



Riverhead Charter School Debit Cards

Report of Examination

Period Covered:

July 1, 2015 – February 28, 2017

2017M-254



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	3
Comments of School Officials and Corrective Action	3
DEBIT CARDS	4
Recommendations	7
APPENDIX A Response From School Officials	8
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2018

Dear School Officials:

A top priority of the Office of the State Comptroller is to help charter school officials manage school financial operations efficiently and effectively and, by so doing, provide accountability for moneys spent to support school operations. The Comptroller audits the financial operations of charter schools outside of New York City to promote compliance with relevant statutes and observance of good business practices. This oversight identifies opportunities for improving school financial operations and Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard school assets.

Following is a report of our audit of the financial operations of the Riverhead Charter School, entitled Debit Cards. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Section 2854(1)(c) of the New York State Education Law, as amended by Chapter 56 of the Laws of 2014.

This audit's results and recommendations are resources for school officials to use in effectively managing financial operations and in meeting the expectations of the taxpayers, students and their parents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

A charter school is a public school financed by local, State and federal resources that is not under the control of the local school board. Charter schools generally have fewer legal operational requirements than traditional public schools. Many of the operational requirements for a charter school are contained in Article 56 of Education Law and its bylaws, charter agreement and fiscal/financial management plans. Charter schools are to set both financial and academic goals, and a school's renewal of its charter may be subject to meeting these goals.

The Riverhead Charter School (School) is located in the Town of Riverhead in Suffolk County. Oversight for School operations is provided by the Board of Trustees (Board) which is composed of six members. The Board is responsible for the general management and control of the School's financial and educational affairs. The Executive Director is the School's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the School under the direction of the Board. The Director of Finance is the chief accounting officer and is responsible for maintaining custody of, depositing, and disbursing School funds; maintaining financial records; and preparing monthly and annual financial reports.

The School's 2016-17 fiscal year operating expenses totaled \$6.3 million. These expenses were funded primarily with revenues derived from billing the area school districts for resident pupils (96 percent) and from grants (3 percent). During 2016-17, the School provided education to approximately 400 students in kindergarten through eighth grade.

The School has two debit cards for one of its bank accounts that are issued to the Executive Director and Director of Finance. During the audit period, the School incurred charges totaling \$56,079¹ on this account.

Objective

The objective of our audit was to examine the School's controls over debit card use. Our audit addressed the following related question:

- Did the Board ensure that expenses charged to the School's debit cards were adequately supported and for business-related purposes?

¹ Total charges for July 1, 2015 through June 30, 2016 were \$34,506. Total charges for July 1, 2016 through February 28, 2017 were \$21,573.

Scope and Methodology

We examined the School’s debit card charges for the period July 1, 2015 through February 28, 2017.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. 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.

Comments of School Officials and Corrective Action

The results of our audit and recommendations have been discussed with School officials, and their comments, which appear in Appendix A, have been considered in preparing this report. School officials generally agreed with our recommendations and indicated they are in the process of initiating corrective action.

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. For more information on preparing and filing your corrective action plan, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the School Board Secretary’s office.

Debit Cards

Debit cards pose significant risks because individuals using them have direct access to the School's bank accounts and unauthorized use may not be readily detected. Unlike using a credit card, where a statement is received and the purchase can be examined before payment is made, using a debit card allows a payment to be directly withdrawn from the school's bank account at the time of purchase before approval is authorized and provides no opportunity for school officials to determine if the purchase is for legitimate purposes before it is paid.

Due to such risks, the Board should consider ending the use of debit cards. If, however, the Board intends to continue to use debit cards, it is essential for the Board to establish a debit card policy that identifies authorized users, defines acceptable spending limits, and describes the types and circumstances of the purchases allowed, and the penalties for violating the policy. The policy should provide guidance for the documentation required to support each purchase, including the reason or purpose for the purchase. Furthermore, the policy should include procedures for segregating the approval process of purchases, Board monitoring of debit card use and require the use of signed purchase orders or requisitions.

The Board did not establish a comprehensive policy for debit cards to help ensure all charges were adequately supported and for business-related purposes. The Board-adopted policy provides that the school may maintain credit/debit cards, to be issued to staff as designated by the Executive Director. Such cards are to be used for School business purposes. The policy states that all debit bills should be given to the Operations Manager for review to ensure all activity adheres to established policy and to record the appropriate transaction. However, the policy does not provide comprehensive guidance on the documentation required to support the purchases or the reasons or purposes of the purchases, the acceptable spending limits or the penalties for violating the policy.

