

Urban Choice Charter School

Credit Card Expenditures

NOVEMBER 2019



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

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Report Highlights

Urban Choice Charter School

Audit Objective

Determine whether School officials ensured credit card purchases were adequately supported and for appropriate purposes.

Key Findings

- Credit card users did not always follow the School's internal control policies.
- Forty percent of credit card purchases were not adequately supported. As a result, we could not determine whether 10 credit card transactions totaling \$265 were for appropriate purposes.

Key Recommendations

- Ensure that all credit card users follow the School's internal control policies, including the preapproval of all purchases by using a purchase request form.
- Ensure that all credit card claims are adequately supported before payment.

Background

Urban Choice Charter School was founded in 2005 and is located in the City of Rochester in Monroe County. The School serves approximately 400 students and has 69 part- and full-time employees.

The School is governed by an eight member Board of Trustees (Board). The Board is responsible for the general management and control of financial and educational affairs. This responsibility includes adopting a budget in a timely manner and monitoring the School's financial operations. The Board appoints a chief executive officer to manage the School's day-to-day operations.

The Director of Operations (Director) is the chief financial officer responsible for maintaining custody of, depositing and disbursing School funds, maintaining the financial records and preparing monthly and annual financial reports for Board.

Quick Facts

2018-19 Expenditures	\$6.12 million
Credit Card Expenditures for the Audit Period	\$37,183
Credit Card Vendors	4

Audit Period

July 1, 2018 – September 30, 2019

Credit Card Expenditures

How Should School Officials Control Credit Card Purchases?

School officials are responsible for overseeing financial activities and safeguarding resources. Appropriate oversight and monitoring includes establishing policies and procedures to help ensure that credit card transactions are authorized, adequately supported and actual and necessary expenditures before approval for payment.

The School's internal control policies and procedures require that all purchases be preapproved by the appropriate official through the use of an electronic purchase request form. Once the form has been approved, the purchaser must sign out the applicable credit card from the office manager. The credit cards are stored in a locked safe that requires a key, retained by one employee, and a number combination, retained by another employee. The purchaser must return the card and all receipts to the office manager after it is used.

Like most claims against a school, credit card claims should be audited before payment to ensure proposed payments represent actual and necessary expenditures. The claims auditing process involves reviewing information contained in the claim packet, including appropriate approvals, receipts and other documentation to ensure that the claims represents a legitimate charge against the school. The auditing official should review claims for completeness, accuracy and original documentation.

Officials Did Not Always Enforce the Credit Card Policy or Ensure Expenditures Were Adequately Supported

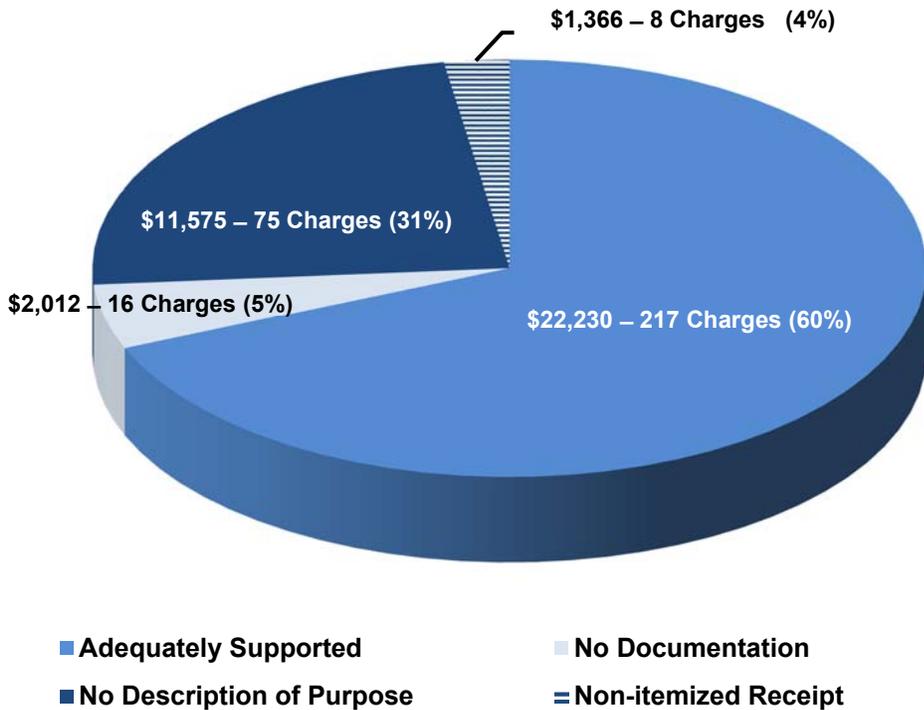
While School officials adopted adequate credit card purchasing procedures, these procedures were not always followed. We found that officials did not enforce using an electronic purchase request form for all purchases. We also found that the electronic form could be altered after approval. For example, the office manager was able to change the amount requested and approved on the form to the actual purchase amount. Additionally, we were advised that the former Director regularly kept the credit cards with her, rather than giving them to the office manager to be returned to the safe, as required.

We reviewed all 316 credit card transactions totaling \$37,183 during our audit period for the School's four credit cards.¹ We found that 75 transactions totaling \$11,575 had documentation to support the purchase that did not contain an explanation for the purpose of the purchase, eight transactions totaling \$1,366 lacked itemized receipts and 16 transactions totaling \$2,012 had no supporting documentation (Figure 1).

¹ The School had one general credit card, two store cards and one gasoline card.

