State Education Law, as amended by Chapter 56 of the Laws of 2014. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed School officials and employees and reviewed bylaws, policies and board minutes to gain an understanding of the non-payroll disbursement and approval processes.
- We used our professional judgment to select a sample of 473 non-payroll check disbursements totaling \$739,507 (29 percent) from the period July 1, 2017 through April 30, 2019 to determine whether they had adequate supporting documentation, were properly approved and were for legitimate School purposes. The sample included checks written to cash and petty cash, payments to employees and other individuals, unusual and unique vendors, professional service providers, recurring disbursements such as rent and health insurance, and a random sample of 50 disbursements. We also reviewed the canceled check images to determine whether they were signed by an authorized check signer.
- We reviewed all 844 debit and credit card transactions totaling \$258,792 from July 1, 2017 through April 19, 2019 to determine whether they had adequate supporting documentation, were properly approved and were for legitimate School purposes.
- We followed up with School officials to request further documentation or information on certain disbursements that did not have adequate supporting documentation.
- We reviewed check numbering and date sequences, followed up on gaps in the numbering sequence (such as voids) and inquired with the CSO regarding check dates.
- We reviewed deposit listings and supporting documentation to determine whether unused portions of cash advances were returned and to identify any other employee payments to the School.
- We reviewed written agreements with all 16 service providers paid \$398,402 to determine whether the School had current, adequate written agreements with providers. We also compared invoices to the agreements to determine whether School officials appropriately paid the service providers.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. We encourage the Board to prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

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