The School has two debit cards that are issued to the Executive Director and the Director of Finance. We observed that the School's purchasing practices included the Executive Director's prior approval for all purchases, except for purchases made using a debit card. Therefore, when the Executive Director or Director of Finance uses a debit card, the School does not, as a matter of practice, have another individual provide documented prior approval before the purchase is made. Debit cards were used for travel-related purposes (for example,

hotels, airfare and taxi fares) and for items such as food, electronic/media devices, School and office supplies, items for School sponsored events and job advertising fees. None of the purchases included purchase requisitions or purchase orders to indicate prior approval or any indication that the Board reviewed charges.

After these purchases were made, the Executive Director and the Director of Finance gave receipts to the Operations Manager who entered the transactions into the accounting software with vague descriptions of the purchases and included receipts with the monthly bank statements. Further, these purchases were not included in the monthly disbursement reports presented to the Board. Therefore, the Board did not have the opportunity to review and approve the purchases or obtain assurance that the School actually received the goods and/or services.

We reviewed all 404 disbursements totaling \$56,079 made during our audit period. We found 190 purchases totaling \$21,583 that appeared questionable² or for which School officials could not furnish sufficient documentation to confirm that the purchases were for appropriate School expenditures. These included:

- 69 charges totaling \$8,604 for events primarily for School staff and personnel. For example, the Director of Finance purchased food and supplies totaling \$1,118 from two restaurants, a party supply store, and a local supermarket and bakery. On the receipts submitted, there was a handwritten note stating “five-year renewal celebration” as an explanation. Also, the Executive Director made a purchase totaling \$307 from a wholesale grocery store with a receipt labeled “BBQ for staff prior to talent show.” In addition, the Director of Finance charged \$246 at a local supermarket and restaurant and labeled the receipts “administrative staff birthday celebration.” There was no indication that the Board was aware of, approved these events or determined whether these expenditures were for events that were for appropriate School purposes.
- 32 charges totaling \$5,967 for conferences and training sessions. The charges included airfare, lodging, train and taxi fares, and restaurant purchases. The debit card statements for these charges did not have Board minutes attached to show preapproval of conference attendance, or certifications of attendance or training certificates to indicate that School personnel attended the conferences and training sessions. One charge totaling \$359 was for airfare for the Executive

² We noted no instances where the disbursements were for cash withdrawn.

Director to a conference in Nashville, Tennessee. Because the Executive Director missed the flight, the School was charged a \$50 cancellation fee for the airfare and given a credit for the cost of the airfare through the travel website used to book the trip. However, the letter confirming that cancellation states the School will have to pay an additional penalty of \$200 to use the credit. When the Board does not review disbursements, and payments are made without requiring supporting documentation such as original receipts, travel vouchers, and certifications of attendance at conferences, School officials and taxpayers have no assurance that travel expenses are for official, actual and necessary School purposes.

- 54 charges totaling \$3,345 for meals and refreshments that did not have documentation to indicate they were for meals actually provided or for School related purposes. School officials did not have documentation to show which School members or employees received the meals, who requested the meals and who approved the purchases. For example, the Director of Finance charged \$392 at a local restaurant without adequate supporting documentation. Although not stated on the receipt, the explanation in the accounting records was for “lunch trip for all honor roll students.” Also, the Director of Finance charged \$141 at a chain restaurant. The only supporting documentation attached to the bank statement was a receipt for the food purchased. There was no documentation to indicate that the Board had preapproved these expenditures or to who attended these meals or to justify that there were direct School purposes for the meals.
- 33 debit card disbursements totaling \$3,317 made primarily at retail stores, restaurants and a job advertising service. The disbursements did not have original receipts or supporting documentation attached to the debit card statements or evidence of Board approval. For example, the Executive Director charged \$303 at a technology-related retail store but did not submit a receipt to indicate what was purchased. Without itemized and adequate documentation, there is an increased risk that School officials cannot determine whether purchases are for appropriate School expenditures.
- Two charges totaling \$350 were for holiday gifts to Board members, consisting of five \$50 gift cards and one \$100 gift card to local restaurants. Board members are prohibited by the School’s by-laws from receiving compensation; therefore, the purchase of gift cards for Board members appears to have been an improper use of School funds.

Further, although the School is exempt from paying sales tax on purchases, the Executive Director and Director of Finance repeatedly paid sales tax on debit card purchases. We found 176 debit card charges that included sales taxes totaling \$1,260. For example, the Executive Director purchased a computer from a retail store with the debit card and paid \$162 in unnecessary sales tax.

Without a comprehensive policy, the School has limited control over the use of debit cards. The School has an increased risk that it will pay for unauthorized or excessive purchases and could have difficulty recovering any unauthorized or questionable charges. Alternatively, because of such risks, the Board should consider ending the use of debit cards.