FIGURE 1

Credit Card Charges



For the 99 credit card transactions totaling \$14,593 (40 percent) with inadequate support, we determined that 89 transactions totaling \$14,327 were for appropriate purposes. However, we were unable to determine whether the remaining 10 transactions totaling \$265 were for appropriate purposes because appropriate supporting documentation was not maintained.²

When credit card transactions are not supported with adequate documentation for the purchase, the Board cannot be sure that funds are expended for legitimate purposes. As a result, the School is at an increased risk for fraud, waste or abuse.

What Do We Recommend?

School officials should:

1. Ensure that all credit card users follow the School's internal control policies, including the requirement that all users return the card to the office manager after use and that the preapproval of all credit card purchases is documented.

² Of these credit card transactions, six totaling \$179 were missing a receipt, three totaling \$70 were for food and one for \$16 was for supplies.

-
2. Ensure that all credit card claims are adequately supported before payment. This includes receipts and an explanation for the purpose of the purchase.
 3. Revise the electronic purchase request form so that purchase amounts cannot be altered after approval.

Appendix A: Response From School Officials

MEMO: Response Letter and Corrective Action Plan to the Audit of Credit Card Expenditures 2019M-192

TO: Office of the New York State Comptroller - Attention Chief Examiner

FROM: Urban Choice Charter School

CC: [REDACTED] [REDACTED]
[REDACTED] [REDACTED] [REDACTED]

Lynn McCarthy

Office of the State Comptroller (OSC),

This memo is in response to the Audit 2019M-192, Urban Choice Charter School Credit Card Expenditures Report of Examination draft received on October 30th, 2019 and discussed with [REDACTED] [REDACTED] and [REDACTED] [REDACTED] on November 5th, 2019.

This serves both as an audit **response letter** and the **corrective action plan** as outlined in the State Comptroller's Responding to an OSC Audit guide.

In response to this audit, we take these findings seriously, accept them, and have already taken significant actions to correct the concerns raised throughout the audit process. Specifically we have retrained staff, examined our policies, and discussed further work to be completed to ensure we are following our procedures with fidelity. Upon notification of issues during the audit process, we discussed potential solutions with [REDACTED] and many changes were made immediately to the purchase request process and ensuring sufficient backup for credit card purchases. The findings suggest that of the 6.12 million dollar budget, only 10 transactions totaling \$265 did not have sufficient backup; however, we can assure the Comptroller that these transactions were approved and were made for appropriate purposes.

Please see the attached Corrective Action Plan that was discussed and approved by the board of trustees on November 14th, 2019.

Respectfully submitted,


Lynn McCarthy, CEO


Nelson Blish, Board of Trustees Chair

Corrective Action Plan

Unit Name: Urban Choice Charter School

Audit Report Title: Credit Card Expenditures

Audit Report Number: 2019M-192

Date: November 14th, 2019

Submitted to:

caps@osc.state.ny.us

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NYSED Portal

For each recommendation included in the audit report, the following is our corrective actions taken or proposed as outlined.

Audit Recommendation 1:

Ensure that all credit cards users follow the School's internal control policies, including the requirement that all users return the card to the officie manager after use and that pre-approval of all credit card purchases is documented.

Implementation Plan of Action:

Retrain each staff person responsible for credit card use including instruction in the internal control policies, ensuring that there are pre-approvals for purchases prior to using the credit card. This will include all those with access to the credit card or permitted to use the credit card.

Implementation Date:

11/13/19

Person Responsible for Implementation:

Jason Mellen

Signed:

Jason Mellen, Interim Director of Operations and Finance

11/15/19

Date

Audit Recommendation 2:

Ensure that all credit card claims are adequately supported before payment. This includes receipts and an explanation for the purpose of the purchase.

Implementation Plan of Action:

The bookkeeper and CEO will work together to maintain a process and procedure to ensure all credit card claims have sufficient and adequate documentation before any payments are made or checks are signed. Each week they will meet while making payments and signing checks to ensure the procedures outlined in the Internal Control Policies have been followed with fidelity.

Implementation Date:

11/13/19 and ongoing each week.

Person Responsible for Implementation:

Lynn McCarthy

Signed:

Lynn McCarthy, CEO

11/15/19

Date

Audit Recommendation 3:

Revise the electronic purchase request for so that purchase amounts cannot be altered after approval.

Implementation Plan of Action:

The Interim Director of Operations and IT support staff person have already worked together to revise the PR system to be more robust and systematic to ensure we are meeting our stated expectations from the internal control policies. The IT support person will lock down the form into three sections to ensure there is no ability to change the amounts. In practice this already occurs, but this edit will ensure that changes are not possible.

Implementation Date:

11/14/19

Person Responsible for Implementation:

Jason Mellen

Jason Mellen, Interim Director of Operations and Finance

11/15/19

Date

Appendix B: 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 to gain an understanding of financial operations, including credit card purchases.
- We reviewed the School's written procedures related to credit card purchases.
- We reviewed all 316 credit card transactions totaling \$37,183 during our audit period to determine whether the credit card claims were approved according to the credit card policy, contained adequate documentation to support the transactions claimed and were for a legitimate purposes.

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.

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 CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/localgov/index.htm

Local Government and School Accountability Help Line: (866) 321-8503

ROCHESTER REGIONAL OFFICE – Edward V. Grant Jr., Chief Examiner

The Powers Building • 16 West Main Street – Suite 522 • Rochester, New York 14614-1608

Tel (585) 454-2460 • Fax (585) 454-3545 • Email: Muni-Rochester@osc.ny.gov

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