Recommendations

The Board should:

1. If the Board intends to continue the use of debit cards, adopt a debit card policy that describes the types and circumstances of the purchases allowed, and provides guidance on the documentation to support purchases, including the reasons or appropriate business purposes of the purchases, acceptable spending limits and the penalties for violating the policy.
2. Ensure that purchases made using a debit card include a procedure for having documented prior approval.
3. Ensure that purchases using debit cards are supported by purchase requisitions or purchase orders, original itemized receipts, an accurate description, and evidence that the charges have been approved and reviewed by the Board.
4. Adopt a policy describing the allowable circumstances for providing food, beverages and entertainment at meeting and events sponsored by the School.
5. Ensure that purchases are included in the monthly disbursement reports presented to the Board.
6. Minimize the use of debit cards for purchases where sales tax is incurred.

APPENDIX A
RESPONSE FROM SCHOOL OFFICIALS

The School officials' response to this audit can be found on the following pages.



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Director of Finance
Nicola Graham

The Board of Trustees of Riverhead Charter School has reviewed your draft report of Internal Controls over Debit Cards Report of Examination for Riverhead Charter School for the period of July 1, 2015 – February 28, 2017. We appreciate your input and welcome the opportunity to strengthen and enhance the existing internal controls of our school.

Moreover, due to recent enrollment and grade expansion in the past couple of years, our board recognizes the need to provide continual improvement of our internal controls on an ongoing basis. We also appreciate the time that you spent onsite, as well as the exit interview performed on June 25, 2018. This meeting was very beneficial. This process also afforded us the opportunity to present information to provide further clarity regarding certain items performed in your preliminary reporting.

In summation, we believe the following responses address the matters brought to our attention in the preliminary draft. Our board is committed to developing a corrective action within 90 days of the date of the preliminary report.

Recommendation:

If the Board intends to continue the use of debit cards, adopt a debit card policy that describes the types and circumstances of the purchases allowed, and provides guidance on the documentation to support purchases, including the reasons or appropriate business purposes of the purchases, acceptable spending limits and the penalties for violating the policy.

Management Response:

A debit card policy will be adopted because of necessary purchases in which vendors do not accept a government PO, particularly for web-based technology acquisitions, or conference related travel costs. The policy and procedures will be reviewed annually. Documentation will be obtained for all purchases prior to use of the debit card and reviewed on a monthly basis by the finance committee and the Board. If staff do not comply with the approval and documentation procedure for debit cards, they will not be permitted to use the debit card. Instead, they will be asked to purchase items with personal funds and submit receipts for reimbursement. Approvals will always be required.

Recommendation:

Ensure that purchases made using a debit card include a procedure for having prior approval.

Management Response:

Effective Immediately, no debit card purchases will be allowed without prior requisition and approval from the Superintendent.

Recommendation:

Ensure that purchases using debit cards are supported by purchase requisitions or purchase orders, original itemized receipts, an accurate description, and evidence that the charges have been approved and reviewed by the Board.

Management Response:

Valuing strong internal controls to safeguard RCS resources, the Finance department has implemented a series of new controls based off of these recommendations as well as based on the recommendation of the board finance committee. The aforementioned items will be the responsibility of the accounts payable clerk.

Recommendation:

Adopt a policy describing the allowable circumstances for providing food, beverages and entertainment at meeting and events sponsored by the School.

Management Response:

The board is currently working on a comprehensive policy that addresses the recommended. It is currently in committee and will be voted on and approved in the 90-day time frame mentioned in the action plan time line.

Recommendation:

Ensure that purchases are included in the monthly disbursement reports presented to the Board.

Management Response:

Since February 2017, debit card purchases were added to the monthly disbursement reports presented to the Board. In addition, all supporting documentation will be available for the Board to review.

Recommendation:

Minimize the use of debit cards for purchases where sales tax is incurred.

Management Response:

Effective immediately, no person(s) may use the schools debit card without presenting the school's Tax-exempt status for purchases.

Sincerely,

Aimee LoMonaco

Aimee LoMonaco Board President

Cc: Riverhead Charter School Board of Trustees

Cc: Raymond Ankrum, Superintendent

Cc: Nicola Graham, Director of Finance

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, our audit procedures included the following:

- We reviewed the School's policies and procedures for debit cards, meals and refreshments, and travel.
- We reviewed all bank statements in the audit period and identified all debit card charges.
- We reviewed all 404 debit card disbursements made during the audit period to determine whether they were adequately itemized and supported, for appropriate business-related purposes and in compliance with School policies and procedures. We noted the types of purchases. We also determined whether receipts were attached and itemized and whether the purchases were listed on the monthly disbursement reports.
- We examined Board minutes to determine whether the Board authorized trips prior to the events, and examined supplementary documentation such as certifications of attendance or training certificates for these events.
- We reviewed meal and refreshment charges made in the local area for adequate support. We looked for guest lists attached to the receipts to determine whether School officials had the meals.
- We assessed whether there was cash withdrawn or sales tax charged.

We conducted this performance audit in accordance with GAGAS. 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.

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